MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THREE MONTHS ENDED MARCH 31, 2013

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the three months ended March 31, 2013 prepared as of May 30, 2013, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2013 and the related notes thereto of Santacruz Silver Mining Ltd. ("the Company" or "Santacruz") ("the 2013 Q1 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 are generally identifiable by the use of the words "may", "will", "should", "continue", "expect", "anticipate", "estimate", "believe", "intend", "plan" or "project" or the negative of these words or other variations on these words or comparable terminology. All such forward-looking information and statements are based on certain assumptions and analyses made by the Company's management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed, implied by or projected in the forward-looking information or statements. Important factors that could cause actual results to differ from these forward-looking statements include but are not limited to: risks related to the exploration and potential development of the Company's projects, risks related to international operations, the actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, future prices of minerals, as well as those factors discussed in the sections relating to risk factors of the Company set out in this MD&A.

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

General

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 is 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 which achieved commercial production commencing April 1, 2013. In addition, the Company is exploring two other mineral properties, being the Gavilanes and San Felipe de Jesús ("San Felipe") Projects.

Recent Highlights

- On February 19, 2013, the Company completed a prospectus offering for gross proceeds of CDN$40,422,500.

- On March 7, 2013, the Company announced that it had acquired the 48,057.33 hectare El Gachi Project located 30 kilometers from the San Felipe Project in Sonora State.

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

Rosario Mine, Charcas, San Luis Potosi, Mexico

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 8(a) of the 2013 Q1 Financial Statements. The property covers 500 hectares.

The nearest population center to the Rosario Mine is the town of Charcas, which lies approximately 13 kilometers northeast of the mine and is approximately 20 kilometers distant by road. Charcas has limited medical, fire protection, and law enforcement services. Modern medical services and all industrial support are available in the state capital San Luis Potosi, approximately 100 kilometers to the south. In addition to these services, Grupo Mexico which runs the Charcas Mine maintains a mine rescue team, and due to the mining history of the town trained underground labor and mine contract services are available.

Power may be accessed through a substation that provides power to the Charcas Mine. Santacruz has constructed a 24.5km power line to the mine and two 22 inch water wells to a depth of 200m approximately 15km from the mine site. These two wells will provide the 10-15 liters/sec needed for a plant of 500 tonnes/day. Santacruz has also built the road for the pipeline.

<u>Geology and Mineralization</u>

The regional geologic structure that dominates the both the Rosario Mine area and the Charcas area is the north-south oriented San Rafael anticline. The Rosario Mine is located within an erosional valley formed along the axis of the anticline. Here, the middle to upper Triassic Zacatecas formation is exposed by erosion and bounded on both sides by the younger formations which comprise the limbs of the anticline.

Mineralization is hosted in two veins with a general strike of N60W, dipping between 45 to 60 degrees southwest. The host rock of the veins is comprised of the Zacatecas formation, a mid to late Triassic turbidite sequence, consisting of beds of dark grey, green and grayish-green shale, sandstone, conglomerate and siltstone. The veins extend over a length of 2.5 to 3.0 kilometers, and to a depth of at least 150 to 200 meters, as determined from available drilling data. Each of the Rosario I and Rosario II veins vary in width from 0.4 to 2.5 meters. Mineralization appears to have occurred in three stages, with the third stage precipitating the silver bearing minerals. This deposit has been described as a mesothermal vein system based on temperature (195 to 338°C), although mineralization is typical of other deposits in Mexico which are described as epithermal.

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 which was filed on SEDAR at www.sedar.com on December 28, 2012, 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:

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

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.

Due to the results of the new exploration work, Gustavson can now classify 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.

Costs Incurred

During the three months ended March 31, 2013, acquisition costs and exploration costs were $252,182 (2012 – $70,000) and $847,878 (2012 – $193,963), respectively. Included in the exploration expenditures are diamond drilling costs incurred as part of a 4,000-metre diamond drilling program north-west of the current Rosario resource to test the extension of the high-grade silver mineralization within the Rosario I & II veins.

In addition, during the three months ended March 31, 2013, the Company incurred $1,826,906 of expenditures in connection with the initial equipment procurement and final construction costs of the Rosario milling facility and mine. Anticipated production levels at 500 tonnes per day are projected to yield 2,200,000 ounces of silver equivalent by the year 2014.

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.

Gavilanes Project, San Dimas, Durango, Mexico

The Gavilanes Project 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 9(a) of the 2013 Q1 Financial Statements. The Gavilanes Project incorporates 9 concessions with a total of 7,347 hectares.

