



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the nine months ended September 30, 2014 prepared as of December 1, 2014, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2014 and the related notes thereto of Santacruz Silver Mining Ltd. ("the Company" or "Santacruz") ("the 2014 Q3 Financial Statements"), together with the audited consolidated financial statements of the Company for the year ended December 31, 2013 as well as the accompanying MD&A for the year then ended.

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

Forward-Looking Statements

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

Forward-looking information includes, but is not limited to, statements with respect to the future price of silver, gold and other metals and the effects thereof on the Company's mineral resources; statements relating to the potential mineralization and geological merits of the Company's Rosario mine (the "**Rosario Mine**"), San Felipe project (the "**San Felipe Project**") and Gavilanes property (the "**Gavilanes Property**" or "**Gavilanes Project**"), as described below; the Company's expected production and recoveries for its Rosario Mine; the expectations for the development of the main access ramp and the installation of a third ball to the milling facility at the Rosario Mine; expectations regarding the continuity of mineral deposits; the Company's goals regarding raising capital and developing its projects; the Company's proposed development and exploration plans for the San Felipe Project 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 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 1.8 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.

Third Quarter 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.
- During the quarter the Company recorded a mine operating profit of \$26,000 from operations at the Rosario Mine.
- Selected operating and financial information for the first, second and third quarters of 2014 is presented below:

	Q3	Q2	Q1	Nine Months Ended Sept 30
Operating				
Ore Processed (tonnes milled) ⁽¹⁾	23,677	22,612	20,447	66,736
Silver Equivalent Produced (ounces) ⁽²⁾	192,400	168,300	160,600	521,300
Silver Equivalent Sold (payable ounces) ⁽³⁾	188,100	148,800	121,800	458,700
Production Cost per Tonne ⁽⁴⁾⁽⁷⁾	97.81	128.75	110.94	112.32
Cash Cost per Silver Equivalent (\$/oz.) ⁽⁴⁾⁽⁷⁾	18.13	22.17	25.04	21.28
All-in Sustaining Cost per Silver Equivalent (\$/oz.) ⁽⁴⁾⁽⁷⁾	23.68	29.70	35.49	28.77
Average Realized Silver Price per Ounce (\$/oz.) ⁽⁴⁾⁽⁷⁾	19.55	19.76	20.55	19.88
Financial				
Revenue (\$000's)	3,167	2,302	1,931	7,401
Mine Operations Income (Loss) (\$000's) ⁽⁵⁾⁽⁷⁾	27	(895)	(861)	(1,729)
Net Loss (\$000's) ⁽⁷⁾	(1,054)	(1,579)	(1,575)	(4,208)
Net Loss Per Share – Basic (\$) ⁽⁷⁾	(0.01)	(0.01)	(0.02)	(0.04)
Adjusted EBITDA (\$000's) ⁽⁵⁾⁽⁷⁾	(198)	(1,066)	(1,261)	(2,525)

⁽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 third, second and first quarters of 2014 were calculated using realized silver prices of US\$19.55/oz., US\$19.76/oz. and US\$20.58/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 and Q3 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.

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- 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: \$2,000,000 on or before December 1, 2014; \$5,000,000 on or before December 1, 2015; and \$14,000,000 on or before December 15, 2016.

Pursuant to the Amending Agreement, in the event that the Company completes an equity offering of its securities in 2015, MHM is entitled to 30% of the net proceeds of the offering to a maximum of \$4,000,000, plus the \$5,000,000 referred to above. Any funds paid to MHM in excess of the \$5,000,000 would be applied against the outstanding balance of the December 2016 payment.

- 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 ("the JMET Agreement"). The funds were to advance the development of the Company's the San Felipe Project.
- On December 1, 2014, the Company reported that the JMET Agreement had been amended such that the Company repaid JMET \$9.0 million upon execution of the amended JMET Agreement and has agreed to repay \$7.0 million on or before April 1, 2015, reducing the upfront payment made by JMET to \$12.4 million and correspondingly reducing the amount of future silver production to be delivered to JMET from 4,635,000 ounces to 2,600,000 ounces.

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 8 of the 2014 Q3 Financial Statements. The property covers 500 hectares.

