



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2016

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the three months ended March 31, 2016 prepared as of May 24, 2016, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2016 and the related notes thereto of Santacruz Silver Mining Ltd. ("the Company" or "Santacruz") ("the 2016 Q1 Financial Statements"), together with the audited consolidated financial statements of the Company for the year ended December 31, 2015 as well as the accompanying MD&A for the year then ended ("the Annual MD&A").

The referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and as applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. All dollar amounts are expressed in thousands of US dollars (US\$000's) unless otherwise indicated.

The Company's critical accounting estimates, significant accounting policies and risk factors as disclosed in the Annual MD&A have remained substantially unchanged and are still applicable to the Company unless otherwise indicated.

Forward-Looking Statements

This MD&A and the documents incorporated herein by reference contain "forward-looking information" within the meaning of applicable Canadian securities regulations and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, "**forward-looking information**"). The forward-looking information contained in this MD&A is made as of the date hereof. Except as required under applicable securities legislation, the Company does not intend, and does not assume any obligation, to update forward-looking information.

Forward-looking information includes, but is not limited to, statements with respect to the future price of silver, gold and other metals and the effects thereof on the Company's mineral resources; statements relating to the potential mineralization and geological merits of the Company's Rosario mine (the "**Rosario Mine**"), San Felipe project (the "**San Felipe Project**"), Gavilanes property (the "**Gavilanes Property**" or "**Gavilanes Project**"), El Gachi property (the "**El Gachi Property**"), the Contracuna Properties, which include the Veta Grande property (the "**Veta Grande Mine**") and the Minillas mineral property (the "**Minillas Property**"); as well as the Zacatecas properties (the "Zacatecas Properties"). the Company's expected production and recoveries for its Rosario Mine; expectations regarding the continuity of mineral deposits; the Company's goals regarding raising capital and developing its projects; the Company's proposed development and exploration plans for the San Felipe Project, the Gavilanes Property and the Contracuna Properties; plans for drilling; expectations regarding environmental issues that may affect the exploration progress; project capital cost estimates; and the Company's other plans for development of its projects. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or the negatives thereof or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

This forward-looking information is based on certain assumptions that the Company believes are reasonable, including that: the Company is able to obtain any required government or other regulatory approvals and adequate financing to complete its current and future exploration and development programs; current gold, silver and base metal prices will not materially decrease; the proposed development of the Company's mineral projects will be viable operationally and economically and proceed as expected; the Company will not experience any material accident, labour dispute or failure of plant or equipment; any additional financing needed by the Company will be available on reasonable terms; that planned drilling at its mineral properties will be completed and that the results of such drilling will be sufficient to expand the existing resources at the Gavilanes Property consistent with management's expectations; that general business, economic, and political conditions will not change in a material adverse manner; that the Company's exploration of its properties is not adversely affected by unexpected adverse weather conditions; that the estimates of the resources at the Rosario Mine, the San Felipe Project and the Gavilanes Project obtained by the Company are within reasonable bounds of accuracy (including with respect to size, grade and recovery); and that the Company's current exploration and development programs and objectives can be achieved.

Any financial outlook contained herein, as defined by applicable securities legislation, is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such factors include, among others, the risk that actual results of exploration activities will be different than anticipated, that cost of labour, equipment or materials increase more than expected, that the future price of silver, gold and base metals will decline, that mineral resources are not as estimated, that actual costs of reclamation activities are greater than expected; that changes in project parameters as plans continue to be refined result in increased costs, that lower rates of production are achieved than are expected, that unexpected variations in ore grade or recovery rates occur, that plant, equipment or processes fail to operate as anticipated, that accidents of labour disputes occur, that unanticipated delays occur in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section entitled "Risks and Uncertainties" in this MD&A, at pages 11 to 22 of the annual information form of the Company for the year ended December 31, 2015 dated May 18, 2016 (the "AIF"), filed on SEDAR on May 19, 2016. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on forward-looking information due to the inherent uncertainty thereof.

General

Santacruz was incorporated pursuant to the Business Corporations Act of British Columbia on January 24, 2011. The Company's registered office is located at the 10th Floor, 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5. The Company's shares are listed for trading on the TSX Venture Exchange under the symbol "SCZ". The Company also trades on the Santiago Stock Exchange Venture under the trading symbol "SZCL".

The Company is engaged in the operation, acquisition, exploration and development of mineral properties in Mexico, with a primary focus on silver and zinc, but also including gold and lead. The Company

currently has one producing property, the Rosario Mine, and one development stage property, the Veta Grande Mine. In addition, the Company holds four exploration properties in its mineral property portfolio, the San Felipe Project (an advanced stage project), the Gavilanes Project (an exploration project), the El Gachi Property (an early stage exploration project), and the Minillas Property (an early stage exploration project).

The Company's strategic objective is to become a mid-tier silver producer in Mexico. As first steps to achieving this objective the Company is focused in the near term on the following:

- Continuing to increase production and upgrade performance at the Rosario Mine; and
- Completing operations testing at the Veta Grande Mine.

