MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the nine months ended September 30, 2016 prepared as of November 23, 2016, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2016 and the related notes thereto of Santacruz Silver Mining Ltd. ("the Company" or "Santacruz") ("the 2016 Q3 Financial Statements"), together with the audited consolidated financial statements of the Company for the year ended December 31, 2015 as well as the accompanying MD&A for the year then ended ("the Annual MD&A").

The referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board 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 property (the **"Rosario Property"** or "**Rosario Mine**"), Gavilanes property (the "**Gavilanes Property**" or "**Gavilanes Project**"), El Gachi property (the "**El Gachi Property**"), Veta Grande property (the "**Veta Grande Property**" which is part of the "**Veta Grande Project**") and the Minillas property (the "**Minillas Property**" which is part of the "**Veta Grande Project**"); the Zacatecas properties (the "**Zacatecas Properties**" which is part of the "**Veta Grande Project**") including the Panuco deposit ("**Panuco Deposit**"); as well as the Cinco Estrellas property ("**Cinco Estrellas Property**"), the Company's expected production and recoveries for its Rosario Mine and Veta Grande Project; expectations regarding the continuity of mineral deposits; the Company's goals regarding raising capital and developing its projects; the Company's proposed development and exploration plans for the 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 ore grade or recovery rates occur, that plant, equipment or processes fail to operate as anticipated, that accidents of labour disputes occur, that unanticipated delays occur in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section entitled "Risks and Uncertainties" in this MD&A, at pages 11 to 22 of the annual information form of the Company for the year ended December 31, 2015 dated May 18, 2016 (the "AIF"), filed on SEDAR on May 19, 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 of British Columbia on January 24, 2011. The Company's registered office is located at the 10th Floor, 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5. The Company's shares are listed for trading on the TSX Venture Exchange under the symbol "SCZ". The Company also trades on the Santiago Stock Exchange Venture under the trading symbol "SZCL".

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

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

The decisions to commence the production phase at the Veta Grande Project and the Cinco Estrellas Property were not based on a feasibility study with mineral reserves demonstrating economic and technical viability. Accordingly, there is increased uncertainty and economic and technical risks of failure associated with 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.

Third Quarter 2016 Highlights

- Selected operating and financial information for the third and fourth quarters of 2015, and the first, second and third quarters of 2016 is presented below:

	2016			2015	
	Q3	Q2	Q1	Q4	Q3
Operating – Rosario Mine[(1)]					
Material Processed (tonnes milled)	24,744	26,419	24,053	25,927	25,007
Silver Equivalent Produced (ounces) [(2)]	164,924	271,985	290,569	268,319	277,487
Silver Equivalent Sold (payable ounces) [(3)]	198,639	251,189	318,596	233,225	231,332
Production Cost per Tonne [(4)]	69.47	79.26	103.28	88.14	103.00
Cash Cost per Silver Equivalent ($/oz.) [(4)]	12.20	11.57	10.93	12.62	14.02
All-in Sustaining Cost per Silver Equivalent ($/oz.) [(4)]	15.88	14.60	14.10	15.88	17.52
Average Realized Silver Price per Ounce ($/oz.) [(4) (6)]	19.10	16.50	17.00	17.00	17.00
Financial					
Revenue	3,026	3,375	3,537	2,502	2,592
Mine Operations Income (Loss) [(5)]	786	597	462	(402)	(555)
Net Loss	(11,064)	(796)	(3,000)	(18,035)	(1,628)
Net Loss Per Share – Basic ($/share)	(0.08)	(0.01)	(0.03)	(0.17)	(0.02)
Adjusted EBITDA [(5)]	869	670	601	(188)	(543)

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

(2) Silver equivalent ounces produced in 2016 have been calculated using prices of US$14.50/oz., US$1,100/oz., US$0.76/lb and US$0.71/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine. Silver equivalent ounces produced in 2015 have been calculated using prices of US$17.75/oz., US$1,250/oz., US$0.83/lb and US$1.09/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine.

(3) Silver equivalent sold ounces in the third and fourth quarters of 2015 and the first quarter of 2016, have been calculated using a realized silver price of US$17.00/oz., after giving effect to the MPPP (see Financing Activities - Prepaid Silver Purchase), and have been calculated using a realized silver price of US$16.50/oz for the second quarter of 2016, and a realized silver price of US$19.10/oz for the third quarter of 2016, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine.

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

(5) The Company reports additional non-IFRS measures which include Mine Operations Income (Loss) and Adjusted EBITDA. These additional financial disclosure measures are intended to provide additional information. Refer to the "Non-IFRS Measures – Additional Information" section for a reconciliation of Mine Operations Income (Loss) and Adjusted EBITDA to the 2015 Q3 and Q4, and the 2016 Q1, Q2, and Q3 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 third and fourth quarters of 2015, and the first quarter of 2016, has been calculated after taking into account the additional funds received in the quarter from the MPPP that the Company put in place in connection with the JMET Agreement (see section titled Prepaid Silver Purchase).

