

# **Santacruz Silver Mining Ltd.**

## **Condensed Interim Consolidated Financial Statements**

**Three Months Ended March 31, 2012 and 2011**

(Unaudited – expressed in US Dollars)

**Santacruz Silver Mining Ltd.**  
**Condensed Interim Consolidated Statements of Financial Position**  
*(Unaudited – expressed in US Dollars)*

	Note	March 31, 2012 \$	December 31, 2011 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash		100,668	183,072
Receivables	3	331,387	406,754
Prepaid expenses		6,058	10,638
Deferred financing costs	4	1,063,915	531,072
		1,502,028	1,131,536
<b>Equipment</b>	5	68,143	57,036
<b>Mineral property interests</b>	6	7,353,066	6,960,510
		8,923,237	8,149,082
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		724,143	170,567
Due to shareholders	7	572,364	564,322
Share purchase warrants	8(a)(v)	78	1,154
		1,296,585	736,043
<b>Other long-term liabilities</b>	6(c)	2,907,171	2,960,540
		4,203,756	3,696,583
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share capital</b>	8	5,436,077	4,886,038
<b>Special warrant reserve</b>	8(b)	-	150,559
<b>Deficit</b>		(716,596)	(584,098)
		4,719,481	4,452,499
		8,923,237	8,149,082

**Nature of Operations** (Note 1)

**Commitments** (Notes 6 and 8)

**Subsequent Events** (Note 13)

**Approved on behalf of the Board:**

*“Arturo Prestamo”*

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Director – Arturo Prestamo

*“Francisco Ramos”*

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Director – Francisco Ramos

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

**Santacruz Silver Mining Ltd.**  
**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
For the three months ended March 31, 2012 and 2011  
*(Unaudited – expressed in US Dollars)*

	Note	2012 \$	2011 \$
<b>General and administrative expenses</b>			
Administrative		88,224	5,775
Depreciation		284	-
Management fees	9	29,380	1,822
Miscellaneous		4,100	121
Other		190	8,082
Professional fees		9,099	35,880
Travel		38,345	-
		(169,622)	(51,680)
<b>Other income (expenses)</b>			
Gain on derivative liabilities		1,076	-
Foreign exchange gain (loss)		34,152	(11,638)
Other income		1,896	-
		37,124	(11,638)
<b>Net loss and comprehensive loss for the period</b>		(132,498)	(63,318)
<b>Loss per share – basic and diluted</b>		(0.01)	(0.03)
<b>Weighted average number of common shares outstanding</b>		22,162,848	1,929,395

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

**Santacruz Silver Mining Ltd.**  
**Condensed Interim Consolidated Statements of Cash Flows**

For the three months ended March 31, 2012 and 2011

(Unaudited – expressed in US Dollars)

	2012	2011
	\$	\$
<b>Cash Provided By (Used In):</b>		
<b>Operations:</b>		
Net loss for the period	(132,498)	(63,318)
Items not affecting cash:		
Depreciation	3,794	-
Unrealized gain on derivative liabilities	(1,076)	-
Changes in non-cash working capital:		
Receivables	75,367	(41,681)
Prepaid expenses	4,580	(9,114)
Accounts payable and accrued liabilities	26,387	2,720
	(23,446)	(111,393)
<b>Investing:</b>		
Acquisition of and exploration expenditures on mineral property interests	(445,925)	(305,000)
Acquisition of equipment	(14,901)	-
	(460,826)	(305,000)
<b>Financing:</b>		
Issuance of common shares	399,480	3,910
Deferred financing costs	(5,654)	-
Due to shareholders	8,042	461,837
	401,868	465,747
<b>Net (decrease) increase in cash</b>	(82,404)	49,354
<b>Cash – beginning of period</b>	183,072	88
<b>Cash – end of period</b>	100,668	49,442
<b>Non-cash investing and financing information:</b>		
Deferred financing costs and mineral property interest costs in accounts payable and accrued liabilities	527,189	-
Exploration obligations in mineral property interests	2,907,171	-

