



**Condensed Interim Consolidated Financial Statements**  
**Three and Nine Months Ended September 30, 2012 and 2011**

(Unaudited – expressed in US Dollars)

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

|                                               |         | September 30,<br>2012 | December 31,<br>2011 |
|-----------------------------------------------|---------|-----------------------|----------------------|
|                                               | Note    | \$                    | \$                   |
| <b>ASSETS</b>                                 |         |                       |                      |
| <b>Current</b>                                |         |                       |                      |
| Cash and cash equivalents                     |         | 12,414,105            | 183,072              |
| Receivables                                   | 4       | 1,091,823             | 406,754              |
| Prepaid expenses                              |         | 58,357                | 10,638               |
| Deferred financing costs                      |         | -                     | 531,072              |
|                                               |         | 13,564,285            | 1,131,536            |
| <b>Plant and equipment</b>                    | 5       | 2,429,355             | 57,036               |
| <b>Mineral property interest</b>              | 6       | 3,569,433             | -                    |
| <b>Exploration and evaluation properties</b>  | 7       | 6,855,562             | 6,960,510            |
|                                               |         | 26,418,635            | 8,149,082            |
| <b>LIABILITIES</b>                            |         |                       |                      |
| <b>Current</b>                                |         |                       |                      |
| Accounts payable and accrued liabilities      |         | 294,006               | 170,567              |
| Due to shareholders                           | 8       | 67,879                | 564,322              |
| Share purchase warrants                       | 9(b)(v) | -                     | 1,154                |
|                                               |         | 361,885               | 736,043              |
| <b>Other long-term liabilities</b>            | 7(b)    | 2,516,465             | 2,960,540            |
|                                               |         | 2,878,350             | 3,696,583            |
| <b>SHAREHOLDERS' EQUITY</b>                   |         |                       |                      |
| <b>Share capital</b>                          | 9       | 37,000,206            | 4,886,038            |
| <b>Contributed surplus</b>                    | 9(d)    | 3,855,417             | 150,559              |
| <b>Accumulated other comprehensive income</b> |         | 47,017                | -                    |
| <b>Deficit</b>                                |         | (17,362,355)          | (584,098)            |
|                                               |         | 23,540,285            | 4,452,499            |
|                                               |         | 26,418,635            | 8,149,082            |

**Nature of Operations** (Note 1)  
**Commitments** (Notes 6, 7 and 9)  
**Subsequent Event** (Note 12)

**Approved on behalf of the Board:**

*"Arturo Préstamo Elizondo"*

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Director – Arturo Préstamo Elizondo

*"Craig A. Angus"*

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Director – Craig A. Angus

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

**Santacruz Silver Mining Ltd.**  
**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
For the three and nine months ended September 30, 2012 and 2011  
(Unaudited – expressed in US Dollars)

|                                                             | Note    | Three months<br>ended September 30 |           | Nine months<br>ended September 30 |           |
|-------------------------------------------------------------|---------|------------------------------------|-----------|-----------------------------------|-----------|
|                                                             |         | 2012                               | 2011      | 2012                              | 2011      |
|                                                             |         | \$                                 | \$        | \$                                | \$        |
| <b>General and administrative expenses</b>                  |         |                                    |           |                                   |           |
| Administrative                                              |         | 66,149                             | 11,714    | 522,748                           | 30,716    |
| Depreciation                                                |         | 2,959                              | 879       | 4,772                             | 1,936     |
| Management fees                                             | 10      | 55,833                             | 54,598    | 131,268                           | 105,003   |
| Other                                                       |         | 4,757                              | 13,858    | 9,088                             | 28,291    |
| Professional fees                                           |         | 93,638                             | 6,682     | 916,916                           | 60,264    |
| Salaries and benefits                                       |         | 33,910                             | 13,657    | 56,619                            | 22,201    |
| Share-based payments                                        | 9(e)    | 469,506                            | 66,000    | 3,250,422                         | 66,000    |
| Transfer agent and filing fees                              |         | 7,699                              | -         | 22,952                            | -         |
| Travel                                                      |         | 26,376                             | -         | 104,484                           | -         |
|                                                             |         | (760,827)                          | (167,388) | (5,019,269)                       | (314,411) |
| <b>Other income (expenses)</b>                              |         |                                    |           |                                   |           |
| Loss on derivative liabilities                              | 9(b)(v) | -                                  | -         | (3,495)                           | -         |
| Charge related to public company listing                    | 3       | -                                  | -         | (11,904,386)                      | -         |
| Foreign exchange (loss) gain                                |         | (16,021)                           | (98,021)  | 90,645                            | (89,455)  |
| Other income                                                |         | 46,828                             | -         | 92,069                            | -         |
|                                                             |         | 30,807                             | (98,021)  | (11,725,167)                      | (89,455)  |
| <b>Loss before income tax</b>                               |         | (730,020)                          | (265,409) | (16,744,436)                      | (403,866) |
| <b>Income tax expense</b>                                   |         | (33,821)                           | -         | (33,821)                          | -         |
| <b>Net loss for the period</b>                              |         | (763,841)                          | (265,409) | (16,778,257)                      | (403,866) |
| <b>Other comprehensive income</b>                           |         |                                    |           |                                   |           |
| Exchange differences on translating foreign operations      |         | 151,473                            | -         | 47,017                            | -         |
| <b>Comprehensive loss for the period</b>                    |         | (612,368)                          | (265,409) | (16,731,240)                      | (403,866) |
| <b>Loss per share – basic and diluted</b>                   |         | (0.01)                             | (0.05)    | (0.33)                            | (0.14)    |
| <b>Weighted average number of common shares outstanding</b> |         | 67,729,853                         | 4,704,438 | 50,809,762                        | 2,867,060 |