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

First Quarter 2016 Highlights

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

	2016	2015			
	Q1	Q4	Q3	Q2	Q1
Operating – Rosario Mine					
Material Processed (tonnes milled)	24,053	25,927	25,007	26,492	1,823
Silver Equivalent Produced (ounces) ⁽¹⁾	290,569	268,319	277,487	265,834	20,643
Silver Equivalent Sold (payable ounces) ⁽²⁾	318,596	233,225	231,332	247,135	30,931
Production Cost per Tonne ⁽³⁾	103.28	88.14	103.00	87.23	*
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	10.93	12.62	14.02	13.01	*
All-in Sustaining Cost per Silver Equivalent (\$/oz.) ⁽³⁾	14.10	15.88	17.52	16.97	*
Average Realized Silver Price per Ounce (\$/oz.) ⁽³⁾⁽⁵⁾	17.00	17.00	17.00	17.00	17.41
Financial					
Revenue	3,537	2,502	2,592	3,147	402
Mine Operations Income (Loss) ⁽⁴⁾	462	(402)	(554)	127	(1,209)
Net Loss	(3,000)	(18,035)	(1,628)	(2,018)	(2,551)
Net Loss Per Share – Basic (\$/share)	(0.03)	(0.17)	(0.02)	(0.02)	(0.02)
Adjusted EBITDA ⁽⁴⁾	601	(188)	(543)	139	(1,582)

* During Q1 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such the Q1 2015 operating results are considered abnormal and have not been included in the calculation of the annual 2015 per unit costs as there was nominal production during this time.

- (1) Silver equivalent ounces produced in 2016 have been calculated using prices of US\$14.50/oz., US\$1,100/oz., US\$0.76/lb and US\$0.71/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine. Silver equivalent ounces produced in 2015 have been calculated using prices of US\$17.75/oz., US\$1,250/oz., US\$0.83/lb and US\$1.09/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine.
- (2) Silver equivalent sold ounces in the fourth, third, and second quarters of 2015 and the first quarter of 2016, have been calculated using a realized silver price of US\$17.00/oz., after giving effect to the MPPP (see Financing Activities - Prepaid Silver Purchase), and have been calculated using a realized silver price of US\$17.41/oz. for the first quarter of 2015, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine.
- (3) The Company reports non-IFRS measures which include Production Cost per Tonne, Cash Cost per Silver Equivalent, All-in Sustaining Cost per Silver Equivalent and Average Realized Silver Price per Ounce. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See “Non-IFRS Measures” section for definitions.
- (4) The Company reports additional non-IFRS measures which include Mine Operations Income (Loss) and Adjusted EBITDA. These additional financial disclosure measures are intended to provide additional information. Refer to the “Non-IFRS Measures – Additional Information” section for a reconciliation of Mine Operations Income (Loss) and Adjusted EBITDA to the 2015 Q1, Q2, Q3 Q4, and the 2016 Q1 Financial Statements.
- (5) Average realized silver price per ounce is prior to all treatment, smelting and refining charges. The average realized silver price per ounce for the second, third and fourth quarters of 2015, and the first quarter of 2016, has been calculated after taking into account the additional funds received in the quarter from the MPPP that the Company put in place in connection with the JMET Agreement (see Financing Activities - Prepaid Silver Purchase).

- In early January 2016, the Company began commissioning the Veta Grande milling facility circuits and made the first lead and zinc concentrate deliveries in early February;
- On April 14, 2016 the Company reported that the mill throughput at the Veta Grande Mine was averaging 330 tpd at the end of Q1. Mine development at the El Cigarrero, Veta Grande, La Flor, San Jose and Armados veins had intersected the sulphide zone of mineralization and all ongoing mineralized material delivered to the milling facility was being sourced from these zones. The Company also advised that it believed that with nominal capital expenditures the capacity of the Veta Grande mill could be increased to 700 tpd by end of calendar year 2016;

-
- On May 4, 2016 the Company reported that it had entered into an option agreement to acquire from Golden Minerals Company (“Golden Minerals”) certain mineral claims located in the Zacatecas Mining District, Zacatecas, Mexico (the “Zacatecas Properties”) consisting of 149 concessions covering approximately 7,800 hectares;
 - On May 17, 2016 the Company reported that it had filed on SEDAR an independent Technical Report titled “Technical Report, Veta Grande Project, Zacatecas State, Mexico” (the “Report”), for the Veta Grande Project located in Zacatecas, Mexico. The Veta Grande Project includes the Veta Grande Mine and Minillas property held under the agreement with Contracuña, and the Zacatecas Properties held under option from Golden Minerals Company. The Report, with an effective date of May 17, 2016, was prepared in accordance with CIM Standards, by independent qualified persons. The report was completed by Van Phu Bui, P.Geo. and Gilles R. Dessureau, P.Geo. of ARC Geoscience Group.

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 7 of the 2016 Q1 Financial Statements. The property covers 500 hectares.

