



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2014

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the year ended December 31, 2014 prepared as of April 28, 2015, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 and the related notes thereto of Santacruz Silver Mining Ltd. ("the Company" or "Santacruz") ("the 2014 Annual Financial Statements").

The referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in US dollars unless otherwise indicated.

Forward-Looking Statements

This MD&A and the documents incorporated herein by reference contain "forward-looking information" within the meaning of applicable Canadian securities regulations and "forwarding-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**") and the El Gachi property (the "El Gachi Property"), as described below; the Company's expected production and recoveries for its Rosario Mine; the expectations for the development of the main access at the Rosario Mine; expectations regarding the utilization of a geotextile containment system to dewater and store tailings on an interim basis until a permanent solution is developed; 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 and the Gavilanes Property; timing of a pre-feasibility study for the San Felipe Project; 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 and economic 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 7 to 18 of the annual information form of the Company for the year ended December 31, 2012 dated November 19, 2013 (the "AIF"), filed on SEDAR on November 21, 2013. 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 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 OTCQX under the trading symbol "SZSMF".

The Company is engaged in the operation, acquisition, exploration and development of mineral properties in Mexico, with a primary focus on silver, but also including gold, zinc and lead. The Company is currently focused on meeting and maintaining its primary production objective of producing approximately 1.5 million silver equivalent ounces on a yearly basis at its producing property, the Rosario Mine. In addition, the Company is exploring three other mineral properties, being the San Felipe Project (an advanced stage project), the Gavilanes Project (an exploration project), and the El Gachi 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 additional fieldwork, technical studies and permitting activities at the San Felipe Project in preparation for taking a development decision.

2014 Highlights

- Effective January 1, 2014, the Company began reporting the operating results of its Rosario Mine in its consolidated statement of loss and comprehensive loss. As 2014 is the first year the Company is reporting results from an operating mine in its consolidated statement of loss and comprehensive loss, it only has 2014 quarter over quarter comparative information available.
- Selected operating and financial information for the first, second, third, and fourth quarters of 2014 is presented below:

	Q4	Q3	Q2	Q1	Year ended Dec 31, 2014
Operating					
Ore Processed (tonnes milled) ⁽¹⁾	25,099	23,677	22,612	20,447	91,835
Silver Equivalent Produced (ounces) ⁽²⁾	244,200	192,400	168,300	160,600	765,500
Silver Equivalent Sold (payable ounces) ⁽³⁾	263,300	188,100	148,800	121,800	722,000
Production Cost per Tonne ⁽⁴⁾⁽⁷⁾	116.50	97.81	128.75	110.94	113.46
Cash Cost per Silver Equivalent (\$/oz.) ⁽⁴⁾⁽⁷⁾	15.08	18.13	22.17	25.04	19.02
All-in Sustaining Cost per Silver Equivalent (\$/oz.) ⁽⁴⁾⁽⁷⁾	20.68	23.68	29.70	35.49	25.82
Average Realized Silver Price per Ounce (\$/oz.) ⁽⁴⁾⁽⁷⁾	16.15	19.55	19.76	20.55	18.52
Financial					
Revenue (\$000's)	3,226	3,167	2,302	1,931	10,626
Mine Operations Income (Loss) (\$000's) ⁽⁵⁾⁽⁷⁾	(292)	27	(895)	(861)	(2,021)
Net Loss (\$000's) ⁽⁷⁾	(4,498)	(1,054)	(1,579)	(1,575)	(8,706)
Net Loss Per Share – Basic (\$) ⁽⁷⁾	(0.05)	(0.01)	(0.01)	(0.02)	(0.09)
Adjusted EBITDA (\$000's) ⁽⁵⁾⁽⁷⁾	(595)	(198)	(1,066)	(1,261)	(3,120)

⁽¹⁾ Ore processed includes 21,600, 4,025 and 11,453 tonnes respectively in the third, second and first quarter arising from third party ore purchased by the Company and processed through the milling facility.

⁽²⁾ Silver equivalent ounces produced in 2014 are calculated using prices of US\$20.00/oz., US\$1,250/oz., US\$0.96/lb and US\$0.90/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine.

⁽³⁾ Silver equivalent sold ounces in the fourth, third, second and first quarters of 2014 were calculated using realized silver prices of US\$16.15/oz., US\$19.55/oz., US\$19.76/oz. and US\$20.55/oz., respectively, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine.

⁽⁴⁾ 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.

⁽⁵⁾ 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 2014 Q1, Q2, Q3 and Annual Financial Statements.

⁽⁶⁾ Average realized silver price per ounce is prior to all treatment, smelting and refining charges.

⁽⁷⁾ During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, \$735,096 was capitalized to Plant and Equipment during the second quarter. Included in this amount was \$486,514 relating to the first quarter of 2014. For the purposes of this comparison the referenced 2014 first quarter and second quarter figures have been adjusted to reflect this change.

- On September 4, 2014, the Company announced that its subsidiary, Impulsora Minera Santacruz S.A. de C.V. ("Impulsora"), had successfully renegotiated terms of its agreement to acquire a 100% interest in the San Felipe project and adjacent El Gachi property located near Hermosillo, Sonora, Mexico with Minera Hochschild Mexico S.A. de C.V. ("MHM" or "Hochschild"). Under the terms of the newly amended agreement ("the Amending Agreement"), Impulsora can acquire 100% of the

San Felipe project and the El Gachi property, including all assets related to the properties, by making the following payments: \$5,000,000 on or before December 1, 2015; and \$14,000,000 on or before December 15, 2016.

- On September 11, 2014, the Company announced the results of a Preliminary Economic Assessment ("PEA") and new resource estimate prepared pursuant to National Instrument 43-101 ("NI 43-101") on the San Felipe Project. Highlights of the PEA, using a US\$19.91 per ounce silver base case, include:
 - Pre-tax Net Present Value ("NPV") at a 5% discount rate of \$103.5 million and an Internal Rate of Return ("IRR") of 60.6%;
 - After-tax NPV at a 5% discount rate of \$61.2 million and IRR of 37.7%;
 - Production of 24.3 million ounces of silver equivalent (after milling and smelting recoveries);
 - Average annual production of 3.2 million ounces of silver equivalent over a 7.5 year mine life;
 - Initial capital cost of \$36.3 million, including \$6 million of working capital;
 - Estimated all-in cash costs of US \$12.72/oz silver equivalent (including site operating costs, smelter costs, sustaining capital and NSR payments); and
 - Pre-tax payback of 1.6 years after start-up, and 2.3 years after-tax payback.

At a 150 g/t Ag equivalent cut-off, the new resource estimate for all veins is:

- Indicated -- 1.1Mt at 76.5 g/t Ag, 2.5% Pb and 6.4% Zn = 423 g/t Ag equiv or 15.2 Moz Ag equiv
Inferred -- 3.3Mt at 64.8 g/t Ag, 1.9% Pb and 4.9% Zn = 326 g/t Ag equiv or 34.3 Moz Ag equiv

NOTE: The PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There can therefore be no certainty that the PEA will be realized. It is also important to note that mineral resources that are not mineral reserves do not have demonstrated economic viability.

- On October 2, 2014, the Company finalized and closed the \$28.4 million Pre-paid Silver Purchase Agreement with JMET, LLC ("JMET") ("the JMET Agreement"). The funds were to advance the development of the Company's San Felipe Project.
- On November 24, 2014 and April 1, 2015, the Company and JMET amended the JMET Agreement such that the Company repaid JMET \$9.0 million on November 24, 2014 and \$2.0 million on April 1, 2015. Under the amended terms the Company must repay JMET a further \$5.0 million on or before December 31, 2015. In addition, the amount of future silver production to be delivered to JMET reduced from 4,635,000 ounces to 2,600,000 ounces.