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

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

For the nine months ended September 30, 2012 and 2011

(Unaudited – expressed in US Dollars)

|                                                                                  | 2012         | 2011        |
|----------------------------------------------------------------------------------|--------------|-------------|
|                                                                                  | \$           | \$          |
| <b>Cash Provided By (Used In):</b>                                               |              |             |
| <b>Operations:</b>                                                               |              |             |
| Net loss for the period                                                          | (16,778,257) | (403,866)   |
| Items not affecting cash:                                                        |              |             |
| Depreciation                                                                     | 4,772        | 1,936       |
| Share-based payments                                                             | 3,250,422    | 66,000      |
| Unrealized loss on derivative liabilities                                        | 3,495        | -           |
| Charge related to public company listing                                         | 11,904,386   | -           |
| Changes in non-cash working capital:                                             |              |             |
| Receivables                                                                      | (697,425)    | (347,861)   |
| Prepaid expenses                                                                 | (47,719)     | (5,081)     |
| Accounts payable and accrued liabilities                                         | 205,245      | 109,369     |
|                                                                                  | (2,155,081)  | (579,503)   |
| <b>Investing:</b>                                                                |              |             |
| Exploration and evaluation properties                                            | (1,573,810)  | (2,325,661) |
| Acquisition of and exploration expenditures on mineral property interest         | (2,320,320)  | -           |
| Acquisition of plant and equipment                                               | (2,400,493)  | (44,714)    |
|                                                                                  | (6,294,623)  | (2,370,375) |
| <b>Financing:</b>                                                                |              |             |
| Issuance of common shares, net                                                   | 19,702,059   | 3,768,433   |
| Proceeds from shares to be issued                                                | -            | 215,576     |
| Deferred financing costs                                                         | -            | (219,244)   |
| Cash acquired on reverse takeover                                                | 1,219,552    | -           |
| Due to shareholders                                                              | (500,000)    | 360,829     |
|                                                                                  | 20,421,611   | 4,125,594   |
| <b>Net increase in cash</b>                                                      | 11,971,907   | 1,175,716   |
| Effect of exchange rate changes on cash                                          | 259,126      | -           |
| <b>Cash and cash equivalents – beginning of period</b>                           | 183,072      | 88          |
| <b>Cash and cash equivalents – end of period</b>                                 | 12,414,105   | 1,175,804   |
| <b>Cash and cash equivalents are comprised of:</b>                               |              |             |
| Cash                                                                             | 1,402,802    | 1,175,804   |
| Short-term investments                                                           | 11,011,303   | -           |
|                                                                                  | 12,414,105   | 1,175,804   |
| <b>Non-cash investing and financing information:</b>                             |              |             |
| Deferred financing costs in accounts payable and accrued liabilities             | -            | 32,727      |
| Issuance of broker warrants pursuant to private placement                        | 438,980      | -           |
| Issuance of common shares as corporate finance fee pursuant to private placement | 180,900      | -           |
| Exploration obligations in mineral property interests                            | -            | 2,997,206   |