- On July 14, 2016 the Company closed a public offering of units (the "Offering") through a syndicate of agents (collectively, the "Agents") and completed the restructuring of its silver loan agreement with JMET, LLC ("JMET"). The restructuring amends the Amended JMET Agreement (see section titled Prepaid Silver Purchase) such that the Company no longer has any metal delivery obligations to JMET.
- On September 7, 2016 the Company acquired the exclusive right for 15 years to explore, develop and mine the Cinco Estrellas Property, a gold-silver project situated approximately 40 km from the Company's Rosario Mine located near Charcas, San Luis Potosi, Mexico.

- Effective October 1, 2016 the Company declared commercial production at its Veta Grande Project after the milling facility throughput achieved 395 tonnes per day (“tpd”) (80% of design capacity) over the prior 30-day period with metal recoveries of approximately 85% of design rates.
- On November 15, the Company announced the results of its NI 43-101 compliant resource estimation for the Panuco Deposit. The Panuco Deposit has an inferred mineral resource of 16,342,456 AgEq ounces grading 192.40 g/t AgEq at a cut-off grade of 100 g/t AgEq.

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

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

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

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

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

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

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

On July 15, October 27, December 15, 2015, April 22, 2016 and June 14, 2016, the Amended JMET Agreement was further amended. As a result of these amendments, the Company was to sell to JMET 2,644,625 ounces of silver through October 2019 at spot less US$10, which included an additional 44,625 ounces of silver which represented a restructuring fee. The Company incurred transaction costs of $94 in 2015 and $21 in 2016 in relation to these amendments. Further, the Company agreed to pay JMET $100 (paid) on or before April 30, 2016 and another $100 (paid) on or before May 30, 2016. The repayment date for the $3,040 balance due to be paid on December 31, 2015 was also deferred until August 25, 2016.

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

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

During the nine months ended September 30, 2016, the Company applied $1,777 against the current portion of the silver loan upon settlement of 1,262,856 ounces of silver, 495 tonnes of lead and 1,038 tonnes of zinc that matured during the period. In addition, a lump sum repayment of $1,004 was made on April 20, 2016, with $200 applied against the April and May restructure fees, and $804 applied against the remaining cash principal balance.

The Company completed a restructuring of the Amended JMET Agreement on July 14, 2016. Pursuant to the restructuring, among other things, the silver loan obligation due at that time in the amount of $20,085 was settled in full by a cash payment by the Company of $7,777, the issuance by the Company of the JMET Note in the amount of $4,890, the issuance by the Company of 3,750,000 warrants, and the agreement by the Company to pay $1,500 of restructure and other fees to JMET in 2019. The Company incurred transaction costs of $100 in relation to the restructuring.

The JMET Note bears 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.

The Company has also agreed to pay JMET $1,500 of restructuring and finance fees, which fees will be payable in 2019. In certain circumstances, the principal repayments due under the JMET Note and payment of the restructuring and finance fees will be accelerated without penalty if the Company receives net proceeds from sources other than the sale of concentrates or if the Company’s working capital and cash balance exceed certain thresholds.

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

The restructuring of the Amended JMET Agreement was accounted for as an extinguishment as the change in expected payment terms was determined to be substantial. As a result, the Company derecognized the debt that arose from the Amended JMET Agreement and recognized the debt as a result of the restructuring. Immediately before the restructuring, the carrying value of the Amended JMET Agreement debt was $20,085. As a result of the restructuring the Company recognized a gain on settlement of debt of $6,377.

Under the terms of the JMET Note the Company no longer has any metal delivery obligations to JMET.

Rosario Mine, Rosario Property, Charcas, San Luis Potosi, Mexico

The Rosario Property 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 7 of the 2016 Q3 Financial Statements. The property covers 500 hectares.

Rosario Mine Production and Operating Results for the First, Second, and Third Quarters of 2016 and the Third and Fourth Quarters of 2015

	2016			**2015**	
	Q3	**Q2**	**Q1**	**Q4**	**Q3**
Material Processed (tonnes milled)	24,744	26,419	24,053	25,927	25,007
Silver Equivalent Produced (ounces) (1)	164,924	271,985	290,569	268,319	277,487
Silver Equivalent Sold (payable ounces) (2)	198,639	251,189	318,596	233,225	231,332
Production - Silver (ounces)	76,168	146,968	162,802	143,937	164,467
- Gold (ounces)	86	103	128	103	109
- Lead (tonnes)	121	238	284	254	278
- Zinc (tonnes)	643	835	793	673	567
Average Grade – Silver (g/t)	102	194	218	178	213
– Gold (g/t)	0.16	0.18	0.20	0.15	0.18
– Lead (%)	0.55	0.98	1.26	1.04	1.18
– Zinc (%)	3.56	3.54	3.69	2.81	2.50
Metal Recovery – Silver (%)	94.2	89.0	96.7	97.0	96.0
– Gold (%)	66.4	66.7	85.0	80.5	76.0
– Lead (%)	88.5	92.2	93.9	93.8	94.3
– Zinc (%)	72.9	89.2	89.3	92.2	90.9
Cash Cost per Silver Equivalent ($/oz.) (3)	12.20	11.57	10.93	12.62	14.02
All-in Sustaining Cash Cost per Silver Equivalent ($/oz.) (3)	15.88	14.60	14.10	15.88	17.52
Cash Cost of Production per Tonne(3)	69.47	79.26	103.28	88.14	103.00

(1) Silver equivalent ounces produced in 2016 have been calculated using prices of US$14.50/oz., US$1,100/oz., US$0.76/lb. and US$0.71/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine. Silver equivalent ounces produced in 2015 have been calculated using prices of US$17.75/oz., US$1,250/oz., US$0.83/lb. and US$1.09/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine.

