MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the year ended December 31, 2012 prepared as of April 24, 2013, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012 and the related notes thereto of Santacruz Silver Mining Ltd. (formerly Forte Resources Inc. ("Forte")) ("the Company" or "Santacruz") ("the 2012 Annual Financial Statements").

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.

2012 Highlights

- On April 12, 2012, the Company completed a reverse take-over transaction ("RTO") with a private company pursuant to which the Company acquired all of the issued and outstanding common shares of the private company. Upon completion of the RTO, the consolidated entity has continued to carry on the business of the private company, which business is the acquisition, exploration and development of mineral properties in Mexico.

- On April 18, 2012, the Company announced that in connection with the RTO it had completed a financing for gross proceeds of $20.1 million and appointed Mr. Arturo Prestamo as President and CEO.

- On May 22, 2012, the Company announced that environmental permits for both underground development and mine construction had been received for the Rosario Mine.

- On June 7, 2012, the Company announced the appointment of Mr. Francisco Ramos as the Chief Operating Officer.

- At its Annual General Meeting held on July 24, 2012, Mr. Marc Prefontaine, M.Sc., P.Geo, was elected to the Company's Board of Directors joining incumbent directors Arturo Prestamo, Francisco Ramos, James Hutton and Craig Angus.

- On September 20, 2012, the Company announced the results of the first three holes of its ongoing 7,000 meter surface drilling program at the Rosario Mine all of which successfully intersected the Rosario vein:

    - Drill hole RS-01 consisting of 504.48 grams per tonne (gpt) silver equivalent
    - Drill hole RS-02 consisting of 823.36 gpt silver equivalent
    - Drill hole RS-03 consisting of 721.14 gpt silver equivalent.

- On October 9, 2012, the Company announced that its Mexican subsidiary, Impulsora Minera Santacruz S.A. de C.V. ("Impulsora"), had been successful in negotiating amended payment terms with Minera Hochschild Mexico S.A. de C.V. with respect to Impulsora acquiring a 100% interest in the San Felipe Project. The amended payment terms required a $4 million payment on execution of the amending agreement (paid), and additional payments of $16 million on or before April 1, 2013 (paid) and $18 million on or before October 1, 2014. The Company is also required to incur exploration expenditures of $3 million on or before December 1, 2013.

- On November 20, 2012, the Company reported results from the first 7 holes of an ongoing 6,000 meter diamond drill program at its 100% owned Gavilanes Project in Durango, Mexico. All 7 holes reported intersected high grade silver.

- On December 28, 2012, the Company announced the results of an updated independent National Instrument 43-101 ("NI 43-101") Mineral Resource estimate on the Rosario Mine. The Mineral Resource estimate was prepared by Donald E. Hulse, P.E. and SME-RM and Patrick F. Daniels SME-RM of Gustavson Associates, LLC, (“Gustavson”) both of whom are independent "qualified persons" under NI 43-101. See resource categories and further details in the section of this MD&A titled Rosario Mine, Charcas, San Luis Potosi, Mexico.

- On December 28, 2012, the Company announced the results of an updated independent NI 43-101 Mineral Resource estimate on the San Felipe Project. The Mineral Resource estimate was prepared by Donald E. Hulse, P.E. and SME-RM of Gustavson. See resource categories and further details in the section of this MD&A titled San Felipe Project, Sonora, Mexico.

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 10(a) of the 2012 Annual 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:

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

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.

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 2012 fiscal year, Santacruz completed a core drilling program on the Rosario Mine. In April 2012, the Company completed the purchase of a flotation mill from Goldcorp's Mexico subsidiary, Nukay, for $800,000. In addition, in May 2012, all environmental permits required for the operation of the mill, mine and tailings dam were received. The proposed plant will process up to 500 tonnes/day of material to produce two concentrates, a lead concentrate and a zinc concentrate.

The costs incurred of developing the Rosario Mine as of December 31, 2012 was approximately $8.6 million. All other mine infrastructure and mill equipment costs are in accordance with previous projections. The construction and erection of the milling facility has been completed.

Anticipated production levels at 500 tonnes per day are projected to yield 2,200,000 ounces of silver equivalent by the year 2014.

During the year ended December 31, 2012, acquisition costs and exploration costs were $457,818 (2011 – $290,000) and $2,142,095 (2011 – $793,271), 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 year ended December 31, 2012, the Company incurred $5,663,038 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.

