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

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the three and six months ended June 30, 2013 prepared as of August 29, 2013, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2013 and the related notes thereto of Santacruz Silver Mining Ltd. ("the Company" or "Santacruz") ("the 2013 Q2 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 Gavilanes property and San Felipe de Jesús ("San Felipe") Project.

2nd Quarter 2013 and Recent Highlights

- On April 4, 2013, the Company announced that drilling at the Gavilanes property intersected 256 g/t Ag over 7.40 m, including 1,680 g/t Ag over 0.45 m, confirming continuity of high-grade mineralization on the GSA vein.

- On April 18, 2013, the Company announced that the Rosario Mine was in commercial production effective April 1, 2013.

- 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.

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 Q2 Financial Statements. The property covers 500 hectares.

During the second quarter 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 as a result of an inconsistent supply of ore to the Rosario Mine milling facility. 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" as reported on the Company's condensed interim consolidated statement of financial position at June 30, 2013.

A contributing factor to this situation was the unexpected delay in receiving an explosives permit from Mexican government authorities. As a result of the delay in issuance of the explosives permit, the Company was delayed from January until mid-April in commencing the development of its main mine access ramp ("the Main Ramp").

In order to mitigate the impact of this matter, the Company amended its mine plan so as to concurrently drive adits on the northwest and southeast extensions of the Rosario I vein in order to produce ore feed while the Main Ramp was being developed. In addition, to further augment interim ore feed to the mill, Santacruz purchased run-of-mine ore from two local private mines. The objective of the combination of these initiatives was to generate sufficient ore to achieve the targeted production level of 100 tons of ore per day during the quarter until the underground development at the Rosario mine had advanced sufficiently to generate the planned ore supply.

Despite these efforts the Company faced various temporary setbacks that prevented it from consistently reaching the targeted daily production level during the quarter.

The adit driven on the northwest extension of the Rosario I vein has been successful in providing an interim ore supply once it passed from oxide mineralization into sulphide mineralization. However, recoveries from the oxidized ore were poor given that the oxide mineralization was incompatible with the milling facility circuits. For the time being the oxide ore has been stockpiled on the surface until mine-site staff determine if and how it can be run through the mill in a cost effective manner. Once the adit passed through the oxidized zone and sulfide mineralization was mined, recoveries returned to expected levels. Encouragingly, the sulphide veins mined to date have been slightly wider than expected and carry better than expected grade. Approximately 300 tons of sulfide ore were mined during the quarter from this adit, grading 273 g/t Ag, 0.33 g/t Au, 3.95% Zn, 0.48% PB. As of the date of this report, four stopes have been developed from the adit and ore production from this area alone will be approximately 90 tons/day going forward with total available tons to be mined estimated to be 1,000 tons from these four stopes. Additional stopes will be developed in connection with extending the adit.

The adit being driven on the southeast extension of the Rosario I vein has not been as successful to date. A major fault was encountered and the adit was rerouted due to poor ground conditions. Based on this event the decision was taken to utilize this adit for services supply only and no ore will be accessed from it.

The original contractor engaged by the Company to complete the Main Ramp experienced equipment failure and other logistical difficulties that resulted in a substantially lower than expected rate of advance, which also delayed development of the Main Ramp. In June the Company engaged a new mining contractor to complete the Main Ramp. The new contractor performed much better and the rate of advance and development of the Main Ramp improved to expected levels. All of this however meant that the Main Ramp's intersection with and access to ore on the Rosario I vein only occurred during mid-August 2013. At the date of this report the Main Ramp is being extended to the Rosario II vein and is expected to intersect it in the last week of September 2013. In addition to this, the northwest adit has progressed to mine Level #1 (located approximately 25 meters vertically below the Main Ramp) and a cross cut is being driven to intersect the Rosario II vein which is expected to occur during the first week of September 2013, thereby opening two more working faces.