(2) Silver equivalent sold ounces in the third and fourth quarters of 2015 and the first quarter of 2016, have been calculated using a realized silver price of US$17.00/oz., after giving effect to the MPPP (see Financing Activities - Prepaid Silver Purchase), and have been calculated using a realized silver price of US$16.50/oz for the second quarter of 2016, and a realized silver price of US$19.10/oz for the third quarter of 2016, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine.

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

At the Rosario Mine, silver equivalent production in the quarter was impacted by the development of Levels 4.5 and 5 in areas of greater structural complexity and narrower veins, resulting in the increased mining dilution and lower grades realized during the quarter. It is expected that detailed underground mapping and additional exploration work will provide the Company with key data to further inform development. In addition, the Company is working to advance the Cinco Estrellas Property to further complement the mill feed from the Rosario Property. The Company is assessing other mineral prospects located in proximity to the Rosario Mine with a view to further increasing high-grade feed to the Rosario mill. Management believes such a strategy strengthens the Rosario Mine operations by providing greater mining flexibility as well as utilizing the available mill capacity.

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

Results of the drill program were very encouraging with successful intersection of the Rosario Mine vein systems at depth.

Based on the results of the drilling, the Ramp has now been completed to Level 5. Approximately 400 metres of development on Level 5 has been completed.

Cinco Estrellas Property, Charcas, San Luis Potosi, Mexico
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. The property is subject to a 2.5%.

In order to acquire the Cinco Estrellas Property the Company is required to pay the sum of $130 including an initial payment of $50 on signing the agreement (paid) plus additional payments as follows:

- $50 at the inscription in the Public Mining Registry; and
- $5 for 6 months beginning 30 days after the first payment ($15 paid subsequent to September 30, 2016).

The Company is working to advance the Cinco Estrellas Property to further complement the mill feed from the Rosario property. In October, approximately 2,000 tonnes of mineralized material were mined and sent to the Rosario mill from the Cinco Estrellas Property, with the expectation that delivery amounts will increase in the fourth quarter.

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, which has been paid in full. During the term of the Contracuña Agreement 40% net profits interest basis ("NPI") will be paid to Contracuña. In the event the price of silver is greater than $22.00/ounce, the NPI changes to 45% to be paid to Contracuña.

Technical Report
On May 17, 2016 the Company filed on SEDAR an independent Technical Report titled "Technical Report, Veta Grande Project, Zacatecas State, Mexico" (the "Report"), for the Veta Grande Project located in Zacatecas, Mexico. The Veta Grande Project includes: the Veta Grande and Minillas Properties held under the agreement with Contracuña, and the Zacatecas Properties held under option from Golden Minerals Company. The Report, with an effective date of May 17, 2016, was prepared in accordance with the Canadian Institute of Mining, Metallurgy, and Petroleum Standards (the "CIM Standards"), by independent

qualified persons. The report was completed by Van Phu Bui, P.Geo. and Gilles R. Dessureau, P.Geo. of ARC Geoscience Group.

The 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 sulphide bearing quartz veins within the La Cantera and Veta Grande vein systems strike northwest-southeast, generally dip southwest, and are characterized as low-sulphidation 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 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.

Mine Development and Commissioning

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

During the second quarter mine development and production was hampered at the Garcia Mine (comprised of La Flor, Armados, San José, and Veta Grande veins) and the Guadalupana Area (including the La Canterra and La Mecha veins) by the lack of availability of underground equipment. Importantly, in late June the Company took delivery of a new jumbo drill and one new scooptram, followed in July and August by the delivery of another new scooptram and a new underground haulage truck. This equipment has allowed the Company to significantly increase both mine production and development since its delivery.

During the third quarter the Company dewatered the Navidad Mine (located approximately 3 kms from the Veta Grande mill) and carried-out a preliminary analysis of the viability of sourcing mineralized material for processing in the milling facility. In addition, the Company took delivery of a 1,250 tpd ball mill and 4,000 tpd crushing circuit. Installation of this equipment is now expected to complete during Q2 2017. Management estimates that with the completion of these mill facility modifications the Veta Grande Project production will increase to 1,500 tpd by the end of 2017.

In early November, the Company completed the installation and commissioning of a lead thickener and filter press with 4,000 tpd capacity. As a result metal recoveries are now approximately 70% and 88% for silver and lead respectively reporting to the lead concentrate, with an additional approximate 14% recovery of silver to the zinc concentrate. The Company anticipates further increases in the silver recovery as it continues to fine-tune the system. Future plans include fabricating and installing a zinc thickener and filter press of equal capacity in Q1 2017.

