SANTACRUZ SILVER MINING LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the three and six months ended June 30, 2012 prepared as of August 28, 2012, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2012 and the related notes thereto of Santacruz Silver Mining Ltd. ("the Company" or "Santacruz") ("the 2012 Q2 Financial Statements"), together with the audited consolidated financial statements of the Company for the year ended December 31, 2011 as well as the accompanying MD&A for the year then ended.

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

Forward-Looking Statements

This MD&A contains forward-looking statements. All statements, other than statements of historical fact, constitute "forward-looking statements" and include any information that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future including the Company's strategy, plans or future financial or operating performance and other statements that express management's expectations or estimates of future performance.

Forward-looking statements are generally identifiable by the use of the words "may", "will", "should", "continue", "expect", "anticipate", "estimate", "believe", "intend", "plan" or "project" or the negative of these words or other variations on these words or comparable terminology. All such forward-looking information and statements are based on certain assumptions and analyses made by the Company's management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed, implied by or projected in the forward-looking information or statements. Important factors that could cause actual results to differ from these forward-looking statements include but are not limited to: risks related to the exploration and potential development of the Company's projects, risks related to international operations, the actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, future prices of minerals, as well as those factors discussed in the sections relating to risk factors of the Company set out in this MD&A.

There can be no assurance that any forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader should not place any undue reliance on forward-looking information or statements. Except as required by law, the Company does not intend to revise or update these forward-looking statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events.

General

The Company was incorporated pursuant to the Business Corporations Act of British Columbia on January 24, 2011. The Company is listed for trading on the TSX Venture Exchange under the symbol "SCZ". The Company is engaged in the acquisition, exploration and development of mineral properties in Mexico, with a primary focus on silver, but also including gold, lead and zinc. The Company is currently focused on the development of the Rosario Project with the objective of achieving commercial production by the first quarter of 2013. In addition, the Company is exploring two other mineral properties, being the Gavilanes and San Felipe de Jesús ("San Felipe") Properties.

Recent Highlights

- On April 12, 2012, the Company completed a reverse take-over transaction ("RTO") with a private company pursuant to which the Company acquired all of the issued and outstanding common shares of the private company. Upon completion of the RTO, the consolidated entity has continued to carry on the business of the private company, which business is the acquisition, exploration and development of mineral properties in Mexico.

- On April 18, 2012, the Company announced that in connection with the RTO it had completed a $20 million financing and appointed Mr. Arturo Prestamo as President and CEO.

- On May 22, 2012, the Company announced that environmental permits for both underground development and mine construction had been received for the Rosario project thereby allowing the Company to maintain its target of achieving commercial production in the first quarter of 2013.

- On June 7, 2012, the Company announced the appointment of Mr. Francisco Ramos as the Chief Operating Officer.

- On July 16, 2012, the Company announced the results of an initial independent National Instrument 43-101 ("NI 43-101") Mineral Resource estimate on the San Felipe property. The Mineral Resource estimate was completed by Kelsey Zabrusky under the supervision of Zachery Black SME-RM and Donald E. Hulse PE and SME-RM, of Gustavson Associates, LLC, ("Gustavson") both of whom are independent "qualified persons" under NI 43-101. Included in the Mineral Resource estimate were Measured and Indicated Resources of 39 million oz AgEq and Inferred Resources of 11 million oz AgEq respectively (see resource categories and further details in the section of this MD&A titled Rosario Project, San Luis Potosi, Charcas, Mexico).

- At its Annual General Meeting held on July 24, 2012, Mr. Marc Prefontaine, M.Sc., P.Geo, was elected to the Company's Board of Directors joining incumbent directors Arturo Prestamo, Francisco Ramos, James Hutton and Craig Angus.

Rosario Project, San Luis Potosi, Charcas, Mexico

The Rosario Project 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 6 (a) of the 2012 Q2 Financial Statements. The property covers 500 hectares.

As contained in the Company's Filling Statement dated March 29, 2012 (filed on SEDAR on April 3, 2012 at www.sedar.com) (the "Filing Statement") and with reference to a NI 43-101 compliant technical report on the Rosario Project dated December 20, 2011 as prepared by William J. Crowl, QPMMSA, R.G., Donald E. Hulse, P.E. and Terre A. Lane, QPMMSA of Gustavson which was filed on SEDAR at www.sedar.com in conjunction with the Filing Statement, Gustavson performed a combination of grid modeling and three dimensional block modeling in developing the mineral resource estimate for the Rosario Project's Rosario veins. The mineral resource is restricted to areas greater than one half meter of thickness. Because the core data used in the estimate could not be verified against assay certificates, and because no confirmation drilling has been completed, Gustavson classifies all of the mineral resources as inferred. The inferred mineral resource estimate is summarized in the table below.

