MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2015

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the year ended December 31, 2015 prepared as of April 28, 2016, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015 of Santacruz Silver Mining Ltd. ("the Company" or "Santacruz") ("the 2015 Annual Financial Statements").

The referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts are expressed in thousands of US dollars (US$000's) unless otherwise indicated.

Forward-Looking Statements

This MD&A and the documents incorporated herein by reference contain "forward-looking information" within the meaning of applicable Canadian securities regulations and "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 (the "**Rosario Mine**"), San Felipe project (the "**San Felipe Project**"), Gavilanes property (the "**Gavilanes Property**" or "**Gavilanes Project**"), El Gachi property (the "**El Gachi Property**"), as well as the Contracuña Properties, which include the Veta Grande property (the "**Veta Grande Mine**") and the Minillas mineral property (the "**Minillas Property**"); the Company's expected production and recoveries for its Rosario Mine; expectations regarding the continuity of mineral deposits; the Company's goals regarding raising capital and developing its projects; the Company's proposed development and exploration plans for the San Felipe Project, the Gavilanes Property and the Contracuna Properties; 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 San Felipe Project and the Gavilanes Project 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 ore grade or recovery rates occur, that plant, equipment or processes fail to operate as anticipated, that accidents of 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 7 to 18 of the annual information form of the Company for the year ended December 31, 2012 dated November 19, 2013 (the "AIF"), filed on SEDAR on November 21, 2013. 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 of 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 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 one producing property, the Rosario Mine. In addition, the Company holds five exploration properties in its mineral property portfolio, the San Felipe Project (an advanced stage project), the Gavilanes Project (an exploration project), the El Gachi Property (an early stage exploration project), the Veta Grande Mine (an advanced stage project), and the Minillas Property (an early stage exploration project).

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 the following:

• Continuing to increase production and upgrade performance at the Rosario Mine; and

• Completing operations testing at the Veta Grande Mine.

The decision to commence production at the Veta Grande Mine was not based on a feasibility study on mineral reserves demonstrating economic and technical viability. Accordingly, there is increased uncertainty and economic and technical risks of failure associated with this production 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.

2015 Highlights

- Selected operating and financial information for the three months and years ended December 31, 2015 and 2014 is presented below:

	Three months ended December 31,		**Years ended December 31,**	
	2015	**2014**	**2015**	**2014**
Operating				
Ore Processed (tonnes milled) (1)	25,927	25,099	79,249	91,835
Silver Equivalent Produced (ounces) (2)	268,319	244,200	832,283	765,500
Silver Equivalent Sold (payable ounces) (3)	233,225	263,300	742,623	722,000
Production Cost per Tonne (4) (7)	88.14	116.50	92.95	113.46
Cash Cost per Silver Equivalent ($/oz.) (4) (7)	12.62	15.08	13.24	19.02
All-in Sustaining Cost per Silver Equivalent ($/oz.) (4) (7)	15.85	20.68	16.98	25.82
Average Realized Silver Price per Ounce ($/oz.) (4) (6)	17.00	16.15	17.02	18.52
Financial				
Revenue	2,502	3,226	8,643	10,626
Mine Operations Income (Loss)(5)	(402)	(292)	(2,039)	(2,021)
Net Loss	(18,035)	(4,498)	(24,232)	(8,706)
Net Loss Per Share – Basic ($/share)	(0.17)	(0.05)	(0.23)	(0.09)
Adjusted EBITDA(5)	(19,614)	(595)	(21,598)	(3,120)

(1) Ore processed includes 37,078 tonnes in the year ended December 31, 2014 arising from third party ore purchased by the Company and processed through the milling facility.

(2) 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 Mine. Silver equivalent ounces produced in 2014 have been calculated using prices of US$20.00/oz., US$1,250/oz., US$0.96/lb and US$0.90/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine.

(3) Silver equivalent sold ounces in the fourth, third, and second quarters of 2015 have been calculated using a realized silver price of US$17.00/oz., after giving effect to the MPPP (see Financing Activities - Prepaid Silver Purchase), and have been calculated using a realized silver price of US$17.41/oz. for the first quarter of 2015, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine. Silver equivalent sold ounces in the fourth, third, second, and first quarters of 2014 have been calculated using realized silver prices of US$16.15/oz., US$19.55/oz., US$19.76/oz., and US$20.55/oz., respectively, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine.

(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 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 2014 Q1, Q2, Q3, Q4 and 2015 Q1, Q2, Q3 and Q4 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 second, third and fourth quarters of 2015 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 Financing Activities - Prepaid Silver Purchase).

[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.

- On April 13, 2015 the Company announced that the Pre-Paid Silver Purchase Agreement (the "JMET Agreement") entered into with JMET, LLC ("JMET") had been further amended (the "Amended JMET Agreement") to extend until December 31, 2015 the repayment of $5,000 of the $7,000 due on April 1, 2015. The Company paid $2,000 to JMET on April 1, 2015.
- On July 15, October 27 and December 15, 2015 the Amended JMET Agreement was further amended. As a result of these amendments, the Company as at December 31, 2015 must deliver 2,644,625 ounces of silver, which includes an additional 44,625 ounces of silver which represents a restructuring fee. The first delivery of silver to JMET is to be 67,811 ounces in June 2016, with sales of 67,811 ounces occurring each month through August 2019. Further, as consideration for the deferral of the silver delivery, the Company agreed to pay JMET $100 on or before April 30, 2016 and another $100 on or before May 30, 2016.
- On August 2, 2015 the Company commenced using a new permanent tailings disposal system that utilizes dry-stacking technology in conjunction with the prior existing tailings structure. Operating costs are expected to decrease as a result of the implementation of this system.
- During August and September, the Company converted from using a mining contractor to using an in-house mine operating team at the Rosario Mine.
- On November 2, 2015 the Company announced it had reached agreement with Contracuña giving the Company the right for thirty years to explore, mine, and operate Contracuña's Veta Grande Mine and Minillas Property located within the state of Zacatecas, in central Mexico.
- On November 12, 2015 the Company announced it had closed the final tranche of a private placement offering pursuant to which it issued 10,000,000 shares for gross proceeds of $1.3 million Canadian dollars.
- On November 24, 2015 the Company announced that it had agreed to terms with respect to a new $9,500 loan facility to replace the Company's existing senior debt arrangement. Subsequently, in January 2016 the Company reported that the transaction had not closed by December 31, 2015, the agreed closing date, and as a result the exclusive mandate period provided to the new facility syndicator expired.
- In November 2015, the Company began refurbishment and upgrading of the Veta Grande milling facility, while concurrently carrying out mine development.
- On December 29, 2015 the Company announced that its subsidiary, Impulsora Minera Santacruz S.A. de C.V., had entered into a short-term loan facility with Trafigura Mexico, S.A. de C.V in the principal amount of $725. The loan bears interest at LIBOR plus 10% annualized interest, payable monthly in arrears. On March 10, 2016 the terms of the facility were amended such that the principal amount of the loan will be repaid in 10 installments of varying amounts throughout 2016. The loan has been secured by certain personal assets of the CEO of the Company, who was issued 3,000,000 bonus warrants, each of which is exercisable to purchase one common share for a price of CDN$0.15 and expires January 11, 2017.
- In early January 2016, the Company began commissioning the Veta Grande mill circuits and made the first lead and zinc concentrate deliveries in early February.