Up until the commercial production any proceeds on sales of concentrate have been applied against the capitalized mine properties.

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.

Review of Operations

	2016		**2015**
	Q3	**Q2**	**Q3**
Revenue	**3,026**	**3,375**	**2,592**
Cost of sales			
Direct cost of sales	(1,655)	(2,135)	(2,568)
Depletion and amortization	(585)	(643)	(554)
Adjustment to NRV of mined ore and concentrate inventory	-	-	(25)
	(2,240)	**(2,778)**	**(3,147)**
Gross margin	**786**	**597**	**(555)**
Operating expenses			
Administrative	(138)	(145)	(161)
Management and consulting fees	(73)	(94)	(144)
Professional fees	(171)	(198)	(117)
Share-based payments	(8)	(15)	(16)
Other	(122)	(134)	(120)
	(512)	**(586)**	**(558)**
Impairment	**(16,688)**	**-**	**-**
Interest earned and other finance income			
Interest earned	-	3	1
IVA recovery inflationary gain	-	172	-
Change in fair value of derivative assets	-	-	1,786
Gain on settlement of debt	6,377	-	-
Foreign exchange gain	259	679	484
	6,636	**854**	**2,271**
Interest Expense and Other Finance Expenses			
Accretion of decommissioning and restoration provision	(9)	(10)	(12)
Change in fair value of derivatives	(2,000)	(664)	-
Interest expense on loan payable	(6)	(13)	-
Interest expense on silver loan	(131)	(935)	(1,333)
	(2,146)	**(1,622)**	**(1,345)**
Income tax recovery (expense)	860	(39)	(1,441)
Net loss for the period	**(11,064)**	**(796)**	**(1,628)**

Three months ended September 30, 2016

The Company recorded a net loss of $11,064 ($0.08 per share) for the three months ended September 30, 2016 compared to a net loss of $1,628 ($0.02 per share) for the three months ended September 30, 2015. The increase in net loss relates largely to an impairment charge of $16,688 against the carrying value of the San Felipe Project, offset by a gain on debt settlement of $6,377 in the current quarter. Compared to the three months ended June 30, 2016, the net loss increased $9,436 due mostly to the impairment charge of $16,688 offset by the gain on debt settlement of $6,377. The gain on debt settlement arose in connection with the restructuring of the Amended JMET Agreement.

Revenues of $3,026 related solely to the Rosario Mine increased by $434 (17%) as compared to the third quarter of 2015 primarily as a result of an increase in the realized silver price. Compared to the three months ended June 30, 2016, the revenues decreased $349. This decrease is due in part to a decrease in payable metal amounts sold offset by increased metal prices.

Direct cost of sales of $1,655 recorded during the current quarter decreased by $913 as compared to the three months ended September 30, 2015, and $480 as compared to the three months ended June 30, 2016. The decrease relates reflects that in Q3 2015 the Company had contractors completing the mining work, whereas in 2016 the Company had its own employees. The level development work performed in the current quarter was also much lower as the Company focused on the mineralization and grade of material extracted. Compared to Q2 2015, the Company mined and milled a lower volume of material, and as above, decreased the amount of level development work.

The cash cost of production per tonne decreased by $33.53/tonne in the current quarter as compared to Q3 in 2015. This 33% decrease is largely the result of the above referenced decrease in direct cost of sales. As measured in silver equivalent ounces sold, the cash cost of production decreased by $1.82/silver equivalent ounce sold. This decrease is again largely the result of the reduced direct cost of sales referenced above in the current quarter on a comparative basis.

The cash cost of production per tonne decreased 12% in the current quarter as compared to Q2 2016. This reduction reflects in part the decreased cash cost of production referenced earlier. As measured in silver equivalent ounces sold, the cash cost of production increased by $0.63 per silver equivalent ounce sold. The increase largely reflects the decrease in the silver equivalent ounces produced. The reduced silver equivalent ounces produced during the quarter reflects the lower head grade of mineralized material processed at the mill, offset by the higher recovery for silver. The recovery of silver in Q2 2016 was negatively impacted due to an electrical component failure that shut down the 400 tpd ball mill for approximately three weeks during the quarter. This matter was resolved by quarter end and silver recoveries increased in Q3 2016.

Amortization and depletion expenses in the three months ended September 30, 2016 amounted to $585 (Q3 2015 - $554; Q2 2016 - $643). These expenses are based on the current asset balance of both the Rosario Mine and the plant and equipment. As there were additions to the plant and equipment during 2015, this resulted in increased amortization and depletion expenses in the current year. The amortization and depletion expenses decreased in the third quarter of 2016 compared to the second quarter of 2016 as they are directly related to the number of tonnes milled during the period, which decreased by 1,675 tonnes.

