



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2017

The following management's discussion and analysis of financial condition and results of operations ("**MD&A**") for the three months ended March 31, 2017 prepared as of May 26, 2017, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2017 and the related notes thereto of Santacruz Silver Mining Ltd. (the "**Company**" or "**Santacruz**") (the "**2017 Q1 Financial Statements**"), together with the audited consolidated financial statements for the year ended December 31, 2016 as well as the accompanying MD&A for the year then ended (the "**Annual MD&A**").

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

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

Forward-Looking Statements

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

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

expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or the negatives thereof or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

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

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

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

General

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

The Company is engaged in the operation, acquisition, exploration and development of mineral properties in Mexico, with a primary focus on silver and zinc, but also including gold and lead. The Company currently has two producing projects, the Rosario Project and the Veta Grande Project. In addition, the Company holds three exploration properties in its mineral property portfolio, the Gavilanes Project, the Minillas Property, and the Zacatecas Properties (which includes the Panuco Deposit).

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

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

2016 Highlights

- Selected operating and financial information for the three months and years ended March 31, 2017 and March 31, 2016 is presented below:

	Three months ended March 31,	
	2017	2016
Financial		
Revenue	\$2,085	\$3,537
Mine Operations Income (Loss) ⁽⁵⁾	\$(1,059)	\$462
Net Income (Loss)	\$1,490	\$(3,000)
Net Income (Loss) Per Share – Basic (\$/share)	0.01	(0.03)
Adjusted EBITDA ⁽⁵⁾	\$(848)	\$601
Operating ⁽¹⁾		
Material Processed (tonnes milled)	45,474	24,053
Silver Equivalent Produced (ounces) ⁽²⁾	223,968	290,569
Silver Equivalent Sold (payable ounces) ⁽³⁾	163,457	318,596
Production Cost per Tonne ⁽⁴⁾⁽⁷⁾	52.87	103.28
Cash Cost per Silver Equivalent (\$/oz.) ⁽⁴⁾	19.55	10.93
All-in Sustaining Cost per Silver Equivalent (\$/oz.) ⁽⁴⁾	24.56	14.10
Average Realized Silver Price per Ounce (\$/oz.) ⁽⁴⁾⁽⁶⁾	17.31	17.00

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

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

⁽³⁾ Silver equivalent sold ounces in the first quarter of 2016 has been calculated using a realized silver price of US\$17.00/oz., after giving effect to certain forward metal sales entered into in connection with the JMETS Agreement.

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

⁽⁵⁾ The Company reports additional non-IFRS measures which include Mine Operations Income (Loss) and Adjusted EBITDA. These additional financial disclosure measures are intended to provide additional information. Refer to the "Non-IFRS Measures – Additional Information" section for a reconciliation of Mine Operations Income (Loss) and Adjusted EBITDA to the three months and years ended 2015 and 2016 Financial Statements.

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

- On February 15, 2017 the Company filed on SEDAR an independent Technical Report dated as of January 31, 2017 titled "Technical Report, Veta Grande Project, Zacatecas State, Mexico" and subsequently filed on SEDAR with effective date of February 26, 2017 an amendment to the January 31, 2017 Technical Report;
- On March 2, 2017 the Company completed a transaction (the "**ASC Transaction**") with Americas Silver Corporation ("**Americas Silver**") to assign 100% of its interest in the San Felipe project to Americas Silver for total consideration of \$7,000 cash plus applicable value added tax ("**VAT**"). The proceeds were used by the Company to make an approximate \$4,250 payment on the JMETS Note (see section titled "*Pre-paid Silver Purchase*") as well as a \$2,000 (plus VAT) payment to Minera Hochschild Mexico, S.A. de C.V. ("**Hochschild**"), the optionor of the San Felipe project;
- On March 28, 2017 the Company completed the sale (the "**First Majestic Transaction**") of its interest in the El Gachi property in Sonora State, Mexico to First Majestic Silver Corp. ("**First Majestic**") for total consideration of \$2,500 cash (plus applicable VAT). Of the total proceeds received by the Company, approximately \$757 was paid against the JMETS Note (see section titled "*Pre-paid Silver Purchase*") and \$500 (plus applicable VAT) was paid to Hochschild;
- On May 29, 2017 the Company entered into an agreement (the "Membrillo Agreement") pursuant to which the Company has acquired the exclusive right for five years (the "Exclusive Mining Right") to explore, develop and mine the Membrillo Vein, a silver-zinc-lead-gold vein structure situated approximately four km from the Company's Rosario Project mill facility located near Charcas, San Luis Potosi, Mexico. The Exclusive Mining Right covers an area of approximately 500 hectares that is situated within the San Rafael concession.

Outlook

During the first quarter of 2017 management continued with its key objective of de-risking the Company's operations by taking the decision to assign/sell the Company's interest in the San Felipe Project and El Gachi Property. The gross proceeds realized from these transactions, inclusive of the applicable IVA payments, amounted to \$11,020 of which approximately \$5,007 was paid to JMETS to settle in full the outstanding interest bearing component of the JMETS Note leaving \$1,500 of non-interest bearing indebtedness that is not due for payment until 2019. In addition the Company made payments, inclusive of IVA, to Hochschild, the underlying vendor of the properties, of \$2,900, with the residual funds used for working capital purposes.

