MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the three and nine months ended September 30, 2013 prepared as of November 29, 2013, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2013 and the related notes thereto of Santacruz Silver Mining Ltd. ("the Company" or "Santacruz") ("the 2013 Q3 Financial Statements"), together with the audited consolidated financial statements of the Company for the year ended December 31, 2012 as well as the accompanying MD&A for the year then ended.

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

Forward-Looking Statements

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

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

There can be no assurance that any forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader should not place any undue reliance on forward-looking information or statements. Except as required by law, the Company does not intend to revise or update these forward-looking statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events. Financial outlook information contained herein about the Company's prospective cash flows and financial position is based on assumptions about future events, as described above, based on management's assessment of the relevant information currently available. The purpose of such financial outlook is to provide information about management's current expectations as to the anticipated results of its proposed business activities for the coming quarters. Readers are cautioned that any such financial outlook information contained herein should not be used for purposes other than for which it is disclosed herein.

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 Suite 1125, 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 is engaged in the exploration and commercial exploitation of mining concessions in Mexico, with a primary focus on silver, but also including gold, lead and zinc. The Company is currently focused on the development of the Rosario Mine. In addition, the Company is exploring two other mineral properties, being the San Felipe de Jesús ("San Felipe") Project and Gavilanes property.

3rd Quarter 2013 and Recent Highlights

- On June 13, 2013, the Company announced that drilling at the Gavilanes property intersected 1,687 g/t Ag over 4.58 m, including 7,520 g/t Ag over 0.61m.

- On July 11, 2013, the Company announced that drilling at the San Felipe Project confirmed continuity of high-grade mineralization.

- On August 14, 2013, the Company announced that it had successfully renegotiated terms to acquire a 100% interest in the San Felipe Project and adjacent El Gachi property.

- On September 12, 2013, the Company reported that the main access ramp at the Rosario Mine had intersected the Rosario I vein while a crosscut from the Northwest Ramp had intersected the Rosario II vein.

- On October 2 and 9, 2013, the Company reported additional results from the 2013 diamond drilling program being conducted on the San Felipe Project. The program continued to intercept high-grade mineralization.

Rosario Mine, Charcas, San Luis Potosi, Mexico

Operations Review

The Rosario Mine comprises the Rey David and San Rafael mining concessions located in the Municipality of Charcas in the State of San Luis Potosi, Mexico, 184 kilometres north of the capital city of San Luis Potosi. Details of the acquisition terms are contained in Note 10 of the 2013 Q3 Financial Statements. The property covers 500 hectares.

During the second and third quarters of 2013 operations at the Rosario Mine were in the transition phase from project development to an operating mine. On April 18, 2013, based upon the operating staff's assessment that the mill had demonstrated its ability to operate continually at rated capacity while maintaining forecasted recoveries, the Company announced that the Rosario Mine had achieved commercial production. Such consistent mill performance, however, does not in and of itself satisfy the definition of “commercial production” for accounting purposes pursuant to IFRS. As of the date of this report the IFRS definition of "commercial production" has not been satisfied. In accordance with IFRS the Company did not report the Rosario Mine’s results of operations in its consolidated statement of loss for the period but instead capitalized the operating costs less proceeds from the sale of concentrates as “Mine under construction and development costs” on the Company’s condensed interim consolidated statement of financial position at September 30, 2013.

Mining of the Rosario I vein from the Main Ramp commenced during the quarter ended September 30, 2013. Production levels have steadily increased and the mine is currently operating at approximately 130 tons per day. Initial assays taken across the two-meter width of the vein show higher grades than those used in the resource calculation:

- 1,055 g/t Ag, 0.13 g/t Au, 7.8% Zn, and 6.1% Pb over a 2 meter true width.

The Company also developed the Northwest Ramp in order to expedite access to the Rosario I and II veins. A crosscut from the Northwest Ramp at level One reached the Rosario II vein on September 5, 2013. The initial assay results received back from the Northwest Ramp also show higher grades than those in the resource calculation:

- 509 g/t Ag, 0.22 g/t Au, 3.4% Zn and 0.5% Pb, over 2.0 metres true width

During the third quarter the Company began delivering lead and zinc concentrates to Metagri S.A. de C.V. (“Metagri”), a Mexican subsidiary of Glencore International AG, pursuant to separate agreements that run until December 2014.

Management is confident that the mine plan remains on track to increase production to 500 tons per day by the end of the first quarter of 2014.