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

	2016	2015			
	Q1	Q4	Q3	Q2	Q1
Material Processed (tonnes milled)	24,053	25,927	25,007	26,492	1,823
Silver Equivalent Produced (ounces) ⁽¹⁾	290,569	268,319	277,487	265,834	20,643
Silver Equivalent Sold (payable ounces) ⁽²⁾	318,596	233,225	231,332	247,135	30,931
Production - Silver (ounces)	162,802	143,937	164,467	150,738	12,751
- Gold (ounces)	128	103	109	113	11
- Lead (tonnes)	284	254	278	233	16
- Zinc (tonnes)	793	673	567	615	41
Average Ore Grade – Silver (g/t)	218	178	213	188	240
- Gold (g/t)	0.20	0.15	0.18	0.17	0.27
- Lead (%)	1.26	1.04	1.18	1.03	1.03
- Zinc (%)	3.69	2.81	2.50	2.66	2.60
Metal Recovery – Silver (%)	96.7	97.0	96.0	94.1	90.7
- Gold (%)	85.0	80.5	76.0	78.3	68.9
- Lead (%)	93.9	93.8	94.3	85.3	82.2
- Zinc (%)	89.3	92.2	90.9	87.2	86.2
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	10.93	12.62	14.02	13.01	*
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	14.10	15.88	17.52	16.97	*
Cash Cost of Production per Tonne ⁽³⁾	103.28	88.14	103.00	87.23	*

* During Q1 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such the Q1 2015 per unit cost calculations are not considered relevant and have not been included in this table.

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

⁽²⁾ Silver equivalent sold ounces in the fourth, third, and second quarters of 2015 and the first quarter of 2016, have been calculated using a realized silver price of US\$17.00/oz., after giving effect to the MPPP (see Financing Activities - Prepaid Silver Purchase), and have been calculated using a realized silver price of US\$17.41/oz. for the first quarter of 2015, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine.

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

Resource Expansion

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

Results of the drill program were very encouraging with successful intersection of the Rosario Mine vein systems at depth. Based on the geological information obtained from this program the Company plans to complete an approximate 3000 metre underground delineation drilling campaign in 2016 to further assist in the development of the mine plan for levels, 6, 7, 8 and 9.

Based on the results of the drilling, the Ramp has now been completed to Level 4 and is being driven to Level 5. Approximately 180 metres of development on Level 4 has been completed. Initial mineralized material mined from Level 4 stopes has been averaging 326 g/t Ag; 0.30 g/t Au, 6.61% Zn and 1.26% Pb for Rosario I vein and 167 g/t Ag, 0.20 g/t Au, 6.02% Zn and 1.30% Pb for Rosario II.

Contracuña Agreement

On November 2, 2015, the Company entered into a definitive agreement (the “Contracuña Agreement”) with Minera Contracuña I, S.A. de C.V. and Vetalinda Compania Minera, S.A. de C.V. (together “Contracuña”), pursuant to which Contracuña granted the Company the right for thirty years to explore, mine and operate Contracuña's Veta Grande Mine and Minillas Property. Both mineral properties are prospective for silver, gold, zinc, and lead, and cover approximately 1,100 hectares within the State of Zacatecas, in central Mexico.

The Contracuña Agreement has an initial term of 15 years, with an additional 15 year term extension, at the Company's option, at the end of the original term. Consideration for the Contracuña Agreement was \$500, \$200 of which was paid and an additional payment of \$300 is due 30 days following registration of the agreement with the Deputy of Mines (paid subsequent to March 31, 2016). During the term of the Contracuña Agreement 40% net profits interest basis (“NPI”) will be paid to Contracuña. In the event the price of silver is greater than \$22.00/ounce, the NPI changes to 45% to be paid to Contracuña.

Technical Report

On May 17, 2016 the Company filed on SEDAR an independent Technical Report titled “Technical Report, Veta Grande Project, Zacatecas State, Mexico” (the “Report”), for the Veta Grande Project located in Zacatecas, Mexico. The Veta Grande Project includes: the Veta Grande Mine and Minillas property held under the agreement with Contracuña, and the Zacatecas Properties held under option from Golden Minerals Company. The Report, with an effective date of May 17, 2016, was prepared in accordance with CIM Standards, by independent qualified persons. The report was completed by Van Phu Bui, P.Geo. and Gilles R. Dessureau, P.Geo. of ARC Geoscience Group.

The Report noted that the Veta Grande Project mineral prospects were located in the Mexican Silver Belt and cover an area of 8,944 hectares (22,101 acres) in the Zacatecas Mining District, Zacatecas, Mexico, including two significant vein systems known for silver mineralization in the district: La Cantera and Veta Grande, both of which have extensive artisanal and small scale mining histories.

Oxide and sulphide bearing quartz veins within the La Cantera and Veta Grande vein systems strike northwest-southeast, generally dip southwest, and are characterized as low-sulphidation epithermal silver (+lead+zinc+gold) veins. They range in thickness from less than 1 m to over 30 m, average between 2-10 m, and in some instances have been traced along surface for several kilometres.

The Report characterized the Veta Grande Mine as an intermediate stage mineral exploration project for the following reasons: access to past underground workings for continued exploration, a permitted mineral processing facility for 500 tpd with current operating capacity of approximately 700 tpd, and good infrastructure being situated between the municipality of Veta Grande and the state capital of Zacatecas. The project has access to electric power, highways and paved roads, civil amenities, and a local skilled labor force.