Tailings Discharge

On January 2, 2015 a tailings decant line running from the Rosario Mine tailings impoundment to a secondary settling pond ruptured causing an estimated 2,000 m^3 of tailings pulp to be discharged outside of the tailings storage facility.

Representatives of PROFEPA (the Mexican Federal Agency for Environmental Protection) were immediately contacted and were onsite from time to time thereafter to observe and make

recommendations with respect to the Company's remediation procedures. As part of this process, PROFEPA set out the necessary steps the Company had to take to resume operations. These steps included completing a full remediation of the spill area and delivering an engineering report outlining steps for the continued use of the existing tailings storage system or such other alternative solution as is appropriate.

On March 26, 2015 the Company announced that it had received approval from PROFEPA and SEMARNAT (Mexico's environmental regulatory authorities) to resume operations at its Rosario Mine. The approval was received following completion of the remediation and cleanup of the above referenced tailings pulp discharge.

The Company also advised at that time that the tailings structure had been stabilized with remaining work focused on definitively sealing the decant system. Subsequently the sealing of the decant system was completed. From March 26th until August 2nd, an alternate tailings management system that utilized a geotextile containment system to dewater and store tailings was used. On August 2nd the Company commenced using a new permanent tailings disposal system that utilizes dry-stacking technology in conjunction with the prior existing tailings structure.

In connection with the tailings discharge incident the Company was initially advised by PROFEPA that it would be fined an amount equivalent to approximately $180. Pursuant to applicable regulations, certain remediation and community related expenses incurred by the Company were available to be offset against the fine. To date the Company has incurred approximately $730 of expenditures in connection with its remediation activities and PROFEPA has subsequently advised the Company that in view of the Company's remediation expenditures and activities no additional cash payment with respect to the original fine is required.

Management Changes

On August 27, 2015, the Company announced the appointment of Mr. Cesar Maldonado to the position of Chief Operating Officer of the Company. Mr. Maldonado has more than 30 years' experience in the industry, and has been with the Company since June 2015. Previously, Mr. Maldonado worked for First Majestic Silver Corp. and Minera Frisco, S.A. de C.V. Mr. Maldonado has an Engineering degree in Mining and Metallurgy with studies in Minerals Economics from the University of Chihuahua.

Mr. Maldonado replaced Mr. Robert Byrd, who stepped down from his position as COO to retire.

Rosario Mine, Charcas, San Luis Potosi, Mexico

The Rosario Mine comprises the Rey David and San Rafael mining concessions located in the Municipality of Charcas in the State of San Luis Potosi, Mexico, 184 kilometres north of the capital city of San Luis Potosi. Details of the acquisition terms are contained in Note 9 of the 2015 Annual Financial Statements. The property covers 500 hectares.

Production and Operating Results for the Fourth, Third, Second and First Quarters of 2015 and 2014

	2015				2014			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Ore Processed (tonnes milled) [4)]	25,927	25,007	26,492	1,823	25,099	23,677	22,612	20,447
Silver Equivalent Produced (ounces) [(1)]	268,319	277,487	265,834	20,643	244,200	192,400	168,300	160,600
Silver Equivalent Sold (payable ounces) [(2)]	233,225	231,332	247,135	30,931	263,300	188,100	148,800	121,800
Production - Silver (ounces) [4)]	143,937	164,467	150,738	12,751	158,564	115,455	100,240	94,312
- Gold (ounces) [(4)]	103	109	113	11	310	94	104	166
- Lead (tonnes) [(4)]	254	278	233	16	201	191	171	186
- Zinc (tonnes) [(4)]	673	567	615	41	453	514	437	367
Average Ore Grade – Silver (g/t)	178	213	188	240	212	161	153	167
– Gold (g/t)	0.15	0.18	0.17	0.27	0.14	0.16	0.21	0.33
– Lead (%)	1.04	1.18	1.03	1.03	1.03	0.91	0.86	1.02
– Zinc (%)	2.81	2.50	2.66	2.60	3.01	2.39	2.29	2.34
Metal Recovery – Silver (%)	97.0	96.0	94.1	90.7	93.3	90.0	89.9	85.7
– Gold (%)	80.5	76.0	78.3	68.9	74.5	79.0	70.4	77.3
– Lead (%)	93.8	94.3	85.3	82.2	90.6	86.1	88.2	89.7
– Zinc (%)	92.2	90.9	87.2	86.2	86.1	81.7	84.4	76.8
Cash Cost per Silver Equivalent ($/oz.) [(3) (5)]	12.62	14.02	13.01	*	15.08	18.13	22.17	25.04
All-in Sustaining Cash Cost per Silver Equivalent ($/oz.) [(3) (5)]	15.85	17.44	16.86	*	20.68	23.68	29.70	35.49
Cash Cost of Production per Tonne [(3) (5)]	88.14	103.01	87.23	*	116.50	97.81	128.75	110.94

* 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 per unit cost calculations are not considered relevant and have not been included in this table.

(1) 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 Mine. Silver equivalent ounces produced in 2014 have been calculated using prices of US$20.00/oz., US$1,250/oz., US$0.96/lb and US$0.90/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine.