Production Data

	Quarter Ended June 30, 2013	**Quarter Ended Sept. 30, 2013**	**Month of October 2013**	**Preliminary November To Date**
Tonnes Milled – Rosario Ore	288*	3,005	1,620	3,500****
– Purchased Ore	4,787	-	-	-
Head Grade – Rosario Ore – Ag (g/tonne)	49.46	147.45	107.53***	176
– Au (g/tonne)	0.06	0.14	0.07***	0.33
– Pb (%)	0.279	0.54	0.48***	0.86
– Zn (%)	1.386	1.73	1.13***	2.15
Head Grade – Purchased Ore – Ag (g/tonne)	131.19	-	-	-
– Au (g/tonne)	2.62	-	-	-
– Pb (%)	0.3881	-	-	-
– Zn (%)	0.0618	-	-	-
Recovery – Ag (%)	67.1**	81.5	86.6	87
– Au (%)	83.5**	63.5	69.7	70
– Pb (%)	72.0**	82.2	84.4	84
– Zn (%)	58.7**	75.6	82.5	82

*Does not include approximately 2,000 tons of oxide material mined during this period.
** The reported recoveries reflect the fact that oxide material was included in the mill feed.
*** Head grades were significantly lower because low-grade oxide ore was blended with high-grade ore from the Rosario I vein.
**** Primarily development ore from the Northwest face of the Rosario I vein.

Mineral Resource Estimate

With reference to the updated NI 43-101 compliant technical report on the Rosario Mine dated December 19, 2012 as prepared by Donald E. Hulse, P.E. and SME-RM and Patrick F. Daniels SME-RM of Gustavson Associates, LLC, ("Gustavson") which was filed on SEDAR at www.sedar.com on December 28, 2012, and remains current, Gustavson performed a combination of grid modeling and three dimensional block modeling and developed the mineral resource estimate for the Rosario Mine effective December 1, 2012. The cutoff for resource reporting is based on underground vein mining with long hole or shrinkage stoping with milling and flotation. Gustavson has assumed similar metallurgical recoveries for all metals. Gustavson is reporting the resources at a silver equivalent cutoff of 75g/t. The silver equivalent ("**AgEq**") calculation is described after the resource tables which follow.

Table 1-1 Rosario I Vein Mineral Resource Estimate at 75g/t AgEq

	TONNAGE	Thickness	Silver Equivalent		Gold		Silver		Lead		Zinc	
Classification	**k tonne**	**m**	**gpt**	**k-oz**	**gpt**	**oz**	**gpt**	**k-oz**	**pct**	**lbsx1000**	**pct**	**lbsx1000**
Measured	126.7	1.01	305	1,243.3	0.988	4,025	157.2	640.2	1.21	3,393.1	2.64	7,385.4
Indicated	408.4	0.85	273	3,579.4	0.904	11,873	136.0	1,785.7	1.14	10,306.5	2.43	21,911.8
Meas+Ind	535	0.88	280	4,822.7	0.924	15,898	141.0	2,425.9	1.16	13,699.6	2.48	29,297.2
Inferred	164.0	0.73	190	1,001.0	0.995	5,246	74.7	393.6	0.81	2,943.5	1.74	6,276.1

Table 1-2 Rosario II Vein Mineral Resource Estimate at 75g/t AgEq

	TONNAGE	Thickness	Silver Equivalent		Gold		Silver		Lead		Zinc	
Classification	**k tonne**	**m**	**gpt**	**k-oz**	**gpt**	**Oz**	**gpt**	**k-oz**	**pct**	**lbsx1000**	**pct**	**lbsx1000**
Measured	143.4	1.17	447	2,062.2	0.897	4,137	256.9	1,184.6	1.13	3,559.3	4.62	14,611.1
Indicated	302.6	1.10	345	3,351.3	0.852	8,286	198.6	1,932.5	1.22	8,123.7	2.82	18,778.6
Meas+Ind	446	1.12	378	5,413.5	0.955	12,423	217.4	3,117.1	1.19	11,683.0	3.40	33,389.7
Inferred	222.2	0.99	213	1,521.8	0.673	4,807	102.4	731.9	0.67	3,262.8	2.37	11,598.0