Tailings Discharge

On January 2, 2015 a tailings decant line running from the Rosario Mine tailings impoundment to a secondary settling pond ruptured causing an estimated 2,000 m³ of tailings pulp to be discharged outside of the tailings storage facility.

Representatives of PROFEPA (the Mexican Federal Agency for Environmental Protection) were immediately contacted and were onsite from time to time to observe and make recommendations with respect to the Company's remediation procedures. As part of this process PROFEPA set out the necessary steps the Company had to take to resume operations. These steps included completing a full remediation

of the spill area and delivering an engineering report outlining steps for the continued use of the existing tailings storage system or such other alternative solution as is appropriate.

On March 26, 2015 the Company announced that it had received approval from PROFEPA and SEMARNAT (Mexico's environmental regulatory authorities) to resume operations at its Rosario Mine. The approval was received following completion of the remediation and cleanup of the above referenced tailings pulp discharge.

The Company also advised at that time that the tailings structure had been stabilized with remaining work focused on definitively sealing the decant system. Once sealing of the decant system is complete, a full analysis of the tailings facility will be undertaken by Tierra Group International Ltd. to determine whether the existing tailings storage facility can be safely recommissioned. In the interim, an alternate system that utilizes a geotextile containment system to dewater and store tailings is being used until a permanent solution is determined. Production has resumed at 350 tpd and the plan is to increase to 450 tpd in a systematic manner over the coming weeks.

In connection with the tailings discharge incident the Company was initially advised by PROFEPA that it would be fined an amount equivalent to approximately \$180,000. Subsequently the Company has been advised by PROFEPA that the amount of the fine has been decreased to approximately \$130,000. Pursuant to applicable regulations, certain remediation and community related expenses incurred by the Company will be offset against the fine.

Management Changes

On April 10, 2014, the Company reported that Mr. Federico Villaseñor had been appointed to the Company's Board of Directors. Mr. Villaseñor holds a B.Sc. in Mining and Metallurgy from the University of Guanajuato, a M.S. of Mineral Economics from Columbia University and a Finance Degree from The Instituto Tecnológico Autónomo de Mexico. His career has spanned 40 years in the mining industry, including roles with Peñoles, Grupo Mexico, Goldcorp and as Director of Starcore International Mines Ltd. He has also participated as a Member of The Board in The Mexican Mining Chamber over several periods.

On August 13, 2014, the Company announced the appointment of Mr. Robert Byrd to the position of Chief Operating Officer of the Company effective August 11, 2014. Mr. Byrd is a Mining Engineer with more than 30 years of experience in the mining industry and most recently served as the Country Manager for Mexico with Silver Standard Resources where he was responsible for the advancement and development of the Pitarrilla deposit in Durango, Mexico. Previously, Mr. Byrd served in senior management roles in mines in the US, Central and South America as well as in southern Europe. He is a graduate in Mining Engineering from the Colorado School of Mines.

Mr. Byrd replaces Mr. Francisco Ramos, who stepped down from his position as COO to pursue other opportunities in the mining industry. Mr. Ramos will be available to the Company as a consultant in order to ensure an orderly transfer of responsibilities of this operational role to Mr. Byrd.

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 9 of the 2014 Annual Financial Statements. The property covers 500 hectares.

Production and Operating Results for the Fourth, Third, Second and First Quarter 2014

	Q4	Q3	Q2	Q1	Year ended Dec 31, 2014
Ore Processed (tonnes milled) ⁽⁵⁾	25,099	23,677	22,612	20,447	91,835
Silver Equivalent Produced (ounces) ⁽¹⁾	244,200	192,400	168,300	160,600	765,500
Silver Equivalent Sold (payable ounces) ⁽²⁾	263,300	188,100	148,800	121,800	722,000
Production - Silver (ounces) ⁽⁵⁾	158,564	115,455	100,240	94,312	468,571
- Gold (ounces) ⁽⁵⁾	310	94	104	166	674
- Lead (tonnes) ⁽⁵⁾	201	191	171	186	749
- Zinc (tonnes) ⁽⁵⁾	453	514	437	367	1,771
Average Ore Grade – Silver (g/t)	212	161	153	167	175
– Gold (g/t)	0.14	0.16	0.21	0.33	0.31
– Lead (%)	1.03	0.91	0.86	1.02	0.96
– Zinc (%)	3.01	2.39	2.29	2.34	2.54
Metal Recovery – Silver (%)	93.3	90.0	89.9	85.7	90.8
– Gold (%)	74.5	79.0	70.4	77.3	83.3
– Lead (%)	90.6	86.1	88.2	89.7	88.7
– Zinc (%)	86.1	81.7	84.4	76.8	82.8
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾⁽⁶⁾	15.08	18.13	22.17	25.04	19.02
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾⁽⁶⁾	20.68	23.68	29.70	35.49	25.82
Cash Cost of Production per Tonne ⁽³⁾⁽⁶⁾	116.50	97.81	128.75	110.94	113.46

⁽¹⁾ Silver equivalent ounces produced in 2014 are calculated using prices of US\$20.00/oz., US\$1,250/oz., US\$0.96/lb and US\$0.90/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, second and first quarters of 2014 were calculated using realized silver prices of US\$16.15/oz., US\$19.55/oz., US\$19.76/oz. and US\$20.55/oz. respectively, 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.

⁽⁴⁾ Average Realized Silver Price per Ounce is prior to all treatment, smelting and refining charges.

⁽⁵⁾ The 2014 Q1 production figures include 11,453 tonnes of third party ore that produced 34,945 ounces Ag; 92 ounces Au; 83 tonnes Pb; and 200 tonnes Zn. The 2014 Q2 production figures include 4,025 tonnes of third party ore that produced 11,552 ounces Ag; 23 ounces Au; 22 tonnes Pb; and 85 tonnes Zn. Not included in the 2014 Q3 production figures is 1,146 ounces Ag and 327 ounces Au included in third party precipitate purchased and processed.

⁽⁶⁾ During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, \$735,096 was capitalized to Plant and Equipment during the second quarter. Included in this amount was \$486,514 relating to the first quarter of 2014. For the purposes of this comparison the referenced 2014 first quarter and second quarter figures have been adjusted to reflect this change.

Mill throughput in the fourth quarter increased by approximately 6% as compared to the third quarter at an average silver grade of 212 g/t exiting at approximately 273 tonnes per day (tpd)) with head grades of 282 g/t silver; 0.6 g/t gold; 0.86% lead; and 3.06% zinc. In late November commissioning of the third ball mill commenced and was completed by end of December increasing grinding capacity to approximately 700 tpd.

Cash cost per silver equivalent ounce sold (see Non-IFRS Measures for definition) during the fourth quarter (\$15.08) was approximately 17% less than in the third quarter. This improved performance arose in part from increased mill throughput tonnage; in part from higher head grades of ore processed; and in part because the average price of silver realized in the fourth quarter decreased by approximately 17.3% as compared to the third quarter while the aggregate weighted average price of zinc, lead and gold decreased by approximately 7.5%, offset by an approximate 16% increase in the Cash Cost of Silver Equivalent Sold. The Cash Cost of Silver Equivalent Sold increased in part as a result of a 6% increase in tonnes of ore milled and in part from increased mine development costs incurred during the quarter.

Cash cost of production per tonne (see Non-IFRS Measures for definition) during the fourth quarter (\$116.50) was approximately 19% greater than in the third quarter primarily as the result of a 26% increase in the Cash Cost of Production. The Cash Cost of Production increased in part as a result of a 6% increase in tonnes of ore milled and in part from increased mine development costs incurred during the quarter.