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

**Santacruz Silver Mining Ltd.**

**Condensed Interim Consolidated Statements of Changes in Equity**

*(Unaudited – expressed in US Dollars)*

	Share Capital		Special Warrant Reserve \$	Deficit \$	Total \$
	Number of Shares	Amount \$			
Balance, December 31, 2010	1,888,938	150,448	-	(3,740)	146,708
Issued pursuant to private placement - prior to reorganization of common shares (Note 8)	47,910	3,910	-	-	3,910
Share issuance costs	-	(32,090)	-	-	(32,090)
Net loss and comprehensive loss for the period	-	-	-	(63,318)	(63,318)
Balance, March 31, 2011	1,936,848	122,268	-	(67,058)	55,210
Reorganization of common shares (Note 8)	1,857,510	(3,387)	-	-	(3,387)
Issued pursuant to private placements	1,653,826	4,688,249	-	-	4,688,249
Share-based payments	19,727	78,908	150,559	-	229,467
Net loss and comprehensive loss for the period	-	-	-	(517,040)	(517,040)
Balance, December 31, 2011	5,467,911	4,886,038	150,559	(584,098)	4,452,499
Issued pursuant to private placements	444,444	399,480	-	-	399,480
Exercise of special warrants	399,166	150,559	(150,559)	-	-
Subdivision of common shares	20,626,055	-	-	-	-
Net loss and comprehensive loss for the period	-	-	-	(132,498)	(132,498)
Balance, March 31, 2012	26,937,576	5,436,077	-	(716,596)	4,719,481

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

## **Santacruz Silver Mining Ltd.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

#### **For the Three Months Ended March 31, 2012 and 2011**

*(Unaudited – expressed in US Dollars)*

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#### **1. Nature of Operations**

These condensed interim consolidated financial statements include the financial statements of Santacruz Silver Mining Ltd. (“SSM”), Impulsora Minera Santacruz, S.A. de C.V. (“IMSC”), and Operadora Minera Anacore, S.A. De C.V. (“OMA”), together referred to as “the Company”. On May 20, 2011, IMSC acquired all of the outstanding common shares of OMA, a company incorporated in Mexico, for nominal consideration. The transaction was accounted for as a business combination with IMSC as the acquirer. The results of OMA’s operations have been included in the consolidated financial results of IMSC since acquisition.

On July 15, 2011, SSM and IMSC entered into a stock purchase agreement whereby SSM purchased 1,936,847 issued and outstanding shares of IMSC that represent 99.999% of the issued and outstanding common shares of IMSC. As a result of the acquisition, IMSC became the wholly owned subsidiary of SSM. As the shareholders of IMSC hold a majority of the shares of SSM before and after the acquisition of IMSC by SSM, there was no resultant change of control in the Company. Therefore, the stock purchase has been accounted for on a continuity of interest basis. In accordance with continuity of interest accounting, these condensed interim consolidated financial statements represent the assets, liabilities, equity, and transactions of SSM and IMSC, as if the entities were consolidated since the date of incorporation of IMSC (October 29, 2009).

SSM was incorporated pursuant to the provisions of the *Business Corporations Act* (British Columbia) on March 31, 2011. SSM’s registered office is located at 10th Floor, 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5.

SSM, through IMSC, 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. IMSC acquired the mining concession rights to the following properties:

- Rosario in the mining municipality of Charcas, state of San Luis Potosi, Mexico.
- Gavilanes in the mining municipality of San Dimas, Durango, Mexico.
- San Felipe de Jesús in the mining municipality of Sonora, Mexico.

IMSC is in the exploration stage on such properties and is also working on establishing access and commissioning facilities to extract, treat and initiate production from the mineral reserve in such properties.

**Santacruz Silver Mining Ltd.**

**Notes to the Condensed Interim Consolidated Financial Statements**

**For the Three Months Ended March 31, 2012 and 2011**

*(Unaudited – expressed in US Dollars)*

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**2. Basis of Presentation**

**a) Statement of Compliance**

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2011 which have been prepared in accordance with IFRS as issued by the IASB.