The Rosario Mine operations for the three months ended September 30, 2016 resulted in a gross profit of $786 (Q3 2015 – gross loss of $555). This increase is primarily the result of increased revenues during the current quarter as a result of increased realized price per ounce of silver equivalent, as well as a decrease in the direct cost of sales. Compared to the three months ended June 30, 2016, the gross profit increased $189 due mostly to the decrease in direct cost of sales. The decrease in the direct cost of sales relates largely to a decrease in silver equivalent ounces sold.

During the three months ended September 30, 2016 the Company recorded operating expenses of $512 as compared to $558 in the three months ended September 30, 2015. This is primarily the result of decreased administrative and management and consulting fees, offset by an increase in professional fees.

Compared to the three months ended June 30, 2016, the operating expenses decreased $74. This is primarily the result of decreased professional and management and consulting fees.

As detailed in Note 18(a) to the 2016 Q3 Financial Statements, interest earned and other finance income increased for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due to a gain on settlement of debt of $6,377 (2015 – $nil), offset by a change in fair value of derivative assets of $1,786 recorded in the three months ended September 30, 2015 related to the recognition of the derivative asset on the Amended JMET Agreement. Compared to the three months ended June 30, 2016, the interest earned and finance income increased $5,782 due mostly to the gain on settlement of debt of $6,377 (Q2 2016 - $nil), offset by the IVA recovery inflationary gain of $172 and increased foreign exchange gain in the second quarter of 2016.

As detailed in Note 18(b) to the 2016 Q3 Financial Statements, interest expense and other finance expenses of $2,146 (2015 - $1,345) increased due to an increase in the loss resulting from the change in fair value of derivative assets of $2,000, offset by the decrease in the interest expense on silver loan of $1,202. The change in derivative assets of $2,000 resulted from recognition of a derivative liability of $1,967 related to the fair value of the outstanding foreign currency forward contracts. Compared to the three months ended June 30, 2016, the interest expense and other finance expenses increased $524 due mostly to the increase in the loss resulting from the change in the fair value of derivative assets of $1,336, offset by the decrease in the interest expense on the silver loan of $804.

An income tax recovery of $860 was recorded in the third quarter of 2016 as compared to an income tax expense of $1,441 in the same period of 2015. The income tax expense recorded in Q3 2015 was mostly due to a $1,240 true-up to the deferred income tax liability. Compared to Q2 2016, the income tax expense decreased $899 due to a decrease in the deferred tax liability from the impact on the impairment charge recorded during the quarter.

<u>Nine Months Ended September 30, 2016</u>

The Company recorded a net loss of $14,860 ($0.12 per share) for the nine months ended September 30, 2016, compared to a net loss of $6,197 ($0.06 per share) for the nine months ended September 30, 2015.

The Company recorded revenues of $9,938 (2015 - $6,141), direct cost of sales of $6,293 (2015 - $6,763) and amortization and depletion expenses of $1,800 (2015 - $1,159) for the nine months ended September 30, 2016, and an impairment of the San Felipe Project of $16,688 (2015 - $nil) resulting in an operating loss of $16,739 (2015 –$3,217). The loss in 2015 was due primarily to a temporary halt in operations at the Rosario Mine from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. Due to the temporary halt in operations that occurred in Q1 2015, the Company is not providing a discussion and analysis comparing the nine-month period ended September 30, 2016 to the same period in 2015 with respect to revenues, cost of sales, and amortization and depletion expense as the 2015 results reflect only six months of operations as compared to nine months in 2016.

Variances of note in operating expenses are detailed below:

- Administrative expenses of $387 (2015 - $296). The administrative expenses were lower during 2015 primarily due to the decreased activities at the Company’s Mexican office in connection with the halt in operations at the Rosario Mine in the first quarter of 2015.

- Share-based payments of $386 (2015 - $69). 4,500,000 options were granted during the nine months ended September 30, 2016 compared to nil in the nine months ended September 30, 2015, resulting in a higher share-based payments charge.

Summary of Quarterly Results

	THREE MONTHS ENDED			
(Expressed in thousands of US Dollars except per share amounts)	**Sep 30, 2016**	**Jun 30, 2016**	**Mar 31, 2016**	**Dec 31, 2015**
	$	**$**	**$**	**$**
Revenues	3,026	3,375	3,537	2,502
Cost of sales	2,240	2,778	3,075	2,904
Administrative expenses	512	586	798	366
Net loss(2)(3)(4)	(11,064)	(796)	(3,000)	(18,035)
Net loss per share(1)	(0.08)	(0.01)	(0.03)	(0.17)
	THREE MONTHS ENDED			
	Sep 30, 2015	**Jun 30, 2015**	**Mar 31, 2015**	**Dec 31, 2014**
Revenues	2,592	3,147	402	3,226
Cost of sales	3,147	3,020	1,611	3,517
Administrative expenses	558	570	452	470
Net loss(5)	(1,628)	(2,018)	(2,551)	(4,498)
Net loss per share(1)	(0.02)	(0.02)	(0.02)	(0.05)

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

(2) The Q3 2016 net loss includes an impairment of the San Felipe Project of $16,688 and a gain on settlement of debt of $6,377.

(3) The Q2 2016 net loss includes increased interest earned and other finance income from the Q1 2016 quarter, the largest of which being a $679 foreign exchange gain.