Total Inferred Mineral Resource for Rosario I and II Veins

Thickness	Silver Eq g/t	K-Metric Tons	Au g/t	Ag g/t	Pb%	Zn%
0.00	88.8	1,100.8	1.19	187.2	1.35	2.89
	178	702.0	1.17	280.0	1.96	4.12
	267	512.7	1.15	364.5	2.36	4.95
	355	391.6	1.26	447.5	2.60	5.52
0.50	88.8	1,031.0	1.16	190.4	1.38	3.00
	178	657.6	1.11	286.5	2.01	4.28
	267	494.7	1.11	364.4	2.36	5.00
	355	381.1	1.23	444.6	2.59	5.54
0.75	88.8	921.8	1.16	183.0	1.28	2.86
	178	577.8	1.09	280.7	1.90	4.10
	267	430.7	1.09	360.1	2.22	4.78
	355	328.3	1.23	442.1	2.38	5.25
1.00	88.8	778.8	1.16	179.1	1.21	2.67
	178	476.5	1.04	281.6	1.84	3.86
	267	343.6	1.05	371.7	2.16	4.52
	355	247.7	1.23	477.7	2.32	4.99

Mineral resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues and are subject to the findings of a full feasibility study. Inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the economic assessment will be realized.

Gustavson estimates an inferred mineral resource of approximately 1,031,000 metric tons grading 1.16 g/t Au, 190.4 g/t Ag, 1.38% Pb and 3.00% Zn (using 267 gm Ag Eq/metric ton cutoff).

Santacruz is currently completing a core drilling program on the Rosario Property. During the month of April the Company completed the purchase of a 500 tonnes per day flotation mill from Goldcorp's Mexico subsidiary, Nukay, for US$800,000. In addition, during the month of May, all environmental permits required for the operation of the mill, mine and tailings dam were received.

As reported in the Filing Statement, the estimated cost of developing the Rosario Project was approximately $10.3 million. The Company currently estimates that the development cost will be approximately $12.4 million. The increase is due to an increase in cost for the electrical supply line and the water supply system to the project. Notwithstanding this increase, the Company is well funded to complete the development of the Rosario Project. All other project infrastructure and mill equipment costs are currently estimated to be in accordance with previous projections. The decommissioning and transportation of the Nukay mill has now largely been completed and construction and erection of the milling facility at Rosario will commence in the very near term and is on schedule.

Anticipated production levels at 500 tonnes per day are projected to yield 2,200,000 ounces of silver equivalent by the year 2014.

During the six-month period ended June 30, 2012, property acquisition costs and exploration costs were $170,000 and $699,483, respectively. Included in the exploration expenditures are diamond drilling costs incurred as part of a 4,000-metre diamond drilling program north-west of the current Rosario resource to test the extension of the high-grade silver mineralization within the Rosario I & II veins.

In addition, the Company incurred $1,006,027 of expenditures in connection with the initial equipment procurement and construction costs of the Rosario milling facility and mine.

Gavilanes Property, San Dimas, Durango, Mexico

The Gavilanes Property comprises the Gavilanes I, Gavilanes II and Gavilanes MHM Fraccion 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. Details of the acquisition terms are contained in Note 6 (b) of the 2012 Q2 Financial Statements. The Gavilanes Property incorporates 9 concessions with a total of 7,347 hectares.

Santacruz is preparing an exploration program that will involve geologic mapping, surface and underground geochemical sampling and diamond core drilling. The main goal will be to increase the confidence and quantity of identified resources.

During the six-month period ended June 30, 2012, Santacruz incurred approximately $806,000 of expenditures on the Gavilanes Property virtually all related to acquisition costs.

San Felipe Property, Sonora, Mexico

San Felipe 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. Details of the acquisition terms are contained in Note 6 (c) of the 2012 Q2 Financial Statements.