On November 20, 2012, the Company reported results from the first 7 holes of an ongoing 6,000 meter diamond drill program on the project. This Phase one drill program is designed to test three of seven known silver-bearing veins and a stockwork area within the project. Drill results reported herein are from the Guadalupe-Soledad-Aranzazú (GSA) and San Nicholas veins. Both can be traced for approximately 1,000m and 900m respectively along strike and vary between 0.5 – 10.0m in width. Additionally, two holes intersected a high grade stockwork area (El Hundido). All 7 holes reported have intersected high grade silver. The geological environment is described in the Company´s technical report of the Gavilanes Project, filed on SEDAR on February 8, 2012.

Highlights (reported as true widths and assays uncut) include:
GSA Vein
• SCGP-22: 2.75 m @ 2549 g/t Ag eq. (2540 g/t Ag, 0.10% Zn, 0.12% Pb and 0.03 g/t Au).
• SCGP-21: 1.55 m @ 567 g/t Ag eq. (212 g/t Ag, 8.09% Zn, 3.97% Pb and 0.72 g/t Au).
• SCGP-02: 6.50 m @ 307 g/t Ag eq. (184 g/t Ag, 2.03% Zn, 2.51% Pb and 0.15 g/t Au).

Hundido Stockwork
• SCHN-05: 8.51 m @ 692.03 g/t Ag eq. (427 g/t Ag, 8.04% Zn, 2.90% Pb and 0.01 g/t Au).

On January 15, 2013, the Company reported results from 18 additional diamond drill holes as part of the 6,000 meter diamond drill program on the project. Drill results reported herein are from the GSA vein and the Stockwork area of El Hundido. Gavilanes hosts a low sulphidation epithermal system.

Highlights (reported as true widths and assays uncut) include:
Hundido Stockwork
• SCHN-09: 5.40 m @ 286 g/t Ag eq. (263 g/t Ag, 0.28% Zn, 0.69% Pb and 0.01 g/t Au).
• SCHN-08: 4.95 m @ 439 g/t Ag eq. (427 g/t Ag, 0.07% Zn, 0.40% Pb and 0.01 g/t Au).
• SCHN-07: 4.70 m @ 274 g/t Ag eq. (212 g/t Ag, 1.18% Zn, 1.13% Pb and 0.03 g/t Au).

GSA Vein
• SCGP-12: 3.82 m @ 267 g/t Ag eq. (243 g/t Ag, 0.21% Zn, 0.32% Pb and 0.23 g/t Au).

On April 4, 2013, the Company further reported the results from the final five diamond drill holes of the Phase one diamond drill program on the project.

Highlights (reported as true widths and assays uncut) include:
GSA Vein
• SCGP-09: 7.40 m @ 366 g/t Ag eq. (256 g/t Ag, 1.92% Zn, 1.50% Pb and 0.34 g/t Au).
• SCGP-04: 3.78 m @ 215 g/t Ag eq. (156 g/t Ag, 0.50% Zn, 1.01% Pb and 0.16 g/t Au).
• SCGP-03: 3.02 m @ 143 g/t Ag eq. (137 g/t Ag, 0.08% Zn, 0.16% Pb).

During the three months ended March 31, 2013, acquisition costs and exploration costs were $nil (2012 – $117,572) and $482,704 (2012 – $11,021), respectively.

San Felipe Project, Sonora, Mexico
San Felipe is a late stage exploration project, located in the State of Sonora, approximately 130 kilometers north-west of Hermosillo City, the state capital of Sonora. Santacruz acquired exploration rights with right to purchase (Contrato de Exploracion con Promesa de Venta) from Minera Hochschild Mexico, S.A. de C.V. ("**Hochschild**"). In order to maintain and exercise these rights, Santacruz is required to make payments by October 1, 2014 and perform exploration of the project by December 1, 2013. The project includes 15 mining concessions totaling about 16,300 hectares, plus the right to acquire an adjacent project "El Gachi". On March 7, 2013, the Company exercised its option to acquire a 100% interest in the 48,057.33 hectare El Gachi Project located 30 kilometers from the San Felipe Project in Sonora State. Details of the acquisition terms are contained in Note 9(b) and 9(c) of the 2013 Q1 Financial Statements.

Geology and Mineralization

The San Felipe Project is located in the southern portion of the Cordilleran Basin and Range tectonic province, which comprises the southwestern United States and northern Mexico. This region has been affected by extensional tectonics since the end of the Laramide Orogeny. The project area is situated along the western margin of the Sonora River valley, a sedimentary basin filled with Tertiary clastic sediments.