Resource Expansion

In connection with the Main Access Ramp development, management initially planned a 4,000 metre underground drilling program for early 2015 to test the Rosario Mine to depth. During February of 2015 the decision was taken to complete this work using a surface drill and by early April 2015 a drill contractor had been mobilized to site and commenced a 17- hole, 4200 metre surface drilling program. Currently the Rosario Mine has only been drilled to a depth of approximately 200 metres.

Resource and Exploration Update

San Felipe Project, 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 and September 4, 2014 (the "San Felipe Agreement"). Details of the acquisition terms are included in note 10(b) to the 2014 Annual 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 NI43-101 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.

A summary of the new resource at various cut-offs is given in the table below. The San Felipe vein and two hanging wall structures are combined in the table. In addition to silver, lead and zinc, the veins contain low amounts of copper and anomalous gold. Since test work has not been able to produce an economic copper concentrate and gold values are too low to be significant, the values for these metals have not been considered at this time. The NI43-101 report provides details for an estimate that the San Felipe Project contains a mineral resource of 1.2 million metric tonnes of indicated mineralization and 4.0 million metric tonnes of inferred mineralization, containing 15.6 million and 37.5 million troy ounces of silver equivalent, respectively, above a cutoff grade of 125g AgEq/t.

Zone	Classification	Cut-off AgEq (g/t)	Tonnes > Cut-off (tonnes)	Grades > Cut-off (g/t)				
				Ag (g/t)	Pb (%)	Zn (%)	AgEq (g/t)	AgEq (oz)
Ventana	Indicated	125	893,000	69.03	2.79	6.43	434.11	12,464,000
Las Lamas	Indicated	125	98,000	71.14	0.23	4.90	265.66	837,000
San Felipe	Indicated	125	223,000	86.55	1.59	4.94	326.66	2,342,000
Total	Indicated	125	1,214,000	72.42	2.36	6.03	400.77	15,643,000
Ventana	Inferred	125	1,582,000	55.48	2.46	5.56	373.14	18,979,000
Las Lamas	Inferred	125	402,000	92.72	0.35	5.36	309.24	3,997,000
San Felipe	Inferred	125	1,355,000	55.90	1.43	3.67	244.20	10,638,000
Transversales	Inferred	125	662,000	49.74	1.45	2.09	182.78	3,890,000
Total	Inferred	125	4,001,000	58.41	1.73	4.33	291.56	37,504,000
Ventana	Indicated	150	826,000	73.04	2.92	6.81	458.27	12,170,046
Las Lamas	Indicated	150	84,000	76.18	0.25	5.29	286.28	773,145
San Felipe	Indicated	150	208,000	90.6	1.65	5.15	340.66	2,278,113
Total	Indicated	150	1,118,000	76.54	2.48	6.39	423.47	15,221,304
Ventana	Inferred	150	1,443,000	58.97	2.59	5.92	395.94	18,369,039
Las Lamas	Inferred	150	383,000	95.27	0.36	5.5	317.54	3,910,101
San Felipe	Inferred	150	987,000	66.15	1.55	4.36	284.01	9,012,422
Transversales	Inferred	150	460,000	54.97	1.66	2.27	202.82	2,999,572
Total	Inferred	150	3,273,000	64.82	1.88	4.89	325.87	34,291,134
Ventana	Indicated	175	764,000	77.29	3.05	7.18	482.1	11,841,896
Las Lamas	Indicated	175	70,000	81.98	0.27	5.77	311.19	700,349
San Felipe	Indicated	175	192,000	95.17	1.7	5.39	355.74	2,195,961
Total	Indicated	175	1,026,000	80.96	2.61	6.75	446.79	14,738,206
Ventana	Inferred	175	1,327,000	62.17	2.7	6.24	416.36	17,763,587
Las Lamas	Inferred	175	356,000	98.63	0.37	5.71	329.13	3,767,109
San Felipe	Inferred	175	798,000	73.26	1.63	4.88	312.88	8,027,336
Transversales	Inferred	175	309,000	58.37	1.87	2.5	223	2,215,410
Total	Inferred	175	2,790,000	69.57	2.00	5.37	354.22	31,773,442
Ventana	Indicated	200	721,000	80.53	3.14	7.46	499.88	11,587,554
Las Lamas	Indicated	200	59,000	89.50	0.30	6.17	334.94	635,345
San Felipe	Indicated	200	175,000	100.12	1.75	5.65	372.07	2,093,406
Total	Indicated	200	955,000	84.67	2.71	7.05	466.27	14,316,305
Ventana	Inferred	200	1,220,000	65.34	2.83	6.54	436.41	17,117,694
Las Lamas	Inferred	200	322,000	103.55	0.39	5.96	344.41	3,565,516
San Felipe	Inferred	200	629,000	83.24	1.69	5.49	347.03	7,017,920
Transversales	Inferred	200	200,000	58.74	2.19	2.64	241.34	1,551,851
Total	Inferred	200	2,371,000	74.72	2.14	5.85	383.75	29,252,981

Since the veins contain different metals, a silver equivalent value cut-off is given in the resource tables to better compare value. The metal prices used in the silver equivalent estimation are from a 100 day moving average as of June 3, 2014, and are listed below. The metal prices and recoveries used for the silver equivalents in the resource estimation vary somewhat from those used in the PEA as the resource was done earlier and the PEA includes some new information.

	<i>Price</i>	<i>Factor</i>
Ag -	US\$ 20.06 per ounce	0.64 \$/g
Pb -	US\$ 0.96 per pound	21.16 \$/%
Zn -	US\$ 0.92 per pound	20.28 \$/%

The recoveries used in the resource estimation for each metal within each vein are shown below.

Zone	Silver Recovery (%)	Lead Recovery (%)	Zinc Recovery (%)
Ventana	70	86	87
Las Lamas	73	82	88
San Felipe/Transversales/	69	86	79

The equation used to establish Ag Equivalent is:

$$AgEq = \frac{(Ag\ ppm \times 0.64 \times Ag\ Rec\ %) + (Pb\% \times 21.16 \times Pb\ Rec\ %) + (Zn\% \times 20.28 \times Zn\ Rec\ %)}{0.64 \times Ag\ Rec\ \%}$$

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

Exploration and Acquisition Costs

During the year ended December 31, 2014, Santacruz incurred mineral property acquisition costs and exploration expenditures of \$3,000,000 and \$5,904,013 respectively at the San Felipe Project.

The Company plans to complete additional fieldwork, technical studies and permitting activities in preparation for taking a development decision 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 10(a) of the 2014 Annual 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 work has been performed on the property since then.

The Gavilanes Property is an intermediate sulphidation (silver-base metal-gold) vein system, with veining identified within a 2.2 km² area. The present resource estimate covers only an approximately 0.2 km² surface area. Three domain types were used for the resource estimate – Vein, Hangingwall (HW) / Footwall (FW) and Stockwork (stx). Based upon a 75 gram per tonne (“g/t”) silver equivalent (“AgEq”) cut-off, the resources on three of seven known veins, Guadalupe, Descubridora and San Nicolas, as well as the El Hundido stockwork are as follows:

	(tonnes)	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)	AgEQ (g/t)	AgEq Oz
Indicated	953,000	164.6	0.09	0.06	0.42	0.41	200.5	6,143,000
Inferred	5,399,000	124.6	0.12	0.09	0.40	0.34	163.0	28,294,000

*AgEq is the silver equivalent in ppm used to calculate the cutoff. The silver equivalent was calculated with the following equation:

$$AgEq = \frac{(Cu\% \times 71.65) + (Pb\% \times 21.38) + (Auppm \times 42.37) + (Agppm \times 0.69) + (Zn\% \times 19.18)}{0.69}$$

The metal prices used in the silver equivalent estimate are listed below.