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

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

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

The Company expects that once full mining operations are achieved at the Membrillo Vein the combined daily production from the Membrillo Vein and the Cinco Estrellas Property will range from 450 to 500 tpd with an

additional 100 to 150 tpd of mineralized material being delivered to the Rosario Project mill facility from the Rosario Mine.

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

Pre-paid Silver Purchase

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

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

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

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

The JMET Note bore interest at a rate of 14% per annum, payable quarterly in arrears commencing September 30, 2016, with principal repayments of \$500 per quarter commencing September 30, 2017 and ending on December 31, 2019. As a result of the successful completion of the ASC Transaction and the First Majestic Transaction, the JMET Note was repaid in full during the first quarter of 2017. The \$1,500 in restructuring fees remains outstanding.

Review of Consolidated Operating Results

	2017	2016			
	Q1	Q4	Q3	Q2	Q1
Material Processed (tonnes milled)					
Rosario Project	18,723	16,636	24,744	26,419	24,053
Veta Grande Project	26,751	26,110	-	-	-
Consolidated	45,474	42,746	24,744	26,419	24,053
Silver Equivalent Produced (ounces)⁽¹⁾					
Rosario Project	115,240	99,749	164,924	271,985	290,569
Veta Grande Project	108,728	100,373	-	-	-
Consolidated	223,968	200,122	164,924	271,985	290,569
Silver Equivalent Sold (payable ounces)⁽²⁾					
Rosario Project	99,535	85,860	198,639	251,189	318,596
Veta Grande Project	63,922	80,874	-	-	-
Consolidated	163,457	166,734	198,639	251,189	318,596
Cash Cost of Production per Tonne⁽³⁾					
Rosario Project	62.92	69.67	69.47	79.26	103.28
Veta Grande Project	45.83	74.03	-	-	-
Consolidated	52.87	72.33	69.47	79.26	103.28
Cash Cost per Silver Equivalent (\$/oz.)⁽³⁾					
Rosario Project	15.93	18.60	12.20	11.57	10.93
Veta Grande Project	25.19	29.66	-	-	-
Consolidated	19.55	23.97	12.20	11.57	10.93
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.)⁽³⁾					
Rosario Project	19.91	20.96	15.88	14.83	14.10
Veta Grande Project	31.79	31.65	-	-	-
Consolidated	24.56	26.15	15.88	14.83	14.10
Average Realized Silver Price per Ounce (\$/oz)⁽³⁾					
Rosario Project	17.20	16.62	19.10	16.50	17.00
Veta Grande Project	17.49	16.47	-	-	-
Consolidated	17.31	16.55	19.10	16.50	17.00

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

(1) Silver equivalent ounces produced in 2017 have been calculated using prices of US\$16.00/oz., US\$1,150/oz., US\$1.00/lb. and US\$1.15/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project as well as by the Veta Grande Project. Silver equivalent ounces produced in 2016 have been calculated using prices of US\$14.50/oz., US\$1,100/oz., US\$0.76/lb and US\$0.71/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project during 2016 and Veta Grande Project in Q4 2016.

(2) Silver equivalent sold ounces in the first quarter of 2016 has been calculated using a realized silver price of US\$17.00/oz., after giving effect to certain forward metal sales entered into in connection with the JMET Agreement.

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

Operations Overview

Total silver equivalent production for Q1 2017 increased by 12% to 223,968 ounces as compared to 200,122 ounces in Q4 2016. This increase is due to a 16% increase (15,491 ounces) in production at the Rosario Project to 115,240 ounces and an 8.3% increase (8,355 ounces) in production at the Veta Grande Project. As compared to total silver equivalent production for Q1 2016, Q1 2017 production decreased by 23% reflecting a 60% decrease in production at the Rosario Project partially offset by the commencement of production at the Veta Grande Project.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 27% in Q1 2017 to \$52.87/t as compared to \$72.33/t in Q4 2016. This positive change in unit costs reflects a 38% decrease in unit cash production realized at the Veta Grande Project and a 10% decrease in unit cash production costs at the Rosario Project. Compared to Q1 2016, the cash cost per tonne decreased by 49%, with a 39% decrease in the cash cost of production per tonne from the Rosario Project along with an additional positive contribution from the initial cash cost of production per tonne realized at the Veta Grande Project.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold decreased by 18% in Q1 2017 to \$19.55/oz as compared to \$23.97/oz in Q4 2016. This change in unit costs reflects a 14% decrease in unit cash production costs at the Rosario Project and a 15% decrease in unit cash production costs at the Veta Grande Project. Compared to Q1 2016, cash cost of production per silver equivalent ounce sold increased by 79%, which resulted from a 46% increase at the Rosario Project along with a cash cost of production per silver equivalent ounce sold of \$25.19/oz from the production at the Veta Grande Project.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold decreased by 6% in Q1 2017 to \$24.56/oz as compared to \$26.15/oz in Q4 2016. This change in unit costs reflects a 12% decrease in unit cash production costs at the Rosario Project. Compared to Q1 2016, all-in sustaining cash cost of production per silver equivalent ounce sold increased by 74%, with a 41% increase from the Rosario Project along with an all-in sustaining cost of production per silver equivalent ounce sold at Veta Grande of \$31.79/oz.