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

(5) The Q1 2015 net loss was due primarily to a temporary halt in operations at the Rosario Mine from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe.

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 Company ("Golden Minerals") certain mineral claims located in the Zacatecas Mining District, Zacatecas, Mexico (the "Zacatecas Properties").

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

In order to acquire the Zacatecas Properties Santacruz will be required to pay to Golden Minerals the sum of US$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; $300 on or before November 2, 2017; and $500 on or before May 2, 2018. A 1% net smelter royalty 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 15, the Company announced the results of its NI 43-101 compliant resource estimation for the Panuco Deposit. The Panuco Deposit has an inferred mineral resource of 16,342,456 AgEq ounces grading 192.40 g/t AgEq. The Panuco Deposit 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. 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 encompasses all three vein structures and includes mineralization defined by trenching and drilling over a strike distance of 2.4 km.

ARC recommends that Santacruz proceed with a multi staged drilling campaign with the aim of exploring for additional resources along strike towards the northwest and down dip and infilling zones where geological and mineralization information is sparse.

Surface trenching is recommended to delineate the surface extension of the Panuco Central and Panuco NW veins towards the northwest. Metallurgical test work is also recommended to determine if the Panuco deposit mineralization can be processed and recovered at the Veta Grande mineral processing facility.

The total estimated budget for this program is approximately $1,800.

Manillas Property, Genaro Cidina, Zacatecas, Mexico

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

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

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

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

The San Felipe Project consists of 14 concessions and is a late stage exploration project, located in the State of Sonora, approximately 130 kilometers north-west of Hermosillo City, the state capital of Sonora. Santacruz acquired exploration rights with the right to purchase the project from Minera Hochschild Mexico, S.A. de C.V. ("Hochschild") pursuant to the terms of a mining exploration and promissory sale agreement dated August 3, 2011, as amended December 9, 2011, October 8, 2012, August 13, 2013, September 4, 2014 and July 7, 2015 (the "San Felipe Agreement"). Details of the acquisition terms are contained in Note 8(b) of the 2016 Q3 Financial Statements.

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

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

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

Exploration and Acquisition Costs
During the nine months ended September 30, 2016, Santacruz incurred mineral property exploration expenditures of $515 at the San Felipe Project which primarily consisted of the semi-annual mining taxes related to the San Felipe Project and the El Gachi Property.

Gavilanes Property, San Dimas, Durango, Mexico
The Gavilanes Property comprises 10 mining concessions located in the rugged Sierra Madre Occidental mountain range in the municipality of San Dimas in the State of Durango, Mexico, approximately 110 kilometres west-north-west of Durango City. The Gavilanes Property covers a total area of 8,832.28 hectares. Details of the acquisition terms are contained in Note 8(a) of the 2016 Q3 Financial Statements.

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

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

Exploration and Acquisition Costs
During the nine months ended September 30, 2016, mineral property acquisition costs and exploration costs were $23 and $77 respectively for the Gavilanes Property.

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

Non-IFRS Measures

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

Cash Cost per Silver Equivalent Ounce and Production Cost per Tonne

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

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

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

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**
Direct cost of sales	1,655	2,135	2,503	2,189	2,568
Inventory change	64	(41)	(19)	96	8
Cash Cost of Production (A)	1,719	2,094	2,484	2,285	2,576
Direct cost of sales	1,655	2,135	2,503	2,189	2,568
Concentrate treatment, smelting and refining cost	768	770	978	754	675
Cash Cost of Silver Equivalent Sold (B)	2,423	2,905	3,481	2,943	3,243
Material processed (tonnes milled) (C)	24,744	26,419	24,053	25,927	25,007
Cash Cost of Production per Tonne (A/C)	69.47	79.26	103.28	88.14	103.00
Silver Equivalent Sold (payable ounces) (D)	198,639	251,189	318,596	233,225	231,332
Cash Cost per Silver Equivalent Ounce (B/D)	12.20	11.57	10.93	12.62	14.02

All-in Sustaining Cost per Ounce

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

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

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

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

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

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**
Direct cost of sales	1,655	2,135	2,503	2,189	2,568
Concentrate treatment, smelting and refining cost	768	770	978	754	675
Sustaining capital expenditures	79	22	56	47	185
Deferred ramp expenditures	134	204	150	339	56
General and administrative expenses	502	570	433	356	540
Share-based payments	8	14	364	8	16
Accretion of decommissioning and restoration provision	9	10	9	11	12
All-in Sustaining Cost	3,155	3,725	4,493	3,704	4,052
Silver Equivalent Sold (payable ounces)	198,639	251,189	318,596	233,225	231,332
All-in Sustaining Cost per Silver Equivalent Ounce Sold	15.88	14.60	14.10	15.88	17.52