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

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

|                                                | Share Capital       |                   | Shares to<br>be Issued | Contributed<br>Surplus | AOCI          | Deficit             | Total             |
|------------------------------------------------|---------------------|-------------------|------------------------|------------------------|---------------|---------------------|-------------------|
|                                                | Number of<br>Shares | Amount<br>\$      |                        |                        |               |                     |                   |
| Balance, December 31, 2010                     | 1,888,938           | 150,448           |                        | -                      | -             | (3,740)             | 146,708           |
| Reorganization of common shares                | 1,857,510           | (3,387)           |                        | -                      | -             | -                   | (3,387)           |
| Issued pursuant to private placements          | 1,489,674           | 4,310,450         | 215,576                | -                      | -             | -                   | 4,526,026         |
| Share issuance costs                           | -                   | (32,090)          | -                      | -                      | -             | -                   | (32,090)          |
| Share-based payments                           | 16,500              | 66,000            | -                      | -                      | -             | -                   | 66,000            |
| Net loss and comprehensive loss for the period | -                   | -                 | -                      | -                      | -             | (403,866)           | (403,866)         |
| <b>Balance, September 30, 2011</b>             | <b>5,252,622</b>    | <b>4,491,421</b>  | <b>215,576</b>         | <b>-</b>               | <b>-</b>      | <b>(407,606)</b>    | <b>4,299,391</b>  |
| Issued pursuant to private placements          | 212,062             | 381,709           | (215,576)              | -                      | -             | -                   | 166,133           |
| Share-based payments                           | 3,227               | 12,908            | -                      | 150,559                | -             | -                   | 163,467           |
| Net loss and comprehensive loss for the period | -                   | -                 | -                      | -                      | -             | (176,492)           | (176,492)         |
| <b>Balance, December 31, 2011 (Note 9)</b>     | <b>5,467,911</b>    | <b>4,886,038</b>  | <b>-</b>               | <b>150,559</b>         | <b>-</b>      | <b>(584,098)</b>    | <b>4,452,499</b>  |
| Issued pursuant to private placements          | 25,796,721          | 20,999,480        | -                      | 438,980                | -             | -                   | 21,438,460        |
| Exercise of special warrants                   | 399,166             | 150,559           | -                      | (150,559)              | -             | -                   | -                 |
| Subdivision of common shares                   | 20,626,055          | -                 | -                      | -                      | -             | -                   | -                 |
| Recapitalization transactions (Note 3)         |                     |                   |                        |                        |               |                     |                   |
| Pursuant to the acquisition of Forte           | (27,492,631)        | -                 | -                      | -                      | -             | -                   | -                 |
| Exchange of shares                             | 27,492,631          | -                 | -                      | -                      | -             | -                   | -                 |
| Exchange of warrants                           | -                   | -                 | -                      | 4,680                  | -             | -                   | 4,680             |
| Shares of Forte at the RTO date                | 15,440,000          | 13,965,480        | -                      | -                      | -             | -                   | 13,965,480        |
| Warrants of Forte at the RTO date              | -                   | -                 | -                      | 161,335                | -             | -                   | 161,335           |
| Less: issue costs related to RTO               | -                   | (1,111,001)       | -                      | -                      | -             | -                   | (1,111,001)       |
| Share issuance costs                           | -                   | (1,890,350)       | -                      | -                      | -             | -                   | (1,890,350)       |
| Share-based payments                           | -                   | -                 | -                      | 3,250,422              | -             | -                   | 3,250,422         |
| Net loss and comprehensive loss for the period | -                   | -                 | -                      | -                      | 47,017        | (16,778,257)        | (16,731,240)      |
| <b>Balance, September 30, 2012</b>             | <b>67,729,853</b>   | <b>37,000,206</b> | <b>-</b>               | <b>3,855,417</b>       | <b>47,017</b> | <b>(17,362,355)</b> | <b>23,540,285</b> |

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

**Santacruz Silver Mining Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Nine Months Ended September 30, 2012 and 2011**  
*(Unaudited – expressed in US Dollars)*

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**1. Nature of Operations**

Santacruz Silver Mining Ltd. (“SSM” or the “Company”) (formerly Forte Resources Inc. (“Forte”)) was incorporated pursuant to the Business Corporations Act of British Columbia on January 24, 2011. The Company’s registered office is located at Suite 1125, 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5. The Company is listed for trading on the TSX Venture Exchange under the symbol “SCZ”.

The Company is engaged in the exploration and commercial exploitation of mining concessions in Mexico, with a primary focus on silver, but also including gold, lead and zinc. The Company acquired the mining concession rights to the following properties:

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

The Company is advancing to production the Rosario project and is in the exploration stage on the Gavilanes and San Felipe properties.

**2. Basis of Presentation**

**a) Statement of Compliance**

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

These condensed interim consolidated financial statements have been prepared on a basis consistent with the significant accounting policies disclosed in Note 3 of the annual consolidated financial statements for the year ended December 31, 2011 and were approved for issue by the Board of Directors on November 29, 2012.

**b) Basis of Consolidation**

These condensed interim consolidated financial statements include the financial statements of all subsidiaries subject to control by the Company, which include Santacruz Holdings Ltd. (“Holdings”), Impulsora Minera Santacruz, S.A. de C.V. (“IMSC”), and Operadora Minera Anacore, S.A. De C.V. (“OMA”).

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

**c) Functional and Presentation Currency**

The functional currency of a company is the currency of the primary economic environment in which the company operates. The presentation currency for a company is the currency in which the company chooses to present its financial statements.

These condensed interim consolidated financial statements are presented in US dollars, which is the Company's presentation currency. Subsidiaries whose functional currency differ from that of the parent company ("foreign operations") are translated into US dollars as follows: assets and liabilities – at the closing rate as at the reporting date, and income and expenses – at the average rate of the period. All resulting changes are recognized in other comprehensive income as cumulative translation differences.

The functional currency of SSM and Holdings is the Canadian dollar. The functional currency of IMSC is the US dollar. The functional currency of OMA is the Mexican peso.

Per IAS 21, the Effects of Changes in Foreign Exchange Rates, an entity's functional currency should reflect the underlying transactions, events, and conditions relevant to the entity. On April 1, 2012, based on management's evaluation taking into consideration the currency of the main sources of capital, intercompany charges, the currency in which cash and cash deposits are maintained as well as the currency of corporate office expenditures, management changed the functional currency from the US dollar to the Canadian dollar for SSM and from the US dollar to the Mexican peso for OMA. This change in accounting treatment is applied prospectively. All assets, liabilities, share capital and other components of equity were translated at the exchange rate on the date of change in functional currency.