A structurally complex mixture of Paleozoic mafic volcanic rocks, associated sediments, and Cretaceous felsic volcanics are exposed at the San Felipe Project. The package of volcanics and associated sediments has been folded, faulted, and tilted on end to produce a regional east-west strike. The San Felipe Project contains a series of ridges oriented nearly east-west. The principal ridges are crowned with sharp outcrops formed by continuous, highly-resistant veins within the volcanic rocks. At depth these veins support the known metal-bearing deposits. Vein zones vary from less than 1 meter to several meters thick, and consist primarily of quartz with silver, lead, and zinc sulfide minerals. The mineralized veins and dikes are hosted in the andesitic rocks of the lower volcanic group, which may also be altered and mineralized for up to several meters adjacent to the veins.

Five mineralized structures are known to exist within the San Felipe Project area: the Santa Rosa, La Ventana, San Felipe, Artemisa-Cornucopia, and Las Lamas. In most cases, the mineralized structures are silicified and form resistant, high-relief ridges. Current exploration work on the site is continuing to identify and map other structures. The mineralized bodies are vein-like replacement zones formed by metasomatic and associated hydrothermal mineralization along favorable structures and/or reactive host rocks.

Santacruz is conducting an exploration program that will involve geologic mapping, and surface and underground geochemical sampling. This program will continue and will include diamond core drilling to more fully define the known mineralized structures and to delineate additional mineralization. The scope and focus of the program is more fully described in the recommendations section of this document. The object of the proposed exploration program is to provide adequate data to support completion of a mineral resource estimate with a high level of confidence.

Mineral Resource Estimate

On December 28, 2012, the Company filed an updated NI43-101 Technical Report dated December 19, 2012 for the San Felipe Project. 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. Mineral resources were reported using a 75 ppm equivalent silver cutoff. 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.

Estimated Resource Summary of All Veins at Selected Cutoff Grades

All Veins Total								
	Measured							
Ag Eq Cutoff	Tonnes (x1000)	Ounces Ag (x1000)	Equivalent Ounces Ag (x1000)	Ag gpt	Equivalent Ag gpt	Cu %	Pb %	Zn %
50	4,314	8,919	37,718	64.30	271.94	0.25	2.56	4.51
75	3,133	7,313	30,887	**72.60**	**306.64**	**0.29**	**2.83**	**5.11**
100	2,420	6,193	25,970	79.59	333.76	0.32	3.02	5.58
150	1,524	4,519	18,913	92.21	385.95	0.38	3.40	6.52
	Indicated							
Ag Eq Cutoff	Tonnes (x1000)	Ounces Ag (x1000)	Equivalent Ounces Ag (x1000)	Ag gpt	Equivalent Ag gpt	Cu %	Pb %	Zn %
50	1,546	2,663	11,679	53.58	235.05	0.20	2.29	3.96
75	936	1,876	8,188	**62.33**	**272.09**	**0.24**	**2.56**	**4.63**
100	621	1,408	6,116	70.50	306.13	0.27	2.81	5.26
150	329	860	3,869	81.35	366.05	0.34	3.38	6.32
	Measured + Indicated							
Ag Eq Cutoff	Tonnes (x1000)	Ounces Ag (x1000)	Equivalent Ounces Ag (x1000)	Ag gpt	Equivalent Ag gpt	Cu %	Pb %	Zn %
50	5,860	11,582	49,397	61.48	262.21	0.23	2.49	4.37
75	4,069	9,188	39,074	**70.24**	**298.69**	**0.28**	**2.77**	**5.00**
100	3,042	7,601	32,086	77.73	328.12	0.31	2.98	5.51
150	1,853	5,378	22,782	90.28	382.42	0.37	3.39	6.49
	Inferred							
Ag Eq Cutoff	Tonnes (x1000)	Ounces Ag (x1000)	Equivalent Ounces Ag (x1000)	Ag gpt	Equivalent Ag gpt	Cu %	Pb %	Zn %
50	3,084	4,140	19,913	41.75	200.80	0.16	2.17	3.35
75	1,495	2,149	11,347	**44.70**	**236.08**	**0.20**	**2.68**	**3.92**
100	750	1,281	6,742	53.16	279.68	0.25	3.02	4.74
150	317	651	3,533	63.82	346.58	0.33	3.63	6.01

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

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

Where:

Metal	Symbol	Grade Units	Price	Price Symbol
Silver Eq	AgEq	g/t		
Silver	Ag	g/t	26.28 $/tOz	P_{ag}
Copper	Cu	%	3.491 $/lb	P_{pb}
Lead	Pb	%	0.9988 $/lb	P_{cu}
Zinc	Zn	%	0.9531 $/lb	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 3 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.

