



Condensed Interim Consolidated Financial Statements

Three Months Ended March 31, 2016 and 2015

(Unaudited – expressed in thousands of US dollars)

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

| | Note | March 31, 2016 \$ | December 31, 2015 \$ |
|--|-------|-------------------------|----------------------------|
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | 3 | 652 | 277 |
| VAT recoverable and receivables | 4 | 6,124 | 4,593 |
| Inventory | 5 | 322 | 342 |
| Prepaid expenses and deposits | | 1,362 | 1,375 |
| Derivative assets | 12 | 1,135 | 3,721 |
| | | 9,595 | 10,308 |
| VAT recoverable | 4 | 1,118 | 2,540 |
| Plant and equipment | 6 | 15,733 | 14,882 |
| Mine properties | 7 | 10,545 | 9,886 |
| Exploration and evaluation properties | 8 | 26,539 | 26,313 |
| | | 63,530 | 63,929 |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 9 | 7,927 | 5,701 |
| Loan payable | 10 | 520 | 670 |
| Leases | 11 | 283 | - |
| Silver loan | 12 | 8,759 | 7,987 |
| | | 17,489 | 14,358 |
| Leases | 11 | 137 | - |
| Silver loan | 12 | 11,723 | 12,843 |
| Decommissioning and restoration provision | 13 | 538 | 533 |
| Deferred income tax liability | | 3,459 | 3,380 |
| | | 33,346 | 31,114 |
| EQUITY | | | |
| Share capital | 14 | 86,587 | 86,587 |
| Stock options and warrants reserve | 14(c) | 6,292 | 5,869 |
| Warrants to be issued | 10 | - | 59 |
| Accumulated other comprehensive loss | | (1,429) | (1,434) |
| Deficit | | (61,266) | (58,266) |
| | | 30,184 | 32,815 |
| | | 63,530 | 63,929 |

Nature of Operations and Going Concern (Note 1)

Commitments (Notes 7, 8, 11 and 21)

Subsequent Events (Notes 4, 7, 12, 14 and 22)

Approved on behalf of the Board:

“Arturo Préstamo Elizondo”
Director – Arturo Préstamo Elizondo

“Larry Okada”
Director – Larry Okada

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

Santacruz Silver Mining Ltd.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended March 31, 2016 and 2015

(Unaudited – expressed in thousands of US dollars, except per share amounts)

| | Note | 2016 \$ | 2015 \$ |
|---|------|-------------|-------------|
| Revenues | | 3,537 | 402 |
| Cost of sales | 15 | (3,075) | (1,611) |
| Gross profit (loss) | | 462 | (1,209) |
| Operating expenses | 15 | (798) | (452) |
| Operating loss | | (336) | (1,661) |
| Interest earned and other finance income | 16 | - | 361 |
| Interest expense and other finance expenses | 16 | (2,557) | (1,449) |
| Loss before income tax | | (2,893) | (2,749) |
| Income tax (expense) recovery | | (107) | 198 |
| Net loss for the period | | (3,000) | (2,551) |
| Other comprehensive income (loss) | | | |
| Currency translation differences | | 5 | (662) |
| Comprehensive loss for the period | | (2,995) | (3,213) |
| Loss per share – basic and diluted | | (0.03) | (0.02) |
| Weighted average number of common shares outstanding | | 113,493,484 | 103,493,484 |

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

Santacruz Silver Mining Ltd.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended March 31, 2016 and 2015
(Unaudited – expressed in thousands of US dollars)