Rosario Project, Charcas, San Luis Potosi, Mexico

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

Rosario Mine

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

Cinco Estrellas Property

Pursuant to an option agreement dated September 7, 2016, the Company was granted an option to acquire a 100% interest in the Cinco Estrellas property located in Charcas, San Luis Potosí, Mexico for the sum of \$130 (\$115 paid). The property is subject to a 2.5% NSR.

Membrillo Vein

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

As consideration for being granted the Exclusive Mining Right, the Company has agreed to pay an annual fee of US\$60,000 to Grupo Mexico plus has granted to them a 3.0% net smelter returns royalty on any mineralized

material from the Membrillo Vein that is mined and milled or otherwise treated for the eventual sale of the contained metal.

Rosario Project Production and Operating Results

	2017	2016			
	Q1	Q4	Q3	Q2	Q1
Material Processed (tonnes milled)	18,723	16,636	24,744	26,419	24,053
Silver Equivalent Produced (ounces) ⁽¹⁾	115,240	99,749	164,924	271,985	290,569
Silver Equivalent Sold (payable ounces) ⁽²⁾	99,535	85,860	198,639	251,189	318,596
Production - Silver (ounces)	34,556	39,900	76,168	146,968	162,802
- Gold (ounces)	195	179	86	103	128
- Lead (tonnes)	45	62	121	238	284
- Zinc (tonnes)	382	364	643	835	793
Average Grade – Silver (g/t)	66	81	102	194	218
- Gold (g/t)	0.43	0.55	0.16	0.18	0.20
- Lead (%)	0.29	0.42	0.55	0.98	1.26
- Zinc (%)	2.37	2.62	3.56	3.54	3.69
Metal Recovery – Silver (%)	86.3	91.8	94.2	89.0	96.7
- Gold (%)	75.1	61.3	66.4	66.7	85.0
- Lead (%)	81.4	87.5	88.5	92.2	93.9
- Zinc (%)	86.0	83.4	72.9	89.2	89.3
Cash Cost of Production per Tonne (\$/t) ⁽³⁾	62.92	69.67	69.47	79.26	103.28
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	15.93	18.6	12.20	11.57	10.93
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	19.91	20.96	15.88	14.83	14.1

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

⁽²⁾ Silver equivalent sold ounces in the first quarter of 2016 has been calculated using a realized silver price of US\$17.00/oz., after giving effect to the MPPP (see "Pre-paid Silver Purchase", below)

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

Operations Overview

In Q1 2017 silver equivalent production from the Rosario Project increased by 16% (15,491 ounces) compared to Q4 2016. The improved production reflects the impact of the Cinco Estrellas Property and Membrillo Vein as alternate sources of mill feed at the Rosario milling facility that resulted in a 13% increase in tonnes milled and higher recoveries for gold and zinc. Compared to Q1 2016, the silver equivalent production decreased 60% from 290,569 ounces to 115,290 ounces. The decrease reflects a 22% decrease in mineralized material processed combined with lower head grades for silver, lead and zinc as well as decreased metal recoveries in the milling facility. The decrease in metal grades was as a result of the development of the Rosario Mine's Levels 4.5 and 5 where areas of greater structural complexity and narrower veins have led to lower tonnes mined, increased mining dilution and lower grades realized since the second quarter of 2016 as well as a result of development material from both the Cinco Estrellas Property and Membrillo Vein being sent to the Rosario Project mill during the quarter.

During the fourth quarter of 2016 and on into the first quarter of 2017 the Company advanced development of the Cinco Estrellas Property so as to complement the mill feed from the Rosario Mine. During the fourth quarter approximately 2,855 tonnes were mined from this property with an estimated average head grade of 3.3 g/t Au and 88 g/t Ag. During the first quarter of 2017 approximately 4,300 tonnes of mineralized material from the

property was processed. The mineralized material mined in the fourth quarter and to date in 2017 has been sourced from mine development workings. Importantly, development of the first production stope has just been completed. The stope is located between levels 2 and 3, and is approximately 18 metres high. Geological mapping and chip sampling of the vein over a 150 meter strike length on levels 2 and 3 indicate the vein widths in this stope range from 1.5 to 3.0 metres. Assay results of chip samples collected from the top of the stope (level 2) range from trace up to 6.0 g/t Au and 120 g/t Ag as compared to the bottom of the stope (level 3) that range from trace up to 19 g/t Au and 220 g/t Ag.

During the first quarter of 2017 and continuing into mid-May, the Company completed a new access ramp at the Cinco Estrellas Property from surface to Level 3 and shortly it will be extended to Level 5. The new ramp has larger dimensions that will allow haulage trucks to access from Level 1 to Level 5 thereby greatly improving the transportation of mineralized material to surface. Currently there is approximately 2,000 tonnes of mineralized material that has just been hauled to surface grading on average 2.6 g/t Au and 60 g/t Ag based on samples taken from the stockpile of mined material. Management now expects to continue accessing mineralized material of similar or higher grades at the Cinco Estrellas Property based on sampling of planned mining stopes.