Average Realized Silver Price per Ounce

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

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

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**
Revenues (as reported)	3,026	3,375	3,537	2,502	2,592
Add back: MPPP impact	-	-	901	709	666
Add back: Treatment, smelting and refining charges	768	770	978	754	675
Gross Revenues	3,794	4,145	5,416	3,965	3,933
Silver Equivalent Sold (ounces)	198,639	251,189	318,596	233,225	231,332
Avg Realized Price per Ounce of Silver Equivalent Sold[(1)]	19.10	16.50	17.00	17.00	17.00
Avg Market Price per Ounce of Silver per London Silver Fix	19.62	16.78	14.83	14.76	14.91

(1) Average realized price per ounce of silver sold in each reporting period is affected by mark-to-market adjustments and final settlements on concentrate shipments in prior periods. Concentrates sold to third-party smelters are provisionally priced and the price is not settled until a predetermined future date, typically one to four months after delivery to the customer, based on the market price at that time. When the average realized price of silver is below the MPPP price for the respective period, the amount earned on the MPPP is taken into account for the purposes of this calculation. For the third and fourth quarter of 2015, and the first quarter of 2016, the MPPP price for silver was $17.00/oz.

Non-IFRS Measures – Additional Information

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

Mine Operations Income (Loss)

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

EBITDA and Adjusted EBITDA

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

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

The following table provides a reconciliation of EBITDA and Adjusted EBITDA to the 2016 Q1, Q2, and Q3, and 2015 Q3 and Q4 Financial Statements:

	Q3 2016	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**
Net loss for the period as reported	(11,064)	(796)	(3,000)	(18,035)	(1,628)
Income tax expense (recovery)	(860)	39	107	(2,943)	1,441
Interest earned and other finance income and gain on the settlement of debt	(6,377)	(175)	-	(1)	(1)
Interest expense and other finance expenses	2,131	1,599	2,238	820	(453)
Interest expense on loan payable	6	13	40	4	-
Accretion expense	9	10	9	11	12
Amortization and depletion of mineral properties, plant and equipment	587	645	573	572	554
EBITDA	(15,568)	1,335	(33)	(19,572)	(75)
Impairment of exploration and evaluation properties	16,688	-	-	19,426	-
Foreign exchange	(259)	(679)	270	(50)	(484)
Share-based payments	8	14	364	8	16
Adjusted EBITDA	869	670	601	(188)	(543)

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 nine months ended September 30, 2016. The fair value of the bonus warrants ($59) was estimated using the Black Scholes option-pricing model and was recorded against the balance of the loan payable.

On March 10, 2016, Trafigura agreed to amend the terms such that the remaining principal payments now consist of seven monthly installments of $75 commencing May 31, 2016 and one final payment of $19 on December 30, 2016. All other terms and conditions remain unchanged. As at September 30, 2016, the balance of the loan payable was $387.

Use of Proceeds from Financings

During the nine months ended September 30, 2016, the Company used the net proceeds of CDN$15,190 from the July 14, 2016 public offering of units to pay JMET a partial payment of $7,777 towards the Amended JMET Agreement. The remaining net proceeds were used for working capital purposes.

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

Capital Expenditures

The Company spent $1,758 on its mineral properties during the nine months ended September 30, 2016 (2015 - $987). The Company also spent $4,769 on acquisitions of plant and equipment during the nine months ended September 30, 2016 (2015 - $1,961), and deferred Ramp expenditures of $488 (2015 - $533).

Liquidity and Capital Resources and Going Concern

As at September 30, 2016, the Company had cash and cash equivalents of $1,023 (December 31, 2015 – $277) and a working capital deficiency of $4,499 (December 31, 2015 – $4,050). During the nine months ended September 30, 2016, net cash provided by operating activities was $5,448 (2015 – cash used of $1,045), net cash used in investing activities was $6,527 (2015 - $2,948) including costs relating to the exploration activities on its mineral properties; and net cash provided by financing activities was $1,765 (2015 – cash used of $1,776).

Pursuant to the terms of the Gavilanes property agreement (Note 8(a) to the 2016 Q3 Financial Statements), in order to maintain and exercise the option the Company must make the remaining payment of $545. This payment was due on April 15, 2015, but the Company is currently re-negotiating its extension.

During the nine months ended September 30, 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 September 30, 2016, the Company had outstanding foreign currency forward contracts to buy Mexican pesos in exchange for $31,264 with settlement dates between October 31, 2016 and December 31, 2017 at an exchange rate of 18.874 Mexican pesos per US dollar.

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

Pursuant to the foreign exchange forward contract, the Company was required to maintain a deposit of $500 in a margin account. The balance in the margin account was classified as restricted cash at September 30, 2016. In early October 2016 these funds were released to the Company in connection with the strengthened Mexican peso relative to the US dollar. In early November the Mexican peso experienced a significant weakening relative to US dollar which prompted a margin call to the Company. As of November 23, 2016 the amount of the margin call is approximately $2,700 of which the Company has paid $150 and has a payment plan in place to fulfill the residual margin requirement.

At September 30, 2016, the Company had a working capital deficiency of $4,499, had accumulated an inception to date deficit of $73,126. These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. As a result, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent upon its ability to 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 nine months ended September 30, 2015, geological consulting fees paid to Pref-Ex Geological Inc., a company owned by Marc Prefontaine, a former director of the Company, were also included in related party transactions.