| | 2016 | 2015 |
|--|----------------|----------------|
| Cash Provided By (Used In): | \$ | \$ |
| Operations: | | |
| Net loss for the period | (3,000) | (2,551) |
| Items not affecting cash: | | |
| Deferred income tax expense (recovery) | 79 | (211) |
| Accretion of decommissioning and restoration provision | 9 | 12 |
| Depletion, depreciation and amortization | 573 | 53 |
| Share-based payments | 364 | 26 |
| Interest expense on loan payable | 40 | - |
| Interest expense on silver loan | 991 | 822 |
| Change in fair value of derivative assets | 1,247 | 615 |
| Unrealized foreign exchange | 5 | (660) |
| Changes in non-cash working capital: | | |
| VAT recoverable and receivables | (109) | 911 |
| Prepaid expenses and deposits | 13 | 178 |
| Inventory | 20 | (371) |
| Accounts payable and accrued liabilities | 2,098 | (736) |
| | <u>2,330</u> | <u>(1,912)</u> |
| Investing: | | |
| Exploration and evaluation properties | (238) | (254) |
| Acquisition and development costs on mine property | (300) | (24) |
| Acquisition of plant and equipment | (1,223) | (437) |
| | <u>(1,761)</u> | <u>(715)</u> |
| Financing: | | |
| Cash received from settlement of derivative assets | - | 224 |
| Repayment of loan payable | (190) | - |
| | <u>(190)</u> | <u>224</u> |
| Net increase (decrease) in cash and cash equivalents | 379 | (2,403) |
| Effect of exchange rate changes on cash and cash equivalents | (4) | (11) |
| Cash and cash equivalents – beginning of period | 277 | 6,016 |
| Cash and cash equivalents – end of period | 652 | 3,602 |
| Cash paid during the period for: | | |
| Interest | - | - |
| Income taxes | 28 | 13 |

Non-cash Transactions (Note 18)

(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 thousands of US dollars, except share and per share amounts)

| | Share Capital | | Stock Options and Warrants Reserve \$ | Warrants to be Issued \$ | AOCI \$ | Deficit \$ | Total \$ |
|---|---------------------|---------------|--|-----------------------------------|----------------|-----------------|---------------|
| | Number of Shares | Amount \$ | | | | | |
| Balance, December 31, 2014 | 103,493,484 | 85,607 | 5,792 | - | (372) | (34,034) | 56,993 |
| Share-based payments | - | - | 26 | - | - | - | 26 |
| Comprehensive loss for the period | - | - | - | - | (662) | (2,551) | (3,213) |
| Balance, March 31, 2015 | 103,493,484 | 85,607 | 5,818 | - | (1,034) | (36,585) | 53,806 |
| Issued pursuant to private placement | 10,000,000 | 986 | - | - | - | - | 986 |
| Share issuance costs | - | (6) | - | - | - | - | (6) |
| Transaction costs on loan payable | - | - | - | 59 | - | - | 59 |
| Share-based payments | - | - | 51 | - | - | - | 51 |
| Comprehensive loss for the period | - | - | - | - | (400) | (21,681) | (22,081) |
| Balance, December 31, 2015 | 113,493,484 | 86,587 | 5,869 | 59 | (1,434) | (58,266) | 32,815 |
| Issuance of warrants pursuant to transaction costs on loan payable | - | - | 59 | (59) | - | - | - |
| Share-based payments | - | - | 364 | - | - | - | 364 |
| Comprehensive loss for the period | - | - | - | - | 5 | (3,000) | (2,995) |
| Balance, March 31, 2016 | 113,493,484 | 86,587 | 6,292 | - | (1,429) | (61,266) | 30,184 |

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

Santacruz Silver Mining Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2016 and 2015

(Unaudited – expressed in thousands of US dollars, except share and per share amounts)

1. Nature of Operations and Going Concern

Santacruz Silver Mining Ltd. (“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 is listed for trading on the TSX Venture Exchange (“TSX-V”) under the symbol “SCZ” and the Santiago Stock Exchange Venture under the trading symbol “SZCL”.

Santacruz, together with its subsidiaries, (the “Company”) is engaged in the operation, exploration and commercial exploitation of mining concessions in Mexico, with a primary focus on silver, but also including gold, lead and zinc. The Company has acquired the mining concession rights to the following properties:

- Rosario in the mining municipality of Charcas, San Luis Potosi, Mexico.
- Veta Grande in the mining municipality of Veta Grande, Zacatecas, Mexico.
- Minillas in the mining municipality of Genaro Cidina, Zacatecas, México.
- San Felipe in the mining municipality of San Felipe de Jesús, Sonora, Mexico.
- Gavilanes in the mining municipality of San Dimas, Durango, Mexico.