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 11(a) of the 2012 Annual 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 year ended December 31, 2012, acquisition costs and exploration costs were $800,000 (2011 – $585,000) and $852,612 (2011 – $10,827), 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 11(b) of the 2012 Annual 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:

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

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 year ended December 31, 2012, Santacruz incurred acquisition costs and exploration expenditures of $4,000,000 (2011 – $2,000,000) and $577,363 (2011 – $39,460) respectively, at the San Felipe Project.

Selected Annual Information

The Company’s fiscal period ends on December 31st of each year. The following is a summary of certain selected audited financial information for the last three completed fiscal years:

	2012	2011	2010
	$	$	$
Cash	2,879,378	183,072	88
Working Capital (Deficit)	1,729,525	395,493	(134,704)
Mineral Property Interests	15,213,035	6,960,510	281,412
Total Assets	25,926,144	8,149,082	375,440
Total Liabilities	3,039,716	3,696,583	228,732
Total Shareholders' Equity	22,886,428	4,452,499	146,708
Total Revenues	-	-	-
Net Loss	(18,424,919)	(580,358)	(3,707)
Net Loss Per Share (basic and diluted) (1)	(0.33)	(0.17)	(0.04)

(1)The basic and diluted loss per share calculations result in the same amount due to the anti-dilutive effect of outstanding stock options and warrants, if any.

Results of Operations

The Company recorded a net loss of $18,424,919 ($0.33 per share) for the year ended December 31, 2012, compared to the net loss of $580,358 ($0.17 per share) for the year ended December 31, 2011.

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

- Administrative expenses of $734,834 (2011 – $101,099) and salaries and benefits of $96,573 (2011 – $12,533). These expenses were higher during this fiscal year primarily due to increased activities at the Company's Mexican office in connection with the development of the Rosario Mine.
- Management and consulting fees of $235,893 (2011 – $163,237). Management fees were higher during the 2012 fiscal year primarily because the Company did not start paying management fees to the CEO until April 2011.
- Professional fees of $1,082,868 (2011 – $91,548). Professional fees were higher during the 2012 fiscal year primarily due to the costs incurred related to the reverse takeover transaction.
- Share-based payments of $3,279,082 (2011 – $66,000). 5,910,000 stock options (2011 – nil) were granted to directors, officers, employees and consultants of the Company during the 2012 fiscal year. The share-based payment of $66,000 recorded during 2011 fiscal year was a result of the Company issuing 16,500 common shares for services rendered by an officer of the Company.
- Transfer agent and filing fees of $28,354 (2011 – $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 $191,351 (2011 – $17,558). 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 $3,495 (2011 – gain of $12,306). 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 year ended December 31, 2012 was a loss of $3,495 (2011 – gain of $12,306). The share purchase warrants expired unexercised.
- Charge related to public company listing of $12,967,741 (2011 – $nil). Charge related to public company listing occurred pursuant to accounting for the RTO in accordance with IFRS as detailed in Note 5 to the 2012 Annual Financial Statements.
- Other income of $120,218 (2011 – $12). The funds received from the private placement were deposited into short-term investment accounts, resulting in the Company recording interest income during the year ended December 31, 2012.

Summary of Quarterly Results

	THREE MONTHS ENDED			
	December 31, 2012	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**
	$	**$**	**$**	**$**
Revenues	Nil	Nil	Nil	Nil
Administrative expenses	645,510	760,827	4,088,820	169,622
Deferred exploration and development costs, and option payments (cash portion)	4,900,203	2,170,450	1,277,755	445,925
Net loss	(1,646,662)	(763,841)	(15,881,918)	(132,498)
Net loss per share(1)	(0.06)	(0.01)	(0.25)	(0.01)

	THREE MONTHS ENDED			
	December 31, 2011	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**
	$	**$**	**$**	**$**
Revenues	Nil	Nil	Nil	Nil
Administrative expenses	89,587	206,269	145,917	51,680
Deferred exploration and development costs, and Option payments (cash portion)	1,360,894	1,605,726	414,935	305,000
Net loss	(176,492)	(265,409)	(75,139)	(63,318)
Net loss per share(1)	(0.05)	(0.05)	(0.04)	(0.03)

(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, and December 31, 2012, 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, and $28,660 were recorded during the three months ended June 30, 2012, September 30, 2012, and December 31, 2012 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.

Fourth Quarter

The Company recorded a net loss of $1,646,662 ($0.06 per share) for the quarter ended December 31, 2012 as compared to a net income of $176,492 ($0.05 per share) for the quarter ended December 31, 2011. Included in the current period loss is an additional adjustment of $1,063,355 related to the finalization of the accounting for the reverse takeover transaction. Administrative expenses were higher in connection with the development of the Rosario Mine and because of additional costs associated with being a public company.