Costs Incurred

Previously, 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. During 2011 Santacruz began conducting an exploration program in the area to confirm and support Hochschild's previously discovered resources at the La Ventana, San Felipe and Las Lamas veins. Additional resources have been delineated in the Las Lamas, Cornucopia, Artemisa, Santa Rosa and Transversales veins. In addition, to the south-west of the project is a target ("Los Locos"), which has exploration upside.

During the three months ended March 31, 2013, Santacruz incurred acquisition costs and exploration expenditures of $16,000,000 (2012 – $nil) and $490,346 (2012 – $53,369) respectively, at the San Felipe Project.

Results of Operations

The Company recorded a net loss of $742,754 ($0.01 per share) for the three months ended March 31, 2013, compared to the net loss of $132,498 ($0.01 per share) for the three months ended March 31, 2012.

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

- Administrative expenses of $238,129 (2012 – $88,224), management and consulting fees of $72,937 (2012 – $29,380), and salaries and benefits of $48,992 (2012 – $nil). 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 $70,011 (2012 – $9,099). Professional fees were higher during the 2013 fiscal period primarily due to the increased business activities of the Company.
- Share-based payments of $370,971 (2012 – $nil). 400,000 stock options (2012 – nil) were granted to an officer and an employee of the Company during the three months ended March 31, 2013.
- Transfer agent and filing fees of $47,432 (2012 – $nil). Transfer agent and filing fees increased due to the fact that the Company became listed for trading on the TSX Venture Exchange on April 12, 2012.
- Travel expenses of $53,771 (2012 – $38,345). 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:

- Gain on derivative liabilities of $nil (2012 –$1,076). 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 March 31, 2012 was a gain of $1,076. The share purchase warrants expired unexercised on July 20, 2012.
- Other income of $44,021 (2012 – $1,896). The funds received from the prospectus offering were deposited into short-term investment accounts, resulting in the Company recording interest income during the three months ended March 31, 2013.

Summary of Quarterly Results

	THREE MONTHS ENDED			
	March 31, 2013	**December 31, 2012**	**September 30, 2012**	**June 30, 2012**
	$	**$**	**$**	**$**
Revenues	Nil	Nil	Nil	Nil
Administrative expenses	903,644	645,510	760,827	4,088,820
Deferred exploration and development costs, and option payments (cash portion)	18,057,101	4,900,203	2,170,450	1,281,265
Net loss	(742,754)	(1,646,662)	(763,841)	(15,881,918)
Net loss per share[(1)]	(0.01)	(0.06)	(0.01)	(0.25)

	THREE MONTHS ENDED			
	March 31, 2012	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**
	$	**$**	**$**	**$**
Revenues	Nil	Nil	Nil	Nil
Administrative expenses	169,622	89,587	206,269	145,917
Deferred exploration and development costs, and Option payments (cash portion)	442,415	1,360,894	1,605,726	414,935
Net loss	(132,498)	(176,492)	(265,409)	(75,139)
Net loss per share[(1)]	(0.01)	(0.05)	(0.05)	(0.04)

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

The administrative expenses were higher for the quarters ended June 30, 2012, September 30, 2012, December 31, 2012 and March 31, 2013, which also resulted in higher net losses in those periods, 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 $11,904,386 during the three months ended June 30, 2012, as a result of the reverse takeover transaction on April 12, 2012. In addition, share-based payments of $2,780,916, $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. During the quarter ended December 31, 2012, the Company recorded an additional adjustment of $1,063,355 related to the finalization of the accounting for the reverse takeover transaction.

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 three months ended March 31, 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 $2,405,899, 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 $499,081.
- During the three months ended March 31, 2013, the Company issued 51,563 common shares pursuant to exercise of warrants for total gross proceeds of $51,489.

Capital Expenditures

The Company spent $18,057,101 on its mineral properties during the three months ended March 31, 2013 (2012 – $442,415). The Company also spent $1,962,503 on acquisitions of plant and equipment during the three months ended March 31, 2013 (2012 – $14,901). 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 December 1, 2013. Any unexpended balance must be paid to the property vendor. As at March 31, 2013, $1,107,169 of the committed exploration expenditures have been incurred, and $1,892,831 of the exploration obligations remains outstanding. During the three months ended March 31, 2013, the Company paid to Hochschild $16,000,000 and must pay an additional $18,000,000 on October 1, 2014 in order to exercise its option on the San Felipe Project. In addition, in connection with the El Gachi option, the Company must pay $3,000,000 on October 1, 2014.