Table 1-3 Total Mineral Resource for Rosario I and II Veins at 75g/t AgEq

	TONNAGE	Thickness	Silver Equivalent		Gold		Silver		Lead		Zinc	
Classification	**k tonne**	**m**	**gpt**	**k-oz**	**gpt**	**oz**	**gpt**	**k-oz**	**pct**	**lbsx1000**	**pct**	**lbsx1000**
Measured	270	2.18	381	3,305.5	0.940	8,162	210.1	1,824.8	1.17	6,952	3.69	21,997
Indicated	711	1.95	303	6,930.7	0.882	20,159	162.7	3,718.2	1.18	18,430	2.60	40,690
Meas+Ind	981	2.01	325	10,236.2	0.898	28,320	175.7	5,543.0	1.17	25,383	2.90	62,687
Inferred	386	1.72	203	2,522.8	0.810	10,053	90.6	1,125..5	0.73	6,206	2.10	17,874

Note: Mineral resources which are not mineral reserves do not have demonstrated economic viability. The quantity and grade of inferred resources reported herein are uncertain in nature and exploration completed to date is insufficient to define these mineral resources as indicated or measured. There is no guarantee that further exploration will result in the inferred mineral resources being upgraded to an indicated or measured mineral resource category.

*AgEq is the silver equivalent in ppm used to calculate the cutoff. The silver equivalent was calculated with the following equation:

$$AgEq = \frac{(Ag * P_{ag}/31.1035) + (Pb * P_{pb} * 22.05) + (Zn * P_{zn} * 22.05) + (Au * P_{au}/31.1035)}{(P_{ag})}$$

Where:

Metal	Symbol	Grade Units	Price	Price Symbol
Silver Eq	AgEq	g/t		
Silver	Ag	g/t	26.28 $/tOz	$\underline{P_{ag}}$
Gold	Au	g/t	1,341.00 $/tOz	$\underline{P_{Au}}$
Lead	Pb	%	0.9988 $/lb	$\underline{P_{cu}}$
Zinc	Zn	%	0.9531 $/lb	$\underline{P_{zn}}$

* The calculation assumes equal recoveries in all metals pending further metallurgical work.

- The grades for copper, lead, and zinc are multiplied by each metal's three year trailing average price.
- The quantity and grade or quality is an estimate and is rounded to reflect the fact that it is an approximation.

Gustavson has classified the resource to include some measured and indicated mineral resource as well as inferred. However, as a pre-feasibility study has not yet been performed, no mineral reserves can be stated at the Rosario Mine.

Exploration and Pre-Production Costs
During the nine months ended September 30, 2013, mineral property acquisition costs and exploration costs were $447,182 and $3,990,770 respectively for the Rosario Mine. Included in the exploration expenditures are diamond drilling costs incurred as part of a 4,000-metre diamond drilling program north-west of the current Rosario resource to test the extension of the high-grade silver mineralization within the Rosario I and II veins.

As at September 30, 2013, for financial reporting purposes the Rosario Mine was determined to be in the pre-commercial production phase. As such the net operating costs, including net revenues of $493,965 from concentrate sales, are capitalized to mine under construction and development costs.

During the nine months ended September 30, 2013, the Company incurred $3,191,852 of expenditures in connection with the initial equipment procurement and construction costs of the Rosario milling facility and mine.

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

San Felipe Project, Sonora, Mexico
The San Felipe Project 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 and October 8, 2012 (the "San Felipe Agreement"). The terms of the San Felipe Agreement were amended on August 13, 2013 to defer $16 million of the final option payment from October 1, 2014 to October 31, 2015 in exchange for accelerating certain other payments. Details of the restructured payment schedule are included in note 11(b) to the 2013 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.

Hochschild explored and developed the project from 2001 to 2008, with more than 18,500 meters of diamond drilling and significant development work completed on the project at the La Ventana, San Felipe and Las Lamas veins. A copy of the most recent and updated NI43-101 Technical Report dated December 19, 2012 for the San Felipe Project is available on the Company's website at www.santacruzsilver.com. The Report was prepared by Donald E. Hulse, P.E. and SME-RM of Gustavson, who is an independent "qualified person" under NI 43-101. The Report disclosed the measured, indicated, and inferred mineral resources estimated within the San Felipe Project, with an effective date of April 5, 2012, 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. The Report indicates that the San Felipe Project contains a mineral resource of 3 million metric tons of measured and 900 thousand metric tons of indicated mineralization, containing 31 million and 8 million troy ounces of silver equivalent, respectively, above a cutoff grade of 75g AgEq/t. The report estimates that there is an additional 1.5 million metric tons of inferred mineral resource above the 75 g AgEq/t cutoff containing 11 million troy ounces of silver equivalent.