Financing Activities

Details of financing activities in the year ended December 31, 2011 are as follows:

- On July 15, 2011, Santacruz and Impulsora entered into a stock purchase agreement whereby Santacruz purchased 1,936,848 shares of Impulsora that represent 99.999% of the issued and outstanding common shares of Impulsora. Total consideration for the purchase includes 3,794,358 common shares of Santacruz and cash of $3,387.
- On July 20, 2011, the Company issued 139,239 units, for total proceeds of $520,000. Each unit consisted of one common share and one share purchase warrant. Each warrant was exercisable to purchase one additional common share at a price of CDN$5.95 per common share on or before July 20, 2012. The share purchase warrants expired unexercised.
- During the year ended December 31, 2011, an aggregate of 1,562,497 common shares were issued for gross proceeds of $4,185,619 pursuant to private placements. 19,727 common shares were issued for services received, which were determined to have a fair value of $78,908.

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.

On February 19, 2013, the Company closed a prospectus offering (the "Offering") through a syndicate of underwriters (the "Underwriters"). The Company issued 19,000,000 common shares at a price of CDN$1.85 per share for gross proceeds of CDN$35,150,000. The Underwriters also exercised their over-allotment option to acquire an additional 2,850,000 common shares for additional gross proceeds of CDN$5,272,500. Including the proceeds from the exercise of the over-allotment option, the total gross proceeds of the Offering were CDN$40,422,500. The Underwriters received a cash fee of CDN$2,425,350, 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. One of the Underwriters was issued an additional 60,000 common shares as a corporate finance fee.

Capital Expenditures
The Company spent $8,794,333 on its mineral properties during the year ended December 31, 2012 (2011 – $3,686,555). The Company also spent $5,919,396 on acquisitions of plant and equipment during the year ended December 31, 2012 (2011 – $90,516). The Company has made no dividend payments, and currently has no plans to declare any dividends.

During the year, the Company developed the Rosario Mine and incurred approximately $9 million for the capital cost of the project. The Company also 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. Subsequent to December 31, 2012, 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 9 months following the closing date of April 12, 2012	1,820,000
Exploration costs on the Rosario Project	680,000
Development costs on the Rosario Project	7,000,000
Property payments on the Rosario Project	390,000
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
Working capital	2,890,000
Total	**18,820,000**

Liquidity and Capital Resources
As at December 31, 2012, the Company had cash and cash equivalents of $2,879,378 (December 31, 2011 – $183,072) and working capital of $1,729,525 (December 31, 2011 – $395,493). During the year ended December 31, 2012, net cash used in operating activities was $2,826,587 (2011 – $1,095,542); net cash used in investing activities was $14,713,729 (2011 – $3,749,719) 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 $19,537,469 (2011 – $4,670,142). During the 2012 fiscal year, the Company also repaid $431,233 of shareholder loans and acquired cash of $1,219,552 as a result of the reverse takeover transaction.

Pursuant to the terms of the Gavilanes Project agreement (Note 11(a) to the 2012 Annual 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 $2,500,000 on April 27, 2013, $300,000 on May 1, 2013, $400,000 on November 1, 2013, and $1,150,000 on May 1, 2014.

Pursuant to the terms of the San Felipe Project agreement (Note 11(b) to the 2012 Annual Financial Statements), in addition to cash payments of $6,000,000 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 $16,000,000 on April 1, 2013 (paid), and $18,000,000 on October 1, 2014. In addition, in connection with the El Gachi option, the Company must pay $3,000,000 on 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. The Company has no other capital expenditure commitments.

During the 2012 fiscal year, the Company's operations did not generate cashflow, however the Rosario Mine was put into commercial production effective April 1, 2013. The capital cost of this mine is approximately $10 million. In order to fund 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 has already been used to make an option payment on the San Felipe Project. $350,000 will be used for a pre-feasibility study and $8 million will be used for exploring 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 exploring 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 years ended December 31, 2012 and 2011, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	2012 **$**	**2011** **$**
Accounting fees	103,092	-
Management fees	190,058	163,237
Consulting fees	45,029	-
Share-based payments	2,512,093	66,000
Salaries and benefits capitalized in mine under construction and development costs	165,641	8,958

At December 31, 2012, directors and officers or their related companies were owed $25,415 (December 31, 2011 – $nil) 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 has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuation based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates;

Level 3: Valuation based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The carrying values of cash and cash equivalents, other receivables, accounts payable and accrued liabilities, and exploration obligations approximate their fair values because of their short term nature. The carrying value of due to shareholders approximates its fair value because it is due on demand.