These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its obligations, and continue its operations for the next twelve months. At March 31, 2016, the Company had not yet achieved profitable operations, had a working capital deficiency of \$7,894, had accumulated an inception to date deficit of \$61,266 and may incur further losses in the development of its business. These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. As a result, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent upon its ability to raise adequate funding through equity or debt financings to discharge its liabilities as they come due. The Company has a capital management process in place to safeguard the Company’s ability to continue as a going concern. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Should the Company be unable to continue as a going concern, asset realization values may be substantially different from their carrying values. These condensed interim consolidated financial statements do not give effect to adjustments that would be necessary to carrying values, and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

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, 2015 which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 24, 2016.

Santacruz Silver Mining Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
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b) Initial Adoption of Accounting Policies

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, 2015, except for the following policy adopted in the current financial period:

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

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

c) New Standards and Interpretations Not Yet Adopted

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards in the consolidated financial statements.

The IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") in May 2014. The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods commencing on or after January 1, 2018. The Company is currently evaluating the impact that the new guidance is expected to have on its consolidated financial statements.

IFRS 9, *Financial Instruments* ("IFRS 9") is mandatorily effective for the Company's consolidated financial statements for the year ending December 31, 2018. IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 also amends some of the requirements of IFRS 7, *Financial Instruments: Disclosures*, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and derecognition of financial instruments. The Company is currently evaluating the impact, if any that the new guidance is expected to have on its consolidated financial statements.

IFRS 16, *Leases* ("IFRS 16") specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact that the new guidance is expected to have on its consolidated financial statements.

Santacruz Silver Mining Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited – expressed in thousands of US dollars, except share and per share amounts)

3. Cash and Cash Equivalents

| | March 31, 2016 | December 31, 2015 |
|---------------------------------|---------------------------|------------------------------|
| | \$ | \$ |
| Cash on hand or held with banks | 643 | 269 |
| Short-term investments | 9 | 8 |
| Total | 652 | 277 |

4. VAT Recoverable and Receivables

| | March 31, 2016 | December 31, 2015 |
|---------------------------------------|---------------------------|------------------------------|
| | \$ | \$ |
| Mexican value added taxes recoverable | 6,459 | 6,367 |
| Canadian GST recoverable | 214 | 186 |
| Trade receivables | 523 | 519 |
| Other receivables | 46 | 61 |
| Total | 7,242 | 7,133 |
| Current portion | (6,124) | (4,593) |
| Non-current portion | 1,118 | 2,540 |

The Company expects full recovery of the value added taxes recoverable and trade receivables amounts outstanding and therefore, no allowance has been recorded against these receivables. No trade receivables are past due and all are expected to be settled within twelve months. A portion of the Mexican value added taxes recoverable has been classified as non-current as this portion of the Mexican value added taxes recoverable is expected to be received after twelve months from March 31, 2016.

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

5. Inventory

| | March 31, 2016 | December 31, 2015 |
|-----------------------|---------------------------|------------------------------|
| | \$ | \$ |
| Ore stockpiles | 21 | - |
| Concentrate inventory | 108 | 127 |
| Supplies inventory | 193 | 215 |
| Total | 322 | 342 |

Santacruz Silver Mining Ltd.
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6. Plant and Equipment

| Cost | Office Furniture and Equipment \$ | Assets under Construction \$ | Plant and Equipment \$ | Vehicles \$ | Computer Hardware \$ | Total \$ |
|---|--|------------------------------------|------------------------------|----------------|----------------------------|-------------|
| Balance, December 31, 2014 | 56 | 383 | 14,324 | 356 | 157 | 15,276 |
| Additions | 5 | 206 | 2,386 | 25 | 11 | 2,633 |
| Foreign exchange | (2) | - | - | - | - | (2) |
| Balance, December 31, 2015 | 59 | 589 | 16,710 | 381 | 168 | 17,907 |
| Additions | - | 348 | 868 | - | 7 | 1,223 |
| Balance, March 31, 2016 | 59 | 937 | 17,578 | 381 | 175 | 19,130 |
| Accumulated Depreciation | | | | | | |
| Balance, December 31, 2014 | 12 | - | 1,707 | 144 | 75 | 1,938 |
| Additions | 5 | - | 997 | 60 | 26 | 1,088 |
| Foreign exchange | (1) | - | - | - | - | (1) |
| Balance, December 31, 2015 | 16 | - | 2,704 | 204 | 101 | 3,025 |
| Additions | 1 | - | 354 | 12 | 5 | 372 |
| Balance, March 31, 2016 | 17 | - | 3,058 | 216 | 106 | 3,397 |
| Carrying amount at December 31, 2015 | 43 | 589 | 14,006 | 177 | 67 | 14,882 |
| Carrying amount at March 31, 2016 | 42 | 937 | 14,520 | 165 | 69 | 15,733 |