Mining of the Rosario I vein from the Main Ramp has now commenced. The Company expects to mine approximately 90 tons per day from four stopes on the northwest portion of the vein and from the mineralized face of the vein to the southeast. Once the Rosario II vein is intersected the combined daily production rate from the Rosario I and Rosario II veins is expected to increase to approximately 200 tons per day. Grades from the mineralized face of the Rosario I vein have been as expected and the vein width is also as expected. Stope development is estimated to commence in the first week of September 2013with production from the first stopes expected by the end of September 2013.

As mentioned above, the Company purchased ore from two separate private mines. In total approximately 4,800 tons of ore was purchased. All of this ore was run through the Rosario milling facility during the quarter. Approximately 3,000 tons of the ore was high-grade gold and silver with minimal lead and zinc content.

Concentrate produced from the high-grade ore was shipped in June pursuant to a one-off refining contract with Metagri S.A. de C.V. ("Metagri"), a Mexican subsidiary of Glencore International AG. The Company has entered into separate agreements with Metagri with respect to refining its lead and zinc concentrates and in August has commenced delivering concentrate under these agreements.

Despite the various challenges faced by the Company at the Rosario Mine as it transitions to an operating mine, management is confident that the various initiatives the Company has undertaken during the second quarter will result in the Rosario Mine becoming cashflow positive during the fourth quarter of 2013. While the delays during the mine start-up have impacted initial ore production the measures taken by the Company have resulted in more mining faces being available than originally planned allowing for increased ore supply during the ramp up process. The mine plan is still on track to increase production to 500 tons per day by the end of the first quarter of 2014.

Production Data

	Three Months Ended June 30, 2013	**Month of July 2013**
Tons Milled – Rosario Ore*	288	623
– Purchased Ore	4,787	-
Head Grade – Rosario Ore – Ag (g/ton)	49.46	78.64
– Au (g/ton)	0.06	0.13
– Pb (%)	0.279	0.109
– Zn (%)	1.386	1.384
Head Grade – Purchased Ore – Ag (g/ton)	131.19	-
– Au (g/ton)	2.62	-
– Pb (%)	0.3881	-
– Zn (%)	0.0618	-
Recovery** – Ag (%)	67.1	69.5
– Au (%)	83.5	95.8
– Pb (%)	72.0	73.2
– Zn (%)	58.7	56.5

*Does not include approximately 2,000 tons of oxide material mined during this period. For the time being the oxide material has been stockpiled on surface until mine-site staff determine if and how it can be run through the mill in a cost effective manner.
** The reported recoveries reflect the fact that oxide material was included in the mill feed.

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 six months ended June 30, 2013, mineral property acquisition costs and exploration costs were $252,182 and $968,205 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.

For accounting purposes the Company has treated operations of the Rosario Mine during the three months ended June 30, 2013 as a pre-production phase and capitalized the net operating costs incurred. During this period the Company recorded revenues of $449,793 from concentrate sales and recorded pre-production costs of $1,527,601 resulting in net pre-production costs of $1,077,808.

During the six months ended June 30, 2013, the Company incurred $2,511,143 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 Q2 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, the Company announced the first 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:

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).

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).

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. 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 six months ended June 30, 2013, Santacruz incurred acquisition costs and exploration expenditures of $16,000,000 and $1,210,085 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 Q2 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 six months ended June 30, 2013, mineral property acquisition costs and exploration costs were $1,800,000 and $882,078 respectively for the Gavilanes property.

Results of Operations

Six months ended June 30, 2013

The Company recorded a net loss of $1,307,998 ($0.02 per share) for the six months ended June 30, 2013, compared to the net loss of $17,077,771 ($0.40 per share) for the six months ended June 30, 2012.

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

- Administrative expenses of $516,720 (2012 – $456,599), management and consulting fees of $175,259 (2012 – $75,435), and salaries and benefits of $92,995 (2012 – $22,709). 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 $194,557 (2012 – $823,278). Professional fees were higher during the six months ended June 30, 2012 primarily due to the costs incurred related to the reverse takeover transaction.
- Share-based payments of $427,809 (2012 – $2,780,916). 400,000 stock options were granted to an employee of the Company during the six months ended June 30, 2013 as compared to 5,110,000 stock options granted to directors, officers and employees of the company in the same period in 2012.
- Transfer agent and filing fees of $68,575 (2012 – $15,253). 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.