(2) Silver equivalent sold ounces in the fourth, third, and second quarters of 2015 have been calculated using a realized silver price of US$17.00/oz., after giving effect to the MPPP (see Financing Activities - Prepaid Silver Purchase), and have been calculated using a realized silver price of US$17.41/oz. for the first quarter of 2015, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine. Silver equivalent sold ounces in the fourth, third, second, and first quarters of 2014 have been calculated using realized silver prices of US$16.15/oz., US$19.55/oz., US$19.76/oz., and US$20.55/oz., respectively, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine.

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

(4) The 2014 Q2 production figures include 4,025 tonnes of third party ore that produced 11,552 ounces Ag; 23 ounces Au; 22 tonnes Pb; and 85 tonnes Zn. Not included in the 2014 Q3 production figures is 1,146 ounces Ag and 327 ounces Au included in third party precipitate purchased and processed.

(5) During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, $735,096 was capitalized to Plant and Equipment during the second quarter. Included in this amount was $486,514 relating to the first quarter of 2014. For the purposes of this comparison the referenced 2014 second quarter figures have been adjusted to reflect this change.

Resource Expansion

In connection with the main access ramp (the "Ramp") development the Company completed a 21- hole, 5,960 metre surface drilling campaign on July 9, 2015. Of this amount, 11 drill holes totalling 3,852 metres were drilled to depths greater than 200 metres, the previous deepest drill holes at the Rosario Mine.

Results of the drill program were very encouraging with successful intersection of the Rosario Mine vein systems at depth. Based on the geological information obtained from this program the Company plans to complete an approximate 3000 metre underground delineation drilling campaign in 2016 to further assist in the development of the mine plan for Levels, 6, 7, 8 and 9.

Based on the results of the drilling, the Ramp has now been completed to Level 4 and is being driven to Level 5. Approximately 180 metres of development on Level 4 has been completed. Initial mineralized material mined from Level 4 stopes has been averaging 326 g/t Ag; 0.30 g/t Au, 6.61% Zn and 1.26% Pb for Rosario I vein and 167 g/t Ag, 0.20 g/t Au, 6.02% Zn and 1.30% Pb for Rosario II.

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 Mine and Minillas Property. 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, at the end of the original term. Consideration for the Contracuña Agreement was $500, $200 of which was paid and an additional payment of $300 is due 30 days following registration of the agreement with the Deputy of Mines (paid subsequent to December 31, 2015). During the term of the Contracuña Agreement 40% net profits interest basis ("NPI") will be paid to Contracuña. In the event the price of silver is greater than $22.00/ounce, the NPI changes to 45% to be paid to Contracuña.

Veta Grande Mine

As part of the Contracuña Agreement the Company acquired the right to operate a 500 tonnes-per-day ("tpd") fully permitted milling facility located approximately 8 kms from the city of Zacatecas with access to an excellent highway system, power, water, and experienced mining workforce.

During November 2015 through early January 2016 Company staff oversaw the refurbishment of the milling facility including an engineering design change that now 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. The key remaining equipment addition to be made to the milling facility is the fabrication and installation of thickener tanks together with the installation of filter presses for both the lead and zinc circuits. This work is scheduled for completion by the end of July.

In concert with the refurbishment of the milling facility, the Company initiated mine preparation and development in November 2015, focusing efforts on the La Flor, Armados, La Cantera, San José and Veta Grande veins. This program has progressed as planned and mineralized material is now being delivered to the mill from all of these veins except the Veta Grande vein as development of this vein has not yet been completed.

First concentrates deliveries to the Company's off-taker were successfully completed in early February 2016.

The Veta Grande milling facility is currently operating at approximately 330 tpd.

Further, depending on the Veta Grande mine production rate and milling facility capacity, and after taking into account the price of silver, the agreement allows the Company to ship mineralized material from the Veta Grande Mine to the Rosario Mine milling facility allowing the Company to utilize the extra milling capacity available at the Rosario Mine which will help the Company to realize certain economies of scale. The Company has previously in 2014 processed mineralized material from the Contracuña Properties at its Rosario Mine milling facility and it reacted favourably on a metallurgical basis.

The decision to commence production at the Veta Grande Mine was not based on a feasibility study on mineral reserves demonstrating economic and technical viability. Accordingly, there is increased uncertainty and economic and technical risks of failure associated with this production 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.

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:

(Expressed in thousands of US Dollars except per share amounts)	**2015**	**2014**	**2013**
	$	**$**	**$**
Cash	277	6,016	1,618
Working Capital (Deficiency)[2]	(4,050)	(683)	6,980
Mineral Property Interests	36,199	53,567	42,354
Total Assets	63,929	86,965	61,012
Total Liabilities	31,114	29,972	5,616
Total Equity	32,815	56,993	55,396
Total Revenues	8,643	10,626	-
Net Loss[3]	(24,232)	(8,706)	(6,319)
Net Loss Per Share (basic and diluted)[1][3]	(0.23)	(0.09)	(0.07)

(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 2015 balance includes $7,987 (2014 - $10,120; 2013 - $nil) owing under the Amended JMET Agreement.
(3) The 2015 net loss includes an impairment of the San Felipe Project of $19,426.

Review of Operations

Year ended December 31, 2015

The Company recorded a net loss of $24,232 ($0.23 per share) for the year ended December 31, 2015, compared to a net loss of $8,706 ($0.09 per share) for the year ended December 31, 2014. The Non-operating component of the increased year-over-year loss was an increase of interest expense, and other finance expenses of $1,213. This was offset by an increase in income tax recovery of 2,192, as well as an increase of interest earned and other finance income in the amount of $2,016.

Note 17(a) and (b) to the 2015 Annual Financial Statements contains a detailed breakdown by expense type of the interest earned/expense and other finance income/expense items. Discussion regarding these matters follows later in this section as does a discussion relating to the reasons for the increase in income tax expense.

The Company recorded revenues of $8,643, a decrease of $1,983 or 19% in the year ended December 31, 2015 as compared to the year ended December 31, 2014, primarily because of a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe.

Cash production costs of $8,952 decreased by $1,551 or 15% as compared to the year ended December

31, 2014. Again, part of this decrease (approximately 79%) relates to the suspension of operations in the first quarter of 2015 referenced above. Other contributing factors to the decreased costs were a substantial reduction in mining costs on a year-over-year basis ($45.10/t in 2015 vs $51.46/t in 2014) as well as decreased milling costs on a year-over-year basis ($34.47/t in 2015 vs $43.86/t in 2014). Management expects a further reduction in mining costs during 2016 as a result of bringing all mining operations in-house during the latter part of 2015 and other initiatives underway at the Rosario Mine. Milling costs per tonne also decreased on a year-over-year basis (21%) in part due to the fact that a third ball mill was commissioned during the fourth quarter of 2014 and was available for all of 2015.