Depreciation during the three months ended March 31, 2016 was \$372 (2015 – \$46). During the three months ended March 31, 2016, \$6 of the depreciation was capitalized to mine properties (2015 – \$nil) and \$7 of the depreciation was capitalized to exploration and evaluation properties (2015 – \$8).

As at March 31, 2016, the Company's plant and equipment includes a net carrying amount of \$629 (December 31, 2015 – \$nil) for the leased mining equipment.

7. Mine Properties

| | Rosario, Charcas, San Luis Potosi, Mexico \$ | Veta Grande, Veta Grande, Zacatecas, Mexico \$ | Total \$ |
|--|--|--|-------------|
| Balance, December 31, 2014 | 9,032 | - | 9,032 |
| Additions | 493 | 1,112 | 1,605 |
| Decommissioning and restoration provision (Note 13) | (79) | - | (79) |
| Amortization and depletion | (672) | - | (672) |
| Balance, December 31, 2015 | 8,774 | 1,112 | 9,886 |
| Additions | 17 | 856 | 873 |
| Amortization and depletion | (214) | - | (214) |
| Balance, March 31, 2016 | 8,577 | 1,968 | 10,545 |

Santacruz Silver Mining Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2016 and 2015

(Unaudited – expressed in thousands of US dollars, except share and per share amounts)

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

Rey David, Charcas, San Luis Potosi, Mexico

As at March 31, 2016, the Company has made total payments of \$2,000 and has exercised the option to acquire the 100% interest in the Rey David property located in the municipality of Charcas, San Luis Potosi, Mexico, in accordance with the terms of the Rey David Agreement. The property 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 payments were due to start on December 31, 2015, but the Company is currently re-negotiating the extension of the NSR payments.

San Rafael, Charcas, San Luis Potosi, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated February 22, 2011, the Company was granted an option to acquire a 100% interest in the San Rafael property, located in the municipality of Charcas, San Luis Potosí, Mexico. The vendor retains a 2.5% NSR. The Company also has an obligation to pay the local indigenous community 300,000 Mexican pesos (\$17) per year for surface access on the San Rafael concessions. To maintain and exercise the option, the Company must make \$220 of cash payments to the property vendor. As at March 31, 2016, the Company has made total payments of \$200. The remaining payment of \$20 which was due on February 22, 2016 was paid subsequent to March 31, 2016.

b) Veta Grande Mine, Veta Grande, Zacatecas, Mexico

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

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

8. Exploration and Evaluation Properties

The Company is actively investigating, evaluating and conducting exploration activities on projects in Mexico. A summary of accumulated costs on its exploration and evaluation properties as of March 31, 2016 and December 31, 2015 is as follows:

Santacruz Silver Mining Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2016 and 2015
(Unaudited – expressed in thousands of US dollars, except share and per share amounts)