Transactions in foreign currencies are translated into the functional currency at exchange rates at the date of the transactions. Foreign currency differences arising on translation are recognized in profit or loss. Foreign currency monetary assets and liabilities are translated at the functional currency exchange rate at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when acquired. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

**3. Reverse Takeover Transaction**

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

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

**Santacruz Silver Mining Ltd.**  
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**For the Three and Nine Months Ended September 30, 2012 and 2011**  
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As a result of the foregoing Transaction, the former shareholders of SSM, for accounting purposes, were considered to have acquired control of Forte. Accordingly, the acquisition of Forte was accounted for as a reverse takeover that was not a business combination and effectively was a capital transaction of SSM. SSM has been treated as the accounting parent company (legal subsidiary) and Forte has been treated as the accounting subsidiary (legal parent) in these condensed interim consolidated financial statements. As SSM was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying value. Forte's results of operations have been included from April 12, 2012, the date of the Transaction.

For purposes of the Transaction, the consideration received was the fair value of the net assets of Forte which on April 12, 2012 was \$1,159,074. This amount was calculated as follows:

|                                                                    |                    |
|--------------------------------------------------------------------|--------------------|
|                                                                    | \$                 |
| Cash                                                               | 1,219,552          |
| HST recoverable                                                    | 12,356             |
| Equipment                                                          | 8,973              |
| Accounts payable and accrued liabilities                           | (81,807)           |
| <u>Net assets acquired</u>                                         | <u>1,159,074</u>   |
| Fair value of 15,440,000 shares deemed issued by SSM               | 13,965,480         |
| Fair value of 200,000 share purchase warrants deemed issued by SSM | 161,335            |
| <u>Aggregate fair value of consideration paid</u>                  | <u>14,126,815</u>  |
| Fair value of consideration paid in excess of net assets acquired  | 12,967,741         |
| <u>Transaction costs related to share issuance</u>                 | <u>(1,063,355)</u> |
| <u>Charge related to public company listing</u>                    | <u>11,904,386</u>  |

The fair value of the 200,000 share purchase warrants deemed issued (\$161,335) was estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.15%; expected life – 1.49 years; expected volatility – 79.07%; expected forfeitures – nil%; and expected dividends – nil.

As the Transaction is characterized as an issuance of shares and warrants by SSM in exchange for net assets as well as a listing, 91.8% of the associated transaction costs have been allocated to the listing and 8.2% of the costs have been allocated to the equity issuance.

Costs allocated to the deemed equity issuance are deducted from equity. The public company listing does not meet the criteria for recognition of an intangible asset in accordance with IAS 38, Intangible Assets. Accordingly, the Company charged \$11,904,386 to the statement of loss and comprehensive loss on the date of the Transaction.



**Santacruz Silver Mining Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Nine Months Ended September 30, 2012 and 2011**  
*(Unaudited – expressed in US Dollars)*

**4. Receivables**

Receivables consist of the following:

|                            | September 30,<br>2012<br>\$ | December 31,<br>2011<br>\$ |
|----------------------------|-----------------------------|----------------------------|
| Value added tax receivable | 978,551                     | 394,440                    |
| HST recoverable            | 21,859                      | -                          |
| Other receivable           | 91,413                      | 12,314                     |
| <b>Total</b>               | <b>1,091,823</b>            | <b>406,754</b>             |

**5. Plant and Equipment**

| Cost                        | Office<br>Furniture<br>and<br>Equipment<br>\$ | Assets under<br>Construction<br>\$ | Machinery<br>and<br>Equipment<br>\$ | Vehicles<br>\$ | Computer<br>Hardware<br>\$ | Total<br>\$ |
|-----------------------------|-----------------------------------------------|------------------------------------|-------------------------------------|----------------|----------------------------|-------------|
| Balance, December 31, 2010  | -                                             | -                                  | -                                   | -              | -                          | -           |
| Additions                   | 9,807                                         | -                                  | -                                   | 73,385         | 7,324                      | 90,516      |
| Disposals                   | (1,754)                                       | -                                  | -                                   | (26,805)       | -                          | (28,559)    |
| Balance, December 31, 2011  | 8,053                                         | -                                  | -                                   | 46,580         | 7,324                      | 61,957      |
| Additions                   | 28,721                                        | 2,170,388                          | 8,028                               | 119,067        | 65,316                     | 2,391,520   |
| Disposals                   | -                                             | -                                  | -                                   | -              | -                          | -           |
| Balance, September 30, 2012 | 36,774                                        | 2,170,388                          | 8,028                               | 165,647        | 72,640                     | 2,453,477   |

| Accumulated Depreciation    | Office<br>Furniture<br>and<br>Equipment<br>\$ | Assets under<br>Construction<br>\$ | Machinery<br>and<br>Equipment<br>\$ | Vehicles<br>\$ | Computer<br>Hardware<br>\$ | Total<br>\$ |
|-----------------------------|-----------------------------------------------|------------------------------------|-------------------------------------|----------------|----------------------------|-------------|
| Balance, December 31, 2010  | -                                             | -                                  | -                                   | -              | -                          | -           |
| Additions                   | 597                                           | -                                  | -                                   | 4,601          | 942                        | 6,140       |
| Disposals                   | (102)                                         | -                                  | -                                   | (1,117)        | -                          | (1,219)     |
| Balance, December 31, 2011  | 495                                           | -                                  | -                                   | 3,484          | 942                        | 4,921       |
| Additions                   | 1,146                                         | -                                  | 397                                 | 12,955         | 4,703                      | 19,201      |
| Disposals                   | -                                             | -                                  | -                                   | -              | -                          | -           |
| Balance, September 30, 2012 | 1,641                                         | -                                  | 397                                 | 16,439         | 5,645                      | 24,122      |

|                                          |        |           |       |         |        |           |
|------------------------------------------|--------|-----------|-------|---------|--------|-----------|
| Carrying amount at<br>December 31, 2011  | 7,558  | -         | -     | 43,096  | 6,382  | 57,036    |
| Carrying amount at<br>September 30, 2012 | 35,133 | 2,170,388 | 7,631 | 149,208 | 66,995 | 2,429,355 |