- Travel expenses of $88,465 (2012 – $78,108). Travel expenses increased in part due to an increase in management's travel between the Company's Canadian and Mexican offices and in part with respect to general business travel in connection with management attending various investor and trade shows and road shows.

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

- Loss on derivative liabilities of $nil (2012 –$3,483). 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 six months ended June 30, 2012 was a loss of $3,483. 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 Q2 Financial Statements.
- Interest income of $98,813 (2012 – $45,241). 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 June 30, 2013

The Company recorded a net loss of $565,244 ($0.01 per share) for the three months ended June 30, 2013, compared to the net loss of $16,945,273 ($0.27 per share) for the three months ended June 30, 2012.

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

- Administrative expenses of $278,591 (2012 – $368,375). Administrative expenses were higher during the three months ended June 30, 2012 due to higher fees paid for administrative services under an office-sharing arrangement for the Company's Mexican operations. Such fees decreased because the Company moved its Mexican office in Q4 2012.
- Management and consulting fees of $102,322 (2012 – $46,055), and salaries and benefits of $44,003 (2012 – $22,709). 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 $124,546 (2012 – $814,179). Professional fees were higher during the three months ended June 30, 2012 primarily due to the costs incurred related to the reverse takeover transaction.
- Share-based payments of $56,838 (2012 – $2,780,916). No stock options were granted by the Company during the three months ended June 30, 2013 as compared to 5,110,000 stock options granted to directors, officers and employees of the company in the same period in 2012. The share-based payments recorded during the three months ended June 30, 2013 were due to the vesting of previously granted stock options.
- Transfer agent and filing fees of $21,143 (2012 – $15,253). 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 –$4,559). 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 three months ended June 30, 2012 was a loss of $4,559. 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 Q2 Financial Statements.
- Interest income of $54,792 (2012 – $43,345). 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.

Summary of Quarterly Results

	THREE MONTHS ENDED			
	June 30, 2013	**March 31, 2013**	**December 31, 2012**	**September 30, 2012**
	$	**$**	**$**	**$**
Revenues	Nil	Nil	Nil	Nil
Administrative expenses	687,315	903,644	645,510	760,827
Deferred exploration and development costs, and option payments (cash portion)	4,044,722	18,057,101	4,900,203	2,170,450
Net loss	(565,244)	(742,754)	(583,307)	(763,841)
Net loss per share(1)	(0.01)	(0.01)	(0.04)	(0.01)

	THREE MONTHS ENDED			
	June 30, 2012	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**
	$	**$**	**$**	**$**
Revenues	Nil	Nil	Nil	Nil
Administrative expenses	4,088,820	169,622	89,587	206,269
Deferred exploration and development costs, and Option payments (cash portion)	1,281,265	442,415	1,360,894	1,605,726
Net loss	(16,945,273)	(132,498)	(176,492)	(265,409)
Net loss per share(1)	(0.27)	(0.01)	(0.05)	(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.

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. In addition, share-based payments of $2,780,916, $469,506, $28,660 and $370,971 were recorded during the three months ended June 30, 2012, September 30, 2012, December 31, 2012 and March 31, 2013 respectively, as a result of the grant of stock options to directors, officers, employees and consultants of the Company.

Financing Activities

Details of financing activities in the 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 six months ended June 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 $2,388,013, 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 $505,100.
- During the six months ended June 30, 2013, the Company issued 224,545 common shares pursuant to exercise of warrants for total gross proceeds of $222,136.

Capital Expenditures
The Company spent $22,101,823 on its mineral properties during the six months ended June 30, 2013 (2012 – $1,723,680). The Company spent $3,011,360 on acquisitions of plant and equipment during the six months ended June 30, 2013 (2012 – $1,116,698). The Company has made no dividend payments, and currently has no plans to declare any dividends.