Previously, Minera Hochschild Mexico SA de CV ("MHM") explored and developed the property from 2001 to 2008, with more than 18,500 meters of diamond drilling and significant development work completed on the project at the La Ventana, San Felipe and Las Lamas veins. During 2011 Santacruz began conducting an exploration program in the area to confirm and support MHM's previously discovered resources at these veins. Additional resources have been delineated in the Las Lamas, Cornucopia, Artemisa, Santa Rosa and Transversales veins. In addition, to the south-west of the project is the Los Locos target, which has exploration upside. Gustavson estimates that the San Felipe project contains a Mineral Resource of 3 million metric tons of measured and 900 thousand metric tons of indicated mineralization, containing 31 million and 8 million troy ounces of silver equivalent, respectively, above a cutoff grade of 75g AgEq/t. These resources are only on 3 mineralized structures (La Ventana, Las Lamas and San Felipe), from 8 identified as of today. The report estimates that there is an additional 1.5 million metric tons of inferred mineral resource above the 75 g AgEq/t cutoff containing 11 million troy ounces of silver equivalent. The sulfide mineral contains primarily silver, lead and zinc with associated copper (resource tables are attached). These Mineral Resources are only from the La Ventana, San Felipe and Las Lamas veins. Gustavson made a site visit on December 8, 2011. While on site, Mr. Hulse verified drill collar locations, inspected underground workings, took structural measurements of altered and mineralized outcrops, examined core, correlated laboratory assay sheets and Santacruz digital database entries with altered and mineralized sections of core, discussed Santacruz's quality assurance, quality control (QA/QC) procedures, and reviewed hard copy project documents. Upon review of the data, Gustavson found data entry errors which are not material to the current estimate but should be corrected in the future, though Mr. Hulse concludes that the data quality is adequate and appropriate to develop a Mineral Resource estimate. The San Felipe project has all necessary permits and agreements for this stage of the project. The community has been historically involved in mining and supports the project, and the state of Sonora has been pro-mining in the past. Gustavson is of the opinion that the legal and political risks of this project are small and comparable with other successful projects in the area. The following Mineral Resource Tables outline the current NI 43-101 compliant resource estimate as of May 15, 2012. Additional exploration work is planned on the Las Lamas, Cornucopia, Artemisa, Transversales and Santa Rosa veins, and assessment of the additional potential is currently being studied at these five areas.

The following summary tables will be presented in a NI 43-101 Technical Report on Resources. Shareholders and interested parties are encouraged to read this report which will be available on SEDAR (www.sedar.com) and on the Company's website at www.santacruzsilver.com within the next 7 days.

All Veins Total								
	Measured							
Ag Eq* Cutoff	Tonnes (x1000)	Ounces Ag (x1000)	Equivalent Ounces Ag (x1000)	Ag gpt	Equivalent Ag gpt	Cu %	Pb %	Zn %
50	4,314	8,919	37,717,861	64.30	271.94	0.25	2.56	4.51
75	**3,133**	**7,313**	**30,886,731**	**72.60**	**306.64**	**0.29**	**2.83**	**5.11**
100	2,420	6,193	25,969,902	79.59	333.76	0.32	3.02	5.58
150	1,524	4,519	18,913,338	92.21	385.95	0.38	3.40	6.52

	Indicated							
Ag Eq* Cutoff	Tonnes (x1000)	Ounces Ag (x1000)	Equivalent Ounces Ag (x1000)	Ag gpt	Equivalent Ag gpt	Cu %	Pb %	Zn %
50	1,546	2,663	11,679	53.58	235.05	0.20	2.29	3.96
75	**936**	**1,876**	**8,188**	**62.33**	**272.09**	**0.24**	**2.56**	**4.63**
100	621	1,408	6,116	70.50	306.13	0.27	2.81	5.26
150	329	860	3,869	81.35	366.05	0.34	3.38	6.32

	Measured + Indicated							
Ag Eq* Cutoff	Tonnes (x1000)	Ounces Ag (x1000)	Equivalent Ounces Ag (x1000)	Ag gpt	Equivalent Ag gpt	Cu %	Pb %	Zn %
50	5,860	11,582	49,397	61.48	262.21	0.23	2.49	4.37
75	**4,069**	**9,189**	**39,074**	**70.24**	**298.69**	**0.28**	**2.77**	**5.00**
100	3,042	7,601	32,086	77.73	328.12	0.31	2.98	5.51
150	1,853	5,378	22,782	90.28	382.42	0.37	3.39	6.49