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

	Q3	Q2	Q1	Nine Months Ended Sept 30
Ore Processed (tonnes milled) ⁽⁵⁾	23,677	22,612	20,447	66,736
Silver Equivalent Produced (ounces) ⁽¹⁾	192,400	168,300	160,600	521,300
Silver Equivalent Sold (payable ounces) ⁽²⁾	188,100	148,800	121,800	458,700
Production - Silver (ounces) ⁽⁵⁾	115,455	100,240	94,312	310,007
- Gold (ounces) ⁽⁵⁾	94	104	166	364
- Lead (tonnes) ⁽⁵⁾	191	171	186	548
- Zinc (tonnes) ⁽⁵⁾	514	437	367	1,318
Average Ore Grade - Silver (g/t)	161	153	167	158
- Gold (g/t)	0.16	0.21	0.33	0.22
- Lead (%)	0.91	0.86	1.02	0.92
- Zinc (%)	2.39	2.29	2.34	2.34
Metal Recovery - Silver (%)	90.0	89.9	85.7	91.2
- Gold (%)	79.0	70.4	77.3	75.7
- Lead (%)	86.1	88.2	89.7	89.0
- Zinc (%)	81.7	84.4	76.8	82.7
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾⁽⁶⁾	18.13	22.17	25.04	21.28
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾⁽⁶⁾	23.68	29.70	35.49	28.77
Cash Cost of Production per Tonne ⁽³⁾⁽⁶⁾	97.81	128.75	110.94	112.32

⁽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.

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- (2) Silver equivalent sold ounces in the third, second and first quarters of 2014 were calculated using realized silver prices of US\$19.55/oz., US\$19.76/oz. and US\$20.58/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 increased by approximately 5% as compared to the second quarter at an average silver grade of 161 g/t exiting at approximately 273 tonnes per day (tpd) with average silver grade 161 g/t. Production increases have continued to be realized in the fourth quarter to date, averaging 293 tpd at an average silver grade of 213 g/t. In late November commissioning of the third ball mill commenced. Once this ball mill is online the milling facility crushing and grinding capacity will be increased to approximately 700 tpd. In January additional flotation cells will be installed increasing that circuit's capacity from 400 to 700 tpd. Management's plan is to augment ore produced by the Rosario Mine with third party ore.

Mill recoveries in the quarter met or exceeded planned levels. Silver recoveries are expected to remain at approximately 90% over the duration of the Rosario Mine life as the silver grade of the ore feed increases.

Cash cost per silver equivalent ounce sold (see Non-IFRS Measures for definition) during the third quarter (\$18.13) was approximately 18% and 28% less than in the second and first quarters respectively. This improved performance arose largely from increased mill throughput yielding increased metal production without realizing pro-rata cost increments..

Cash cost of production per tonne (see Non-IFRS Measures for definition) during the third quarter (\$97.81) was approximately 24% and 12% less than in the second and first quarters respectively again primarily as the result of increased production volume without realizing pro-rata increases in production costs.

Resource Expansion

In connection with the Main Access Ramp development, underground drill stations are planned for Levels 3 and 4 and a 4,000 metre underground drilling program to test the Rosario Mine to depth is now planned for early 2015. 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 9(b) to the 2014 Q3 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:

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

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

Exploration and Acquisition Costs

During the nine months ended September 30, 2014, Santacruz incurred mineral property acquisition costs and exploration expenditures of \$1,000,000 and \$4,383,681 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 9(a) of the 2014 Q3 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 nine months ended September 30, 2014, mineral property acquisition costs and exploration costs were \$1,500,000 and \$187,057 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 remain profitable even during times of declining commodity prices and provides more flexibility in responding to changing market conditions. In addition, a profitable operation results in the generation of positive cash-flows, which then 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)	Q3 2014	Q2 2014	Q1 2014	Nine Months Ended Sept 30, 2014
Operating expenses (as reported)	2,703,397	2,256,465	2,965,608	7,925,470
Capitalized Q1 2014 Ramp Expenditures ⁽¹⁾	-	486,514	(486,514)	-
Inventory change	(236,548)	249,724	(210,701)	(197,525)
Cost of third party precipitate acquired and processed	(150,956)	(81,378)	-	(232,334)
Cash Cost of Production (A)	2,315,893	2,911,325	2,268,393	7,495,611
Operating expenses (as reported)	2,703,397	2,256,465	2,965,608	7,925,470
2014 Q1 Capitalized Ramp Expenditures ⁽¹⁾	-	486,514	(486,514)	-
Concentrate treatment, smelting and refining cost	858,735	638,005	571,178	2,067,918
Cost of third party precipitate acquired and processed	(150,956)	(81,378)	-	(232,334)
Cash Cost of Silver Equivalent Sold (B)	3,411,176	3,299,606	3,050,272	9,761,054
Ore processed (tonnes milled) (C)	23,677	22,612	20,447	66,736
Cash Cost of Production per Tonne ⁽²⁾ (A/C)	97.81	128.75	110.94	112.32
Silver Equivalent Sold (payable ounces) (D)	188,100	148,800	121,800	458,700
Cash Cost per Silver Equivalent Ounce (B/D)	18.13	22.17	25.04	21.28