Veta Grande Mine

During November 2015 through early January 2016 Company staff oversaw the refurbishment of the milling facility including an engineering design change that now allows the mill to produce both a lead concentrate and a zinc concentrate as opposed to formerly only producing a single bulk concentrate. Following the refurbishment activities, commissioning of the plant circuits began in early January 2016. The key remaining equipment addition to be made to the milling facility is the fabrication and installation of thickener tanks together with the installation of filter presses for both the lead and zinc circuits. This work is scheduled for completion by the end of July.

In concert with the refurbishment of the milling facility, the Company initiated mine preparation and development in November 2015, focusing efforts on the La Flor, Armados, La Cantera, San José and Veta Grande veins. This program has progressed as planned and mineralized material is now being delivered to the mill from all of these veins except the Veta Grande vein as development of this vein has not yet been completed.

First pre-production concentrate deliveries to the Company's off-taker were successfully completed in early February 2016.

The Veta Grande milling facility is currently operating at approximately 330 tpd.

Further, depending on the Veta Grande mine production rate and milling facility capacity, and after taking into account the price of silver, the agreement allows the Company to ship mineralized material from the Veta Grande Mine to the Rosario Mine milling facility allowing the Company to utilize the extra milling capacity available at the Rosario Mine which will help the Company to realize certain economies of scale. In 2014, the Company purchased third-party mineralized material from the Contracuña Properties for processing at its Rosario Mine milling facility. This mineralized material reacted favourably in the milling process on a metallurgical basis.

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

Review of Operations

	2016	2015	
	Q1	Q4	Q1
Revenue	3,537	2,502	402
Cost of sales			
Production costs	(2,503)	(2,189)	(1,728)
Depletion and amortization	(572)	(571)	(52)
Adjustment to NRV of mined ore and concentrate inventory	-	(144)	169
	(3,075)	(2,904)	(1,611)
Gross margin	462	(402)	(1,209)
Operating expenses			
Administrative	(104)	12	(50)
Management and consulting fees	(111)	(110)	(89)
Professional fees	(128)	(159)	(120)
Share-based payments	(364)	(8)	(26)
Other	(91)	(101)	(167)
	(798)	(366)	(452)
Impairment	-	(19,426)	-
Interest earned and other finance income			
Interest earned	-	1	4
Change in fair value of derivative assets	-	833	-
Foreign exchange gain	-	50	357
	-	884	361
Interest Expense and Other Finance Expenses			
Accretion of decommissioning and restoration provision	(9)	(11)	(12)
Foreign exchange loss	(270)	-	-
Change in fair value of derivative assets	(1,247)	-	(615)
Interest expense on loan payable	(40)	(4)	-
Interest expense on silver loan	(991)	(1,653)	(822)
	(2,557)	(1,668)	(1,449)
Income tax (expense) recovery	(107)	2,943	198
Net loss for the period	(3,000)	(18,035)	(2,551)

Three months ended March 31, 2016

For the purposes of the following discussion, the results of operations for the first quarter of 2016 are compared to the fourth quarter of 2015 (except as noted below) as operations were suspended at the Rosario Mine for virtually all of the first quarter of 2015 due to a malfunction in the tailings dam discharge pipe and as such any comparison would not be meaningful.

The Company recorded a net loss of \$3,000 (\$0.03 per share) for the three months ended March 31, 2016 compared to a net loss of \$18,035 (\$0.17 per share) for the three months ended December 31, 2015. The Non-operating component of the decreased period-over-period loss was an impairment of the San Felipe project recorded in the fourth quarter of 2015 in the amount of \$19,426.

Revenues of \$3,537 increased by \$1,035 (41%) as compared to the fourth quarter of 2015 as a result of an increase in payable metal amounts sold of 85,371 ounces. The increase in payable metal amounts sold in the current quarter resulted primarily from higher grade ore being processed in the current quarter.

Cash production costs of \$2,503 recorded during the current quarter increased by \$170 as compared to the three months ended December 31, 2015, after reconciling for certain prior quarter accounting adjustments. The increase relates to an increase in mine equipment rental costs during the quarter.

Amortization and depletion expenses in the three months ended March 31, 2016 amounted to \$573 (Q4 2015 - \$572). These expenses vary largely in direct relation to the number of tonnes milled during the period.

The Rosario Mine operations for the three months ended March 31, 2016 resulted in a gross profit of \$462 (Q4 2015 – gross loss of \$402). This is primarily the result of increased metal production and sales during the current quarter.

During the three months ended March 31, 2016 the Company recorded operating expenses of \$798 as compared to \$366 in the three months ended December 31, 2015. This is primarily the result of the Company recording a share-based payment of \$364 in the first quarter of 2016 as a result of options vesting during the period.

Discussion as to the reasons for the significant changes in the operating expenses is provided below.