	Inferred							
Ag Eq* Cutoff	Tonnes (x1000)	Ounces Ag (x1000)	Equivalent Ounces Ag (x1000)	Ag gpt	Equivalent Ag gpt	Cu %	Pb %	Zn %
50	3,084	4,140	19,913	41.75	200.80	0.16	2.17	3.35
75	**1,495**	**2,149**	**11,347**	**44.70**	**236.08**	**0.20**	**2.68**	**3.92**
100	750	1,281	6,742	53.16	279.68	0.25	3.02	4.74
150	317	651	3,533	63.82	346.58	0.33	3.63	6.01

Ag Eq is the silver equivalent used to calculate the cutoff. The silver equivalent was calculated with the following equation:

$$AgEq = (Ag * 31.1035 * AgPrice + Cu * CuRec * 22.04 + Zn * ZnPrice + Pb * PbPrice)/AgPrice$$

Where:

	Definition	Price
AgEq	the silver equivalent	
Ag	the estimated silver grade in grams per tonne	$30.99/t oz
Cu	the estimated copper grade in %	$3.491/lb
Pb	the estimated lead grade in %	$0.9988/lb
Zn	the estimated zinc grade in %	$0.9531/lb

- Pending metallurgical studies, all metal recoveries are assumed to be identical.
- The grades for copper, lead, and zinc are multiplied by each metal's 3 year trailing average price ratioed to silver's 3 year trailing average price in matching units.
- The quantity and grade or quality is an estimate and is rounded to reflect the fact that it is an approximation.

The Mineral Resources are reported using a 75g/t silver equivalent cutoff. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. This Mineral Resource estimate has been prepared in accordance with NI 43-101 and CIM "Best Practices and Reporting Guidelines". There is no certainty that all or any part of the Mineral Resource will be converted to Mineral Reserves.

During the six-month period ended June 30, 2012, Santacruz incurred exploration expenditures of $56,894 at the San Felipe Property.

Results of Operations

Six months ended June 30, 2012

The Company recorded a net loss of $16,014,416 ($0.38 per share) for the six months ended June 30, 2012, compared to the net loss for the six months ended June 30, 2011 of $138,457 ($0.07 per share).

Variances of note in general and administrative expenses are detailed below:

- Administrative expenses of $456,599 (2011 - $19,002). Administrative expenses were higher during this fiscal period primarily due to increased activities at the Company's Mexican office in connection with the commencement of development of the Rosario Project.
- Professional fees of $823,278 (2011 - $78,381). Professional fees were higher during the six months ended June 30, 2012 primarily due to the costs incurred related to the reverse takeover transaction.
- Share-based payments of $2,780,916 (2011 - $nil). 5,110,000 stock options (2011 - nil) were granted to directors, officers, employees and consultants of the Company during the six months ended June 30, 2012.
- Transfer agent and filing fees of $15,253 (2011 - $nil). Transfer agent and filing fees increased due to the fact that the Company became listed for trading on the TSX Venture Exchange on April 12, 2012.
- Travel expenses of $78,108 (2011 - $294). Travel expenses increased in part due to an increase in management's travel between the Company's Canadian and Mexican offices and in part with respect to general business travel in connection with management attending various investor and trade shows and road shows.

Variances of note in other income and expenses are detailed below:

- Charge related to public company listing of $11,904,386 (2011 - $nil). Charge related to public company listing occurred pursuant to accounting for the RTO in accordance with IFRS as detailed in Note 3 to the 2012 Q2 Financial Statements.
- Other income of $45,241 (2011 - $nil). The funds received from the private placement were deposited into short-term investment accounts, resulting in the Company recording interest income during the six months ended June 30, 2012.

Three months ended June 30, 2012

The Company recorded a net loss of $15,881,918 ($0.25 per share) for the three months ended June 30, 2012, compared to the net loss for the three months ended June 30, 2011 of $75,139 ($0.04 per share).

Variances of note in general and administrative expenses are detailed below:

- Administrative expenses of $368,375 (2011 - $13,227). Administrative expenses were higher during this fiscal period primarily due to increased activities at the Company's Mexican office in connection with the commencement of development of the Rosario Project.
- Professional fees of $814,179 (2011 - $42,501). Professional fees were higher during the three months ended June 30, 2012 primarily due to the costs incurred related to the reverse takeover transaction.
- Share-based payments of $2,780,916 (2011 - $nil). 5,110,000 stock options (2011 - nil) were granted to directors, officers, employees and consultants of the Company during the three months ended June 30, 2012.
- Transfer agent and filing fees of $15,253 (2011 - $nil). Transfer agent and filing fees increased due to the fact that the Company became listed for trading on the TSX Venture Exchange on April 12, 2012.
- Travel expenses of $39,763 (2011 - $294). Travel expenses increased in part due to an increase in management's travel between the Company's Canadian and Mexican offices and in part with respect to general business travel in connection with management attending various investor and trade shows and road shows.