⁽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 Company’s new projects and 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, exploration and evaluation costs, 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)	Q3 2014	Q2 2014	Q1 2014	Nine Months Ended Sept 30, 2014
Operating expenses (as reported)	2,703,397	2,256,465	2,965,608	7,925,470
Concentrate treatment, smelting and refining cost	858,735	638,005	571,178	2,067,918
Cost of third party precipitate acquired and processed	(150,956)	(81,378)	-	(232,334)
Sustaining capital expenditures	201,183	235,785	62,085	499,053
Deferred ramp expenditures	169,000	735,096	-	904,096
General and administrative expenses	662,197	625,178	713,117	2,000,492
Accretion of decommissioning and restoration provision	10,402	10,487	10,296	31,185
All-in Sustaining Cost	4,453,958	4,419,638	4,322,284	13,195,880
Silver Equivalent Sold (payable ounces)	188,100	148,800	121,800	458,700
All-in Sustaining Cost per Silver Equivalent Ounce Sold	23.68	29.70	35.49	28.77

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)	Q3 2014	Q2 2014	Q1 2014	Nine Months Ended Sept 30, 2014
Revenues (as reported)	3,167,067	2,302,056	1,931,567	7,400,690
Add back: Treatment, smelting and refining charges	858,735	638,005	571,178	2,067,918
Deduct: Precipitate revenues	(349,814)	-	-	(349,814)

Gross Revenues	3,675,988	2,940,061	2,502,745	9,118,794
Silver Equivalent Sold (ounces)	188,100	148,800	121,800	458,700
Avg Realized Price per Ounce of Silver Equivalent Sold⁽¹⁾	19.55	19.76	20.55	19.88
Avg Market Price per Ounce of Silver per London Silver Fix	19.74	19.62	20.49	19.95

⁽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 and Q3 Financial Statements:

(Expressed in US 000's Dollars)	Q3 2014	Q2 2014	Q1 2014	Nine Months Ended Sept 30, 2014
Net loss for the period as reported	\$ (1,054)	\$ (1,092)	\$ (2,062)	\$ (4,208)
Add (Deduct) Capitalized Q1 2014 Ramp Expenditures ⁽¹⁾	-	(487)	487	-
Income tax expense (recovery)	24	30	(41)	13
Interest income	(51)	(54)	(39)	(144)
Accretion expense	10	11	10	31
Amortization and depletion of mineral properties, plant and equipment	440	456	315	1,211
EBITDA	(631)	(1,136)	(1,330)	(3,097)
Foreign exchange	190	(71)	61	180
Share-based payments	243	141	8	392
Adjusted EBITDA	\$ (198)	\$ (1,066)	\$ (1,261)	\$ (2,525)

⁽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.

Review of Operations

Nine months ended September 30, 2014

The Company recorded a net loss of \$4,208,166 (\$0.04 per share) for the nine months ended September 30, 2014, compared to the net loss of \$1,811,503 (\$0.02 per share) for the nine months ended September 30, 2013.

The Company recorded revenues of \$7,400,690, operating expenses of \$7,925,470 and amortization and depletion expenses of \$1,204,411 for the nine months ended September 30, 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 expenses were reported for the nine months ended September 30, 2013. The operations resulted in a mine operating loss of \$1,729,191, primarily because of a slower than anticipated ramp up of mine production and a delay in commissioning of the third ball mill.

Included in minesite operating expenses are \$598,700 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 nine-month period ended September 30, 2014 the Company capitalized approximately \$735,000 of expenditures on Ramp development.