During the three and nine months ended September 30, 2016 and 2015, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	$	$	$	$
Accounting and corporate secretarial fees (1)	72	44	249	184
Directors' fees (2)	19	64	51	80
Management fees (3)	46	52	174	161
Share-based payments	-	16	293	69
Salaries and benefits capitalized (3)	30	51	94	184

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

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

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

At September 30, 2016, directors and officers or their related companies were owed $159 (December 31, 2015 – $125) in respect of the services rendered. These are non-interest bearing with standard payment terms.

In connection with the personal guarantee of the Loan by the CEO of the Company, the Company issued 3,000,000 bonus warrants to the CEO, each of which was exercisable to purchase one common share for a price of CDN$0.15 and would expire January 11, 2017.

The Company entered into certain mining equipment leases expiring between 2017 and 2019 with an interest rate between 6.5% and 10.5% per annum. $1,145 of the leases payable outstanding at September 30, 2016 were owed to a company owned by the CEO of the Company.

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

Financial Instruments

Fair Value and Classification of Financial Instruments

The Company'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 designated as loans and receivables, which are measured at amortized cost. The derivative liabilities are designated 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 designated 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.

Changes in Accounting Policies

The condensed interim consolidated financial statements have been prepared on a basis consistent with the significant accounting policies disclosed in Note 3 of the annual consolidated financial statements for the year ended December 31, 2015, except for the following policy adopted in the current financial period:

Leases which transfer substantially all of the benefits and risks incidental to the ownership of property are accounted for as finance leases. Finance leases are capitalized at the lease commencement at the lower of the fair market value of the leased property and the net present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Changes in Critical Judgements

The critical judgements that the Company's management has made in the process of applying the Company's accounting policies are the same as the ones disclosed in Note 3 of the annual consolidated financial statements for the year ended December 31, 2015, except for the following:

When a project nears the end of construction, management has to exercise judgement to determine the date in which the asset was in the location and condition necessary to operate as intended by management. The identification of this date is important since it establishes the point in time at which costs cease to be capitalized unless they provide an enhancement to the economic benefits of the asset, borrowing costs cease to be capitalized, processing costs begin to stabilize, the capitalization of pre-production revenue ceases and depreciation of the asset begins. Management determined the start date of the Veta Grande Project commercial production to be October 1, 2016.

Outstanding Share Data
Authorized share capital: Unlimited number of Common Shares

All share information is reported as of November 23, 2016 in the following table.

Issued and Outstanding Common Shares				154,490,984
	Expiry Date	Exercise Price (CDN$)		
Options	April 12, 2017	0.90	701,667	
	February 10, 2021	0.15	4,500,000	5,201,667
Warrants				
	December 31, 2018	$0.55	3,750,000	
	January 14, 2019	$0.55	18,965,000	22,715,000
Fully Diluted				182,407,651

Disclosure Controls and Procedures and Internal Control over Financial Reporting
Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the nine months ended September 30, 2016 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.

Outlook

Starting in the fourth quarter of 2015 and carrying on into 2016 management's key objective has been to de-risk the Company's operations. This process has involved several steps including:

Mineral property acquisition and development

- Acquiring the rights to mine and explore a high quality, advanced stage development project, being the Veta Grande Project located in Zacatecas, Mexico;
- Building on its operational base in Zacatecas with the addition of the Zacatecas Properties from Golden Minerals bringing the Company's total land package in Zacatecas to approximately 8,900 hectares;
- Methodically developing the Veta Grande Project to the point that it has achieved commercial production status;
- Completing a NI 43-101 compliant resource estimate on the Panuco Deposit providing the first independent evidence of the mineral potential of the Veta Grande Project and surrounding properties;
- Acquiring the right to mine and explore another high quality, advanced stage development project, being the Cinco Estrellas Property located in San Luis Potosi, Mexico, proximate to the Rosario Mine;
- Accelerating the development of the Cinco Estrellas property such that it is now beginning to provide mineralized material to the Rosario Mine milling facility augmenting the material mined and milled from the Rosario property;

Deleveraging the Company's balance sheet

- Completing the Offering which provided the Company with working capital as well as allowing it to restructure its senior debt facility with JMET such that the revised terms allow the Company to more appropriately manage its operations while also servicing its indebtedness;

Operationally, the Company's focus for the duration of 2016 and through into 2017 will be to:

- Continue the systematic improvement and production increase of mining and milling operations at the Veta Grande Project;
- Continue to assess the availability and acquire if economically viable additional prospective mineral properties proximate to the Rosario Mine milling facility so as to utilize to full capacity that facility;
- Complete surface and if appropriate underground drilling campaigns at the Veta Grande Project, Cinco Estrellas Property and Rosario Mine to allow the calculation of mineral resource estimates at these properties as well as providing geological information for mine planning purposes; and

- As cashflows allow begin a systematic review of the remaining properties in the Company's mineral portfolio in Zacatecas including a drilling campaign at the Panuco Deposit;

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

Additional Disclosure for Venture Issuers without Significant Revenue

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

Qualified Persons

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

Other Information

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