Depreciation during the three and nine months ended September 30, 2012 was \$8,225 and \$19,201 respectively (three and nine months ended September 30, 2011: \$879 and \$1,936). \$5,266 and \$14,429 of the depreciation during the three and nine months ended September 30, 2012 respectively was capitalized to mineral property interest (three and nine months ended September 30, 2011: \$nil). The Company does not have any equipment under lease for any of the periods presented.

**Santacruz Silver Mining Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Nine Months Ended September 30, 2012 and 2011**  
*(Unaudited – expressed in US Dollars)*

**6. Mineral Property Interest**

The summary of accumulated costs in the Company's mineral property interest as of September 30, 2012 and December 31, 2011 are as follows:

|                                                        | September 30,<br>2012<br>\$ | December 31,<br>2011<br>\$ |
|--------------------------------------------------------|-----------------------------|----------------------------|
| <b>a) Rosario, Charcas, San Luis Potosi, Mexico</b>    |                             |                            |
| Opening balance                                        | -                           | -                          |
| Transferred from exploration and evaluation properties | 1,234,683                   | -                          |
| Acquisition costs                                      | 390,000                     | -                          |
| Exploration costs:                                     |                             |                            |
| Administration                                         | 603,993                     | -                          |
| Depreciation                                           | 18,034                      | -                          |
| Drilling                                               | 649,324                     | -                          |
| Geological consulting                                  | 1,473                       | -                          |
| Mine development                                       | 40,508                      | -                          |
| Permitting and other expenses                          | 631,075                     | -                          |
| Water well project                                     | 343                         | -                          |
| Net book value                                         | 3,569,433                   | -                          |
| <b>Total</b>                                           | <b>3,569,433</b>            | <b>-</b>                   |

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

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

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

To maintain and exercise the option, the Company must make \$2,000,000 of cash payments to the property vendor. As at September 30, 2012, the Company has made total payments of \$705,000 and the residual payments are as follows:

- \$300,000 on February 15, 2013;
- \$350,000 on August 15, 2013; and
- \$645,000 on February 15, 2014.

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

Pursuant to a mining exploration and promise of assignment of rights agreement dated February 22, 2011, the Company was granted an option to acquire a 100% interest in the San Rafael property, located in the municipality of Charcas, San Luis Potosí, Mexico.

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The vendor retains a 2.5% NSR. The Company also has an obligation to pay the local Ejido 300,000 Mexican pesos per year for surface access on the San Rafael concessions. To maintain and exercise the option, the Company must make \$220,000 of cash payments to the property vendor. As at September 30, 2012, the Company has made total payments of \$80,000 and the residual payments are as follows:

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

**7. Exploration and Evaluation Properties**

The Company is actively investigating, evaluating and conducting exploration activities in Mexico. The summary of accumulated costs in its exploration and evaluation properties as of September 30, 2012 and December 31, 2011 are as follows:

|                                                                     | September 30,<br>2012<br>\$ | December 31,<br>2011<br>\$ |
|---------------------------------------------------------------------|-----------------------------|----------------------------|
| <b>a) Gavilanes, San Dimas, Durango, Mexico</b>                     |                             |                            |
| Opening balance                                                     | 725,827                     | 130,000                    |
| Acquisition costs                                                   | 800,000                     | 585,000                    |
| Exploration costs                                                   | 329,735                     | 10,827                     |
| Net book value                                                      | <u>1,855,562</u>            | <u>725,827</u>             |
| <b>b) San Felipe de Jesús, Sonora, Mexico</b>                       |                             |                            |
| Opening balance                                                     | 5,000,000                   | -                          |
| Acquisition costs                                                   | (444,075)                   | 4,960,540                  |
| Exploration costs                                                   | 444,075                     | 39,460                     |
| Net book value                                                      | <u>5,000,000</u>            | <u>5,000,000</u>           |
| <b>c) Rosario, Charcas, San Luis Potosi, Mexico (see Note 6(a))</b> |                             |                            |
| Opening balance                                                     | 1,234,683                   | 151,412                    |
| Transferred to mineral property interest                            | (1,234,683)                 | -                          |
| Acquisition costs                                                   | -                           | 290,000                    |
| Exploration costs:                                                  |                             |                            |
| Administration                                                      | -                           | 231,878                    |
| Depreciation                                                        | -                           | 4,318                      |
| Drilling                                                            | -                           | 229,301                    |
| Geological consulting                                               | -                           | 46,412                     |
| Mine development                                                    | -                           | 119,627                    |
| Permitting and other expenses                                       | -                           | 155,533                    |
| Water well project                                                  | -                           | 6,202                      |
| Net book value                                                      | <u>-</u>                    | <u>1,234,683</u>           |
| <b>Total</b>                                                        | <u>6,855,562</u>            | <u>6,960,510</u>           |

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**a) Gavilanes, San Dimas, Durango, Mexico**

*Gavilanes I, San Dimas, Durango, Mexico*

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

To maintain and exercise the option, the Company must make \$3,500,000 of cash payments to the vendor. As at September 30, 2012, the Company has made total payments of \$1,000,000 and the residual payment of \$2,500,000 is to be paid on April 27, 2013.