Variances of note in operating expenses are detailed below:

- Administrative expenses of \$104 (Q4 2015 – recovery of \$12); Management and consulting fees of \$111 (Q4 2015 – \$110). The administrative expenses resulted in a recovery during the three months ended December 31, 2015 from an annual adjustment made to insurance expense during the quarter.
- Professional fees of \$128 (2015 – \$159). The costs during the three months ended March 31, 2016 have decreased compared to the three months ended December 31, 2015 as included in the prior period were increased legal fees relating to financing initiatives during the quarter.
- Share-based payments of \$364 (2015 – \$8). 4,500,000 options were granted during the three months ended March 31, 2016 compared to nil in the three months ended December 31, 2015, resulting in a higher share-based payments charge.

The following discussion and analysis of the following income and expense items is based on a comparison of the first quarter 2016 to the first quarter of 2015 as these matters were not impacted by the suspension of operations at the Rosario Mine in the first quarter of 2016.

As detailed in Note 16(a) to the 2016 Q1 Financial Statements, interest earned and other finance income decreased significantly due to a foreign exchange loss of \$270 recognized in the three months ended March 31, 2016 (2015 – a foreign exchange gain of \$357).

As detailed in Note 16(b) to the 2016 Q1 Financial Statements, interest expense and other finance expenses of \$2,557 (2015 - \$1,449) increased primarily as a result of the Company recognizing a \$1,247 (2015 - \$615) loss in the fair value of derivative assets, as well an increase in the foreign exchange loss as discussed above.

The income tax expense recorded in the first quarter of 2016 was \$107 as compared to an income tax recovery of \$198 in the same period of 2015. This increase in tax expense was partly due to the increase in the deferred tax liability during the period (\$79) as well as an increase of the current tax expense.

Summary of Quarterly Results

(Expressed in thousands of US Dollars except per share amounts)	THREE MONTHS ENDED			
	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015
	\$	\$	\$	\$
Revenues	3,537	2,502	2,592	3,147
Cost of sales	3,075	2,904	3,147	3,020
Administrative expenses	798	366	559	570
Net loss ⁽²⁾	(3,000)	(18,035)	(1,628)	(2,018)
Net loss per share ⁽¹⁾⁽²⁾	(0.03)	(0.17)	(0.02)	(0.02)
	THREE MONTHS ENDED			
	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014
Revenues	402	3,226	3,167	2,302
Cost of sales	1,611	3,517	3,141	2,710
Administrative expenses	452	470	907	769
Net loss	(2,551)	(4,498)	(1,054)	(1,092)
Net loss per share ⁽¹⁾	(0.02)	(0.05)	(0.01)	(0.01)

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

⁽²⁾ The 2015 net loss includes an impairment of the San Felipe Project of \$19,426.

Resource and Exploration Update

Zacatecas Properties, Zacatecas City, Zacatecas, Mexico

On May 2, 2016 the Company entered into an option agreement to acquire from Golden Minerals Company (“Golden Minerals”) certain mineral claims located in the Zacatecas Mining District, Zacatecas, Mexico (the “Zacatecas Properties”).

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

In order to acquire the Zacatecas Properties Santacruz will be required to pay to Golden Minerals the sum of US\$1,500 including an initial payment of \$200 on signing the agreement (paid) plus additional payments as follows: 6 months after signing \$200, 12 months after signing \$300, 18 months after signing \$300, and \$500 24 months after signing. A 1% net smelter royalty exists with the original property vendors on some of the claims included in the Zacatecas Properties.

When combined with the Company’s existing exploration and mining rights acquired under the agreement with Contracuña the Company now controls approximately 8,900 hectares in the historic and prolific silver mining belt of Zacatecas. The area includes such mines as the Fresnillo Silver Mine, the Madero Mine (operated by Peñoles) and the Cozamin Mine operated by Capstone Mining Corporation.

Manillas Property, Genaro Codina, Zacatecas, Mexico

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

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

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

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

The San Felipe Project consists of 14 concessions and is a late stage exploration project, located in the State of Sonora, approximately 130 kilometers north-west of Hermosillo City, the state capital of Sonora. Santacruz acquired exploration rights with the right to purchase the project from Minera Hochschild Mexico, S.A. de C.V. ("Hochschild") pursuant to the terms of a mining exploration and promissory sale agreement dated August 3, 2011, as amended December 9, 2011, October 8, 2012, August 13, 2013, September 4, 2014 and July 7, 2015 (the "San Felipe Agreement"). Details of the acquisition terms are contained in Note 8(b) of the 2016 Q1 Financial Statements.

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

Exploration Summary

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

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

Exploration and Acquisition Costs

During the three months ended March 31, 2016, Santacruz incurred mineral property exploration expenditures of \$177 at the San Felipe Project.

Gavilanes Property, San Dimas, Durango, Mexico

The Gavilanes Property comprises 10 mining concessions located in the rugged Sierra Madre Occidental mountain range in the municipality of San Dimas in the State of Durango, Mexico, approximately 110 kilometres west-north-west of Durango City. The Gavilanes Property covers a total area of 8,832.28 hectares. Details of the acquisition terms are contained in Note 8(a) of the 2016 Q1 Financial Statements.