On May 29, 2017 the Company entered into the Membrillo Agreement. In connection with this agreement and with the concurrence of Grupo Mexico, the Company began development work at the Membrillo Vein late in the fourth quarter of 2016 and to date has completed approximately 816 metres of development drifting on Level 1 and is now advancing a ramp (145 metres completed to date) to Level 2 which will be 30 metres below Level 1. To date 7,504 tonnes of mineralized material from development works has been delivered to the Rosario Project mill facility for processing, with an average head grade of 30 g/t Ag; 0.24 g/t Au; 2.73% Zn; and 0.34% Pb.

The Company expects that once full mining operations are achieved at the Membrillo Vein the combined daily production from the Membrillo Vein and the Cinco Estrellas property will range from 450 to 500 tpd with an additional 100 to 150 tpd of mineralized material being delivered to the Rosario Project mill facility from the Rosario Mine. This diversification of feed to the Rosario Project's mill gives management much greater flexibility in developing and executing its operations plan at its Rosario Project.

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

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

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 10% in Q1 2017 to \$62.92/t as compared to \$69.67/t in Q4 2016. This positive change in unit costs reflects cost savings measures implemented by management together with a 13% increase in tonnage processed. Compared to Q1 2016, cash cost of production per tonne decreased by 39% reflecting a 53% decrease in production costs offset by a 22% reduction in throughput tonnage. The production cost decrease reflects in part cost savings measures implemented by management and in part the reduced tonnage processed. The decreased tonnage processed is a result of the development of the Rosario Mine's Levels 4.5 and 5 where areas of greater structural complexity and narrower veins have led to lower tonnes mined.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold decreased by 14% in Q1 2017 to \$15.93/oz as compared to \$18.60/oz in Q4 2016. This change in unit costs is virtually all due to the 16% increase in silver equivalent ounces sold in Q1 2017 as compared to Q4 2016. Compared to Q1 2016, cash cost of production per silver equivalent ounce increased by 46% reflecting the significantly lower head grades of silver, zinc, and lead resulting again from the development of the Rosario Mine's Levels 4.5 and 5 where areas of greater structural complexity and narrower veins have led to lower tonnes mined, offset by the lower cash production costs referenced above.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold decreased by 5% in Q1 2017 to \$19.91/oz as compared to \$20.96/oz in Q4 2016. This change in unit costs is again virtually all due to the 16% increase in silver equivalent ounces sold in Q1 2017 as compared to Q4 2016. Compared to Q1 2016, all-in sustaining cash cost of production per silver equivalent ounce increased by 41% reflecting significantly lower head grades of silver, zinc, and lead realized in Q1 2017 as a result of the mining issues encountered at the Rosario Mine's Levels 4.5 and 5 as referenced above, offset by the lower cash production costs discussed above.

Veta Grande Project, Veta Grande, Zacatecas, Mexico

Contracuña Agreement

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

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

Veta Grande Project Production and Operating Results

	2017	2016
	Q1	Q4
Material Processed (tonnes milled) ⁽¹⁾	26,751	26,110
Silver Equivalent Produced (ounces) ⁽¹⁾⁽²⁾	108,728	100,373
Silver Equivalent Sold (payable ounces) ⁽¹⁾	63,922	80,874
Production - Silver (ounces) ⁽¹⁾	57,598	28,027
- Gold (ounces) ⁽¹⁾	131	106
- Lead (tonnes) ⁽¹⁾	99	220
- Zinc (tonnes) ⁽¹⁾	177	362
Average Grade - Silver (g/t)	117	57
- Gold (g/t)	0.22	0.17
- Lead (%)	0.53	1.02
- Zinc (%)	1.09	1.75
Metal Recovery - Silver (%)	57.2	58.1
- Gold (%)	68.6	72.0
- Lead (%)	69.4	82.6
- Zinc (%)	60.7	79.1
Cash Cost of Production per Tonne (\$/t) ⁽³⁾	45.83	74.03
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	25.19	29.66
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	31.79	31.65

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- * Commercial production at the Veta Grande Project was declared effective October 1, 2016. Therefore, production and operating results from the Veta Grande Project before this date are not included in this summary.
- (1) During the fourth quarter of 2016 and the first quarter of 2017 no amount of the production proceeds was payable to Contracuña under the 40% NPI as to date Santacruz has not yet recouped 100% of its capital investment in the project.
 - (2) Silver equivalent ounces produced in the fourth quarter of 2016 have been calculated using prices of US\$14.50/oz., US\$1,100/oz., US\$0.76/lb. and US\$0.71/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project. Silver equivalent ounces produced in 2017 have been calculated using prices of US\$16.00/oz., US\$1,150/oz., US\$1.00/lb. and US\$1.15/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project
 - (3) The Company reports non-IFRS measures which include Cash Cost per Silver Equivalent, All-in Sustaining Cash Cost per Silver Equivalent, Cash Cost of Production per Tonne, and Average Realized Silver Price per Ounce. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "*Non-IFRS Measures*" section for definitions.