On July 20, 2011, Santacruz issued 139,239 pre-Subdivision share purchase warrants, with each warrant exercisable to purchase one additional common share at a price of CDN$5.95 per common share on or before July 20, 2012. As the exercise price of the share purchase warrants was fixed in Canadian dollars and the functional currency of Santacruz at the time was the US dollar, the Company has determined that such warrants with an exercise price denominated in a currency that is different from the entity's functional currency are classified as a derivative liability based on the evaluation of the warrant's settlement provisions, and carried at their fair value.

At December 31, 2011, the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was $1,154. As a result of the change in functional currency from the US dollar to the Canadian dollar on April 1, 2012, the warrants are no longer considered a derivative. The fair value of the derivative for the warrants has been estimated using the Black-Scholes option pricing model as it is considered a Level 3 financial instrument in the fair value hierarchy with significant unobservable inputs. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.15%; expected life – 0.27 years; expected volatility – 130.30%; expected forfeitures – nil%; and expected dividends – nil.

Details of activity for the derivative liabilities for the years ended December 31, 2012 and 2011 are as follows:

	2012 $	2011 $
Balance, beginning of year	1,154	-
Fair value of share purchase warrants on issuance date	-	13,460
Loss (gain) on derivative liabilities	3,495	(12,306)
Foreign exchange revaluation	31	-
Reallocation to warrant reserve on change of functional currency	(4,680)	-
Balance, end of year	-	1,154

As at December 31, 2012, the Company does not have any financial instruments measured at fair value.

Discussions of risks associated with financial assets and liabilities are detailed below:

Credit Risk – Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations. The Company's credit risk consists primarily of cash and cash equivalents and other receivables. The credit risk is minimized by placing cash with major financial institutions. The credit risk related to cash and cash equivalents and other receivables is considered minimal.

Interest Rate Risk – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If interest rates decrease, the Company will generate less interest revenue. Presently the Company has minimal risk of realizing a loss as a result of a decline in the fair value of its financial instruments because of the short-term nature of the investments.

Liquidity Risk – Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from private placements to meet its operating requirements, after taking into account existing cash and expected exercise of stock options and share purchase warrants. The Company's cash is held in business accounts which are available on demand for the Company's programs.

Contractual obligated cash flow requirements as at December 31, 2011 were as follows:

	< 1 year $	**1 – 2 years $**	**2 – 5 years $**	**>5 years $**	**Total $**
Accounts payable and accrued liabilities	170,567	-	-	-	170,567
Due to shareholders	564,322	-	-	-	564,322
Exploration obligations	-	2,960,540	-	-	2,960,540
Total	734,889	2,960,540	-	-	3,695,429

Contractual obligated cash flow requirements as at December 31, 2012 were as follows.

	< 1 year $	**1 – 2 years $**	**2 – 5 years $**	**>5 years $**	**Total $**
Accounts payable and accrued liabilities	523,450	-	-	-	523,450
Due to shareholders	133,089	-	-	-	133,089
Exploration obligations	2,383,177	-	-	-	2,383,177
Total	3,039,716	-	-	-	3,039,716

Subsequent to the year ended December 31, 2012, the Company closed a prospectus offering for total gross proceeds of CDN$40,422,500. Therefore, in the opinion of management, the working capital at December 31, 2012, together with the proceeds from the prospectus offering, is sufficient to support the Company's commitments and further expansion and growth.

Foreign Exchange Rate Risk – The Company operates in Canada and Mexico but has the majority of its cash held in Canada in Canadian dollars. The Company is exposed to foreign exchange risk due to fluctuations in foreign currencies (Canadian dollar and Mexican peso). Foreign exchange risk arises from purchase transactions as well as financial assets and liabilities denominated in these foreign currencies. The sensitivity of the Company's net loss and other comprehensive loss to changes in the exchange rate between the US dollars and the Mexican pesos would be as follows: a 10% change in the US dollar exchange rate relative to the Mexican pesos would change the Company's net loss and comprehensive loss by approximately $163,000.

The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk.

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.