The Company has a commitment to incur $3,000,000 of exploration expenditures on the San Felipe Project by October 31, 2015. Any unexpended balance must be paid to Hochschild regardless of whether the Company exercises the option. As at June 30, 2013, $1,826,908 of the committed exploration expenditures have been incurred, and $1,173,092 of the exploration obligation remains outstanding. The Company expects to incur sufficient exploration expenditures to eliminate this obligation. During the six months ended June 30, 2013, the Company paid to Hochschild $16,000,000 and must make additional cash payments of $700,000 (paid) on August 13, 2013, $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 $37.06 million from the prospectus offering of 21,850,000 common shares at CDN$1.85 per share on February 19, 2013. As at June 30, 2013, the Company has used the proceeds as follows:

Description of Expenditures	**Amount of Expenditures ($)**
Mill construction costs for the Rosario Mine	2,700,000
Pre-production costs on the Rosario Mine	570,000
Exploration costs on the Gavilanes property	880,000
Property payments on the Gavilanes property	1,800,000
Exploration costs on San Felipe Project	1,210,000
Property payment on San Felipe Project	16,000,000
Working capital on hand	13,900,000
Total	**37,060,000**

Liquidity and Capital Resources

As at June 30, 2013, the Company had cash and cash equivalents of $10,350,963 (December 31, 2012 – $2,879,378) and working capital of $13,911,890 (December 31, 2012 – $1,729,525). During the six months ended June 30, 2013, net cash used in operating activities was $4,113,868, net cash used in investing activities was $25,100,303 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 $37,278,580. During the six months ended June 30, 2013, the Company also repaid $119,713 of shareholder loans.

Pursuant to the terms of the Gavilanes property agreement (Note 11(a) to the 2013 Q2 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 Q2 Financial Statements), in addition to cash payments of $22,000,000 made to June 30, 2013, in order to maintain and exercise the option, the Company must make additional cash payments of $700,000 (paid) on August 13, 2013, and 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.

Further, the Company must incur an additional $1,173,092 of exploration expenditures on the project on or before October 31, 2015 or pay the amount of expenditure shortfall to Hochschild.

During the six months ended June 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 junior resource capital markets in order to fund its activities.

Transactions with Related Parties

During the three and six months ended June 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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	$	$	$	$
Accounting fees	37,035	34,279	70,749	34,279
Directors' fees	41,455	-	60,947	-
Management fees	54,467	46,055	107,912	75,435
Share-based payments	-	2,066,792	333,519	2,066,792
Salaries and benefits capitalized in mine under construction and development costs	-	5,300	39,773	10,340

At June 30, 2013, directors and officers or their related companies were owed $24,160 (December 31, 2012 – $25,415) in respect of the services rendered.

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, trade receivables, other receivables, accounts payable and accrued liabilities, and due to shareholders. Cash and cash equivalents, trade receivables 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 August 29, 2013 in the following table.

Issued and Outstanding Common Shares				91,230,984
	Expiry Date	Exercise Price		
Options	April 12, 2017	$0.90	4,806,666	
	May 10, 2015	$0.90	300,000	
	July 24, 2017	$0.90	800,000	
	February 28, 2018	$1.83	400,000	
	July 29, 2013	$1.19	300,000	
				6,606,666
Warrants	October 7, 2013	$0.10	100,000	
	April 12, 2014	$1.00	1,092,202	
	February 19, 2015	$1.83	1,311,000	
				2,503,202
Fully Diluted				100,340,852

12,651,712 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 six months ended June 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 quarter of 2013, management is confident that the Company will become cashflow positive during the fourth quarter of 2013. As such, the continuing short term objective of the Company is to focus its efforts on ramping up both the mine production and milling throughput at the Rosario Mine over the coming months. To this end the Company anticipates adding an additional ball mill to the milling facility in the fourth quarter of this year which 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 the end of 2013. 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.