These 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, 2011.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 30, 2012.

**b) Basis of Consolidation**

These condensed interim consolidated financial statements include the financial statements of SSM and its subsidiaries, IMSC and OMA. OMA was incorporated on May 20, 2011 and manages all the mining-related operations of IMSC.

SSM’s consolidated financial statements include the financial statements of all subsidiaries subject to control by SSM. Control is achieved when SSM has the power to, directly or indirectly, govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is obtained and continue to be consolidated until the date that such control ceases. Intercompany balances, transactions and unrealized intercompany gains and losses are eliminated upon consolidation.

## Santacruz Silver Mining Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

#### For the Three Months Ended March 31, 2012 and 2011

(Unaudited – expressed in US Dollars)

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#### c) Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported years. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year. Critical estimates used include, among others, the amounts recorded for the recoverability of mineral property interests, the determination of site and reclamation provisions, the provision for deferred income taxes, recoverable amount for deferred income taxes and the valuation of warrants.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

#### 3. Receivables

Receivables consist of the following:

	March 31, 2012	December 31, 2011
	\$	\$
Value added tax receivable	298,062	394,440
Other receivable	33,325	12,314
Total	331,387	406,754

#### 4. Deferred Financing Costs

Deferred financing costs consist of fees incurred relating to the qualifying transaction as described in Note 11(a).



**Santacruz Silver Mining Ltd.**

**Notes to the Condensed Interim Consolidated Financial Statements**

**For the Three Months Ended March 31, 2012 and 2011**

*(Unaudited – expressed in US Dollars)*

**5. Equipment**

Cost	Office Furniture and Equipment \$	Machinery and Equipment \$	Vehicles \$	Computer Hardware \$	Total \$
Balance, December 31, 2010	-	-	-	-	-
Additions	9,807	-	73,385	7,324	90,516
Disposals	(1,754)	-	(26,805)	-	(28,559)
Balance, December 31, 2011	8,053	-	46,580	7,324	61,957
Additions	3,943	5,186	-	5,772	14,901
Disposals	-	-	-	-	-
Balance, March 31, 2012	11,996	5,186	46,580	13,096	76,858

  

Accumulated Depreciation	Office Furniture and Equipment \$	Machinery and Equipment \$	Vehicles \$	Computer Hardware \$	Total \$
Balance, December 31, 2010	-	-	-	-	-
Additions	597	-	4,601	942	6,140
Disposals	(102)	-	(1,117)	-	(1,219)
Balance, December 31, 2011	495	-	3,484	942	4,921
Additions	267	43	2,911	573	3,794
Disposals	-	-	-	-	-
Balance, March 31, 2012	762	43	6,395	1,515	8,715

  

Carrying amount at December 31, 2011	7,558	-	43,096	6,382	57,036
Carrying amount at March 31, 2012	11,234	5,143	40,185	11,581	68,143

Depreciation during the three months ended March 31, 2012 was \$3,794 (March 31, 2011: \$nil). The Company did not own any equipment during the year ended December 31, 2010. The Company does not have any equipment under lease for any of the periods presented.

## Santacruz Silver Mining Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

#### For the Three Months Ended March 31, 2012 and 2011

(Unaudited – expressed in US Dollars)

#### 6. Mineral Property Interests

The Company is actively investigating, evaluating and conducting exploration activities in Mexico. The summary of accumulated costs as of March 31, 2012 and December 31, 2011 are as follows:

	March 31, 2012	December 31, 2011
<b>a) Rosario, San Luis Potosi, Charcas, Mexico</b>		
Opening balance	\$ 1,234,683	\$ 151,412
Acquisition costs	70,000	290,000
Exploration costs	193,963	793,271
Net book value	<u>1,498,646</u>	<u>1,234,683</u>
<b>b) Gavilanes, San Dimas, Durango, Mexico</b>		
Opening balance	725,827	130,000
Acquisition costs	117,572	585,000
Exploration costs	11,021	10,827
Net book value	<u>854,420</u>	<u>725,827</u>
<b>c) San Felipe de Jesús, Sonora, Mexico</b>		
Opening balance	5,000,000	-
Acquisition costs	(53,369)	4,960,540
Exploration costs	53,369	39,460
Net book value	<u>5,000,000</u>	<u>5,000,000</u>
Total	<u>\$ 7,353,066</u>	<u>\$ 6,960,510</u>