Critical Judgements in Applying Accounting Policies

The critical judgements that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

<u>Economic Recoverability and Probability of Future Economic Benefits of Exploration, Evaluation and Development Costs</u>

Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

<u>Commencement of Commercial Production</u>

The Company assesses the stage of each mine under construction to determine when a property reaches the stage when it is substantially complete and ready for its intended use. Criteria used to assess when a property has commenced commercial production include, among other considerations:

- the level of capital expenditures incurred relative to the expected costs to complete;
- the completion of a reasonable period of testing of the mine plant and equipment;
- the ability to produce saleable metals;
- the attainment of relevant permits;
- the ability to sustain ongoing production; and
- the achievement of pre-determined production targets.

When management determines that a property has reached commercial production, costs capitalized during development are amortized.

<u>Functional Currency</u>

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgements to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

Key Sources of Estimation Uncertainty
The preparation of consolidated financial statements requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the Company's consolidated financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

<u>Mineral Reserves</u>
Proven and probable mineral reserves are the economically mineable parts of the Company's measured and indicated mineral resources demonstrated by at least a preliminary feasibility study. The Company estimates its proven and probable reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. Qualified persons are defined in accordance with Canadian Securities Administrators National Instrument 43-101. The information relating to the geological data on the size, depth and shape of the ore body requires complex geological judgments to interpret the data. The estimation of future cash flows related to proven and probable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the proven and probable reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of mine under construction and development costs, exploration and evaluation properties, plant and equipment, site closure and reclamation provision, recognition of deferred tax amounts and depreciation and depletion.

The recoverability of the mineral reserve amounts is dependent on the Company's ability to secure and maintain title and beneficial interests in the properties to obtain the necessary financing, to continue the exploration and future developments of the properties, and/or to realize the carrying amount through a sale or partial disposal.

<u>Impairment of Mineral Property Interest</u>
The carrying value of mineral properties, plant and equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in profit or loss. The assessment of fair values requires the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair values could impact the impairment analysis.

<u>Site Closure and Reclamation Provision</u>
The Company assesses its provision for site closure and reclamation on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation and

exploration and development property. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for site closure and reclamation. The provision represents management's best estimate of the present value of the future site closure and reclamation obligation. The actual future expenditures may differ from the amounts currently provided.

Deferred Taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax values (temporary differences) and loss carryforwards. Deferred tax assets and liabilities are measured using the tax rates expected to be in effect when temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is included in profit or loss in the period in which the change is substantively enacted. The amount of deferred tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

Share-based Payments

Share-based payments are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to the statement of loss and comprehensive loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

Recent Accounting Pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not yet early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

a) Accounting Standards Issued and Effective January 1, 2013

IFRS 10, *Consolidated Financial Statements,* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

- Requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements;
- Defines the principle of control, and establishes control as the basis for consolidation;
- Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and
- Sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 10 supersedes IAS 27 and SIC-12, *Consolidation – Special Purpose Entities*.

IFRS 11, *Joint Arrangements,* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12, *Disclosure of Interests in Other Entities,* requires the disclosure of information that enables users of consolidated financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13, *Fair Value Measurement,* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for the following:

- Share-based payment transactions within the scope of IFRS 2, *Share-based Payment*;
- Leasing transactions within the scope of IAS 17, *Leases*;
- Measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2, *Inventories*, or value in use in IAS 36, *Impairment Assets*.

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

IFRIC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*, summarizes the method of accounting for waste removal costs incurred as a result of surface mining activity during the production phase of a mine.

b) Accounting Standards Issued and Effective January 1, 2015

IFRS 9, *Financial Instruments,* replaces the current standard IAS 39, *Financial Instruments: Recognition and Measurement*, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

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

All share information is reported as of April 24, 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	$1.85	400,000	
				6,306,666
Warrants	October 7, 2013	$0.10	100,000	
	April 12, 2014	$1.00	1,095,255	
	February 19, 2015	$1.85	1,311,000	
				2,506,255
Fully Diluted				98,790,852

Disclosure Controls and Procedures
Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the year ended December 31, 2012 and this accompanying MD&A (together, the "Annual Filings").

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

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

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

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

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

Outlook
Since the Company's Rosario Mine achieved commercial production commencing April 1, 2013, the Company's immediate objective is to continue the exploration activities, including diamond drilling, for the Gavilanes Project (16,000 metres).

Regarding the San Felipe Project, the Company plans to carry out surface exploration activities designed to determine the viability of the project based on the technical report from Gustavson. This field work is expected to be concluded in the near term followed by a diamond drill campaign based on the results of this surface exploration program, in order to complete a pre-feasibility study for San Felipe.

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.