*Gavilanes II, San Dimas, Durango, Mexico*

Pursuant to a mining exploration and promise of assignment of rights agreement dated May 1, 2010, as amended October 12, 2010, December 27, 2010 and January 7, 2011, the Company was granted an option to acquire a 100% interest in the Gavilanes property (named Gavilanes II) located in San Dimas, Durango, Mexico. The property is subject to a 2% NSR in favour of the optionor, up to a maximum of \$1,000,000. The NSR may be purchased by the Company for \$1,000,000. To maintain and exercise the option, the Company must make \$2,265,000 of cash payments to the property vendor. As at September 30, 2012, the Company has made total payments of \$415,000 and the residual payments are as follows:

- \$300,000 on May 1, 2013;
- \$400,000 on November 1, 2013; and
- \$1,150,000 on May 1, 2014.

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

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

**b) San Felipe de Jesús, Sonora, Mexico**

Pursuant to a mining exploration and promise of assignment of rights agreement dated August 3, 2011 and amended December 9, 2011 and October 9, 2012 (Note 12), the Company was granted an option to acquire a 100% interest in the San Felipe de Jesús property located in Sonora, Mexico. In addition to cash payments of \$2,000,000 made to date, in order to maintain and exercise the option, the Company must incur exploration expenditures of \$3,000,000 by December 1, 2013 and make additional cash payments as follows:

- Annual surface right payments of 520,000 Mexican Pesos (\$40,460) on or before February 19 of each year until the property reaches commercial production;
- \$4,000,000 on October 9, 2012 (paid subsequent to period end);
- \$16,000,000 on April 1, 2013; and

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- \$18,000,000 on October 1, 2014.

If the exploration expenditures of \$3,000,000 are not made, the Company has an obligation to reimburse the optionor for the difference between \$3,000,000 and the actual exploration expenditures incurred regardless of whether or not the Company exercises its option on this property. As such, \$3,000,000 has been capitalized as mineral property acquisition costs. Since \$483,535 of exploration expenditures have been incurred to September 30, 2012 (December 31, 2011 - \$39,460), the remaining amount of \$2,516,465 (December 31, 2011 - \$2,960,540) yet to be spent has been recorded as other long-term liabilities.

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

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

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

## 8. Due to Shareholders

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

## 9. Share Capital

### a) Authorized

Unlimited number of common shares without par value.

### b) Share Capital Transactions

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

- (i) On January 14, 2011, IMSC issued 47,910 variable Series “B” common shares for proceeds of \$3,910.

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- (ii) On July 15, 2011, SSM and IMSC entered into a stock purchase agreement whereby SSM purchased 1,936,848 issued and outstanding shares of IMSC that represent 99.999% of the issued and outstanding common shares of IMSC. Total consideration for the purchase includes 3,794,358 common shares of SSM and cash of \$3,387. As a result of the acquisition, IMSC became the wholly owned subsidiary of SSM. The resulting non-controlling interest that represents 0.001% of the issued and outstanding common shares of IMSC is considered to be not material.
- (iii) On July 15, 2011, SSM issued 16,500 common shares for services rendered by an officer of the Company. The services were determined to have a fair value of \$66,000.
- (iv) On July 15, 2011, SSM issued 1,302,525 common shares for proceeds of \$3,800,000.
- (v) On July 20, 2011, SSM issued 139,239 units, for total proceeds of \$520,000. Each unit consisted of one common share and one share purchase warrant. Each warrant was exercisable to purchase one additional common share at a price of CDN\$5.95 per common share on or before July 20, 2012. As the exercise price of the share purchase warrants was fixed in Canadian dollars and the functional currency of SSM was the US dollar, the warrants were considered a derivative, as a variable amount of cash in the Company's functional currency would be received on exercise. At December 31, 2011, the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was \$1,154. As a result of the change in functional currency from the US dollar to the Canadian dollar on April 1, 2012, the warrants are no longer considered a derivative. The share purchase warrants were re-measured at fair value at the date of the functional currency change, with a loss of \$3,495 recorded for the nine months ended September 30, 2012 respectively. The fair value of share purchase warrants is reclassified to share capital upon exercise.
- (vi) On November 14, 2011, 3,227 common shares were issued for services received at \$4.00 per share. The value of these shares of \$12,908 was recorded as a deferred financing cost.
- (vii) On November 14, 2011, 212,062 common shares were issued at \$1.799997 per share for proceeds of \$381,709.
- (viii) On January 20, 2012, the Company subdivided its outstanding share capital (the "Subdivision") on the basis of 4.7722 new common shares for each existing common share. Prior to the Subdivision, the Company had outstanding 5,467,911 common shares, 83,644 special warrants, and 139,239 warrants to purchase common shares. Accordingly, the Subdivision resulted in the 5,467,911 common shares issued and outstanding being subdivided into 26,093,966 common shares on a post-Subdivision basis. In accordance with the adjustment provision of the special warrants and the warrants, the number of common shares issuable on the exercise of the special warrants and warrants had been adjusted to reflect the Subdivision. Accordingly, the special warrants were convertible into 399,166 common shares and the warrants were convertible into 664,476 common shares.
- (ix) On January 25, 2012, all of the Company's special warrants were converted into 399,166 common shares.