Current Exploration Activities

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

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

Exploration and Acquisition Costs

During the three months ended March 31, 2016, mineral property acquisition costs and exploration costs were \$15 and \$34 respectively for the Gavilanes Property.

El Gachi Property, Arizpe, Sonora, Mexico

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

Non-IFRS Measures

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

Cash Cost per Silver Equivalent Ounce and Production Cost per Tonne

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

Management of the Company believes that the Company's ability to control the cash cost per silver equivalent ounce produced and cash cost of production per tonne are two of its key performance drivers impacting both the Company's financial condition and results of operations. Having a low cash cost of production per tonne, when taken in connection with effective management of mining dilution, will improve the cost per silver equivalent ounce produced. Having a low cost base per silver equivalent

ounce of production allows the Company to continue operating during times of declining commodity prices and provides more flexibility in responding to changing market conditions. In addition, low cost operations offer a better opportunity to generate positive cash-flows, which improves the Company's financial condition. The Company believes these measures provide investors and analysts with useful information about the Company's underlying cash costs of operations and are relevant metrics used to understand the Company's operating profitability and ability to generate cash-flow.

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

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1* 2015
Production costs	2,503	2,189	2,568	2,467	-
Inventory change	(19)	96	8	(156)	-
Cash Cost of Production (A)	2,484	2,285	2,576	2,311	-
Production costs	2,503	2,189	2,568	2,467	-
Concentrate treatment, smelting and refining cost	978	754	675	748	-
Cash Cost of Silver Equivalent Sold (B)	3,481	2,943	3,243	3,215	-
Ore processed (tonnes milled) (C)	24,053	25,927	25,007	26,492	-
Cash Cost of Production per Tonne (A/C)	103.28	88.14	103.00	87.23	-
Silver Equivalent Sold (payable ounces) (D)	318,596	233,225	231,332	247,135	-
Cash Cost per Silver Equivalent Ounce (B/D)	10.93	12.62	14.02	13.01	-

* During Q1 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such, the operating cost information and cost per unit calculations are not considered relevant and have not been included in this table.

All-in Sustaining Cost per Ounce

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

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

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

AISC includes total production cash costs incurred at the Company's mining operations, which forms the basis of the Company's total cash costs. Additionally, the Company includes sustaining capital expenditures, corporate general and administrative expense, share-based payments and reclamation cost accretion. The Company believes that this measure represents the total sustainable costs of producing

silver from current operations, and provides the Company and other stakeholders of the Company with additional information of the Company's operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of silver production from current operations, new project capital and expansionary capital at current operations are not included. Certain other cash expenditures, including tax payments, dividends and financing costs are also not included.

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

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015*
Production costs	2,503	2,189	2,568	2,467	-
Concentrate treatment, smelting and refining cost	978	754	675	748	-
Sustaining capital expenditures	56	47	185	104	-
Deferred ramp expenditures	150	339	55	296	-
General and administrative expenses	433	356	542	541	-
Share-based payments	364	8	16	27	-
Accretion of decommissioning and restoration provision	9	11	11	12	-
All-in Sustaining Cost	4,493	3,704	4,052	4,195	-
Silver Equivalent Sold (payable ounces)	318,596	233,225	231,332	247,135	-
All-in Sustaining Cost per Silver Equivalent Ounce Sold	14.10	15.88	17.52	16.97	-

* During Q1 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such the operating cost information and All-in Sustaining cost per unit calculations are considered abnormal and have not been included in this table.

Average Realized Silver Price per Ounce

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

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

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenues (as reported)	3,537	2,502	2,592	3,147	402
Add back: MPPP impact	901	709	666	306	-
Add back: Treatment, smelting and refining charges	978	754	675	748	137
Gross Revenues	5,416	3,965	3,933	4,201	539
Silver Equivalent Sold (ounces)	318,596	233,225	231,332	247,135	30,931
Avg Realized Price per Ounce of Silver Equivalent Sold⁽¹⁾	17.00	17.00	17.00	17.00	17.41
Avg Market Price per Ounce of Silver per London Silver Fix	14.83	14.76	14.91	16.41	16.74

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

Non-IFRS Measures – Additional Information

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

Mine Operations Income (Loss)

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

EBITDA and Adjusted EBITDA

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

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

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

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net loss for the period as reported	(3,000)	(18,035)	(1,628)	(2,018)	(2,551)
Income tax expense (recovery)	107	(2,943)	1,440	379	(198)
Interest earned and other finance income	-	(1)	(2)	(6)	(4)
Interest expense and loss on settlement of silver loan	2,238	820	(453)	764	1,437
Interest expense on loan payable	40	4	-	-	-
Accretion expense	9	11	11	12	12
Amortization and depletion of mineral properties, plant and equipment	573	572	556	554	53
EBITDA	(33)	(19,572)	(76)	(315)	(1,251)
Impairment of exploration and evaluation properties	-	19,426	-	-	-
Foreign exchange	270	(50)	(483)	427	(357)
Share-based payments	364	8	16	27	26
Adjusted EBITDA	601	(188)	(543)	139	(1,582)

Loan Payable

On December 22, 2015, the Company entered into a short-term loan facility (the "Loan") with Trafigura Mexico, S.A. de C.V. ("Trafigura") in the principal amount of \$725. The Loan bears interest at LIBOR plus 10%, payable monthly in arrears, with the principal to be repaid in six equal monthly installments commencing January 31, 2016. The Loan has been secured by certain personal assets of the CEO of the Company.