#### a) Rosario, San Luis Potosi, Charcas, Mexico

*Rey David, Charcas, San Luis Potosi, Mexico*

Pursuant to a mining exploration and promise of assignment of rights agreement dated February 15, 2010, as amended on February 15, 2012 and March 20, 2012, the Company was granted an option to acquire a 100% interest in the Rey David, Charcas property located in the municipality of Charcas, San Luis Potosi, Mexico. The property covers 42 hectares and is subject to a 0.4% Net Smelter Returns (“NSR”) in favour of the optionor. The NSR increases by 0.1% per year, until it reaches a maximum of 1%. The Company has the right to buy back the NSR for a cash payment of \$637,000 within the 48 months following the execution of the agreement. Following the 48-month option period, the purchase price of the buyout will increase in proportion to the 0.1% increase to a maximum of \$1,592,500 in year 10.

## **Santacruz Silver Mining Ltd.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

#### **For the Three Months Ended March 31, 2012 and 2011**

*(Unaudited – expressed in US Dollars)*

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To maintain and exercise the option, the Company must make \$2,000,000 of cash payments to the property vendor. As at March 31, 2012, the Company has made total payments of \$405,000 and the residual payments are as follows:

- \$100,000 on or before April 15, 2012 (paid subsequent to period end);
- \$200,000 on August 15, 2012;
- \$300,000 on February 15, 2013;
- \$350,000 on August 15, 2013; and
- \$645,000 on February 15, 2014.

*San Rafael, Charcas, San Luis Potosi, Mexico*

Pursuant to a mining exploration and promise of assignment of rights agreement dated February 22, 2011, the Company was granted an option to acquire a 100% interest in the San Rafael property, located in the municipality of Charcas, San Luis Potosí, Mexico. The vendor retains a 2.5% NSR. The Company also has an obligation to pay the local Ejido 300,000 Mexican pesos per year for surface access on the San Rafael concessions. To maintain and exercise the option, the Company must make \$220,000 of cash payments to the property vendor. As at March 31, 2012, the Company has made total payments of \$60,000 and the residual payments are as follows:

- \$20,000 on August 22, 2012;
- \$20,000 on February 22, 2013;
- \$20,000 on August 22, 2013;
- \$20,000 on February 22, 2014;
- \$20,000 on August 22, 2014;
- \$20,000 on February 22, 2015;
- \$20,000 on August 22, 2015; and
- \$20,000 on February 22, 2016.

#### **b) Gavilanes, San Dimas, Durango, Mexico**

*Gavilanes I, San Dimas, Durango, Mexico*

Pursuant to a mining exploration and promise of assignment of rights agreement dated April 27, 2010, as amended October 12, 2010, December 27, 2010, October 29, 2011, January 30, 2012 and March 20, 2012, the Company was granted an option to acquire a 100% interest in the Gavilanes property located in San Dimas, Durango, Mexico. The property is subject to a 3% NSR in favour of the optionor, up to a maximum of \$2,000,000.

To maintain and exercise the option, the Company must make \$3,500,000 of cash payments to the property vendor. As at March 31, 2012, the Company has made total payments of \$616,500 and the residual payments are as follows:

- \$83,500 by April 16, 2012 (paid subsequent to period end);
- \$300,000 on April 27, 2012 (paid subsequent to period end); and
- \$2,500,000 on April 27, 2013.