Operations Overview

During the fourth quarter of 2016 mineralized material from previously mined stopes ("**Chorros**") within the Veta Grande vein was identified and accessed from old workings below Level 3 at the Garcia mine. During the first quarter of 2017 approximately 26,700 tonnes of material at an estimated head grade of 117 g/t Ag, 0.83% Zn, 0.48% Pb and 0.24 g/t Au was processed at the Veta Grande Project, largely sourced from the Chorros left behind by previous operators.

Mineralized material from the Chorros will be a primary source of mill feed to the Veta Grande milling facility in 2017, combined with mineralized material from other mine working faces recently developed at the Garcia mine. At present the Company is extracting mineralized material from seven Chorros and expects to bring two additional Chorros online by mid-June. In connection with this matter during the first half of 2017 the Company plans to drive an access ramp for a vertical depth of 180 metres (150 metres completed to date) from the current workings at the Veta Grande vein, the largest of the vein systems contained within the Garcia mine.

In concert with the current optimized mine plan, the Company is deferring the installation of the 1,250 tonne-per-day ball mill, 4,000 tonne-per-day crushing circuit and 4,000 tonne-per-day zinc thickener and filter press until the second half of 2017.

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

Veta Grande Production

In Q1 2017 silver equivalent production from the Veta Grande Project increased by 8% (8,355 ounces) compared to Q4 2016. The increase reflects a 2% increase in tonnes milled combined with higher grades for silver and gold.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 38% in Q1 2017 to \$45.83/t as compared to \$74.03/t in Q4 2016. This positive change in unit costs again reflects cost savings measures implemented by management together with a 2% increase in tonnage processed.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold decreased by 15% in Q1 2017 to \$25.19/oz as compared to \$29.66/oz in Q4 2016. This change in unit costs reflects the 31% reduction in cash cost of production per tonne processed offset by a decrease of 21% in the silver equivalent ounces sold.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold remained consistent in Q1 2017 at \$31.79/oz as compared to \$31.65/oz in Q4 2016. This change in unit costs reflects the 31% reduction in cash cost of production per tonne processed offset by a decrease of 21% in the silver equivalent ounces sold.

Technical Reports

May 17, 2016

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

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

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

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

November 17, 2016

On November 17, 2016 the Company filed on SEDAR an independent Technical Report titled "2016 Mineral Resource Estimate, Panuco Deposit, Zacatecas, Mexico" (the "**Panuco Report**"), for the Panuco deposit located in Zacatecas, Mexico. The Panuco Report, with an effective date of October 5, 2016, was prepared in accordance with CIM Standards, by independent qualified persons. The report was completed by Van Phu Bui, P.Geol. of ARC Geoscience Group and Gary H. Giroux, P.Eng. of Giroux Consultants Ltd.

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

February 15, 2017

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

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

February 28, 2017

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

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

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

Financial Results

Review of Operations

	2017	2016	
	Q1	Q4	Q1
Revenue	\$2,085	\$1,874	\$3,537
Cost of sales			
Production costs	(2,451)	(3,111)	(2,503)
Depletion and amortization	(693)	(659)	(572)
	(3,144)	(3,770)	(3,075)
Gross margin	(1,059)	(1,896)	462
Operating expenses			
Administrative	(95)	92	(104)
Management and consulting fees	(92)	(64)	(111)
Professional fees	(181)	(186)	(128)
Share-based payments	(1)	-	(364)
Other	(114)	(165)	(91)
	(483)	(323)	(798)
Impairment	-	1,073	-
Interest earned and other finance income			
Interest earned	-	3	-
IVA recovery inflationary gain	431	(6)	-
Change in fair value of derivative assets	3,308	-	-
Gain on settlement of debt	-	-	-
	3,739	(3)	-
Interest Expense and Other Finance Expenses			
Accretion of decommissioning and restoration provision	(8)	(9)	(9)
Foreign exchange loss	(541)	(165)	(270)
Change in fair value of derivatives	-	(1,651)	(1,247)
Interest expense on loan payable	(11)	(7)	(40)
Interest expense on silver loan		-	(991)
Interest expense on JMETS note	(267)	(232)	-
	(827)	(2,064)	(2,557)
Income tax recovery (expense)	120	(433)	(107)
Net income (loss) for the period	\$1,490	\$(3,646)	\$(3,000)

Three months ended March 31, 2017

The Company recorded a net income of \$1,250 (\$0.01 per share) for the three months ended March 31, 2017 compared to a net loss of \$3,000 (\$0.03 per share) for the three months ended March 31, 2016. The increase in net income relates largely to a decrease in the fair value of derivative liabilities of \$3,308 during the period compared to an increase in the fair value of derivative assets of \$1,247 in Q1 2016.