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

- Administrative expenses of \$442,516 (2013 – \$398,379), management and consulting fees of \$544,272 (2013 – \$244,232), other expenses of \$152,941 (2013 – \$385), professional fees of \$413,601 (2013 – \$298,577). 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 \$393,124 (2013 – \$659,970). 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 \$116,243 (2013 – \$353,007). These expenses decreased primarily as the result of decreased costs related to investor awareness initiatives.
- Travel expenses of \$94,753 (2013 – \$110,233). Travel expenses decreased due to a decrease in management's travel between the Company's Canadian and Mexican offices.

Three months ended September 30, 2014

The Company recorded a net loss of \$1,054,062 (\$0.01 per share) for the three months ended September 30, 2014, compared to the net loss of \$503,505 (\$0.01 per share) for the three months ended September 30, 2013.

Importantly, during the third quarter the Company reported its first mine operating profit (\$26,064) from the Rosario Mine.

The Company recorded revenues of \$3,167,067, operating expenses of \$2,703,397 and amortization and depletion expenses of \$437,606 for the three months ended September 30, 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 expenses were reported for the three months ended September 30, 2013.

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

- Administrative expenses of \$157,877 (2013 – \$128,744), management and consulting fees of \$225,030 (2013 – \$68,973), and other expenses of \$50,094 (2013 – \$nil). 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.
- Shareholder communications of \$19,235 (2013 – \$83,517). These expenses decreased primarily as the result of decreased costs related to investor awareness initiatives.

Summary of Quarterly Results

	THREE MONTHS ENDED			
	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013
	\$	\$	\$	\$
Revenues	3,167,067	2,302,056	1,931,567	Nil
Operating expenses ⁽²⁾	2,703,397	2,256,465	2,965,608	Nil
Administrative expenses	907,266	768,544	723,506	520,005
Deferred exploration and development costs, and option payments (cash portion)	1,649,308	3,008,677	2,641,936	776,179
Net loss ⁽²⁾	(1,054,062)	(1,091,827)	(2,062,277)	(4,507,829)
Net loss per share ⁽¹⁾⁽²⁾	(0.01)	(0.01)	(0.02)	(0.05)
	THREE MONTHS ENDED			
	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012
Revenues	Nil	Nil	Nil	Nil
Operating expenses	Nil	Nil	Nil	Nil
Administrative expenses	691,827	687,315	903,644	645,510
Deferred exploration and development costs, and option payments (cash portion)	3,810,981	4,044,722	18,057,101	4,900,203
Net loss	(503,505)	(565,244)	(742,754)	(583,307)
Net loss per share ⁽¹⁾	(0.00)	(0.01)	(0.01)	(0.04)

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

⁽²⁾ Operating expenses 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 and September 30, 2014 in its consolidated statement of loss and comprehensive loss.

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 purpose, 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, 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 a deemed 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.

Details of equity financing activities in the nine months ended September 30, 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.

Pre-paid Silver Purchase

On October 2, 2014, the Company closed a \$28.4 million Pre-paid Silver Purchase Agreement (“the JMET Agreement”) with JMET, LLC (“JMET”) to sell 4,635,000 ounces of silver through August 2019, subject to certain adjustments relating to metal prices. As at September 30, 2014, \$160,742 of deferred financing costs have been incurred in relation to the JMET Agreement.

Subsequently, at the Company’s request, 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 has agreed to repay \$7.0 million on or before April 1, 2015, reducing the upfront payment made by JMET to \$12.4 million. In addition, the Company will now sell to JMET 2,600,000 ounces of silver 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.

In connection with the JMET Agreement and the amended JMET Agreement and with the purpose of guaranteeing cash flow, the Company has also entered into a minimum price protection program (“PPP”) 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 PPP are as follows:

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

The PPP 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 of the PPP was funded as to \$3.9 million by Santacruz and \$2.1 million by JMET.

Capital Expenditures

The Company spent \$7,299,921 on its mineral properties during the nine months ended September 30, 2014 (2013 – \$25,912,804). The Company also spent \$2,754,498 on acquisitions of plant and equipment during the nine months ended September 30, 2014 (2013 – \$4,294,650) including deferred Ramp expenditures of approximately \$735,000. 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 nine months ended September 30, 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 September 30, 2014, the Company had cash and cash equivalents of \$647,534 (December 31, 2013 – \$1,618,472) and working capital of \$4,222,593 (December 31, 2013 – \$6,979,805). During the nine months ended September 30, 2014, net cash used in operating activities was \$845,232, net cash used in investing activities was \$10,054,419 primarily for acquisitions of mineral property interests, plant and equipment, and costs relating to the exploration activities on its mineral properties; and net cash provided by issuance of common shares as part of financing activities was \$9,894,159.