		Factor
Ag	US\$ 21.55 per ounce	0.69 \$/gm
Au	US\$ 1318.00 per ounce	42.37 \$/gm
Cu	US\$ 3.25 per pound	71.65 \$/%
Pb	US\$ 0.97 per pound	21.38 \$/%
Zn	US\$ 0.87 per pound	19.18 \$/%

100% recovery has been assumed for all metals in this silver equivalent estimate. At this stage of the project no metallurgy has been completed and the reader is cautioned that 100% recoveries are never achieved.

Highlights of the mineral resource estimate are as follows:

- Indicated mineral resources of 6,143,000 AgEq ounces from 953,000 tonnes grading 200 g/t AgEq at a 75 g AgEq cut-off;
- Inferred mineral resource of 28,294,000 AgEq ounces from 5.3 million tonnes grading 163 g/t AgEq at a 75 g AgEq cut-off;
- Veins remain open along strike and to depth with intermittent surface exposures indicating an untested strike length;
- The El Hundido stockwork zone is open down-dip and to the south; and
- Four unexplored veins offer additional potential.

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 year ended December 31, 2014, mineral property acquisition costs and exploration costs were \$1,800,000 and \$247,966 respectively for the Gavilanes Property.

El Gachi Property, 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.

(Expressed in US Dollars except ounces, tonnes, per ounce and per tonne)	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Year ended Dec 31, 2014
Cash cost of sales (as reported)	3,053,497	2,302,029	2,181,546	2,965,608	10,502,680
Capitalized Q1 2014 Ramp Expenditures ⁽¹⁾	-	-	486,514	(486,514)	-
Inventory change	(21,634)	(236,548)	249,724	(210,701)	(219,159)
NRV adjustment of inventory	183,262	401,368	74,919	-	659,549
Other	(291,000)	-	-	-	(291,000)
Cost of third party precipitate acquired and processed	-	(150,956)	(81,378)	-	(232,334)
Cash Cost of Production (A)	2,924,125	2,315,893	2,911,325	2,268,393	10,419,736
Cash cost of sales (as reported)	3,053,497	2,302,029	2,181,546	2,965,608	10,502,680
NRV adjustment of inventory	183,262	401,368	74,919	-	659,549
Other	(291,000)	-	-	-	(291,000)
2014 Q1 Capitalized Ramp Expenditures ⁽¹⁾	-	-	486,514	(486,514)	-
Concentrate treatment, smelting and refining cost	1,025,981	858,735	638,005	571,178	3,093,899
Cost of third party precipitate acquired and processed	-	(150,956)	(81,378)	-	(232,334)
Cash Cost of Silver Equivalent Sold (B)	3,971,740	3,411,176	3,299,606	3,050,272	13,732,794

Ore processed (tonnes milled) (C)	25,099	23,677	22,612	20,447	91,835
Cash Cost of Production per Tonne⁽²⁾ (A/C)	116.50	97.81	128.75	110.94	113.46
Silver Equivalent Sold (payable ounces) (D)	263,300	188,100	148,800	121,800	722,000
Cash Cost per Silver Equivalent Ounce (B/D)	15.08	18.13	22.17	25.04	19.02

⁽¹⁾ During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, \$735,096 was capitalized to Plant and Equipment during the second quarter. Included in this amount was \$486,514 relating to the first quarter of 2014.

All-in Sustaining Cost per Ounce

All-in Sustaining Cost (“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 excludes all expenditures at the San Felipe Project and Gavilanes and El Gachi Properties, 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 US Dollars except ounces and per ounce)	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Year Ended Dec 31, 2014
Cash cost of sales (as reported)	3,053,497	2,302,029	2,181,546	2,965,608	10,502,680
NRV adjustment of inventory	183,262	401,368	74,919	-	659,549
Other	(291,000)	-	-	-	(291,000)
Concentrate treatment, smelting and refining cost	1,025,981	858,735	638,005	571,178	3,093,899
Cost of third party precipitate acquired and processed	-	(150,956)	(81,378)	-	(232,334)
Sustaining capital expenditures	107,107	201,183	235,785	62,085	606,160
Deferred ramp expenditures	770,904	169,000	735,096	-	1,675,000
General and administrative expenses	584,298	662,197	625,178	713,117	2,584,790
Accretion of decommissioning and restoration provision	9,833	10,402	10,487	10,296	41,018
All-in Sustaining Cost	5,443,882	4,453,958	4,419,638	4,322,284	18,639,762
Silver Equivalent Sold (payable ounces)	263,300	188,100	148,800	121,800	722,000
All-in Sustaining Cost per Silver Equivalent Ounce Sold	20.68	23.68	29.70	35.49	25.82

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 US Dollars except ounces, tonnes, per equivalent ounce and per tonne)	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Year Ended Dec 31, 2014
Revenues (as reported)	3,225,927	3,167,067	2,302,056	1,931,567	10,626,617
Add back: Treatment, smelting and refining charges	1,025,981	858,735	638,005	571,178	3,093,899
Deduct: Precipitate revenues	-	(349,814)	-	-	(349,814)
Gross Revenues	4,251,908	3,675,988	2,940,061	2,502,745	13,370,702
Silver Equivalent Sold (ounces)	263,300	188,100	148,800	121,800	722,000
Avg Realized Price per Ounce of Silver Equivalent Sold⁽¹⁾	16.15	19.55	19.76	20.55	18.52
Avg Market Price per Ounce of Silver per London Silver Fix	16.47	19.74	19.62	20.49	19.08

⁽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.

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 2014 Q1, Q2, Q3 and Q4 Financial Statements:

(Expressed in US 000's Dollars)	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Year Ended Dec 31, 2014
Net loss for the period as reported	(4,498)	(1,054)	(1,092)	(2,062)	(8,706)
Add (Deduct) Capitalized Q1 2014 Ramp Expenditures ⁽¹⁾	-	-	(487)	487	-
Income tax expense (recovery)	858	24	30	(41)	871
Interest earned and other finance income	(792)	(51)	(54)	(39)	(936)
Interest expense and loss on settlement of silver loan	3,280	-	-	-	3,280
Accretion expense	10	10	11	10	41
Amortization and depletion of mineral properties, plant and equipment	282	440	456	315	1,493
EBITDA	(860)	(631)	(1,136)	(1,330)	(3,957)
Foreign exchange	380	190	(71)	61	560
Share-based payments	(115)	243	141	8	277
Adjusted EBITDA	(595)	(198)	(1,066)	(1,261)	(3,120)

⁽¹⁾ During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, \$735,096 was capitalized to Plant and Equipment during the second quarter. Included in this amount was \$486,514 relating to the first quarter of 2014.

Selected Annual Information

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

	2014	2013	2012
	\$	\$	\$
Cash	6,015,947	1,618,472	2,879,378
Working Capital (Deficiency)	(683,059)	6,979,805	1,729,525
Mineral Property Interests	53,567,516	42,354,137	15,213,035
Total Assets	86,965,460	61,012,018	25,926,144
Total Liabilities	29,972,340	5,615,950	3,039,716
Total Shareholders' Equity	56,993,120	55,396,068	22,886,428
Total Revenues	10,626,617	-	-
Net Loss	(8,705,753)	(6,319,332)	(18,424,919)
Net Loss Per Share (basic and diluted) ⁽¹⁾	(0.09)	(0.07)	(0.33)

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

Review of Operations

Year ended December 31, 2014

The Company recorded a net loss of \$8,705,753 (\$0.09 per share) for the year ended December 31, 2014, compared to the net loss of \$6,319,332 (\$0.07 per share) for the year ended December 31, 2013.

The Company recorded revenues of \$10,626,617, operating expenses of \$10,502,680, amortization and depletion expenses of \$1,484,916 and write-down to net realizable value of mined ore and concentrate inventory of \$659,549 for the year ended December 31, 2014. As the Company only began reporting the operating results of its Rosario Mine in its consolidated statement of loss and comprehensive loss effective January 1, 2014, no revenues and operating expenses were reported for the year ended December 31, 2013. The operations resulted in a net loss of \$2,020,528, in part because of a slower than anticipated ramp up of mine production; in part due to a delay in commissioning of the third ball mill; and in part due to weak metal prices.