Amortization and depletion expenses in the year ended December 31, 2015 amounted to $1,736 (2014 - $1,493). These expenses vary largely in direct relation to the number of tonnes milled during the year.

The Rosario Mine operations for the year ended December 31, 2015 resulted in a gross loss of $2,039 (2014 – $2,021). It should be noted that the gross loss as reported for the year ended 2015 is virtually the same as for 2014 notwithstanding that in the first quarter of 2015 the Company suspended operations in connection with the tailings discharge incident.

During the year ended December 31, 2015 the Company recorded operating expenses of $1,946 (2014 - $2,869) and recorded an impairment of the San Felipe Project of $19,426.

A detailed breakdown by expense type of the operating expenses is included in Note 16(b) to the 2015 Annual Financial Statements. Discussion as to the reasons for the significant changes in these expense types is provided below.

Variances of note in operating expenses are detailed below:

- Administrative expenses of $284 (2014 – $666); Management and consulting fees of $441 (2014 – $714). The administrative expenses and management and consulting fees were lower during 2015 primarily due to the capitalization of the Company's Mexican office costs related to the tailings pond improvement during the first quarter of 2015. In addition, the 2014 management and consulting fees include a recruitment fee paid for a senior management position.
- Professional fees of $624 (2014 – $574). The increase in professional fees relates to an increase in services provided with respect to accounting and tax matters.
- Share-based payments of $77 (2014 – $276). No stock options were granted during the 2015 fiscal period as compared to 1,000,000 stock options granted in 2014.
- Shareholder communications of $54 (2014 – $193). These expenses decreased primarily as the result of decreased costs related to investor awareness initiatives.
- Travel expenses of $58 (2014 – $119). Travel expenses decreased in connection with a decrease in general corporate travel associated with industry conferences and investor meetings.

As detailed in Note 17(a) to the 2015 Annual Financial Statements, interest earned and other finance income increased significantly primarily as a result of the Company recognizing a $2,477 (2014 - $923) change in the fair value of the MPPP put in place in connection with the Amended JMET Agreement (see section titled Financing Activities – Pre-paid Silver Purchase). Of the $2,477 recorded in 2015, $881 relates to the amount realized on expiry of the derivatives throughout the year that was in excess of the carrying value of those respective derivative instruments at December 31, 2014. The remaining balance of $1,596 represents the unrealized gain in carrying value of the residual portion of the MPPP in place at December 31, 2015 as compared to the respective carrying value of this portion of the program at December 31, 2014.

As detailed in Note 17(b) to the 2015 Annual Financial Statements, interest expense and other finance expenses of $5,094 (2014 - $3,881) increased primarily as a result of interest expense related to the silver loan (see section titled Financing Activities – Pre-paid Silver Purchase). During 2015 the JMET Amended Agreement was in force for the entire year whereas in 2014 it was only in place during the fourth quarter of that fiscal year. The increase in interest expense and other financing expenses was less than it would otherwise would have been if not for the Company recording in 2014 a charge of $2,322 that arose in connection with amending the original JMET Agreement.

The increase in income tax recovery recorded in 2015 as compared to an income tax expense in 2014 was due to the decrease in the deferred tax liability during the year.

Summary of Quarterly Results

	THREE MONTHS ENDED			
(Expressed in thousands of US Dollars except per share amounts)	**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	365	559	570	452
Net loss(3)	(18,035)	(1,628)	(2,018)	(2,551)
Net loss per share(1)(3)	(0.17)	(0.02)	(0.02)	(0.02)
	THREE MONTHS ENDED			
	Dec 31, 2014	**Sep 30, 2014**	**Jun 30, 2014**	**Mar 31, 2014**
Revenues	3,226	3,167	2,302	1,931
Cost of sales(2)	3,517	3,141	2,710	3,279
Administrative expenses	470	907	769	723
Net loss(2)	(4,498)	(1,054)	(1,092)	(2,062)
Net loss per share(1)(2)	(0.05)	(0.01)	(0.01)	(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) Cost of sales are as reported. During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, $735 was capitalized to Plant and Equipment during the second quarter.

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

Fourth quarter ended December 31, 2015

The Company recorded a net loss of $18,035 ($0.17 per share) for the quarter ended December 31, 2015, as compared to a net loss of $4,498 ($0.05 per share) for the quarter ended December 31, 2014. The increase in net loss on a quarter over quarter basis arose primarily from the impairment of the San Felipe Project of $19,426, compared to the loss on settlement of the silver loan in the fourth quarter of 2014 of $2,322.

The Company recorded revenues of $2,502, a decrease of $724 or 23% in the quarter ended December 31, 2015 as compared to the quarter ended December 31, 2014, primarily because of a decrease in silver equivalent payable ounces sold. Cash production costs of $2,189 decreased by $864 or 28% as compared to the quarter ended December 31, 2014. The factors that contribute to the decreased costs were a substantial reduction in mining costs ($47.63/t in 2015 vs $74.23/t in 2014) as well as decreased milling

costs ($24.61/t in 2015 vs $57.22/t in 2014). Milling costs per tonne also decreased in part due to the fact that a third ball mill was commissioned during the fourth quarter of 2014 and was available for all of 2015.

Resource and Exploration Update

San Felipe Project, San Felipe de Jesus, Sonora, Mexico

The San Felipe Project consists of 14 concessions and is a late stage exploration project, located in the State of Sonora, approximately 130 kilometers north-west of Hermosillo City, the state capital of Sonora. Santacruz acquired exploration rights with the right to purchase the project from Minera Hochschild Mexico, S.A. de C.V. ("Hochschild") pursuant to the terms of a mining exploration and promissory sale agreement dated August 3, 2011, as amended December 9, 2011, October 8, 2012, August 13, 2013, September 4, 2014 and July 7, 2015 (the "San Felipe Agreement"). Details of the acquisition terms are contained in Note 10(b) of the 2015 Annual Financial Statements.