## **Santacruz Silver Mining Ltd.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

#### **For the Three Months Ended March 31, 2012 and 2011**

*(Unaudited – expressed in US Dollars)*

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##### *Gavilanes II, San Dimas, Durango, Mexico*

Pursuant to a mining exploration and promise of assignment of rights agreement dated May 1, 2010, as amended October 12, 2010, December 27, 2010 and January 7, 2011, the Company was granted an option to acquire a 100% interest in the Gavilanes property (named Gavilanes II) located in San Dimas, Durango, Mexico. The property is subject to a 2% NSR in favour of the optionor, up to a maximum of \$1,000,000. The NSR may be purchased by the Company for \$1,000,000. To maintain and exercise the option, the Company must make \$2,265,000 of cash payments to the property vendor. As at March 31, 2012, the Company has made total payments of \$215,000 and the residual payments are as follows:

- \$200,000 on May 1, 2012 (paid subsequent to period end);
- \$300,000 on May 1, 2013;
- \$400,000 on November 1, 2013; and
- \$1,150,000 on May 1, 2014.

##### *Gavilanes MHM Fraccion, San Dimas, Durango, Mexico*

Pursuant to an assignment of mining concession rights agreement dated January 5, 2012 (as amended on February 20, 2012 and March 23, 2012), the Company acquired the Gavilanes MHM Fraccion 2 concession and two mining concession applications, Gavilanes MHM Fraccion 1 and Gavilanes HMX, for \$100,000 to be paid by April 15, 2012 (paid subsequent to period end), \$1,000,000 upon commencement of commercial production and the grant to the vendor of a 3% NSR.

#### **c) San Felipe de Jesús, Sonora, Mexico**

Pursuant to a mining exploration and promise of assignment of rights agreement dated August 3, 2011 and amended December 9, 2011, the Company was granted an option to acquire a 100% interest in the San Felipe de Jesús property located in Sonora, Mexico. In addition to cash payments of \$2,000,000 made to date, in order to maintain and exercise the option, the Company must incur exploration expenditures of \$3,000,000 by April 1, 2013 and make additional cash payments as follows:

- Annual surface right payments of 520,000 Mexican Pesos (CDN\$40,470) until the property reaches commercial production; and
- \$38,000,000 on April 1, 2013.

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 property. As such, \$3,000,000 has been capitalized as mineral property acquisition costs. Since \$92,829 of exploration expenditures have been incurred to March 31, 2012 (December 31, 2011 - \$39,460), the remaining amount of \$2,907,171 (December 31, 2011 - \$2,960,540) yet to be spent has been recorded as other long-term liabilities.

Any minerals extracted in commercially usable quantities remain the property of the optionor until the Company has exercised its option and acquired the property.

## Santacruz Silver Mining Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

#### For the Three Months Ended March 31, 2012 and 2011

(Unaudited – expressed in US Dollars)

The annual surface right payments are to be made on or before February 19 of each year. The 2012 payment has not yet been made; however the Company has obtained an extension on this payment to September, 2012.

The property is subject to a 1% NSR royalty in favour of the optionor. The Company has the right at any time to buy back the NSR for a cash payment of \$3,000,000. In the event commercial production has not occurred by December 9, 2015, the Company must make an advance royalty payment of \$500,000, which payment will be deducted from the royalty.

Pursuant to the terms of the agreement under which the Company holds its rights to acquire the San Felipe property, a change of control could accelerate payments required under this agreement to acquire the rights. In the event the Company is unable to make such payments within 15 days after a change of control, it could lose its rights to the San Felipe property.

#### 7. Due to Shareholders

The balances due to shareholders are non-interest bearing loans made to the Company by its shareholders to finance its activities in order to continue its operations. These loans are due on demand and have no maturity date.