Included in minesite operating expenses are \$561,381 of fees paid to a consulting firm that management engaged at the beginning of the year to assist in optimizing the mine operations. Substantially all of these fees were incurred by end of June and the contract has been completed.

During the year ended December 31, 2014 the Company capitalized approximately \$1,675,000 of expenditures on Ramp development.

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

- Administrative expenses of \$665,475 (2013 – \$491,239), management and consulting fees of \$713,964 (2013 – \$275,438), other expenses of \$20,486 (2013 – \$32,095), professional fees of \$574,381 (2013 – \$488,061). These expenses were higher during 2014 primarily due to increased activities at the Company's Mexican office in connection with the increased operations at the Rosario Mine and development of the San Felipe Project.
- Share-based payments of \$276,770 (2013 – \$675,205). 1,000,000 stock options were granted during the 2014 fiscal period as compared to 700,000 stock options granted in 2013. However, the fair value of the options granted in 2013 was higher due to a higher exercise price and share price at grant date.
- Shareholder communications of \$192,566 (2013 – \$431,259). These expenses decreased primarily as the result of decreased costs related to investor awareness initiatives.

- Travel expenses of \$119,032 (2013 – \$132,132). Travel expenses decreased in connection with a decrease in general corporate travel associated with industry conferences and investor meetings.

Summary of Quarterly Results

	THREE MONTHS ENDED			
	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014
	\$	\$	\$	\$
Revenues	3,225,927	3,167,067	2,302,056	1,931,567
Cost of sales ⁽²⁾	3,517,264	3,141,003	2,710,200	3,278,678
Administrative expenses	469,831	907,266	768,544	723,506
Net loss ⁽²⁾	(4,497,587)	(1,054,062)	(1,091,827)	(2,062,277)
Net loss per share ⁽¹⁾⁽²⁾	(0.05)	(0.01)	(0.01)	(0.02)
	THREE MONTHS ENDED			
	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013
	Nil	Nil	Nil	Nil
Revenues	Nil	Nil	Nil	Nil
Cost of sales	Nil	Nil	Nil	Nil
Administrative expenses	533,954	691,827	687,315	903,644
Net loss	(4,507,829)	(503,505)	(565,244)	(742,754)
Net loss per share ⁽¹⁾	(0.05)	(0.00)	(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⁾ Cost of sales are as reported. During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, \$735,096 was capitalized to Plant and Equipment during the second quarter. Included in this amount was \$486,514 relating to the first quarter of 2014. This adjustment has not been reflected in the first or second quarter operating expenses, net loss or net loss per share reported in this table.

During the three months ended December 31, 2013, the Company recorded deferred income tax expense of \$3,974,151 as a result of the Mexican tax reform enacted in December 2013.

Effective January 1, 2014, the Company began reporting the operating results of its Rosario Mine and accordingly began reporting revenues and operating expenses for the quarters ended March 31, June 30, September 30, 2014, and December 31, 2014 in its consolidated statement of loss and comprehensive loss.

The administrative expenses for the quarter ended December 31, 2014 were lower compared to the prior quarters due to an adjustment to share-based payments for stock options.

Fourth Quarter

Results of operations in the quarter ended December 31, 2014 were negatively impacted by a significant decrease in the prices of metals contained in the lead and zinc concentrates sold by the Company. From the third quarter to the fourth quarter of 2014 the average price realized by the Company for the metal it sold decreased by 17.3%, 8.5%, 11.2% and 3.8% respectively for silver, gold, lead and zinc. This significant price decrease had a corresponding negative impact on revenues in the quarter and a consequent negative impact on cash flows as well as contributing to weaker operating results.

The Company recorded a net loss of \$4,497,587 (\$0.05 per share) for the quarter ended December 31, 2014, as compared to a net loss of \$4,507,829 (\$0.05 per share) for the quarter ended December 31, 2013. The decrease in net loss on a quarter over quarter basis arose primarily from four items, being deferred income taxes, mine operating loss, interest earned and other finance income, and interest expense and other finance expense.

The 2013 loss includes a deferred income tax expense of \$3,974,151 as compared to \$858,119 in 2014. Conversely, the 2014 loss for the fourth quarter includes a gross loss of \$291,337 (\$nil in 2013 as there were no mining operations to report on); \$791,984 of interest earned and other finance income which arose primarily from a positive change in the fair value of derivative assets; and \$957,734 of interest expense related to the silver loan and \$2,321,969 of loss on settlement of the silver loan (\$nil expense in 2013 as the silver loan transaction did not occur until the fourth quarter of 2014).

Mexican Tax Reform

In late 2013, a new income tax law was enacted in Mexico (“Mexican Tax Reform”) which became effective January 1, 2014. Key provisions of the Mexican Tax Reform consist of:

- Imposes a new 7.5% mining royalty. This royalty is deductible for corporate income tax purposes and is calculated as 7.5% of a royalty base which is computed as taxable revenues (except interest and inflationary adjustment), less allowable deductions for income tax purposes (except interest, inflationary adjustment, depreciation and mining fees), less prospecting and exploration expenses of the year;
- Imposes a new environmental duty of 0.5% of gross income arising from the sale of gold and silver;
- Corporate income tax rate to remain at 30%, eliminating the scheduled reduction to 29% in 2014 and to 28% in 2015;
- Elimination of the Business Flat Tax (“IETU”);
- Elimination of the option for depreciation of capital assets on an accelerated basis;
- Elimination of 100% deduction on exploration expenses for locating and quantifying new deposits in pre-operating periods. These exploration costs will be amortized on a straight-line basis over 10 years;
- Reduction of deductibility for various employee fringe benefits; and
- Imposes a 10% withholding tax on dividends distributed to resident individuals or foreign residents (including foreign corporations). According to the Mexico-Canada tax treaty, this dividend withholding tax rate may be reduced to 5%.

The Company has taken the position that the new 7.5% mining royalty is an income tax in accordance with IFRS for financial reporting purposes, as it is based on a measure of revenue less certain specified costs.

Financing Activities

Equity Offerings

Details of equity financing activities in the year ended December 31, 2014 are as follows:

- On March 11, 2014, the Company closed a prospectus offering, pursuant to which 12,062,500 common shares were issued at a price of CDN\$1.00 per share for gross proceeds of \$10,864,694 (CDN\$12,062,500). The underwriters received a cash fee of \$651,882 (CDN\$723,750), as well as 723,750 warrants, each of which is exercisable to purchase one common share for a price of CDN\$1.00 until March 11, 2016 for 645,000 warrants and March 20, 2016 for 78,750 warrants. The Company also issued 100,000 common shares as corporate finance fee and incurred additional issue costs of \$318,653.

Details of equity financing activities in the year ended December 31, 2013 are as follows:

- On February 19, 2013, the Company closed a prospectus offering through a syndicate of underwriters (the “Underwriters”). The Company issued 21,850,000 common shares at a price of CDN\$1.85 per share for gross proceeds of \$39,949,557 (CDN\$40,422,500). The Underwriters received a cash fee of \$2,396,973, as well as 1,311,000 warrants, each of which is exercisable to purchase one common share for a price of CDN\$1.85 for a period of 24 months. The Company also issued 60,000 common shares as corporate finance fee and incurred additional issue costs of \$508,894.
- On August 16, 2013, the Company issued 1,250,000 common shares at an issue price of CDN\$1.07 per share as an option payment pursuant to the San Felipe Agreement.
- During the year ended December 31, 2013, the Company issued 324,545 common shares pursuant to exercise of warrants for total gross proceeds of \$231,849.