Seven mineralized structures are known to exist within the San Felipe Project area: the Santa Rosa, La Ventana, Transversales, San Felipe, Artemisa, Cornucopia, and Las Lamas. In most cases, the mineralized structures are silicified and form resistant, high-relief ridges.

Exploration Summary

Hochschild explored the project from 2006 to 2008, with more than 42,400 meters of diamond drilling on the La Ventana, San Felipe and Las Lamas veins. As well, Hoschchild developed a decline into the Ventana structure and completed preliminary metallurgy and various engineering studies. In 2013 and 2014, Santacruz completed an additional 20,127 meters of drilling on the project and undertook additional metallurgical, engineering and environmental studies. A copy of the most recent NI43-101 Technical Report dated effective September 4, 2014 for the San Felipe Project is available on the Company's website at www.santacruzsilver.com and on SEDAR. The Report was authored by Hans Smit, B.Sc. (Hons), P.Geo.,Fletcher M. Bourke, M.Sc., P.Geo., Gary Giroux, M.Sc., P.Eng., Greg Blaylock, B.Sc., P.Eng. and Deepak Malhotra, Ph.D., SME-RM, who are independent "qualified persons" under NI 43-101. The Report disclosed the indicated and inferred mineral resources estimated within the San Felipe Project, with an effective date of September 4, 2014, and remains current. A mineral reserves estimate was not prepared. Mineral Resources are not Mineral Reserves and do not demonstrate economic viability. There is no certainty that all or any part of the Mineral Resource will be converted to Mineral Reserves.

More detailed information regarding the San Felipe Project is available on the Company's website, www.santacruzsilver.com.

Exploration and Acquisition Costs

During the year ended December 31, 2015, Santacruz incurred mineral property exploration expenditures of $941 at the San Felipe Project. In addition, an impairment of $19,426 was recorded on the San Felipe Project in 2015 after completing an impairment assessment of the property. The impairment assessment calculated the recoverable amount of the San Felipe Project to be $17,500, which was lower than the carrying value of the cash generating unit ("CGU") at December 31, 2015, resulting in an impairment charge being recognized against the carrying value of the San Felipe Project in 2015.

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 8,832.28

hectares. Details of the acquisition terms are contained in Note 10(a) of the 2015 Annual 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 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, 2015, mineral property acquisition costs and exploration costs were $131 and $132 respectively for the Gavilanes Property.

El Gachi Property, Arizpe, Sonora, Mexico

The El Gachi Property covers approximately 48,057 hectares and is located approximately 30 kilometres from the San Felipe Project. To date the Company has not completed any exploration work on the property.

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.

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

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

Non-IFRS Measures

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

Cash Cost per Silver Equivalent Ounce and Production Cost per Tonne

The non-IFRS measures of cash cost per silver equivalent ounce and cash cost of production per tonne are used by the Company to manage and evaluate operating performance at the Rosario Mine 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 Mine 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.

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1* 2015**	**Q4 2014**	**Q3 2014**	**Q2 2014**	**Q1 2014**
Production costs	2,189	2,568	2,467	-	3,053	2,302	2,182	2,966
Capitalized Q1 2014 Ramp Expenditures [(1)]	-	-	-	-	-	-	487	(487)
Inventory change	96	8	(156)	-	(22)	(236)	249	(211)
NRV adjustment of inventory	-	-	-	-	183	401	75	-
Other	-	-	-	-	(290)	-	-	-
Cost of third party precipitate acquired and processed	-	-	-	-	-	(151)	(82)	-
Cash Cost of Production (A)	2,285	2,576	2,311	-	2,924	2,316	2,911	2,268
Production costs	2,189	2,568	2,467	-	3,053	2,302	2,182	2,966
NRV adjustment of inventory	-	-	-	-	183	401	75	-
Other	-	-	-	-	(290)	-	-	-
2014 Q1 Capitalized Ramp Expenditures [(1)]	-	-	-	-	-	-	487	(487)
Concentrate treatment, smelting and refining cost	754	675	748	-	1,026	859	638	571
Third party precipitate acquired and processed	-	-	-	-	-	(151)	(82)	-
Cash Cost of Silver Equivalent Sold (B)	2,943	3,243	3,215	-	3,972	3,411	3,300	3,050
Ore processed (tonnes milled) (C)	25,927	25,007	26,492	-	25,099	23,677	22,612	20,447
Cash Cost of Production per Tonne[(2)] (A/C)	88.14	103.01	87.23	-	116.50	97.81	128.75	110.94
Silver Equivalent Sold (payable ounces) (D)	233,225	231,332	247,135	-	263,300	188,100	148,800	121,800
Cash Cost per Silver Equivalent Ounce (B/D)	12.62	14.02	13.01	-	15.08	18.13	22.17	25.04

* 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 operating cost information and cost per unit calculations are not considered relevant and have not been included in this table.

(1) During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, $735 was capitalized to Plant and Equipment during the second quarter.

All-in Sustaining Cost per Ounce

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 Mine.

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

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015***	**Q4 2014**	**Q3 2014**	**Q2 2014**	**Q1 2014**
Production costs	2,189	2,568	2,467	-	3,053	2,302	2,182	2,966
NRV adjustment of inventory	-	-	-	-	183	401	75	-
Other	-	-	-	-	(290)	-	-	-
Concentrate treatment, smelting and refining cost	754	675	748	-	1,026	859	638	571
Cost of third party precipitate acquired and processed	-	-	-	-	-	(151)	(82)	-
Sustaining capital expenditures	47	185	104	-	107	202	236	62
Deferred ramp expenditures	339	55	296	-	771	169	735	-
General and administrative expenses	356	542	541	-	584	662	625	713
Accretion of decommissioning and restoration provision	11	11	12	-	10	10	11	10
All-in Sustaining Cost	3,696	4,036	4,168	-	5,444	4,454	4,420	4,322
Silver Equivalent Sold (payable ounces)	233,225	231,332	247,135	-	263,300	188,100	148,800	121,800
All-in Sustaining Cost per Silver Equivalent Ounce Sold	15.85	17.44	16.86	-	20.68	23.68	29.70	35.49

* 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 operating cost information and All-in Sustaining cost per unit calculations are considered abnormal and have not been included in this table.

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.