Revenues in Q1 2017 of \$2,085 arose in part from the Rosario Project (\$1,220) and in part from the Veta Grande Project (\$865) and decreased by \$1,452 (41%) as compared to the three months ended March 31, 2016 primarily as a result of a decrease in the silver equivalent sold of 49% offset by an increase in the realized silver price. The

decrease in the silver equivalent sold reflects a decrease in the tonnes of mineralized material milled at the Rosario Project during the period combined with significantly lower head grades of silver, lead, and zinc offset somewhat by silver equivalent sales from the Veta Grande Project. Compared to Q4 2016, the revenue increased by \$211 (12%) due largely to an increase in metal prices.

Production costs of \$2,451 recorded during the current year decreased by \$52 as compared to the three months ended March 31, 2016. The decrease reflects in part the cost savings measures initiated by management at the Rosario Project and in part the 22% decrease in tonnes milled at Rosario, offset by the production from the Veta Grande Project in Q1 2017. Compared to the fourth quarter of 2016, the production costs decreased by \$660. This is mostly due to a decrease in the production costs of the Veta Grande Project of \$600.

Amortization and depletion expenses in the three months ended March 31, 2017 amounted to \$693 (2016 - \$572). These expenses are based on the assets associated with the commercial mining activities at the Rosario Project as well as the assets associated with the commercial mining activities at the Veta Grande Project in the first quarter of 2017 whereas in Q1 2016 only the assets at the Rosario Project were being amortized and depleted. Further, as these charges are directly related to the number of tonnes milled during the period, which increased due to the addition of the Veta Grande Project, the Q1 2017 charges increased as compared to Q1 2016. Compared to the fourth quarter of 2016, the amortization and depletion expense increased by 5% directly related to the increase in tonnes milled of 6% during the period.

The operations for the three months ended March 31, 2017 resulted in a negative gross margin of \$1,059 (2016 – positive gross margin of \$462). This decrease in gross margin is primarily the result of decreased revenues during the current quarter as discussed above. Compared to the fourth quarter of 2016, there was an increase in gross margin of \$837 (44%). This is mostly due to the decrease in production costs of \$660, of which \$600 of the decrease is related to the Veta Grande Project.

During the three months ended March 31, 2017 the Company recorded operating expenses of \$483 as compared to \$798 in the three months ended March 31, 2016. This decrease of \$315 is mostly related to a decrease in the share-based payments expense of \$363.

Interest earned and other finance income increased by \$3,739 for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 due to a change in fair value of derivative liabilities of \$3,308 (Q1 2016 – \$nil). The change in derivative liability resulted from a decrease related to the fair value of the outstanding foreign currency forward contracts which occurred in part because the amount of outstanding forward contracts decreased during Q1 2017 and in part because of the strengthening of the Mexican peso during the period. Compared to the fourth quarter of 2016, the interest earned and other finance income increased by \$3,742 for the same reason as above.

Interest expense and other finance expenses of \$827 (Q1 2016 - \$2,557) decreased in part because the Q1 2016 results include a change in fair value of derivative assets of \$1,247 that related to certain put options on metal prices put in place in connection with the JMET Agreement. In addition, interest expense on JMET indebtedness decreased to \$267 in Q1 2017 from \$991 in Q1 2016. Compared to the fourth quarter of 2016, interest expense and other finance expenses decreased by \$1,237 largely due to the change in derivative assets related to forward foreign exchange contracts recorded during Q4 2016 of \$1,651 (2017 - \$nil) offset by an increase in the foreign exchange loss of \$376.

An income tax recovery of \$120 was recorded in Q1 2017 as compared to an income tax expense of \$107 in the same period of 2016. The recognition of an income tax recovery was due to a decrease in the deferred tax liability of \$168 in the current period compared to an increase in the deferred tax liability of \$79 in Q1 2016.

Summary of Quarterly Results

(Expressed in thousands of US Dollars except per share amounts)	THREE MONTHS ENDED			
	Mar31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
	\$	\$	\$	\$
Revenues	2,085	1,874	3,026	3,375
Cost of sales	3,144	3,770	2,240	2,778
Administrative expenses	483	323	512	586
Net income (loss) ⁽²⁾⁽³⁾	1,490	(3,646)	(11,064)	(796)
Net income (loss) per share ⁽¹⁾	0.01	(0.02)	(0.08)	(0.01)
	THREE MONTHS ENDED			
	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015
Revenues	3,537	2,502	2,592	3,147
Cost of sales	3,075	2,904	3,147	3,020
Administrative expenses	798	366	558	570
Net loss ⁽⁴⁾	(3,000)	(18,035)	(1,628)	(2,018)
Net loss per share ⁽¹⁾	(0.03)	(0.17)	(0.02)	(0.02)

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

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

⁽³⁾ The Q3 2016 net loss includes an impairment of the San Felipe Project of \$15,615 and a gain on settlement of debt of \$6,377.

⁽⁴⁾ The Q4 2015 net loss includes an impairment of the San Felipe Project of \$19,426.

Resource and Exploration Update

Zacatecas Properties, Zacatecas City, Zacatecas, Mexico

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

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

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

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

Current Exploration Activities

On November 17, 2016 the Company filed on SEDAR the Panuco Report, and subsequently filed the Expanded Zacatecas Report and the Amended Zacatecas Report on February 15 and February 28, 2017, respectively.