Current Exploration Activities

On July 11, 2013 and October 9, 2013, the Company announced the initial results from an ongoing 25,000 meter diamond drill program at the San Felipe Project. Drilling is primarily focused on the La Ventana, Las Lamas and Transversales group of veins. Highlights (reported as true widths and assays uncut) include:

- Extension of the strike length at the Las Lamas vein by an additional 450 meters plus an additional 100 metres at depth. The vein has now been systematically tested by drilling over 630 meters on strike length and to depths of 250 metres.
- Higher drill core recoveries (95%-99%) resulting in increased grades when compared to historical resources at the La Ventana and Las Lamas veins.

Highlights of drilling results (reported as true widths and assays uncut) include:

Las Lamas Vein:

- SCLL-05: 6.46 m @ 721 g/t Ag eq. (212 g/t Ag, 0.01 g/t Au, 15.83% Zn, 0.44% Cu and 0.55% Pb)
- SCLL-04: 2.41 m @ 823 g/t Ag eq. (324 g/t Ag, 0.01 g/t Au, 14.99% Zn, 0.45% Cu and 0.93% Pb)
- SCLL-15: 6.95 m @ 355 g/t Ag eq. (93 g/t Ag, 0.01 g/t Au, 8.06% Zn, 0.22% Cu and 0.24% Pb)
- SCLL-23: 1.40 m @ 542 g/t Ag eq. (383 g/t Ag, 0.05 g/t Au, 3.78% Zn, 0.13% Cu and 1.12% Pb)

La Ventana Vein:

- SCLV-01: 5.75 m @ 918 g/t Ag eq. (142 g/t Ag, 0.02 g/t Au, 13.01% Zn, 1.53% Cu and 8.04% Pb)
- SCLV-04: 2.80 m @ 810 g/t Ag eq. (215 g/t Ag, 0.02 g/t Au, 11.05% Zn, 1.13% Cu, and 4.93% Pb)

Transversales Vein:

- SCVT-02: 11.80 m @ 116 g/t Ag eq. (84 g/t Ag, 0.02 g/t Au, 0.41% Zn, 0.04% Cu and 0.45% Pb) including; 3.35 m @ 283 g/t Ag eq. (209 g/t Ag, 0.04 g/t Au, 1.05% Zn, 0.05% Cu and 1.17% Pb)
- SCVT-07: 3.35 m @ 324 g/t Ag eq. (81 g/t Ag, 0.03 g/t Au, 5.03% Zn, 0.35% Cu and 1.90% Pb)

- SCVT-16: 2.60 m @ 409 g/t Ag eq. (122 g/t Ag, 0.04 g/t Au, 8.77% Zn, 0.23% Cu and 0.28% Pb)

Results from the initial holes have generally returned higher silver and zinc grades over wider intervals than expected. To date, drilling has intersected the Las Lamas vein for 300 meters on strike. The Las Lamas vein is open for 700 metres along strike and is open at depth. The Transversales vein can be traced over a strike length of 200 metres and to a depth of 240 metres and remains open along strike in both directions and to depth. In addition, drilling is proving the La Ventana vein to be a robust silver-polymetallic vein with high copper, zinc and lead grades.

The objective of the drill campaign is to further delineate higher grades in the south-west portion of the project. Veins believed to be the most prospective for expanding silver equivalent resources include Las Lamas, Cornucopia, Artemisia and Transversales in addition to the La Ventana vein which hosts the majority of the current 43-101 resource defined by Santacruz. 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, 2013, Santacruz incurred acquisition costs and exploration expenditures of $17,992,961 and $2,495,177 respectively, at the San Felipe Project.

Gavilanes property, San Dimas, Durango, Mexico
The Gavilanes property comprises the Gavilanes, Gavilanes 2 fraccion uno, Gavilanes 2 fraccion, Victoria 4, San José and Maria Luisa, mining concessions located in the rugged Sierra Madre Occidental mountain range in the municipality of San Dimas in the State of Durango, Mexico, approximately 110 kilometres west-north-west of Durango City. Details of the acquisition terms are contained in Note 11(a) of the 2013 Q3 Financial Statements. The Gavilanes property incorporates 9 concessions with a total of 7,347 hectares.