Pursuant to the terms of the underlying mineral property agreements to the Rosario Mine (Note 8 to the 2014 Q3 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 9(a) to the 2014 Q3 Financial Statements), in order to maintain and exercise the option the Company must make aggregate cash payments of \$1,150,000 on or before December 17, 2014.

Pursuant to the terms of the San Felipe Agreement (Note 9(b) to the 2014 Q3 Financial Statements), in addition to cash payments of \$25,700,000 made to December 1, 2014, 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.

During the nine months ended September 30, 2014, the Company's operations did not generate positive cashflow. Until such time as the Rosario Mine begins generating positive cash flow the Company is reliant on its internal cash reserves and the resource capital markets in order to fund its activities.

On October 2, 2014, the Company, as amended November 27, 2014, also closed a \$12.4 million Pre-paid Silver Purchase Agreement to sell 2,600,000 ounces of silver through August 2019, subject to certain adjustments relating to metal prices.

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 three and nine months ended September 30, 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:

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	\$	\$	\$	\$
Accounting and corporate secretarial fees ⁽¹⁾	46,678	33,850	145,417	104,599
Directors' fees ⁽²⁾	24,108	18,756	73,066	79,703
Management fees and salaries and benefits capitalized in mine property ⁽³⁾	293,393	113,038	544,943	318,185
Share-based payments	138,495	-	138,495	331,060

⁽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 September 30, 2014, accounts payable and accrued liabilities include an amount of \$69,223 (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

Fair Value and Classification of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables, other receivables, and accounts payable and accrued liabilities. Cash and cash equivalents, trade receivables and other receivables are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are designated as other financial liabilities, which are measured

at amortized cost. The carrying values of the Company's financial instruments approximate their fair values due to the short-term nature of these instruments.

Off-balance Sheet Arrangements

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

Outstanding Share Data

Authorized share capital: Unlimited number of Common Shares

All share information is reported as of December 1, 2014 in the following table.

Issued and Outstanding Common Shares				103,493,484
	Expiry Date	Exercise Price (CDN\$)		
Options	May 10, 2015	\$0.90	300,000	
	April 12, 2017	\$0.90	4,806,666	
	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	7,606,666
Warrants	February 19, 2015	\$1.85	1,311,000	
	March 11, 2016	\$1.00	645,000	
	March 20, 2016	\$1.00	78,750	2,034,750
Fully Diluted				113,134,900

3,162,928 of the outstanding common shares are held in escrow.

Disclosure Controls and Procedures

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2014 and this accompanying MD&A.

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

Risks and Uncertainties

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

Operational risks include: the Company may not be able to find and develop resources economically, the Company cannot guarantee title to its properties, the Company may have difficulty in marketing

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

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

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

Outlook

During the third quarter of 2014 the Rosario Mine continued to steadily ramp up production and is approaching positive cash flow from operations. The near term focus of the Company is to continue increasing the production throughput at the Rosario Mine. To this end the Company has started commissioning its third ball mill, which is expected to run at designed capacity by mid-December. In early January a small expansion of the flotation circuit will be completed to accommodate the increased grinding capacity. At that point the mill throughput capacity will have been increased to 700 tonnes per day.

Once this significant upgrade to milling capacity is completed, management is confident that production levels at the Rosario Mine will increase in line with expectations. In addition to adding the third ball mill, management will continue with the optimization processes underway at the Rosario Mine as part of an ongoing effort to lower the production costs.

With respect to the San Felipe Project the Company will continue to complete additional fieldwork, technical studies and permitting activities in preparation for taking a development decision. These activities are expected to take approximately six months to complete.

Additional Disclosure for Venture Issuers without Significant Revenue

The Company provides disclosure related to capitalized or expensed exploration and development costs in the notes to the financial statements and disclosure related to general and administration expenses in the statements of loss and comprehensive loss. The Company has no expensed research and development costs nor deferred development costs.

Qualified Persons

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. Geo 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.