Variances of note in other income and expenses are detailed below:

- Charge related to public company listing of $11,904,386 (2011 - $nil). Charge related to public company listing occurred pursuant to accounting for the RTO in accordance with IFRS as detailed in Note 3 to the 2012 Q2 Financial Statements..
- Other income of $45,241 (2011 - $nil). The funds received from the private placement were deposited into short-term investment accounts, resulting in the Company recording interest income during the three months ended June 30, 2012.

Summary of Quarterly Results

	THREE MONTHS ENDED			
	June 30, 2012	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**
Revenues	Nil	Nil	Nil	Nil
Administrative Expenses	4,088,820	169,662	183,319	206,269
Deferred exploration and option payments (cash portion)	1,277,755	445,925	1,360,894	1,605,726
Net income (loss)	(15,881,918)	(132,498)	(176,492)	(265,409)
Net income (loss) per share[1]	(0.25)	(0.01)	(0.05)	(0.10)

	THREE MONTHS ENDED			
	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Revenues	Nil	Nil	Nil	Nil
Administrative Expenses	145,917	51,680	168	4,392
Deferred exploration and Option payments (cash portion)	414,935	305,000	139,000	142,412
Net income (loss)	(75,139)	(63,318)	2,177	(5,884)
Net income (loss) per share[1]	(0.04)	(0.03)	0.03	(0.08)

[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.

The Company recorded a charge related to public company listing of $11,904,386 during the three months ended June 30, 2012, as a result of the reverse takeover transaction on April 12, 2012. In addition, share-based payments of $2,780,916 were recorded during the three months ended June 30, 2012, as a result of the grant of stock options to directors, officers, employees and consultants of the Company.

Financing Activities
Details of financing activities in the six months ended June 30, 2012 are as follows:

- On January 27, 2012, the Company completed a non-brokered private placement issuing 444,444 common shares for aggregate gross proceeds of $399,480.
- On April 12, 2012, the Company completed a non-brokered private placement of 555,055 common shares at $0.90 for gross proceeds of $500,000.
- On April 12, 2012, the Company completed a brokered private placement of 22,222,222 common shares at $0.90 per share for gross proceeds of $19,626,000. The agent for the offering received a commission consisting of $1,277,355 cash, 200,000 common shares, and 1,333,333 broker warrants entitling the agent to purchase 1,333,333 common shares of the Company at CDN$1.00 per share up to April 12, 2014. The Company also issued 2,375,000 common shares as corporate finance fee and incurred additional issue costs of $174,014.

There were no significant financing activities in the six months ended June 30, 2011.

Liquidity and Capital Resources
As at June 30, 2012, the Company had cash and cash equivalents of $15,883,417 (December 31, 2011 - $183,072) and working capital of $16,313,574 (December 31, 2011 – $359,493). During the six months ended June 30, 2012, net cash used in operating activities was $1,580,525; net cash used in investing activities was $2,840,378 primarily for acquisitions of mineral property interests, property, plant and equipment, and costs relating to the exploration activities on its mineral properties; and net cash provided by issuance of common shares as part of financing activities was $18,785,689. During the period, the Company also acquired cash of $1,219,552 as a result of the reverse takeover transaction.

At present, the Company's operations do not generate cashflow, however the Company is in the process of putting its first project (the Rosario Project) into commercial production. The Company expects the capital cost of this project to be approximately $12.4 million. Accordingly the Company has committed a substantial amount of its capital resources to funding the completion of this project. As such, it is possible that the Company will have to raise additional capital in order to fund the acquisition costs and exploration programs on other mineral properties.

Pursuant to the terms of the San Felipe Property agreement (Note 6 (c) to the 2012 Q2 Financial Statements), in addition to cash payments of $2,000,000 made to date, in order to maintain and exercise the option, the Company must, among other things, incur exploration expenditures of $3,000,000 by April 1, 2013, and make a cash payment of $38,000,000 on April 1, 2013.