Current Exploration Activities
On January 15 and April 4, 2013, the Company announced results from its ongoing 6,000 meter Phase I drilling campaign being undertaken on the Gavilanes property. In total the Company reported on 22 diamond drill holes with the results released in the April 4, 2013 press release relating to the final holes of the program. The drill program was designed to test three of seven known silver-bearing veins and a stockwork area within the Gavilanes property.

The results of the Phase I program were positive and based on this Santacruz commenced a 16,000 meter Phase II drill program on the property. The objective of the Phase II program is to confirm the continuation of the GSA, Descubridora and San Nicolas veins in addition to the stockwork area of El Hundido. On July 11, 2013, the Company announced that it was temporarily suspending drilling at the property. This action was not related in any way to the positive exploration results from the project but was taken in view of current weak resource capital markets as a means of conserving the Company's treasury while it completes the transition of the Rosario Mine to a commercial operation. Results of the Phase II program together with the 22 holes completed in Phase I program and drilling by historic operators will be compiled into the initial NI 43-101 resource estimate report on the Gavilanes property. Management expects the NI 43-101 resource estimate to be completed in the fourth quarter of 2013. Complete results from the Gavilanes drill program are available on the corporate website at www.santacruzsilver.com.

Exploration and Acquisition Costs
During the nine months ended September 30, 2013, mineral property acquisition costs and exploration costs were $1,800,000 and $1,067,014 respectively for the Gavilanes property.

Results of Operations

Nine months ended September 30, 2013

The Company recorded a net loss of $1,811,503 ($0.02 per share) for the nine months ended September 30, 2013, compared to the net loss of $17,841,612 ($0.35 per share) for the nine months ended September 30, 2012.

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

- Administrative expenses of $751,386 (2012 – $522,748). These expenses increased primarily as the result of increased costs related to investor awareness initiatives.
- Management and consulting fees of $244,232 (2012 – $131,268), and salaries and benefits of $130,379 (2012 – $56,619). These expenses were higher during this fiscal period primarily due to increased activities at the Company's Mexican office in connection with the development of the Rosario Mine.
- Professional fees of $298,577 (2012 – $916,916). Professional fees were higher during the nine months ended September 30, 2012 primarily due to the costs incurred related to the reverse takeover transaction.
- Share-based payments of $659,970 (2012 – $3,250,422). 700,000 stock options were granted during the nine months ended September 30, 2013 as compared to 5,910,000 stock options granted in the same period in 2012.
- Transfer agent and filing fees of $80,732 (2012 – $22,952). Transfer agent and filing fees increased due to the fact that the Company's shares were listed for trading on the TSX Venture Exchange on April 12, 2012.

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

- Loss on derivative liabilities of $nil (2012 –$3,495). 139,239 warrants were issued during the 2011 fiscal year. As the exercise price of the share purchase warrants was fixed in Canadian dollars and the functional currency of the Company was the US dollar, the warrants were considered a derivative, as a variable amount of cash in the Company's functional currency would be received on exercise. The share purchase warrants were re-measured at fair value at each statement of financial position date with the change in fair value recorded in profit or loss during the period of change. The change in fair value for the nine months ended September 30, 2012 was a loss of $3,495. The share purchase warrants expired unexercised on July 20, 2012.
- Charge related to public company listing of $nil (2012 – $12,967,741). Charge related to public company listing occurred pursuant to accounting for the RTO in accordance with IFRS as detailed in Note 4 to the 2013 Q3 Financial Statements.
- Interest income of $145,066 (2012 – $92,069). Interest income is earned on surplus cash on hand. During 2013 the Company had more surplus cash on hand than in 2012 as a result of closing the prospectus offering in February 2013.

Three months ended September 30, 2013

The Company recorded a net loss of $503,505 ($0.01 per share) for the three months ended September 30, 2013, compared to the net loss of $763,841 ($0.01 per share) for the three months ended September 30, 2012.

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

- Administrative expenses of $212,261 (2012 – $66,149), management and consulting fees of $68,973 (2012 – $55,833), and salaries and benefits of $37,384 (2012 – $33,910). These expenses were higher during this fiscal period primarily due to increased activities at the Company's Mexican office in connection with the development of the Rosario Mine.

- Share-based payments of $232,161 (2012 – $469,506). 300,000 stock options were granted by the Company during the three months ended September 30, 2013 as compared to 800,000 stock options granted in the same period in 2012.