In connection with this personal guarantee of the Loan, the Company agreed to issue 3,000,000 bonus warrants to the CEO. On January 11, 2016, the Company issued 3,000,000 bonus warrants, each of

which is exercisable to purchase one common share for a price of CDN\$0.15 and expires January 11, 2017.

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

Pre-paid Silver Purchase

On October 2, 2014, the Company closed the JMET Agreement for gross proceeds of \$28,400 pursuant to which the Company agreed to sell to JMET 4,635,000 ounces of silver through August 2019, subject to certain adjustments relating to metal prices.

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

Metal	Floor Price	Deliverable Amount Per Period		
		2015	Q1 2016	Q2, Q3 & Q4 2016
Ag	\$17.00/oz.	1,183,680 ozs.	315,714 ozs.	
	\$16.00/oz.			947,142 ozs.
Au	\$1,145/oz.	2,160 ozs.	570 ozs.	-
Pb	\$1,975/tonne	1,860 tonnes	495 tonnes	-
Zn	\$2,200/tonne	3,900 tonnes	1,038 tonnes	-

The cost to establish the MPPP was approximately \$6,300. In May 2016 the Company settled the remaining cash principal balance of the MPPP for \$438.

2015 Amendments to the JMET Agreement

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

On July 15, October 27 and December 15, 2015, the Amended JMET Agreement was further amended. As a result of these amendments, the Company as at December 31, 2015 must sell to JMET 2,644,625 ounces of silver, which includes an additional 44,625 ounces of silver as a restructuring fee. The first delivery of silver to JMET is to be 67,811 ounces in June 2016, with sales of 67,811 ounces occurring each month through August 2019. The Company incurred transaction costs of \$94 in relation to these amendments. Further, as consideration for the deferral of the silver delivery, the Company agreed to pay JMET \$100 on or before April 30, 2016 and another \$100 on or before May 30, 2016.

As the change in future payment terms expected as a result of each 2015 amendment to the Amended JMET Agreement were not determined to be substantial, each amendment which occurred during the year was recorded as a debt modification. Accordingly, the effective interest rate on the Silver Loan was recalculated at each amendment date based on the carrying value of the debt and the expected future payment terms and no gain or loss was recorded through profit and loss.

During the year ended December 31, 2015, the Company received cash payments of \$224 under the revised price protection plan and applied \$2,910 against the current portion of the silver loan upon

settlement of 1,183,680 ounces of silver, 2,730 ounces of gold, 1,860 tonnes of lead and 3,900 tonnes of zinc that matured during the year.

During the three months ended March 31, 2016, the Company applied \$1,339 against the current portion of the silver loan upon settlement of 315,714 ounces of silver, 495 tonnes of lead and 1,038 tonnes of zinc that matured during the period.

At March 31, 2016, \$1,778 of the \$3,040 balance due to be paid on December 31, 2015 remained unpaid and is accruing interest at a rate of 30%. Subsequent to March 31, 2016, the Amended JMET Agreement was further amended such that the repayment date for this amount was deferred until June 30, 2016. In addition, a lump sum repayment of \$1,004 was made, with \$100 applied against the April restructure fee, \$100 applied against the May restructure fee, and \$804 applied against the remaining cash principal balance.

Subsequent to March 31, 2016, the Company settled the remaining 947,142 ounces of silver under the revised price protection plan and applied the settlement proceeds of \$438 against the remaining cash principal balance.

Use of Proceeds from Financings

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

Capital Expenditures

The Company spent \$538 on its mineral properties during the three months ended March 31, 2016 (2015 - \$278). The Company also spent \$1,223 on acquisitions of plant and equipment during the three months ended March 31, 2016 (2015 - \$437) including leased equipment of \$538 (2015 - \$nil), and deferred Ramp expenditures of \$150 (2015 - \$54). In addition, \$339 was spent on acquisitions of plant and equipment at the Veta Grande Mine during the three months ended March 31, 2016 (2015 - \$nil). The Company has made no dividend payments, and currently has no plans to declare any dividends.

Liquidity and Capital Resources and Going Concern

As at March 31, 2016, the Company had cash and cash equivalents of \$652 (December 31, 2015 – \$277) and a working capital deficiency of \$7,894 (December 31, 2015 – \$4,050). During the three months ended March 31, 2016, net cash provided by operating activities was \$2,330 (2015 – cash used of \$1,912), net cash used in investing activities was \$1,761 (2015 - \$715) including costs relating to the exploration activities on its mineral properties; and net cash used by financing activities, including cash received from the repayment of the loan payable, was \$190 (2015 – cash provided of \$224).

Pursuant to the terms of the Gavilanes property agreement (Note 8(a) to the 2016 Q1 Financial Statements), in order to maintain and exercise the option the Company must make the remaining payment of \$704. This payment was due on April 15, 2015, but the Company is currently re-negotiating its extension.