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

Manillas Property, Genaro Codina, Zacatecas, Mexico

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

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

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

Gavilanes Property, San Dimas, Durango, Mexico

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

Current Exploration Activities

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

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

Exploration and Acquisition Costs

During the three months ended March 31, 2017, mineral property acquisition costs and exploration costs were \$0 and \$20 respectively for the Gavilanes Property.

Non-IFRS Measures

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

Cash Cost per Silver Equivalent Ounce and Production Cost per Tonne

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

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

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

Rosario Project

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Production costs	1,094	1,154	1,655	2,135	2,503
Inventory change	84	5	64	(41)	(19)
Cash Cost of Production (A)	1,178	1,159	1,719	2,094	2,484
Production costs	1,094	1,154	1,655	2,135	2,503
Concentrate treatment, smelting and refining cost	492	443	768	770	978
Cash Cost of Silver Equivalent Sold (B)	1,586	1,597	2,423	2,905	3,481
Material processed (tonnes milled) (C)	18,723	16,636	24,744	26,419	24,053
Cash Cost of Production per Tonne (A/C)	62.92	69.67	69.47	79.26	103.28
Silver Equivalent Sold (payable ounces) (D)	99,535	85,860	198,639	251,189	318,596
Cash Cost per Silver Equivalent Ounce (B/D)	15.93	18.60	12.20	11.57	10.93

Veta Grande Project

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	Q1 2017	Q4 2016
Production costs	1,357	1,957
Inventory change	(131)	(24)
Cash Cost of Production (A)	1,226	1,933
Production costs	1,357	1,957
Concentrate treatment, smelting and refining cost	253	442
Cash Cost of Silver Equivalent Sold (B)	1,610	2,399
Material processed (tonnes milled) (C)	26,751	26,110
Cash Cost of Production per Tonne (A/C)	45.83	74.03
Silver Equivalent Sold (payable ounces) (D)	63,922	80,874
Cash Cost per Silver Equivalent Ounce (B/D)	25.19	29.66

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

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

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

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

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

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

Rosario Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Production costs	1,094	1,154	1,655	2,135	2,503
Concentrate treatment, smelting and refining cost	492	443	768	770	978
Sustaining capital expenditures	-	26	79	22	56
Deferred ramp expenditures	146	6	134	204	150
General and administrative expenses	241	162	502	570	433
Share-based payments	1	-	8	14	364
Accretion of decommissioning and restoration provision	8	9	9	10	9
All-in Sustaining Cost	1,982	1,800	3,155	3,725	4,493
Silver Equivalent Sold (payable ounces)	99,535	85,860	198,639	251,189	318,596
All-in Sustaining Cost per Silver Equivalent Ounce Sold	19.91	20.96	15.88	14.83	14.10

Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q1 2017	Q4 2016
Production costs	1,357	1,957
Concentrate treatment, smelting and refining cost	253	442
Deferred ramp expenditures	182	-
General and administrative expenses	240	161
All-in Sustaining Cost	2,032	2,560
Silver Equivalent Sold (payable ounces)	63,922	80,874
All-in Sustaining Cost per Silver Equivalent Ounce Sold	31.79	31.65

Average Realized Silver Price per Ounce

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

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

Rosario Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenues (as reported)	1,220	984	3,026	3,375	3,537
Add back: JMET Agreement impact	-	-	-	-	901
Add back: Treatment, smelting and refining charges	492	443	768	770	978
Gross Revenues	1,712	1,427	3,794	4,145	5,416
Silver Equivalent Sold (ounces)	99,535	85,860	198,639	251,189	318,596
Avg Realized Price per Ounce of Silver Equivalent Sold⁽¹⁾	17.20	16.62	19.10	16.50	17.00
Avg Market Price per Ounce of Silver per London Silver Fix	17.42	17.18	19.62	16.78	14.83

⁽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. For the first quarter of 2016, the price for silver was impacted by certain put options on metal prices put in place in connection with the JMET Agreement resulting in a realized price of \$17.00/oz.

Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q1 2017	Q4 2016
Revenues (as reported)	865	890
Add back: Treatment, smelting and refining charges	253	442
Gross Revenues	1,118	1,332
Silver Equivalent Sold (ounces)	63,922	80,874
Avg Realized Price per Ounce of Silver Equivalent Sold	17.49	16.47
Avg Market Price per Ounce of Silver per London Silver Fix	17.42	17.18

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

Non-IFRS Measures – Additional Information

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

Mine Operations Income (Loss)

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

EBITDA and Adjusted EBITDA

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

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

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

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net income (loss) for the period as reported	1,490	(3,646)	(11,064)	(796)	(3,000)
Income tax expense (recovery)	(120)	433	(860)	39	107
Interest earned and other finance income and gain on the settlement of debt	(3,739)	3	(6,377)	(175)	-
Interest expense and other finance expenses	-	1,883	2,131	1,599	2,238
Interest expense on JMET note	267	-	-	-	-
Interest expense on loan payable	11	7	6	13	40
Accretion expense	8	9	9	10	9
Amortization and depletion of mineral properties, plant and equipment	693	659	587	645	573
EBITDA	(1,390)	(652)	(15,568)	1,335	(33)
Impairment of exploration and evaluation properties	-	(1,073)	16,688	-	-
Foreign exchange	541	165	(259)	(679)	270
Share-based payments	1	-	8	14	364
Adjusted EBITDA	(848)	(1,560)	869	670	601

Loan Payable

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

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

Trafigura advanced another \$200,000 on January 13, 2017 and another \$150,000 on January 31, 2017 to the Company. \$554 of the principal payments remain unpaid and the Company is currently re-negotiating the extension of the outstanding payments.