Summary of Quarterly Results

	THREE MONTHS ENDED			
	September 30, 2013	**June 30, 2013**	**March 31, 2013**	**December 31, 2012**
Revenues	Nil	Nil	Nil	Nil
Administrative Expenses	691,827	687,315	903,644	645,510
Deferred exploration and development costs, and option payments (cash portion)	3,810,981	4,044,722	18,057,101	4,900,203
Net loss	(503,505)	(565,244)	(742,754)	(583,307)
Net loss per share(1)	(0.01)	(0.01)	(0.01)	(0.04)

	THREE MONTHS ENDED			
	September 30, 2012	**June 30, 2012**	**March 31, 2012**	**December 31, 2011**
Revenues	Nil	Nil	Nil	Nil
Administrative Expenses	760,827	4,088,820	169,622	89,587
Deferred exploration and development costs, and option payments (cash portion)	2,170,450	1,281,265	442,415	1,360,894
Net loss	(763,841)	(16,945,273)	(132,498)	(176,492)
Net loss per share(1)	(0.01)	(0.27)	(0.01)	(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.

Administrative expenses were higher for the quarters ended June 30, 2012 and onward primarily due to increased activities at the Company’s Mexican office in connection with the development of the Rosario Mine. The deferred exploration and option payments were also higher during those quarters compared to the remaining quarters, due to the development of the Rosario Mine. During the three months ended June 30, 2012 the Company recorded $2,780,916 of share-based compensation from the grant of stock options during the period and in addition recorded $814,179 of professional fees largely related to completing the RTO transaction.

The Company recorded a charge related to public company listing of $12,967,741 during the three months ended June 30, 2012, as a result of the reverse takeover transaction on April 12, 2012.

Financing Activities

Details of financing activities in the year ended December 31, 2012 are as follows:

- On January 20, 2012, the Company subdivided its outstanding share capital (the “Subdivision”) on the basis of 4.7722 new common shares for each existing common share. Prior to the Subdivision, the Company had outstanding 5,467,911 common shares, 83,644 special warrants, and 139,239 warrants to purchase common shares. Accordingly, the Subdivision resulted in the 5,467,911 common shares issued and outstanding being subdivided into 26,093,966 common shares on a post-Subdivision basis. In accordance with the adjustment provision of the special warrants and the warrants, the number of common shares issuable on the exercise of the special warrants and warrants had been adjusted to reflect the Subdivision. Accordingly, the special warrants were convertible into 399,166 common shares and the warrants were convertible into 664,476 common shares.

- On January 25, 2012, all of the Company's special warrants were converted into post-Subdivision 399,166 common shares.
- On January 27, 2012, the Company completed a non-brokered private placement issuing 444,444 post-Subdivision common shares for aggregate gross proceeds of $399,480.
- On April 12, 2012, the Company completed a non-brokered private placement of 555,055 common shares at $0.90 for gross proceeds of $500,000.
- On April 12, 2012, the Company completed a brokered private placement of 22,222,222 common shares at $0.90 per share for gross proceeds of $20,100,000. The agent for the offering received a commission consisting of $1,277,355 cash, 200,000 common shares, and 1,333,333 broker warrants entitling the agent to purchase 1,333,333 common shares of the Company at CDN$1.00 per share up to April 12, 2014. The Company also issued 2,375,000 common shares as corporate finance fee and incurred additional issue costs of $211,782.
- During the year ended December 31, 2012, the Company issued 116,586 common shares pursuant to exercise of warrants for total gross proceeds of $27,126.

Details of financing activities in the nine months ended September 30, 2013 are as follows:

- On February 19, 2013, the Company closed a prospectus offering (the "Offering") through a syndicate of underwriters (the "Underwriters"). The Company issued 21,850,000 common shares at a price of CDN$1.85 per share for gross proceeds of $39,949,557 (CDN$40,422,500). The Underwriters received a cash fee of $2,396,973, as well as 1,311,000 warrants, each of which is exercisable to purchase one common share for a price of CDN$1.85 for a period of 24 months. The Company also issued 60,000 common shares as corporate finance fee and incurred additional issue costs of $510,824.
- On August 16, 2013, the Company issued 1,250,000 common shares at a deemed issue price of CDN$1.07 per share as an option payment pursuant to the San Felipe Agreement.
- During the nine months ended September 30, 2013, the Company issued 324,545 common shares pursuant to exercise of warrants for total gross proceeds of $231,849.