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**	**Q4 2014**	**Q3 2014**	**Q2 2014**	**Q1 2014**
Revenues (as reported)	2,502	2,592	3,147	402	3,226	3,167	2,302	1,931
Add back: MPPP impact	709	666	306	-	-	-	-	-
Add back: Treatment, smelting and refining charges	754	675	748	137	1,026	859	638	571
Deduct: Precipitate revenues	-	-	-	-	-	(350)	-	-
Gross Revenues	3,965	3,933	4,201	539	4,252	3,676	2,940	2,502
Silver Equivalent Sold (ounces)	233,225	231,332	247,135	30,931	263,300	188,100	148,800	121,800
Avg Realized Price per Ounce of Silver Equivalent Sold[1]	17.00	17.00	17.00	17.41	16.15	19.55	19.76	20.55
Avg Market Price per Ounce of Silver per London Silver Fix	14.76	14.91	16.41	16.74	16.47	19.74	19.62	20.49

[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 first, second, third, and fourth quarter of 2015 the MPPP price for silver was $17.00/oz.

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 to the 2014 Q1, Q2, Q3, Q4 and 2015 Q1, Q2, Q3, and Q4 Financial Statements:

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net loss for the period as reported	(18,035)	(1,628)	(2,018)	(2,551)	(4,498)	(1,054)	(1,092)	(2,062)
Add (Deduct) Capitalized Q1 2014 Ramp Expenditures [(1)]	-	-	-	-	-	-	(487)	487
Income tax expense (recovery)	(2,943)	1,440	379	(197)	858	24	30	(41)
Interest earned and other finance income	(1)	(2)	(6)	(3)	(792)	(51)	(54)	(39)
Interest expense and loss on settlement of silver loan	820	(453)	764	1,436	3,280	-	-	-
Interest expense on loan payable	4	-	-	-	-	-	-	-
Accretion expense	11	11	12	12	10	10	11	10
Amortization and depletion of mineral properties, plant and equipment	572	554	554	54	282	440	456	315
EBITDA	(19,572)	(76)	(315)	(1,249)	(860)	(631)	(1,136)	(1,330)
Foreign exchange	(50)	(483)	427	(357)	380	190	(71)	61
Share-based payments	8	16	27	26	(115)	243	141	8
Adjusted EBITDA	(19,614)	(543)	139	(1,580)	(595)	(198)	(1,066)	(1,261)

(1) During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, $735 was capitalized to Plant and Equipment during the second quarter.

Financing Activities

Equity Offerings

The Company completed one equity offering in the year ended December 31, 2015 as follows:

- On November 12, 2015, the Company completed a non-brokered private placement and issued 10,000,000 common shares at a price of $0.13 per share for gross proceeds of $986 (CAD$1,300).

The Company completed one equity offering in the year ended December 31, 2014 as follows:

- On March 11, 2014, the Company closed a prospectus offering, pursuant to which 12,062,500 common shares were issued at a price of CDN$1.00 per share for gross proceeds of $10,865 (CDN$12,063). The underwriters received a cash fee of $652 (CDN$724), as well as 723,750 warrants, each of which was exercisable to purchase one common share for a price of CDN$1.00 until March 11, 2016 for 645,000 warrants and March 20, 2016 for 78,750 warrants. All of these warrants expired unexercised. The Company also issued 100,000 common shares as corporate finance fee and incurred additional issue costs of $318.

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 3,000,000 bonus warrants, each of which is exercisable to purchase one common share for a price of CDN$0.15 and expires January 11, 2017.

Subsequent to December 31, 2015, $181 of the principal payments have been made. On March 10, 2016, Trafigura has 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.

Pre-paid Silver Purchase

On October 2, 2014, the Company closed the JMET Agreement for 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.

In connection with the JMET Agreement, as amended, 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 has additionally set a floor price for certain of its silver production for the last three quarters of 2016. Details of the MPPP are as follows:

		Deliverable Amount Per Period		
Metal	**Floor Price**	**2015**	**Q1 2016**	**Q2, Q3 & Q4 2016**
Ag	$17.00/oz.	1,183,680 ozs.	315,714 ozs.	
	$16.00/oz.			947,142 ozs.
Au	$1,145/oz.	2,160 ozs.	570 ozs.	-
Pb	$1,975/tonne	1,860 tonnes	495 tonnes	-
Zn	$2,200/tonne	3,900 tonnes	1,038 tonnes	-

The MPPP does not limit the maximum price at which Santacruz may sell its production, which will allow it to benefit from any increase in metal prices. The cost to establish the MPPP was approximately $6,300.

2014 Amendments to the JMET Agreement

On November 27, 2014 the parties amended the JMET Agreement such that the Company repaid JMET $9,000 upon execution of the amended agreement and agreed to repay $7,000 on or before April 1, 2015. In addition, the amount of silver to be sold to JMET reduced from 4,635,000 ounces to 2,600,000 ounces at an agreed upon discount to the spot price. The first delivery of silver to JMET was to be 52,000 ounces in July 2015, with sales of an additional 52,000 ounces each month through August 2019, at which point the contract will be fulfilled

2015 Amendments to the JMET Agreement

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. As a result of this amendment, the Company also agreed that all payments to be 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 and December 15, 2015, the Amended JMET Agreement was further amended. As a result of these amendments, the Company as at December 31, 2015 must sell to JMET 2,644,625 ounces of silver, which includes an additional 44,625 ounces of silver as a restructuring fee. The first delivery of silver to JMET is to be 67,811 ounces in June 2016, with sales of 67,811 ounces occurring each month through August 2019. The Company incurred transaction costs of $94 in relation to these amendments. Further, as consideration for the deferral of the silver delivery, the Company agreed to pay JMET $100 on or before April 30, 2016 and another $100 on or before May 30, 2016.

As the change in future payment terms expected as a result of each 2015 amendment to the Amended JMET Agreement were not determined to be substantial, each amendment which occurred during the year 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 that matured during the year.

At December 31, 2015, $3,040 due on December 31, 2015 remained unpaid and is accruing interest at a rate of 30%. Subsequent to December 31, 2015, the Amended JMET Agreement was further amended such that the repayment date for this amount was deferred until June 30, 2016. In addition, a lump sum repayment of $1,004 was made, with $100 applied against the April restructure fee, $100 applied against the May restructure fee, and $804 applied against the $3,040 balance due December 31, 2015.