#### 8. Share Capital

SSM's authorized share capital consists of an unlimited number of common shares without par value. IMSC's authorized share capital consists of an unlimited number of Series "A" common shares and Series "B" common shares. Details share capital transactions are as follows:

	SSM		IMSC	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance – December 31, 2010	-	-	1,888,938	150,448
Issuance of common shares	1,653,826	4,688,249	47,910	3,910
Share issuance costs	-	-	-	(32,090)
Issued for share reorganization	3,794,358	118,881	(1,936,848)	(122,268)
Warrants issued for services received	-	-	-	-
Share-based payments	19,727	78,908	-	-
Balance – December 31, 2011	5,467,911	4,886,038	-	-

## **Santacruz Silver Mining Ltd.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

#### **For the Three Months Ended March 31, 2012 and 2011**

*(Unaudited – expressed in US Dollars)*

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##### **a) Share Capital Transactions**

- (i) On January 14, 2011, IMSC issued 47,910 variable Series “B” common shares for proceeds of \$3,910.
- (ii) On July 15, 2011, SSM and IMSC entered into a stock purchase agreement whereby SSM purchased 1,936,848 issued and outstanding shares of IMSC that represent 99.999% of the issued and outstanding common shares of IMSC. Total consideration for the purchase includes 3,794,358 common shares of SSM and cash of \$3,387. As a result of the acquisition, IMSC became the wholly owned subsidiary of SSM. The resulting non-controlling interest that represent 0.001% of the issued and outstanding common shares of IMSC is considered to be not material.
- (iii) On July 15, 2011, SSM issued 16,500 common shares for services rendered by an officer of the Company. The services were determined to have a fair value of \$66,000.
- (iv) On July 15, 2011, SSM issued 1,302,525 common shares for proceeds of \$3,800,000.
- (v) On July 20, 2011, SSM issued 139,239 units, for total proceeds of \$520,000. Each unit consisted of one common share and one share purchase warrant. Each warrant is 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 is fixed in Canadian dollars and the functional currency of the Company is the US dollar, the warrants are considered a derivative, as a variable amount of cash in the Company’s functional currency will be received on exercise. At March 31, 2012, the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was \$78 (December 31, 2011: \$1,154; July 20, 2011: \$13,460). The share purchase warrants are re-measured at fair value at each statement of financial position date with the change in fair value recorded in profit or loss during the period of change. The change in fair value for the three months ended March 31, 2012 was a gain of \$1,076. The fair value of share purchase warrants is reclassified to share capital upon exercise.
- (vi) On November 14, 2011, 3,227 common shares were issued for services received at \$4.00 per share. The value of these shares of \$12,908 was recorded as a deferred financing cost.
- (vii) On November 14, 2011, 212,062 common shares were issued at \$1.799997 per share for proceeds of \$381,709.

## Santacruz Silver Mining Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

#### For the Three Months Ended March 31, 2012 and 2011

(Unaudited – expressed in US Dollars)

- (viii) 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 has been adjusted to reflect the Subdivision. Accordingly, the special warrants are convertible into 399,166 common shares and the warrants are convertible into 664,476 common shares.
- (ix) On January 25, 2012, all of the Company’s special warrants were converted into 399,166 common shares.
- (x) On January 27, 2012, 444,444 post-Subdivision common shares were issued at \$0.90 per share for proceeds of \$399,480.

#### b) Special Warrant Reserve

The following is a summary of the special warrant reserve:

	March 31, 2012	December 31, 2011
	\$	\$
Special warrants	-	150,559

On November 16, 2011, 83,644 special warrants to purchase common shares for no additional consideration were issued for professional services received. As the fair value of the services received could not be estimated reliably, the Company measured these transactions by reference to the fair value of the equity instruments granted. The fair value of those special warrants was determined to be \$150,559. The special warrants were converted to common shares on January 25, 2012.

#### c) Warrants

Details of warrants activity for the three months ended March 31, 2012 and the year ended December 31, 2011 are as follows:

	Number of Warrants	Weighted Average Exercise Price \$
Balance, December 31, 2010	-	-
Issued	664,476 <sup>(1)</sup>	1.25 <sup>(1)</sup>
Exercised	-	-
Expired	-	-
Balance, December 31, 2011 and March 31, 2012	664,476	1.25

(1) After giving effect to the Subdivision described in Note 8(a)(viii).

The weighted average remaining life of the 664,476 warrants outstanding as at March 31, 2012 is 0.30 years. All of these warrants expire on July 20, 2012.