| | Balance, Dec 31, 2014 \$ | Additions Year Ended Dec 31, 2015 \$ | Balance, Dec 31, 2015 \$ | Additions Period Ended Mar 31, 2016 \$ | Balance, Mar 31, 2016 \$ |
|---|-----------------------------------|---|-----------------------------------|---|-----------------------------------|
| a) Gavilanes, San Dimas, Durango, Mexico | | | | | |
| <i>Acquisition costs</i> | | | | | |
| Option payments – cash | 5,115 | 131 | 5,246 | 15 | 5,261 |
| | 5,115 | 131 | 5,246 | 15 | 5,261 |
| <i>Exploration costs</i> | | | | | |
| Depreciation | 9 | - | 9 | - | 9 |
| Drilling | 1,989 | - | 1,989 | - | 1,989 |
| Geological consulting | 25 | 11 | 36 | 8 | 44 |
| Mining claims, taxes and duties | 97 | 72 | 169 | 11 | 180 |
| Mine site support and office costs | 72 | 49 | 121 | 15 | 136 |
| Professional fees | 53 | - | 53 | - | 53 |
| Safety and maintenance | 9 | - | 9 | - | 9 |
| | 2,254 | 132 | 2,386 | 34 | 2,420 |
| | 7,369 | 263 | 7,632 | 49 | 7,681 |
| b) San Felipe, San Felipe de Jesús, Sonora, Mexico | | | | | |
| <i>Acquisition costs</i> | | | | | |
| Option payments – cash | 25,884 | - | 25,884 | - | 25,884 |
| Option payments – shares | 1,293 | - | 1,293 | - | 1,293 |
| | 27,177 | - | 27,177 | - | 27,177 |
| <i>Exploration costs</i> | | | | | |
| Depreciation | 17 | 24 | 41 | 7 | 48 |
| Drilling | 5,392 | 24 | 5,416 | - | 5,416 |
| Ejidal surface right payments | 649 | - | 649 | - | 649 |
| Environmental studies | 28 | 46 | 74 | - | 74 |
| Geological consulting | 1,941 | 92 | 2,033 | - | 2,033 |
| Mining claims, taxes and duties | 673 | 405 | 1,078 | 121 | 1,199 |
| Mine site support and office costs | 1,125 | 331 | 1,456 | 29 | 1,485 |
| Professional fees | 134 | 15 | 149 | - | 149 |
| Safety and maintenance | 30 | 4 | 34 | 20 | 54 |
| | 9,989 | 941 | 10,930 | 177 | 11,107 |
| Impairment | - | (19,426) | (19,426) | - | (19,426) |
| | 37,166 | (18,485) | 18,681 | 177 | 18,858 |
| Total | 44,535 | (18,222) | 26,313 | 226 | 26,539 |

a) Gavilanes, San Dimas, Durango, Mexico

Gavilanes I, San Dimas, Durango, Mexico

As at March 31, 2016, the Company has made total payments of \$3,600 and has exercised the option to acquire the 100% interest in the Gavilanes property located in San Dimas, Durango, Mexico, in accordance with the terms of the Gavilanes I Agreement. The property is subject to a 3% NSR in favour of the optionor, up to a maximum of \$2,000.

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Gavilanes II, San Dimas, Durango, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated May 1, 2010, as amended on certain dates between October 12, 2010 and January 7, 2015, 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. To maintain and exercise the option, the Company must make \$2,265 of cash payments to the property vendor. As at March 31, 2016, the Company has made total payments of \$1,561. The remaining payment of \$704 was due on April 15, 2015, but the Company is currently re-negotiating its extension.

Gavilanes MHM Fraccion, San Dimas, Durango, Mexico

Pursuant to an assignment of mining concession rights agreement dated January 5, 2012, as amended, 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 (made on April 15, 2012), \$1,000 upon commencement of commercial production, and the grant to the vendor of a 3% NSR.

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

Pursuant to a mining exploration and promissory sale agreement dated August 3, 2011 and amended on certain dates between December 9, 2011 and July 7, 2015 (the "San Felipe Agreement"), the Company was granted an option to acquire a 100% interest in the San Felipe project located in San Felipe de Jesús, Sonora, Mexico and the El Gachi property located near the San Felipe project, including all assets related to the properties. In addition to cash payments of \$25,884 made to March 31, 2016 and the issuance of 1,250,000 common shares of the Company, in order to maintain and exercise the option, the Company incurred exploration expenditures of \$3,000 and must make additional payments as follows:

- Annual surface right payments of 520,000 Mexican Pesos (\$30) on or before February 19 of each year until the project reaches commercial production;
- \$5,000 on or before December 1, 2016; and
- \$14,000 on or before December 15, 2016.

The project 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.

Pursuant to the terms of the San Felipe Agreement, 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 project.

Impairment

In the impairment assessment at December 31, 2015, the recoverable amount of the San Felipe project was determined to be the fair value less costs of disposal ("FVLCTD"), which is based upon the CGU's estimated future after-tax cash flows. The cash flows were determined based on life-of-mine cash flow projections, which incorporate management's estimates of forecast metal prices, production based on current estimates of mineral resources including measured, indicated and a portion of inferred, and future operating costs and capital expenditures. Metal prices included in the cash flow projections were based on market consensus forecasts. Projected cash flows under the

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FVLCTD model include estimates of inflation and foreign exchange rates and are after-tax and discounted using an estimated weighted average cost of capital of a market participant adjusted for asset specific risks.