Use of Proceeds from Financings

During the year ended December 31, 2014, the Company used the net proceeds of CDN$11,339 from the March 2014 financing (which included net proceeds from the exercise of the over-allotment option) as follows:

Use of Proceeds as stated in the short form prospectus from the 2014 Financing	**Original Estimated Expenditure (Cdn$000's)**	**Approximate Actual Expenditure (Cdn$000's)**
San Felipe Project		
Property payments	-	$1,067
Drilling and related infrastructure	$500	$500
Development of access ramps and preliminary tailings impoundment study	$2,250	$2,400
Pre-feasibility study	$400	-
Subtotal:	**$3,150**	**$3,967**
Gavilanes Property		
Property payments	-	$1,600
Mapping, drilling, sample analysis, metallurgy and related infrastructure	$3,000	165
Subtotal:	**$3,000**	**$1,765**
Rosario Property		
Development of access ramps and plant expansion[1]	-	$1,200
Subtotal:	**-**	**$1,200**
General		
Estimated offering costs	$350	$350
Administration expenses, including corporate and financial reporting, legal and compliance, accounting costs, general corporate communication and corporate development, and general working capital[2]	$4,839	$4,057
Subtotal:	**$5,189**	**$4,407**
Total	**$11,339**	**$11,339**

(1) The actual expenditures are greater than the original estimates, due to the fact that the operations from the Rosario Mine did not generate positive cashflow in Q1 and Q2 2014 as initially anticipated. Therefore, the Company had to reallocate its resources and decided to concentrate on increasing the production at Rosario instead.

(2) Net proceeds from the exercise of the over-allotment option were added to general working capital, as disclosed in the short form prospectus from the 2014 financing.

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 $2,179 on its mineral properties during the year ended December 31, 2015 (2014 – $12,667). The Company also spent $3,054 on acquisitions of plant and equipment during the year ended December 31, 2015 (2014 – $3,628) including deferred Ramp expenditures of $872 (2014 - $1,675). In addition, $201 was spent on acquisitions of plant and equipment at the Veta Grande Mine during the year ended December 31, 2015 (2014 - $nil). The Company has made no dividend payments, and currently has no plans to declare any dividends.

Liquidity and Capital Resources and Going Concern

As at December 31, 2015, the Company had cash and cash equivalents of $277 (December 31, 2014 – $6,016) and a working capital deficiency of $4,050 (December 31, 2014 – $683). During the year ended December 31, 2015, net cash used in operating activities was $321 (2014 – $3,048), net cash used in investing activities was $5,233 (2014 - $16,295) including costs relating to the exploration activities on its mineral properties; and net cash used by financing activities including cash received from the issuance of common shares and the settlement of derivative assets, and the repayment of the Silver Loan was $165 (2014 - cash provided of $23,812).

Pursuant to the terms of the Gavilanes property agreement (Note 10(a) to the 2015 Annual Financial Statements), in order to maintain and exercise the option the Company must make the remaining payment of $719. This payment was due on April 15, 2015, but the Company is currently re-negotiating its extension.

Pursuant to the terms of the San Felipe Agreement (Note 10(b) to the 2015 Annual Financial Statements), in order to maintain and exercise the option, the Company must make further aggregate cash payments of $19,000 on or before December 15, 2016.

At December 31, 2015, the Company had not yet achieved profitable operations, had a working capital deficiency of $4,050, had accumulated an inception to date deficit of $58,266, and may incur further losses in the development of its business. These factors 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 operate profitably 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
- Pref-Ex Geological Inc., a company owned by Marc Prefontaine, a former director of the Company
- Larry M. Okada Inc., a company owned by Larry Okada, a director of the Company

During the years ended December 31, 2015 and 2014, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	2015 $	2014 $
Accounting and corporate secretarial fees [(1)]	164	196
Directors' fees [(2)]	73	106
Management fees [(3)]	230	336
Share-based payments	77	263
Salaries and benefits capitalized [(3)]	234	318

[(1)] The charge includes accounting and corporate secretarial fees paid to Malaspina Consultants Inc.
[(2)] The charge includes geological consulting fees paid to Pref-Ex Geological Inc. and directors' fees paid to Marc Prefontaine, James Hutton, and Craig Angus, Federico Villaseñor, Roland Löhner, and Larry Okada.
[(3)] The charge includes management fees paid to Arturo Préstamo Elizondo, the Chief Executive Officer, and salaries and benefits paid to César Maldonado, Chief Operating Officer, and former Chief Operating Officers Robert Byrd and Francisco Ramos.

At December 31, 2015, directors and officers or their related companies were owed $125 (2014 – $115) 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 on January 11, 2016. Each warrant may be exercised to acquire one common share for a price of CDN$0.15 and expires January 11, 2017.

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

The classification of the financial instruments as well as their carrying values as at December 31, 2015 and 2014 is shown in the table below:

At December 31, 2015	**Loans and Receivables** **$**	**FVTPL** **$**	**Other Financial Liabilities** **$**	**Total** **$**
Financial assets				
Cash and cash equivalents	277	-	-	277
Trade and other receivables	580	-	-	580
Derivative assets	-	3,721	-	3,721
Total financial assets	857	3,721	-	4,578
Financial liabilities				
Accounts payable and accrued liabilities	-	-	5,701	5,701
Loan payable	-	-	670	670
Silver loan	-	-	20,830	20,830
Total financial liabilities	-	-	27,201	27,201

At December 31, 2014	Loans and Receivables $	FVTPL $	Other Financial Liabilities $	Total $
Financial assets				
Cash and cash equivalents	6,016	-	-	6,016
Trade and other receivables	896	-	-	896
Holdback receivable	800	-	-	800
Derivative assets	-	4,378	-	4,378
Total financial assets	7,712	4,378	-	12,090
Financial liabilities				
Accounts payable and accrued liabilities	-	-	2,920	2,920
Silver loan	-	-	21,590	21,590
Total financial liabilities	-	-	24,510	24,510

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.

At December 31, 2015	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets measured at fair value				
Derivative assets	-	3,721	-	3,721
Financial liabilities				
Loan payable	-	-	725	725
Silver loan at fair value	-	-	20,924	20,924

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, other receivables, and derivative assets. 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. The derivative assets are expected to be collectible in full from the counterparty JMET based on the credit history of the counterparty.

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 risk that the Company will realize a loss is limited because of the short-term nature of the liabilities.