Use of Proceeds from Financings

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

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

Capital Expenditures

The Company spent \$3,791 on its mineral properties during the three months ended March 31, 2017 including the payment made to Hochschild for the sale of San Felipe and El Gachi properties in the amount of \$2,500 plus \$388

of mining taxes and ejido payments on the same properties, as well as \$671 of development costs on various of the Company's properties.

Liquidity and Capital Resources and Going Concern

As at March 31, 2017, the Company had cash and cash equivalents of \$272 (December 31, 2016 – \$40) and a working capital deficiency of \$7,297 (December 31, 2016 – \$11,668). During the three months ended March 31, 2017, net cash used in operating activities was \$475, net cash provided by investing activities was \$5,534 including costs relating to the exploration activities on its mineral properties; and net cash used for financing activities was \$4,878.

Pursuant to the terms of the Gavilanes property agreement (Note 9(a) to the 2017 Q1 Financial Statements), in order to maintain and exercise the option the Company must make the remaining payment of \$575. This payment was due on April 15, 2015, but the due date has been extended to May 31, 2017.

During the year ended December 31, 2016, the Company entered into a series of forward contracts to purchase Mexican pesos in exchange for a total of \$42,000 at 18.874 Mexican pesos per US dollar over the time period from October 31, 2016 to December 31, 2017 inclusive. At March 31, 2017, the Company had outstanding foreign currency forward contracts to buy Mexican pesos in exchange for \$22,526 with settlement dates between June 30, 2017 and December 31, 2017. Subsequent to March 31, 2017 the Company settled all remaining contracts leaving \$nil outstanding from June through December, 2017.

As of March 31, 2017 the amount of the margin call was approximately \$425 of which the Company has paid \$150. The margin call has been reflected in the forward contract derivative liability balance of \$425 at March 31, 2017. The deposit of \$150 in the margin account was classified as restricted cash at March 31, 2017.

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

At March 31, 2017, in addition to the working capital deficiency referenced above, the Company had accumulated an inception to date deficit of \$75,282. The working capital deficiency and accumulated deficit indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. As a result, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flows from operations, and/or to raise adequate funding through equity or debt financings to discharge its liabilities as they come due. The Company has a capital management process in place to safeguard the Company's ability to continue as a going concern. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Transactions with Related Parties

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

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

During the three months ended March 31, 2017 and 2016, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

Three months ended March 31,	2017	2016
	\$	\$
Accounting and corporate secretarial fees ⁽¹⁾	59	35
Directors' fees ⁽²⁾	13	14
Management fees ⁽³⁾	46	40
Share-based payments	-	293
Salaries and benefits capitalized ⁽³⁾	-	29

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

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

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

At March 31, 2017, directors and officers or their related companies were owed \$66 (December 31, 2016 – \$227) in respect of the services rendered. These are non-interest bearing with standard payment terms.

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

The Company entered into certain mining equipment leases expiring between 2017 and 2020 with an interest rate between 6.5% and 10.5% per annum. \$234 of lease payments were paid during the three months ended March 31, 2017 and \$1,250 of the leases payable outstanding at March 31, 2017 were owed to a company owned by the CEO of the Company.

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

Financial Instruments

Fair Value and Classification of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash, trade and other receivables, accounts payable and accrued liabilities, loan payable, leases, the JMET note, the forward contract derivative liability, and the JMET warrants derivative liability. Cash and cash equivalents, restricted cash, and trade and other receivables are classified as loans and receivables, which are measured at amortized cost. The derivative liabilities are classified as at fair value through profit or loss and are measured at fair value. Accounts payable and accrued liabilities, loan payable, leases, and the JMET note are classified as other financial liabilities, which are measured at amortized cost. The carrying values of cash and cash equivalents, restricted cash, trade and other receivables, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

Off-balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

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

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

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

Outstanding Share Data

Authorized share capital: Unlimited number of Common Shares

All share information is reported as of May 26, 2017 in the following table.

Issued and Outstanding Common Shares				168,295,984
	Expiry Date	Exercise Price (CDN\$)		
Options	February 10, 2021	0.15	4,500,000	4,500,000
Warrants	December 31, 2018	\$0.55	3,750,000	
	January 14, 2019	\$0.55	18,965,000	22,715,000
Fully Diluted				195,510,984

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In

connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the three months ended March 31, 2017 and this accompanying MD&A (together, the "Interim Filings").

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

Risks and Uncertainties

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

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

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

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

Additional Disclosure for Venture Issuers without Significant Revenue

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

Qualified Persons

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

Other Information

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