## Santacruz Silver Mining Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

#### For the Three Months Ended March 31, 2012 and 2011

(Unaudited – expressed in US Dollars)

#### 9. Related Party Transactions

Remuneration for directors and key management personnel included:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Management fees	\$29,380	\$1,822
Salaries and benefits capitalized as exploration costs in mineral property interests	\$86,467	\$Nil

#### 10. Segmented Information

The Company has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer and the executive management in assessing performance and in determining the allocation of resources.

The Company considers the business from a geographic perspective and assesses the performance of the operating segments based on measures such as net property, plant and equipment as well as operational results.

##### a) Operating Segment

The Company's operations are primarily directed towards the acquisition and exploration of properties in Mexico for mineral resources.

##### b) Geographic Segments

By geographic areas, the Company's non-current assets as at March 31, 2012 and December 31, 2011 and losses by geographic areas for the three months ended March 31, 2012 and 2011 are as follows:

<b>Losses</b>			
	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	
<i>Canada</i>	\$ 20,595	\$ -	
<i>Mexico</i>	111,903	63,318	
<b>Total</b>	<b>\$ 132,498</b>	<b>\$ 63,318</b>	

  

<b>Non-Current Assets</b>			
	March 31, 2012	December 31, 2011	
<i>Canada</i>	\$ -	\$ -	
<i>Mexico</i>	7,421,209	7,017,546	
<b>Total</b>	<b>\$ 7,421,209</b>	<b>\$ 7,017,546</b>	



## **Santacruz Silver Mining Ltd.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

#### **For the Three Months Ended March 31, 2012 and 2011**

*(Unaudited – expressed in US Dollars)*

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#### **11. Subsequent Events**

##### **a) Qualifying Transaction**

On April 12, 2012, SSM entered into a qualifying transaction (“Transaction”) with Forte Resources Inc. (“Forte”), a capital pool company publicly listed on the TSX Venture Exchange, pursuant to which Forte acquired all of the issued and outstanding common shares of SSM. Upon completion of the Transaction, the consolidated entity will carry on the business of SSM, which is the exploration, further advancement, and development of the mineral property interests held in Mexico, and will be listed as a mining issuer (“the Resulting Issuer”) on the TSX Venture Exchange.

Under the terms of the Transaction, Forte issued an aggregate of 27,492,631 common shares at a deemed price of CDN\$0.90 per share to shareholders of SSM and 664,476 share purchase warrants exercisable at a price of CDN\$1.25 per share until July 20, 2012 to warrant-holders of SSM, which resulted in SSM becoming a wholly-owned subsidiary of Forte. Each shareholder / warrant-holder of SSM exchanged a post-Subdivision SSM share for each common share of Forte.

As a result of the foregoing Transaction, the former shareholders of the Company, for accounting purposes, are considered to have acquired control of Forte. Accordingly, the acquisition of Forte will be accounted for as a reverse takeover that is not a business combination and effectively as a capital transaction of SSM.

Forte changed its name to Santacruz Silver Mining Ltd. on April 12, 2012. As part of the Transaction, Forte’s subsidiary and the private company, Santacruz Silver Mining Ltd., amalgamated to form Santacruz Holdings Ltd. This also occurred on April 12, 2012.

Concurrent with the qualifying transaction, the Company closed a private placement on April 12, 2012 in the amount of \$20,000,000.

##### **b) Due to Shareholders**

On April 12, 2012, the Company repaid \$500,000 of the \$572,364 in shareholder loans outstanding at March 31, 2012 immediately prior to the closing of the qualifying transaction which is described in Note 11(a) and the shareholder immediately subscribed for common shares of Santacruz at \$0.90 per share. 555,055 Santacruz common shares have been issued as a result of this transaction.

##### **c) Stock Options**

On closing of the Transaction on April 12, 2012, Forte granted 4,480,000 incentive stock options to directors, officers and consultants having an exercise price of \$0.90 each expiring April 12, 2017; and on May 10, 2012, Forte granted 300,000 incentive stock options to an employee having an exercise price of \$0.90 each, expiring May 10, 2017.