If the exploration expenditures of $3,000,000 are not made, the Company has an obligation to reimburse the optionor for the difference between $3,000,000 and the actual exploration expenditures incurred regardless of whether or not the Company exercises its option on this property. The Company has no other capital expenditure commitments.

Many factors influence the Company's ability to raise funds, including the health of the resource market, the climate for mineral exploration investment, the Company's track record, and the experience and calibre of its management. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activities. Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control. There can be no assurance that should additional financing from the shareholders or others be required, it will be available or on terms acceptable to the Company.

Capital Expenditures

The Company spent $1,723,680 on its mineral properties during the six months ended June 30, 2012 (June 30, 2011 - $719,935) predominately consisting of costs relating to the acquisition and exploration activities on its mineral properties. The Company also spent $1,116,698 on acquisitions of property, plant and equipment during the six months ended June 30, 2012 (June 30, 2011 - $10,774), $1,006,027 of which were incurred in connection with the initial equipment procurement and construction costs of the Rosario milling facility and mine. The Company has made no dividend payments, and currently has no plans to declare any dividends.

The Company is in the process of developing the Rosario Project and expects the capital cost of this project to be approximately $12.4 million. In addition, the Company has a commitment to incur $3,000,000 of exploration expenditures on the San Felipe Property by April 13, 2013. Any unexpended balance must be paid to the property vendor. Further, the Company must pay the property vendor $38,000,000 on or before April 13, 2013 pursuant to the terms of the San Felipe Property acquisition agreement (Note 6 (c) to the 2012 Q2 Financial Statements).

Transactions with Related Parties

During the three and six months ended June 30, 2012 and 2011, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
	$	$	**$**	$
Accounting fees	**34,279**	-	**34,279**	-
Management fees	**46,055**	48,583	**75,435**	50,405
Salaries and benefits capitalized as exploration costs in mineral property interests	**40,446**	32,733	**80,483**	32,733
	120,780	81,316	**190,197**	83,138

At June 30, 2012, directors or their related companies were owed $9,562 (December 31, 2011 – $nil) in respect of the services rendered.

Key management includes directors and executive officers of the Company. The share-based compensation paid to key management for employee services during the three and six months ended June 30, 2012 was $2,066,792 (2011 – $nil).

Financial Instruments

Fair Value and Classification of Financial Instruments

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

The Company operates in Canada and Mexico but has the majority of its cash held in Canada in Canadian and US dollars. The Company is exposed to foreign exchange risk due to fluctuations in foreign currencies (Canadian dollar and Mexican peso). Foreign exchange risk arises from purchase transactions as well as financial assets and liabilities denominated in these foreign currencies. The sensitivity of the Company's net loss and other comprehensive loss to changes in the exchange rate between the US dollars and the Mexican pesos would be as follows: a 10% change in the US dollar exchange rate relative to the Mexican pesos would change the Company's net loss and comprehensive loss by approximately $47,000.

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

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.

Outstanding Share Data

Authorized share capital: Unlimited number of Common Shares

All share information is reported as of August 28, 2012 in the following table.

Issued and Outstanding Common Shares				67,729,853
	Expiry Date	Exercise Price		
Options	April 12, 2017	$0.90	4,806,666	
	May 10, 2015	$0.90	300,000	
	July 24, 2017	$0.90	800,000	
				5,906,666
Warrants	October 7, 2013	$0.10	200,000	
	April 12, 2014	$1.00	1,333,333	
				1,533,333
Fully Diluted				75,169,852

Subsequent Event
On July 24, 2012, the Company granted 800,000 incentive stock options to a director having an exercise price of $0.90 each, expiring July 24, 2017.

Disclosure Controls and Procedures
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 unaudited condensed interim consolidated financial statements for the six months ended June 30, 2012 and this accompanying MD&A.

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 on SEDAR at www.sedar.com.

Outlook
The Company's immediate objective is to start production at its Rosario Project during the first quarter of 2013. While working towards this objective, exploration activities, including diamond drilling, are planned for both the Rosario Project and Gavilanes Property (4,000 and 6,000 metres respectively).

Regarding the San Felipe property, the Company plans to carry out surface exploration activities designed to determine the viability of the property based on the technical report from Gustavson. This field work is expected to be concluded in the near term.

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 nor deferred development costs.

Qualified Persons
Information from the Company's Technical Reports which is included in this statement has been reviewed by Donald E. Hulse P.E. of Gustavson Associates L.L.C. All technical information 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.