Pre-paid Silver Purchase

On October 2, 2014, the Company closed the JMET Agreement for gross proceeds of \$28.4 million 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.

On November 27, 2014 the parties amended the JMET Agreement such that the Company repaid JMET \$9.0 million upon execution of the amended agreement and agreed to repay \$7.0 million on or before April 1, 2015. In addition, the amount of silver to be sold to JMET reduced from 4,635,000 ounces to 2,600,000 ounces at an agreed upon discount to the spot price. The first delivery of silver to JMET is 52,000 ounces in July 2015, and sales of an additional 52,000 ounces shall occur each month through August 2019, at which point the contract will be fulfilled. On April 1, 2015, the Company repaid \$2.0 million of the \$7 million due and further amended the JMET Agreement to extend the repayment of the remaining \$5 million until December 31, 2015.

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

		Deliverable Amount Per Period		
Metal	Floor Price	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 MPPP does not limit the maximum price at which Santacruz may sell its production, which will allow it to benefit from any increase in metal prices. The cost to establish the initial MPPP was \$3.9 million.

Capital Expenditures

The Company spent \$12,665,895 on its mineral properties during the year ended December 31, 2014 (2013 – \$26,688,983). The Company also spent \$3,628,360 on acquisitions of plant and equipment during the year ended December 31, 2014 (2013 – \$5,691,908) including deferred Ramp expenditures of approximately \$1,675,000. The Company has made no dividend payments, and currently has no plans to declare any dividends.

Use of Proceeds from Previous Financings

During the 2013 fiscal year, the Company used the net proceeds of CDN\$37,997,150 from the 2013 financing (which included net proceeds from the exercise of the over-allotment option) as follows:

Use of Proceeds as stated in the short form prospectus from the 2013 Financing	Original Estimated Expenditure (Cdn\$)	Approximate Actual Expenditure (Cdn\$)
San Felipe Project		
Property payments	\$15,977,631	\$16,677,000
Surface and underground mapping and permitting	\$420,000	\$50,000
Drilling and related infrastructure	\$6,000,000	\$2,550,000
Development of ramps for bulk samples and underground drilling	\$1,600,000	-
Annual mining taxes, ejidal fees and sundry project costs	-	\$761,000
Pre-feasibility study	\$350,000	-
Subtotal:	\$24,347,631	\$20,038,000
Gavilanes Property		
Property payments	\$3,195,526	\$1,797,000
Mapping and sampling and staffing and site costs	\$400,000	\$260,000
Drilling and sample analysis	\$650,000	\$797,000
Updated resource estimate	\$150,000	\$50,000
Subtotal:	\$4,395,526	\$2,904,000
Rosario Mine		
Mill construction costs	-	\$1,997,000
Pre-production costs	-	\$6,267,000
Subtotal:	-	\$8,264,000
General		
Estimated offering costs	\$500,000	\$520,000
Administration expenses, including corporate and financial reporting, legal and compliance and accounting costs	\$900,000	\$862,000
General corporate communication and corporate development	\$500,000	-
Value added taxes paid on property payments, exploration and pre-production costs	-	\$5,409,150
General working capital ⁽¹⁾	\$7,353,993 ⁽¹⁾	-
Subtotal:	\$9,253,993	\$6,791,150
Total	\$37,997,150	\$37,997,150

⁽¹⁾ Net proceeds from the exercise of the over-allotment option were added to general working capital, as disclosed in the short form prospectus from the 2013 financing.

As noted in the table above, the Company used approximately \$8.3 million of the funds from the 2013 financing to fund ongoing pre-production and mill construction costs at the Rosario Mine. These expenditures were not included in the original estimate of use of proceeds and arose due to unforeseen delays in getting the Rosario Mine underground development sufficiently advanced to consistently supply the milling facility with ore at expected production rates. The Company delayed exploration drilling and other underground development work on the San Felipe Project as a result of the unexpected production delay at the Rosario Mine.

During the year ended December 31, 2014, the Company used the net proceeds of CDN\$11,338,750 from the March 2014 financing (which included net proceeds from the exercise of the over-allotment option) as follows:

Use of Proceeds as stated in the short form prospectus from the 2014 Financing	Original Estimated Expenditure (Cdn\$)	Approximate Actual Expenditure (Cdn\$)
San Felipe Project		
Property payments	-	\$1,067,000
Drilling and related infrastructure	\$500,000	\$500,000
Development of access ramps and preliminary tailings impoundment study	\$2,250,000	\$2,400,000
Pre-feasibility study	\$400,000	-
Subtotal:	\$3,150,000	\$3,967,000
Gavilanes Property		
Property payments	-	\$1,600,000
Mapping, drilling, sample analysis, metallurgy and related infrastructure	\$3,000,000	165,000
Subtotal:	\$3,000,000	\$1,765,000
Rosario Property		
Development of access ramps and plant expansion	-	\$1,200,000
Subtotal:	-	\$1,200,000
General		
Estimated offering costs	\$350,000	\$350,000
Administration expenses, including corporate and financial reporting, legal and compliance, accounting costs, general corporate communication and corporate development, and general working capital ⁽¹⁾	\$4,838,750	\$4,056,750
Subtotal:	\$5,188,750	\$4,406,750
Total	\$11,338,750	\$11,338,750

⁽¹⁾ Net proceeds from the exercise of the over-allotment option were added to general working capital, as disclosed in the short form prospectus from the 2014 financing.

Liquidity and Capital Resources

As at December 31, 2014, the Company had cash and cash equivalents of \$6,015,947 (December 31, 2013 – \$1,618,472) and a working capital deficiency of \$683,059 (December 31, 2013 – working capital of \$6,979,805). During the year ended December 31, 2014, net cash used in operating activities was \$3,048,543, net cash used in investing activities was \$16,294,255 primarily for acquisitions of mineral property interests, plant and equipment, and costs relating to the exploration activities on its mineral properties; and net cash provided by financing activities including proceeds from issuance of common shares and the Silver Loan was \$23,811,393.

Pursuant to the terms of the underlying mineral property agreements to the Rosario Mine (Note 9 to the 2014 Annual Financial Statements), in order to maintain and exercise the option the Company must make aggregate cash payments of \$60,000 on or before February 22, 2016.

Pursuant to the terms of the Gavilanes property agreement (Note 10(a) to the 2014 Annual Financial Statements), in order to maintain and exercise the option the Company must make the remaining payment of \$820,000, but the Company is currently re-negotiating the extension of the remaining payment.

Pursuant to the terms of the San Felipe Agreement (Note 10(b) to the 2014 Annual Financial Statements), in order to maintain and exercise the option, the Company must make further aggregate cash payments of approximately \$19,000,000 on or before December 15, 2016.

On October 2, 2014, the Company, as amended November 27, 2014, also closed a \$14.5 million Pre-paid Silver Purchase Agreement (inclusive of the cost of a portion of the MPPP) to sell 2,600,000 ounces of silver through August 2019, subject to certain adjustments relating to metal prices.

At December 31, 2014, the Company had not yet achieved profitable operations, had a working capital deficiency of \$683,059, had accumulated an inception to date deficit of \$34,034,102 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 raise adequate funding through equity or debt financings to discharge its liabilities as they come due. The Company has 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.

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
- Pref-Ex Geological Inc., a company owned by Marc Prefontaine, a director of the Company

During the year months ended December 31, 2014 and 2013, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	2014	2013
	\$	\$
Accounting and corporate secretarial fees ⁽¹⁾	195,563	148,844
Directors' fees ⁽²⁾	106,463	102,183
Management fees ⁽²⁾	336,487	170,535
Share-based payments	263,275	329,020
Salaries and benefits capitalized in mine under construction and development costs ⁽³⁾	318,194	233,160

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

⁽²⁾ The charge includes geological consulting fees paid to Pref-Ex Geological Inc. and directors' fees paid to Marc Prefontaine, James Hutton, and Craig Angus.