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- (x) On January 27, 2012, 444,444 post-Subdivision common shares were issued at \$0.90 per share for proceeds of \$399,480.
- (xi) On April 12, 2012, the Company completed a brokered private placement of 555,055 common shares at \$0.90 per share for gross proceeds of \$500,000.
- (xii) On April 12, 2012, 15,440,000 common shares were deemed to be issued by SSM as a result of the reverse takeover transaction (refer to Note 3). The fair value of the 15,440,000 common shares deemed issued (\$13,965,480) was estimated using a deemed price of CDN\$0.90 per share. Issue costs of \$1,111,001 were incurred related to the reverse takeover transaction.
- (xiii) On April 12, 2012, the Company completed a brokered private placement of 22,222,222 common shares at \$0.90 per share for gross proceeds of \$20,100,000. The agent for the offering received a commission consisting of \$1,277,355 cash, 200,000 common shares, and 1,333,333 broker warrants entitling the agent to purchase 1,333,333 common shares of the Company at CDN\$1.00 per share up to April 12, 2014. The fair value of the broker warrants (\$438,980) was estimated using the Black Scholes option-pricing model and was charged to share issue costs and credited to contributed surplus. The assumptions used in the option pricing model are as follows: average risk-free interest rate – 1.15%; expected life – 2 years; expected volatility – 71.94%; and expected dividends – nil. The Company also issued 2,375,000 common shares as corporate finance fee and incurred additional issue costs of \$174,014.

**c) Escrow**

There are 18,977,568 common shares of the Company held in escrow as at September 30, 2012. Under the Escrow Agreement, the common shares held in escrow will be released from escrow as to 3,162,928 common shares on each of October 13, 2012 (released subsequent to period end), April 13, 2013, October 13, 2013, April 13, 2014, October 13, 2014 and April 13, 2015.

**d) Contributed Surplus**

The following is a summary of the contributed surplus:

|                  | <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|------------------|-------------------------------|------------------------------|
|                  | <b>\$</b>                     | <b>\$</b>                    |
| Stock options    | 3,250,422                     | -                            |
| Warrants         | 604,995                       | -                            |
| Special warrants | -                             | 150,559                      |
|                  | <u>3,855,417</u>              | <u>150,559</u>               |

**e) Stock Options**

The Company has established a stock option plan (the “Plan”) for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates. The maximum number of shares available under the Plan is limited to 10% of the issued common shares. Options granted under the Plan have a maximum term of ten years and the vesting provisions of options granted are at the discretion of the Board.

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Details of stock options activity for the nine months ended September 30, 2012 are as follows:

|                                 | Number of<br>Stock<br>Options | Weighted<br>Average<br>Exercise Price<br>\$ | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) |
|---------------------------------|-------------------------------|---------------------------------------------|--------------------------------------------------------------------|
| Balance, December 31, 2011      | -                             | -                                           | -                                                                  |
| Granted                         | 5,910,000                     | 0.90                                        | 4.47                                                               |
| Forfeited                       | (3,334)                       | 0.90                                        | -                                                                  |
| Balance, September 30, 2012     | 5,906,666                     | 0.90                                        | 4.47                                                               |
| Unvested                        | (270,000)                     | 0.90                                        | 2.61                                                               |
| Exercisable, September 30, 2012 | 5,636,666                     | 0.90                                        | 4.57                                                               |

The balance of options outstanding as at September 30, 2012 is as follows:

| Expiry Date    | Exercise    |                           | Options<br>Outstanding | Unvested | Vested    |
|----------------|-------------|---------------------------|------------------------|----------|-----------|
|                | Price<br>\$ | Remaining<br>Life (Years) |                        |          |           |
| April 12, 2017 | 0.90        | 4.53                      | 4,806,666              | -        | 4,806,666 |
| May 10, 2015   | 0.90        | 2.61                      | 300,000                | 270,000  | 30,000    |
| July 24, 2017  | 0.90        | 4.82                      | 800,000                | -        | 800,000   |
|                |             |                           | 5,906,666              | 270,000  | 5,636,666 |

On April 12, 2012, the Company granted 4,810,000 incentive stock options to directors, officers and consultants having an exercise price of \$0.90 each expiring April 12, 2017. These options were fully vested on the date of grant.

On May 10, 2012, the Company granted 300,000 incentive stock options to an employee having an exercise price of \$0.90 each expiring May 10, 2017. These options vest as to 30,000 every 3 months.

On July 24, 2012, the Company granted 800,000 incentive stock options to a director having an exercise price of \$0.90 each expiring July 24, 2017. These options were fully vested on the date of grant.

The fair values of the options granted during the nine months ended September 30, 2012 were estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model are as follows: average risk-free interest rate – 1.60%; expected life – 4.90 years; expected volatility – 79%; expected forfeitures – 0%; and expected dividends – \$nil.

During the three and nine months ended September 30, 2012, the Company recorded share-based payments expense of \$469,506 and \$3,250,422 (2011 – \$66,000).