Pursuant to the terms of the San Felipe Agreement (Note 8(b) to the 2016 Q1 Financial Statements), in order to maintain and exercise the option, the Company must make further aggregate cash payments of \$19,000 on or before December 15, 2016.

At March 31, 2016, the Company had not yet achieved profitable operations, had a working capital deficiency of \$7,894, had accumulated an inception to date deficit of \$61,266, and may incur further losses in the development of its business. These factors indicate the existence of a material uncertainty

that may cast significant doubt upon the Company's ability to continue as a going concern. As a result, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability to operate profitably and/or to raise adequate funding through equity or debt financings to discharge its liabilities as they come due. The Company has a capital management process in place to safeguard the Company's ability to continue as a going concern. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Subsequent to March 31, 2016, \$2,030 of the Mexican value added taxes recoverable has been collected.

Transactions with Related Parties

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

- Malaspina Consultants Inc., a company owned by Robert McMorran, the Chief Financial Officer
- Larry M. Okada Inc., a company owned by Larry Okada, a director of the Company

During the three months ended March 31, 2015, geological consulting fees paid to Pref-Ex Geological Inc., a company owned by Marc Prefontaine, a former director of the Company, were also included in related party transactions.

During the three months ended March 31, 2016 and 2015, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	2016	2015
	\$	\$
Accounting and corporate secretarial fees ⁽¹⁾	35	60
Directors' fees ⁽²⁾	14	4
Management fees ⁽³⁾	40	85
Share-based payments	293	26
Salaries and benefits capitalized ⁽³⁾	29	58

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

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

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

At March 31, 2016, directors and officers or their related companies were owed \$178 (December 31, 2015 – \$125) in respect of the services rendered. These are non-interest bearing with standard payment terms.

In connection with the personal guarantee of the Loan by the CEO of the Company, the Company agreed to issue 3,000,000 bonus warrants to the CEO. On January 11, 2016, the Company issued 3,000,000 bonus warrants, each of which is exercisable to purchase one common share for a price of CDN\$0.15 and expires January 11, 2017.

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

Financial Instruments

Fair Value and Classification of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, derivate assets, accounts payable and accrued liabilities, loan payable, leases, and the silver loan. Cash and cash equivalents, and trade and other receivables are designated as loans and receivables, which are measured at amortized cost. The derivative assets are designated as at fair value through profit or loss and are measured at fair value. Accounts payable and accrued liabilities, loan payable, leases, and the silver loan are designated as other financial liabilities, which are measured at amortized cost. The carrying values of cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

Off-balance Sheet Arrangements

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

Changes in Accounting Policies

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

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

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

Outstanding Share Data

Authorized share capital: Unlimited number of Common Shares

All share information is reported as of May 24, 2016 in the following table.

Issued and Outstanding Common Shares				113,993,484
	Expiry Date	Exercise Price (CDN\$)		
Options	April 12, 2017	0.90	701,667	
	February 11, 2021	0.15	4,500,000	5,201,667
Warrants	January 15, 2017	\$0.15	2,500,000	2,500,000
<hr/>				
Fully Diluted				121,695,151

On April 15, 2016, the optionees tendered the following stock options to the Company for cancellation:

- 1,001,667 options with an exercise price of CDN\$0.90 expiring April 12, 2017
- 400,000 options with an exercise price of CDN\$1.85 expiring February 28, 2018
- 300,000 options with an exercise price of CDN\$1.22 expiring July 29, 2018
- 400,000 options with an exercise price of CDN\$1.00 expiring April 8, 2019

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the three months ended March 31, 2016 and this accompanying MD&A (together, the "Interim Filings").

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

Risks and Uncertainties

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

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

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

Regulatory risks include the possible delays in getting regulatory approval to, and permits for, the transactions that the Board of Directors believe to be in the best interest of the Company, and include

increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the Company must meet in order to maintain its exchange listing.

Outlook

During the fourth quarter of 2015 the Company took an important step to potentially augment its silver production with the execution of the Contracuna Agreement in November. Following the signing of this agreement the Company has refurbished the Veta Grande milling facility and completed sufficient mine development to begin commissioning the mill circuits in January 2016. Testing of the milling facility continued throughout February and March at increasing mill throughput rates.

Should the Veta Grande milling facility and mine development testing prove successful it will allow the Company to:

- i) de-risk the Company operationally;
- ii) realize cost efficiencies from the synergistic benefits of operating two mines (Veta Grande and Rosario) that are located approximately 180 kms apart; and
- iii) establish an operating presence in a historical and prolific mining district within Mexico.

Operationally, the Company's focus for the duration of 2016 and through into 2017 will be to continue optimizing the operating costs at the Rosario Mine while also continuing the milling facility testing at the Veta Grande Mine.

In concert with these operational initiatives, management continues to work with JMET towards achieving a restructuring of its senior debt facility.

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

Additional Disclosure for Venture Issuers without Significant Revenue

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

Qualified Persons

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

Other Information

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