Capital Expenditures

The Company spent $25,912,804 on its mineral properties during the nine months ended September 30, 2013 (2012 – $3,894,130) and $4,294,650 (2012 – $2,400,493) on acquisitions of plant and equipment during the nine months ended September 30, 2013. The Company has made no dividend payments, and currently has no plans to declare any dividends.

The Company had a commitment to incur $3,000,000 of exploration expenditures on the San Felipe Project by October 31, 2015. Any unexpended balance was to be paid to Hochschild regardless of whether the Company exercised the option. As at September 30, 2013, all $3,000,000 of the committed exploration expenditures have been incurred and $nil of the exploration obligation remains outstanding. During the nine months ended September 30, 2013, the Company paid to Hochschild $16,700,000 and must make additional cash payments of $1,000,000 on June 15, 2014, $5,000,000 on October 31, 2014, and $15,000,000 on October 31, 2015, in order to exercise its option on the San Felipe Project and El Gachi property. The Company issued 1,250,000 common shares to Hochschild at a deemed issue price of CDN$1.07 per share on August 16, 2013. An additional $1,000,000 for restructuring fees is due on October 31, 2015, payable in cash or through the issuance of $1,500,000 of common shares of the

Company at an issuance price calculated at the time of issuance subject to a minimum issuance price of CDN$1.07 per share.

Use of Proceeds

During the 2012 fiscal year, the Company raised net proceeds of $18.82 million from the brokered private placement of 22,222,222 common shares at $0.90 per share on April 12, 2012. The Company used the proceeds as follows:

Description of Expenditures	Amount of Expenditures ($)
General and administrative expenses over the 12 months following the closing date of April 12, 2012	2,500,000
Exploration costs on the Rosario Mine	680,000
Development costs on the Rosario Mine	8,960,000
Property payments on the Rosario Mine	640,000
Exploration costs on the Gavilanes property	840,000
Property payments on the Gavilanes property	680,000
Exploration costs on San Felipe Project	140,000
Community relations, technical report and other costs on San Felipe Project	380,000
Property payment on San Felipe Project	4,000,000
Total	**18,820,000**

All but approximately $700,000 of these expenditures had been incurred by mid-February 2013, just prior to closing the prospectus offering referenced below.

During the 2013 fiscal year, the Company raised net proceeds of $37.04 million from the prospectus offering of 21,850,000 common shares at CDN$1.85 per share on February 19, 2013. As at September 30, 2013, the Company has used the proceeds as follows:

Description of Expenditures	Amount of Expenditures ($)
Mill construction costs for the Rosario Mine	2,000,000
Pre-production costs on the Rosario Mine	3,210,000
Exploration costs on the Gavilanes property	1,060,000
Property payments on the Gavilanes property	1,800,000
Exploration costs on San Felipe Project	2,490,000
Property payment on San Felipe Project	16,700,000
Working capital on hand	9,780,000
Total	**37,040,000**

Liquidity and Capital Resources

As at September 30, 2013, the Company had cash and cash equivalents of $5,599,450 (December 31, 2012 – $2,879,378) and working capital of $9,782,653 (December 31, 2012 – $1,729,525). During the nine months ended September 30, 2013, net cash used in operating activities was $4,022,522, net cash used in investing activities was $30,192,607 primarily for acquisitions of mineral property interests, plant and equipment, and costs relating to the exploration activities on its mineral properties; and net cash provided by issuance of common shares as part of financing activities was $37,335,357. During the nine months ended September 30, 2013, the Company also repaid $119,701 of shareholder loans.

Pursuant to the terms of the Gavilanes property agreement (Note 11(a) to the 2013 Q3 Financial Statements), in addition to cash payments of $3,315,000 made to date, in order to maintain and exercise the option, the Company must make aggregate cash payments of approximately $2,589,000 on or before May 1, 2014.

Pursuant to the terms of the San Felipe Agreement (Note 11(b) to the 2013 Q3 Financial Statements), in addition to cash payments of $22,700,000 made to September 30, 2013, in order to maintain and exercise the option, the Company must make further aggregate cash payments of approximately $21,000,000 on or before October 31, 2015. An additional $1,000,000 must be paid for restructuring fees which is due on October 31, 2015, payable in cash or in that number of the Company's common shares having a value of $1,500,000 at the date of issue, subject to a minimum issue price of CDN$1.07 per share.