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 Project	680,000
Development costs on the Rosario Project	8,960,000
Property payments on the Rosario Project	640,000
Exploration costs on the Gavilanes Project	840,000
Property payments on the Gavilanes Project	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**

Liquidity and Capital Resources

As at March 31, 2013, the Company had cash and cash equivalents of $17,047,763 (December 31, 2012 – $2,879,378) and working capital of $18,772,069 (December 31, 2012 – $1,729,525). During the three months ended March 31, 2013, net cash used in operating activities was $2,705,241 (2012 – $32,610); net cash used in investing activities was $20,019,604 (2012 – $457,316) 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 $37,096,066 (2012 – $399,480). During the three months ended March 31, 2013, the Company also repaid $49,339 of shareholder loans.

Pursuant to the terms of the Gavilanes Project agreement (Note 9(a) to the 2013 Q1 Financial Statements), in addition to cash payments of $1,515,000 made to date, in order to maintain and exercise the option, the Company must make cash payments of $300,000 on May 1, 2013 (paid), $1,500,000 on May 2, 2013 (paid), $400,000 on November 1, 2013, $1,039,167 on December 23, 2013, and $1,150,000 on May 1, 2014.

Pursuant to the terms of the San Felipe Project agreement (Note 9(b) to the 2013 Q1 Financial Statements), in addition to cash payments of $22,000,000 made to date, in order to maintain and exercise the option, the Company must, among other things, incur exploration expenditures of $3,000,000 by December 1, 2013 and make cash payments of $18,000,000 on or before October 1, 2014.

If the exploration expenditures of $3,000,000 are not made, the Company has an obligation to reimburse the optionor for the difference between $3,000,000 and the actual exploration expenditures incurred regardless of whether or not the Company exercises its option on this project. $1,107,169 of the committed exploration expenditures have been incurred to March 31, 2013. The Company has no other capital expenditure commitments.

In addition, in connection with the El Gachi option, the Company must pay $3,000,000 on October 1, 2014.

During the three months ended March 31, 2013, the Company's operations did not generate cashflow, however the Rosario Mine was put into commercial production effective April 1, 2013. In order to fund the acquisition of and accelerate the exploration of the Gavilanes and San Felipe Projects, on February 19, 2013, the Company closed a prospectus offering and issued 21,850,000 common shares at a price of CDN$1.85 per share for gross proceeds of CDN$40,422,500.

$16 million of the gross proceeds from the prospectus offering was used to make an option payment on the San Felipe Project at the end of March 2013. $350,000 will be used for a pre-feasibility study and $8 million will be used for exploration expenditures such as surface and underground mapping, drilling, and development of ramps for bulk samples on the San Felipe Project. On the Gavilanes Project, $3.2 million will be used towards making the option payments in 2013, $150,000 will be used for an updated resource estimate, and $1 million will be used for exploration expenditures such as mapping, staffing and site costs, drilling and sample analysis. The remainder of the gross proceeds will be used for costs associated with the prospectus offering, administration expenses including corporate and financial reporting, legal, accounting, general corporate communication and corporate development, and general working capital.

Transactions with Related Parties
During the three months ended March 31, 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:

	2013 **$**	**2012** **$**
Accounting fees	33,714	-
Management fees	53,445	29,380
Directors' fees	19,492	-
Share-based payments	336,017	-
Salaries and benefits capitalized in mine under construction and development costs	39,773	5,040

At March 31, 2013, directors and officers or their related companies were owed $34,029 (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 transactions with related parties or 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 May 30, 2013 in the following table.

Issued and Outstanding Common Shares				89,977,931
	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	
				6,306,666
Warrants	October 7, 2013	$0.10	100,000	
	April 12, 2014	$1.00	1,095,255	
	February 19, 2015	$1.83	1,311,000	
				2,506,255
Fully Diluted				98,790,852

15,814,640 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 three months ended March 31, 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 that the Rosario Mine achieved commercial production April 1, 2013, a key short term objective of the Company is to ramp up both mine production and milling throughput over the coming months. To this end the Company anticipates adding an additional ball mill to the milling facility which will increase milling capacity to 700 tons per day. The Company expects to achieve a production rate of 300 tons per day by the fourth quarter of this year increasing to 500 tons per day during the first quarter of 2014.

Concurrently, exploration activities will continue at both the Gavilanes and San Felipe Projects including initial surface diamond drilling campaigns of 6,000 metres and 12,000 metres respectively.

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 by Donald E. Hulse P.E. of Gustavson Associates L.L.C 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.