⁽³⁾ The charge includes management fees paid to Arturo Préstamo Elizondo, the Chief Executive Officer, and salaries and benefits paid to Robert Byrd, the Chief Operating Officer, and Francisco Ramos, the former Chief Operating Officer, which were capitalized in mine property during the 2013 fiscal year.

At December 31, 2014, accounts payable and accrued liabilities include an amount of \$114,994 (December 31, 2013 – \$28,333), due to Malaspina Consultants Inc. for accounting services, Robert Byrd for management fees, and Marc Prefontaine, James Hutton, and Craig Angus for directors' fees.

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

The classification of the financial instruments as well as their carrying values as at December 31, 2014 and 2013 is shown in the table below:

	Loans and Receivables	FVTPL	Other Financial Liabilities	Total
At December 31, 2014	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	6,015,947	-	-	6,015,947
Trade and other receivables	896,513	-	-	896,513
Holdback receivable	800,000	-	-	800,000
Derivative assets	-	4,377,345	-	4,377,345
Total financial assets	7,712,460	4,377,345	-	12,089,805
Financial liabilities				
Accounts payable and accrued liabilities	-	-	2,919,652	2,919,652
Silver loan	-	-	21,590,317	21,590,317
Total financial liabilities	-	-	24,509,969	24,509,969

	Loans and Receivables	FVTPL	Other Financial Liabilities	Total
At December 31, 2013	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	1,618,472	-	-	1,618,472
Trade and other receivables	411,687	-	-	411,687
Total financial assets	2,030,159	-	-	2,030,159
Financial liabilities				
Accounts payable and accrued liabilities	-	-	1,045,846	1,045,846
Total financial liabilities	-	-	1,045,846	1,045,846

Fair Value and Classification of Financial Instruments

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

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

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

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

The carrying values of cash and cash equivalents, trade receivables, other receivables, and accounts payable and accrued liabilities, approximate their fair values because of their short term nature.

At December 31, 2014	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets measured at fair value				
Derivative assets	-	4,377,345	-	4,377,345
Financial liabilities measured at fair value				
Silver loan	-	-	14,590,317	14,590,317

Management of Risks Arising from Financial Instruments

The Company is exposed to credit risk and market risks including interest rate risk, liquidity risk, foreign exchange rate risk, and price risk.

Credit Risk – Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations. The Company’s credit risk consists primarily of cash and cash equivalents, trade receivables, other receivables, holdback receivable and derivative assets. The credit risk is minimized by placing cash with major financial institutions. Trade receivables are due from a large, multinational corporation that has conducted business in Mexico for many years. The Company regularly reviews the collectability of its trade receivables and contractually receives up to 90% advance on all payments. The Company considers the credit risk related to cash and cash equivalents and trade receivables to be minimal. The holdback receivable and derivative assets are expected to be collectible in full from the counterparty JMET, LLC based on the credit history of the counterparty.

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

Liquidity Risk – Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from equity offerings or debt financings to meet its operating requirements, after taking into account existing cash and expected exercise of stock options and share purchase warrants. The Company’s cash is held in business accounts which are available on demand for the Company’s programs. Refer to Note 1.

Contractual cash flow requirements as at December 31, 2014 were as follows:

	< 1	1 – 2	2 – 5	>5	Total
	year	years	years	years	\$
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,919,652	-	-	-	2,919,652
Silver loan	10,120,000	6,240,000	16,640,000	-	33,000,000
Minimum lease payments	71,710	84,551	39,061	-	195,322
Total	13,111,362	6,324,551	16,679,061	-	36,114,974

Contractual cash flow requirements as at December 31, 2013 were as follows:

	< 1 year \$	1 – 2 years \$	2 – 5 years \$	>5 years \$	Total \$
Accounts payable and accrued liabilities	1,045,846	-	-	-	1,045,846
Total	1,045,846	-	-	-	1,045,846

Foreign Exchange Rate Risk – The Company operates in Canada and Mexico but the majority of its cash held in Canada is denominated in US dollars. The Company is exposed to foreign exchange risk due to fluctuations in foreign currencies (US dollar and Mexican peso). Foreign exchange risk arises from financial assets and liabilities denominated in these foreign currencies. The sensitivity of the Company’s net loss to changes in the exchange rate between the US dollar and the Canadian dollar would be as follows: a 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company’s net loss by approximately \$1,000,000.

The Company’s financial assets and liabilities as at December 31, 2014 are denominated in Canadian dollars, US dollars, and Mexican pesos as follows:

	Canadian dollar \$	US dollar \$	Mexican peso \$	Total \$
Financial assets				
Cash and cash equivalents	14,034	5,958,799	43,114	6,015,947
Trade receivables	-	817,363	-	817,363
Other receivables	480	-	78,670	79,150
Holdback receivable	-	800,000	-	800,000
Derivative assets	-	4,377,345	-	4,377,345
	14,514	11,953,507	121,784	12,089,805
Financial liabilities				
Accounts payable and accrued liabilities	(522,630)	(7,000,000)	(2,397,022)	(9,919,652)
Silver Loan	-	(14,590,317)	-	(14,590,317)
	(522,630)	(21,590,317)	(2,397,022)	(24,509,969)
Net financial assets (liabilities)	(508,116)	(9,636,810)	(2,275,238)	(12,420,164)

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

Price Risk – This is the risk that the fair value of derivative financial instruments will fluctuate because of changes in commodity prices. These commodity prices are affected by numerous factors that are outside of our control such as: global or regional consumption patterns; the supply of, and demand for, these metals; speculative activities; the availability and costs of metal substitutes; inflation; and political and economic conditions, including interest rates and currency values.

The principal financial instruments that the Company holds that are impacted by commodity prices are the derivative assets. These derivatives settle monthly from January 2015 through the end of December 2016 for silver and January 2015 through the end of March 2015 for gold, lead and zinc.

A 10% increase in the silver, gold, lead and zinc prices as at December 31, 2014, with all other variables held constant, would have resulted in the following impact to our derivative asset and pre-tax net income:

	2014
	\$
10% increase in silver price	1,499,000
10% increase in gold price	38,000
10% increase in lead price	140,000
10% increase in zinc price	302,000

Off-balance Sheet Arrangements

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

Critical Judgements in Applying Accounting Policies

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

Economic Recoverability and Probability of Future Economic Benefits of Exploration, Evaluation and Development Costs

Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

Commencement of Commercial Production

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

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

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

Functional Currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency involves certain judgements to determine the primary economic environment of an entity. The Company re-evaluates the

functional currency of its entities when there is a change in events and conditions which previously determined the primary economic environment of an entity.

Collectability and Classification of Value Added Tax ("VAT") Recoverable

VAT recoverable is collectible from the government of Mexico. The collection of VAT is subject to risk due to the complex application and collection process and therefore, risk related to the collectability and timing of payment from the Mexican government. The Company uses its best estimates based on the facts known at the time and its experience to determine its best estimate of the collectability and timing of these recoveries. At December 31, 2014, \$2,121,297 of the balance is expected to be recoverable and collectible within twelve months from the year end and the remaining \$4,778,178 is expected to not be collected within twelve months and has been classified as non-current. Changes in the assumptions regarding collectability and the timing of collection could impact the valuation and classification of VAT recoverable.