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**f) Warrants**

Details of warrants activity for the nine months ended September 30, 2012 and the year ended December 31, 2011 are as follows:

|                              | Number of<br>Warrants  | Weighted<br>Average<br>Exercise Price<br>\$ | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) |
|------------------------------|------------------------|---------------------------------------------|--------------------------------------------------------------------|
| Balance, December 31, 2010   | -                      | -                                           | -                                                                  |
| Issued                       | 664,476 <sup>(1)</sup> | 1.25 <sup>(1)</sup>                         | 0.55                                                               |
| Exercised                    | -                      | -                                           | -                                                                  |
| Expired                      | -                      | -                                           | -                                                                  |
| Balance, December 31, 2011   | 664,476                | 1.25                                        | 0.55                                                               |
| Pursuant to RTO (see Note 3) | 200,000                | 0.10                                        | 1.02                                                               |
| Issued                       | 1,333,333              | 1.00                                        | 1.53                                                               |
| Exercised                    | -                      | -                                           | -                                                                  |
| Expired                      | (664,476)              | 1.25                                        | -                                                                  |
| Balance, September 30, 2012  | 1,533,333              | 0.89                                        | 1.46                                                               |

(1) After giving effect to the Subdivision described in Note 9(b)(viii).

The balance of warrants outstanding as at September 30, 2012 is as follows:

| Expiry Date     | Exercise<br>Price<br>\$ | Remaining Life<br>(Years) | Warrants<br>Outstanding |
|-----------------|-------------------------|---------------------------|-------------------------|
| October 7, 2013 | 0.10                    | 1.02                      | 200,000                 |
| April 12, 2014  | 1.00                    | 1.53                      | 1,333,333               |
|                 |                         |                           | 1,533,333               |

On April 12, 2012, 200,000 share purchase warrants were deemed to be issued by SSM as a result of the reverse takeover transaction (refer to Note 3). The fair value of the 200,000 share purchase warrants deemed issued (\$161,335) was estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.15%; expected life – 1.49 years; expected volatility – 79.07%; expected forfeitures – nil%; and expected dividends – nil.

**g) Special Warrants**

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

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**10. Related Party Transactions**

Remuneration for directors and key management personnel included:

|                                                                                      | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--------------------------------------------------------------------------------------|---------------------------|-------------|--------------------------|-------------|
|                                                                                      | <b>September 30</b>       |             | <b>September 30</b>      |             |
|                                                                                      | <b>2012</b>               | <b>2011</b> | <b>2012</b>              | <b>2011</b> |
| Accounting fees                                                                      | \$31,105                  | \$Nil       | \$65,384                 | \$Nil       |
| Management fees                                                                      | \$55,833                  | \$54,598    | \$131,268                | \$105,003   |
| Salaries and benefits capitalized as exploration costs in mineral property interests | \$55,020                  | \$54,014    | \$135,503                | \$86,747    |

At September 30, 2012, directors or their related companies were owed \$6,475 (December 31, 2011 – \$nil) in respect of the services rendered.

Key management includes directors and executive officers of the Company. The share-based compensation paid to key management for employee services during the three and nine months ended September 30, 2012 was \$438,535 and \$2,505,327 (2011 – \$nil).

**11. Segmented Information**

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

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

**a) Operating Segment**

The Company's operations are limited to a single industry segment, being exploration and development of mineral properties.

**b) Geographic Segments**

By geographic areas, the Company's non-current assets as at September 30, 2012 and December 31, 2011 and losses by geographic areas for the three and nine months ended September 30, 2012 and 2011 are as follows:

|               |    | <b>Losses</b>             |                   |                          |                   |
|---------------|----|---------------------------|-------------------|--------------------------|-------------------|
|               |    | <b>Three months ended</b> |                   | <b>Nine months ended</b> |                   |
|               |    | <b>September 30</b>       |                   | <b>September 30</b>      |                   |
|               |    | <b>2012</b>               | <b>2011</b>       | <b>2012</b>              | <b>2011</b>       |
| <i>Canada</i> | \$ | 711,158                   | \$ 66,150         | \$ 16,265,512            | \$ 66,150         |
| <i>Mexico</i> |    | 52,683                    | 199,259           | 512,745                  | 337,716           |
| <b>Total</b>  | \$ | <b>763,841</b>            | <b>\$ 265,409</b> | <b>\$ 16,778,257</b>     | <b>\$ 403,866</b> |

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|               | <b>Non-Current<br/>Assets</b> |                      |
|---------------|-------------------------------|----------------------|
|               | September 30,<br>2012         | December 31,<br>2011 |
| <i>Canada</i> | \$ 14,249                     | \$ -                 |
| <i>Mexico</i> | 12,840,101                    | 7,017,546            |
| <b>Total</b>  | <b>\$ 12,854,350</b>          | <b>\$ 7,017,546</b>  |

**12. Subsequent Event**

The terms of the mining exploration and promise of assignment of rights agreement dated August 3, 2011 and amended December 9, 2011 (see Note 7(b)) with respect to the San Felipe property have been amended on October 9, 2012 as follows:

- \$4,000,000 was payable on October 9, 2012 (paid subsequent to period end);
- \$16,000,000 is payable on or before April 1, 2013;
- \$18,000,000 is payable on or before October 1, 2014.

The Company is also required to incur exploration expenditures of \$3,000,000 on or before December 1, 2013.