During the nine months ended September 30, 2013, the Company's operations did not generate cashflow. Until such time as the Rosario Mine begins generating positive cash flow the Company is reliant on its internal cash reserves and the resource capital markets in order to fund its activities.

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

- Malaspina Consultants Inc., a company owned by Robert McMorran, the Chief Financial Officer
- Pref-Ex Geological Inc., a company owned by Marc Prefontaine, a director of the Company

During the three and nine months ended September 30, 2013 and 2012, 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,**	
	2013 **$**	**2012** **$**	**2013** **$**	**2012** **$**
Accounting fees [1]	33,850	31,105	104,599	65,384
Directors' fees [2]	18,756	-	79,703	-
Management fees [3]	56,618	55,833	164,530	131,268
Share-based payments	-	438,535	331,060	2,505,327
Salaries and benefits capitalized in mine under construction and development costs [4]	56,420	55,020	153,655	135,503

[1] The charge includes accounting fees paid to Malaspina Consultants Inc.
[2] The charge includes geological consulting fees paid to Pref-Ex Geological Inc. and directors' fees paid to Marc Prefontaine, James Hutton, and Craig Angus.
[3] The charge includes management fees paid to Arturo Préstamo Elizondo, the Chief Executive Officer.
[4] The charge includes salaries and benefits paid to Francisco Ramos, the Chief Operating Officer, which were capitalized in mine under construction and development costs.

At September 30, 2013, accounts payable and accrued liabilities include an amount of $22,480 (December 31, 2012 – $25,415), due to Malaspina Consultants Inc. for accounting services, and Marc Prefontaine, James Hutton, and Craig Angus for directors' fees.

Key management includes directors and executive officers of the Company. Other than the amounts disclosed above, there were 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, other receivables, accounts payable and accrued liabilities, and due to shareholders. Cash and cash equivalents and other receivables are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and due to shareholders are designated as other financial liabilities, which are measured at amortized cost. The share purchase warrants were classified as a non-hedged derivative liability recorded as a fair value through profit or loss ("FVTPL") liability due to the currency of the warrants, which were measured at fair value on initial recognition, and subsequently re-measured at fair value at the end of each reporting period. The carrying values of the Company's financial instruments 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.

Outstanding Share Data

Authorized share capital: Unlimited number of Common Shares

All share information is reported as of November 29, 2013 in the following table.

Issued and Outstanding Common Shares				91,330,984
	Expiry Date	Exercise Price (CDN$)		
Options	April 12, 2017	$0.90	4,806,666	
	May 10, 2015	$0.90	300,000	
	July 24, 2017	$0.90	800,000	
	February 28, 2018	$1.85	400,000	
	July 29, 2018	$1.22	300,000	
				6,606,666
Warrants	April 12, 2014	$1.00	1,092,202	
	February 19, 2015	$1.85	1,311,000	
				2,403,202
Fully Diluted				100,340,852

9,488,784 of the outstanding common shares are held in escrow.

Disclosure Controls and Procedures

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2013 and this accompanying MD&A.

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

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

Notwithstanding the production challenges faced during start-up of the Rosario Mine in the second and third quarter of 2013, the Rosario Mine is now steadily ramping up production and approaching positive cash flow from operations. The near term focus of the Company is to continue increasing the production throughput at the Rosario Mine. To this end the Company has begun preliminary work with respect to installing an additional ball mill to the milling facility. This process is expected to be completed in January 2014 and will increase milling capacity to 700 tons per day. The Company remains on target to increase Rosario Mine production to 500 tons per day by the end of first quarter of 2014.

Exploration activities will continue at the San Felipe Project including preparation of a technical engineering study by early 2014. Based on the results of this study, and assuming a positive result, the Company expects to focus its efforts in 2014 on advancing the San Felipe Project to a production decision.

Once positive cash flow is established at the Rosario Mine the Company expects to recommence exploration activities at the Gavilanes property.

Additional Disclosure for Venture Issuers without Significant Revenue

The Company provides disclosure related to capitalized or expensed exploration and development costs in the notes to the financial statements and disclosure related to general and administration expenses in the statements of loss and comprehensive loss. The Company has no expensed research and development costs nor deferred development costs.

Qualified Persons

All technical information which is included in this statement has been reviewed and approved by Donald E. Hulse P.E. of Gustavson and is consistent with work published by Gustavson.

Other Information

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