Key Sources of Estimation Uncertainty

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

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

Mineral Resources Estimate

The life of the Rosario Mine is determined from the tonnes of ore that are available to be extracted at the end of each reporting period. The Company initially estimates the tonnes of ore available based on the findings of qualified, independent, mining professionals. These estimates are updated from time to time as additional technical and economic information becomes available. Factors that impact the computation of tonnes of ore available include the geological data on the size, depth and shape of the ore body, the prevailing and expected market price for the underlying metals to be extracted and the expected costs to extract and process the mined material. Changes in the mineable tonnes of ore available may impact the carrying value of mine property, exploration and evaluation properties, plant and equipment, site closure and reclamation provision and changes in the recognition of deferred tax amounts in addition to changes in the recognition of depreciation and depletion.

Review of Asset Carrying Values and Impairment Assessment

The assessment of the fair value of plant and equipment, mine property and exploration and evaluation properties requires the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair values could impact the impairment analysis.

Each asset or cash generating unit ("CGU") is evaluated every reporting period to determine whether there are any indicators of impairment. If any such indicators exist, which is often judgment-based, a formal estimate of recoverable amount is performed and an impairment charge is recognized to the extent

that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or CGU of assets is measured at the higher of fair value less costs of disposal (“FVLCTD”) or value in use (“VIU”).

The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, metal prices and forecasts, production budgets and forecasts, and life-of-mine estimates.

The determination of FVLCTD and VIU requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, discount rates, mineral resources, operating costs, taxes and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reversed with the impact recorded in profit or loss.

Based on the review of the Rosario Mine CGU for impairment indicators, it was identified that there were indicators that an impairment loss may have occurred at the Rosario Mine CGU, primarily as a result of the decline in silver commodity prices. The recoverable amount for Rosario Mine was determined by reference to a FVLCD model and exceeded the carrying value of the CGU at December 31, 2014. As such is the case, no impairment charge has been recognized in the profit or loss in 2014.

The recoverable amount of the Rosario Mine CGU is classified as level 3 under the fair value hierarchy. In arriving at FVLCD, post-tax cash flows expressed in real terms have been estimated until the end of the life of mine plan and discounted using an asset specific post-tax real discount rate of 10%.

Significant assumptions included within the FVLCD for Rosario mine include silver, gold, lead and zinc future prices, forecast production rates, discount rate, operating and capital costs and estimates of mineral resources including measured, indicated and a portion of inferred.

Year End Commodity Price Assumptions	2015	2016	2017	2018 and after
Silver (per oz)	17.25	18.25	19.00	19.00
Gold (per oz)	1,250	1,250	1,250	1,250
Lead (per lb)	0.93	0.83	0.83	0.83
Zinc (per lb)	1.09	1.25	1.25	1.25

The assumptions subject to the most estimation uncertainty for the FVLCD calculation is the commodity prices. To illustrate this sensitivity, the recoverable amount would be reduced by \$0.8 million if the commodity prices declined by 1% and the carrying value would exceed the recoverable amount if commodity prices declined greater than 3% with all other assumptions remaining equal.

Management’s impairment evaluation did not result in the identification of an impairment loss as at December 31, 2014. Although management believes the estimates applied in these impairment assessments are reasonable, such estimates are subject to significant uncertainties and judgments.

Fair value of derivative assets

The fair value of the derivative assets are determined using the Black-Scholes pricing model at each reporting period and changes in fair value recorded in profit and loss. The Black-Scholes pricing model utilizes assumptions including silver, gold, lead and zinc commodity price volatility and counterparty credit adjusted discount rate. Changes in these input assumptions can significantly affect the fair value estimate.

Decommissioning and Restoration Provision

Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation and exploration and development property. In addition, future changes to environmental laws and regulations may increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for site closure and reclamation. The provision represents management's best estimate of the present value of the future site closure and reclamation obligation.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total provision for future site closure and reclamation costs is subject to change based on amendments to laws and regulations, changes in technology, price increases and changes in interest rates, changes in mine life, and as new information concerning the Company's closure and reclamation obligations becomes available.

Deferred Taxes

The determination of the tax expense for the period and deferred tax assets and liabilities involves significant estimation and judgment by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Management also makes estimates of future earnings which affect the extent to which potential future tax benefits may be used. The Company is subject to assessments by various taxation authorities, which may interpret legislation differently. These differences may affect the final amount or the timing of the payment of taxes. The Company provides for such differences where known based on its best estimate of the probable outcome of these matters.

Share-based Payments

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

Changes in Accounting Policies Including Initial Adoption

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning before or on January 1, 2014. The following new standards, amendments and interpretations that have been adopted for the Company's current fiscal year have not had a material impact on the Company:

The amendments to IAS 32, *Financial Instruments: Presentation*, clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of set off in respect of its financial instruments. The Company has evaluated the impact of IAS 32 and has determined that it has no material impact on its financial statements.

In May 2013, the IASB issued IFRIC 21, *Levies* ("IFRIC 21"), an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for

the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company has evaluated the impact of IFRIC 21 and has determined that it has no material impact on its financial statements.

Outstanding Share Data

Authorized share capital: Unlimited number of Common Shares

All share information is reported as of April 28, 2015 in the following table.

Issued and Outstanding Common Shares				103,493,484
	Expiry Date	Exercise Price (CDN\$)		
Options	April 12, 2017	\$0.90	3,206,666	
	July 24, 2017	\$0.90	800,000	
	February 28, 2018	\$1.85	400,000	
	July 29, 2018	\$1.22	300,000	
	April 10, 2019	\$1.00	400,000	
	August 12, 2019	\$0.94	600,000	5,706,666
Warrants	March 11, 2016	\$1.00	645,000	
	March 20, 2016	\$1.00	78,750	723,750
Fully Diluted				109,923,900

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 year ended December 31, 2014 and this accompanying MD&A (together, the “Annual Filings”).

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

Risks and Uncertainties

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

Operational risks include: the Company may not be able to find and develop resources economically, the Company cannot guarantee title to its properties, the Company may have difficulty in marketing production and services, the Company must manage changing governmental laws and regulations, the

Company may have difficulty in hiring and retaining skilled employees and contractors, environmental hazards (including discharge of pollutants or hazardous chemicals), industrial accidents and occupational and health hazards, mechanical failures, the unavailability of materials and equipment, pit slope failures, unusual or unexpected rock formations, poor or unexpected geological or metallurgical conditions, poor or inadequate ventilation, failure of mine communication systems, poor water condition, interruptions to gas and electricity supplies, human error and adverse weather conditions, there is no assurance that the Company will acquire additional mineral properties and any acquisitions may expose the Company to new risks, and the mining industry is intensely competitive for the acquisition of new properties, access to capital and hiring of skilled personnel. The Company continuously monitors and responds to changes in these factors and seeks to adhere to all regulations governing its operations.

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

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

Outlook

During the fourth quarter of 2014 the Rosario Mine continued to steadily ramp up production and recorded a nominal negative cash flow from operations (\$11,000) notwithstanding a significant decrease in the price of silver, gold, zinc and lead during this period.. This positive event was overshadowed in early January with a malfunction in the Rosario Mine tailings storage facility that caused a suspension in operations at the mine from January 2nd to March 26th. With the recommencement of operations in late March the Company is once again focused for the near term on the continued increase of production at the Rosario Mine. The current plan is to increase production from an initial level of 350 tpd to 450 tpd in a systematic manner over the coming weeks.

Once the production level is stabilized at 450 tpd the Company expects to follow through on other operations optimization initiatives that have been deferred while operations staff focussed on bringing the Rosario Mine back into production.

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 information regarding the San Felipe and Gavilanes properties which is included in this MD&A has been reviewed and approved by Hans Smit, P.Ge of Hans Smit, P. Geo. Inc. or Gary Giroux , P.Eng. of Giroux Consultants Ltd.

Technical information regarding the Rosario Mine which is included in this MD&A has been reviewed and approved by Donald E. Hulse P.E. of Gustavson and is consistent with work published by Gustavson.

Other Information

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