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 ensures 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, 2015 were as follows:

	< 1 year $	**1 – 2 years $**	**2 – 5 years $**	**>5 years $**	**Total $**
Accounts payable and accrued liabilities	5,701	-	-	-	5,701
Loan payable	725	-	-	-	725
Silver loan	7,987	8,137	12,762	-	28,886
Minimum lease payments	84	39	-	-	123
Total	14,497	8,176	12,762	-	35,435

The cash flow requirements of the silver loan are satisfied by silver deliveries to JMET. Refer to section entitled "Pre-paid Silver Purchase" under Financing Activities.

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 $1,372.

The Company's financial assets and liabilities as at December 31, 2015 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	25	230	22	277
Trade receivables	-	519	-	519
Other receivables	-	-	61	61
Derivative assets	-	3,721	-	3,721
	25	4,470	83	4,578
Financial liabilities				
Accounts payable and accrued liabilities	(360)	(300)	(5,041)	(5,701)
Loan payable	-	(670)	-	(670)
Silver loan	-	(20,830)	-	(20,830)
	(360)	(21,800)	(5,041)	(27,201)
Net financial liabilities	(335)	(17,330)	(4,958)	(22,623)

The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk.

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.

The principal financial instruments that the Company holds that are impacted by commodity prices are the derivative assets. These derivatives settle monthly from January 2015 through the end of December 2016 for silver and January 2015 through the end of March 2016 for gold, lead and zinc.

A 10% increase in the silver, lead and zinc prices as at December 31, 2015, with all other variables held constant, would have resulted in the following negative impact to our derivative asset and pre-tax net income:

	2015 $
10% increase in silver price	1,168
10% increase in lead price	52
10% increase in zinc price	160

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
The Company assesses the stage of each mine under construction to determine when a property reaches the stage when it is substantially complete and ready for its intended use. 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.

When management determines that a property has reached commercial production, costs capitalized during development are amortized.

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, 2015, $3,827 of the balance is expected to be recoverable and collectible within twelve months from the year end and the remaining $2,540 is expected to not be collected within twelve months and has been classified as non-current. 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 life of the Rosario Mine is determined from the tonnes of ore that are available to be extracted at the end of each reporting period. The Company initially estimates the tonnes of ore available based on the findings of qualified, independent, mining professionals. These estimates are updated from time to time as additional technical and economic information becomes available. Factors that impact the computation of tonnes of ore available include the geological data on the size, depth and shape of the ore 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 ore available may impact the carrying value of mine property, 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 property 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 cash generating unit ("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 decline in silver commodity prices. 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, 2015. As such is the case, no impairment charge has been recognized on the Rosario Mine in the profit or loss in 2015.

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 real 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	**2016**	**2017**	**2018**	**2019**	**2020 and after**
	$	**$**	**$**	**$**	**$**
Silver (per oz)	15.94	16.78	17.11	17.79	17.33
Gold (per oz)	1,156	1,174	1,192	1,216	1,201
Lead (per lb)	0.83	0.88	0.87	0.91	0.91
Zinc (per lb)	0.91	1.01	1.07	1.15	1.01

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 $550 if the commodity prices declined by 1% and the carrying value would exceed the recoverable amount if commodity prices declined greater than 8% 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, 2015. 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 also indicators that an impairment loss may have occurred at the San Felipe Project CGU, primarily as a result of the decline in silver commodity prices. The impairment assessment at December 31, 2015 for the San Felipe Project is discussed in Note 10(b) to the 2015 Annual Financial Statements.

Fair value of derivative assets

The fair value of the derivative assets 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.

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. Changes in these input assumptions can significantly affect the 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") is mandatorily effective for the Company's consolidated financial statements for the year ending December 31, 2018. IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 also amends some of the requirements of IFRS 7, *Financial Instruments: Disclosures*, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and derecognition of financial instruments. The Company is currently evaluating the impact, if any that the new guidance is expected to have on its consolidated 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. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. 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 April 28, 2016 in the following table.

Issued and Outstanding Common Shares				113,493,484
	Expiry Date	Exercise Price (CDN$)		
Options	April 12, 2017	0.90	1,201,667	
	February 11, 2021	0.15	4,500,000	5,701,667
Fully Diluted				119,195,151

Subsequent Events

On February 11, 2016, the Company granted 4,500,000 incentive stock options to directors, officers, employees and consultants of the Company, at an exercise price of CDN$0.15 each expiring February 11, 2021.

On April 15, 2016, the Company cancelled the following stock options:

- 1,001,667 options with an exercise price of CDN$0.90 expiring April 12, 2017
- 400,000 options with an exercise price of CDN$1.85 expiring February 28, 2018
- 300,000 options with an exercise price of CDN$1.22 expiring July 29, 2018
- 400,000 options with an exercise price of CDN$1.00 expiring April 8, 2019

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, 2015 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

During the fourth quarter of 2015 the Company took an important step to potentially augment its silver production with the execution of the Contracuna Agreement in November. Following the signing of this agreement the Company has refurbished the Veta Grande milling facility and completed sufficient mine development to begin commissioning the mill circuits in January 2016.

Should the Veta Grande milling facility and mine development testing prove successful it will allow the Company to:

i) de-risk the Company operationally;
ii) realize cost efficiencies from the synergistic benefits of operating two mines (Veta Grande and Rosario) that are located approximately 180 kms apart; and
iii) establish an operating presence in a historical and prolific mining district within Mexico.

Operationally, the Company's focus for the duration of 2016 and through into 2017 will be to continue optimizing the operating costs at the Rosario Mine while also continuing the milling facility testing at the Veta Grande Mine.

In concert with these operational initiatives, management continues to work with JMET towards achieving a restructuring of its senior debt facility.

The decision to commence production at the Veta Grande Mine was not based on a feasibility study on mineral reserves demonstrating economic and technical viability. Accordingly, there is increased uncertainty and economic and technical risks of failure associated with this production

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.

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 information regarding the San Felipe and Gavilanes Projects which is included in this MD&A has been reviewed and approved by Hans Smit, P.Geo of Hans Smit, P. Geo. Inc. or Gary Giroux , P.Eng. of Giroux Consultants Ltd.

Technical information regarding the Rosario Mine which is included in this MD&A has been reviewed and approved by Donald E. Hulse P.E. of Gustavson and is consistent with work published by Gustavson.

Other Information

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