Pricing

For the impairment assessment, the metal price assumptions were as follows:

| Year End Commodity Price Assumptions | 2016 | 2017 | 2018 | 2019 | 2020 and after |
|---|-------------|-------------|-------------|-------------|-----------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Silver (per oz) | 15.94 | 16.78 | 17.11 | 17.79 | 17.33 |
| Gold (per oz) | 1,156 | 1,174 | 1,192 | 1,216 | 1,201 |
| Lead (per lb) | 0.83 | 0.88 | 0.87 | 0.91 | 0.91 |
| Zinc (per lb) | 0.91 | 1.01 | 1.07 | 1.15 | 1.01 |

Discount rate

The post-tax discount rate adjusted for asset specific risks used for the impairment assessment was 10%.

At December 31, 2015, the recoverable amount of \$17,500 was lower than the carrying value of the CGU and therefore the Company recorded an impairment charge of \$19,426 before tax and \$12,868 after tax. This charge was recognized against the carrying value of the San Felipe project in 2015.

Sensitivity

The assumptions subject to the most estimation uncertainty for the FVLCTD calculation are the commodity prices. To illustrate this sensitivity, the recoverable amount would be reduced by \$1,576 if the commodity prices declined by 1%. Average commodity prices would have to increase by approximately 11% for the remaining cash flow projections to be break-even, in which case there would not be an impairment.

At March 31, 2016, the assumptions in the future after-tax cash flows used to determine the recoverable amount of the San Felipe project remain unchanged from December 31, 2015.

9. Accounts Payable and Accrued Liabilities

| | March 31, 2016 | December 31, 2015 |
|---------------------|-----------------------|--------------------------|
| | \$ | \$ |
| Trade payables | 6,723 | 4,647 |
| Accrued liabilities | 1,204 | 1,054 |
| Total | 7,927 | 5,701 |

10. Loan Payable

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

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In connection with this personal guarantee of the Loan, the Company agreed to issue 3,000,000 bonus warrants to the CEO. On January 11, 2016, the Company issued 3,000,000 bonus warrants, each of which is exercisable to purchase one common share for a price of CDN\$0.15 and expires January 11, 2017. The fair value of the bonus warrants (\$59) was estimated using the Black Scholes option-pricing model and was recorded against the balance of the loan payable. The assumptions used in the option pricing model were as follows: risk-free interest rate – 0.85%; expected life – 1 year; expected volatility – 78.58%; and expected dividends – nil.

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

The change in the loan payable during the year ended December 31, 2015 and the three months ended March 31, 2016 is as follows:

| | \$ |
|----------------------------|-------|
| Proceeds advanced | 725 |
| Transaction costs | (59) |
| Net loan proceeds | 666 |
| Interest expense | 4 |
| Balance, December 31, 2015 | 670 |
| Repayment | (190) |
| Interest expense | 40 |
| Balance, March 31, 2016 | 520 |

11. Leases

The Company entered into mining equipment leases expiring in 2017 with an interest rate of 10.5% per annum. The Company's obligations under finance leases are secured by the lessor's title to the leased assets. The terms and the outstanding balances as at March 31, 2016 and December 31, 2015 are as follows:

| | March 31, 2016 \$ | December 31, 2015 \$ |
|---|-------------------------|----------------------------|
| Scooptram, equipment lease repayable in monthly instalments of \$10 plus interest at 10.5% per annum, due in October 2017. | 205 | - |
| Scooptram, equipment lease repayable in monthly instalments of \$10 plus interest at 10.5% per annum, due in November 2017. | 215 | - |
| Subtotal | 420 | - |
| Current portion | (283) | - |
| Non-current portion | 137 | - |

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The following is a schedule of the Company's future minimum lease payments related to the equipment under finance lease:

| | March 31, 2016 |
|---|---------------------------|
| | \$ |
| 2016 | 232 |
| 2017 | 224 |
| Total minimum lease payments | 456 |
| Less: imputed interest | (36) |
| Total present value of minimum lease payments | 420 |
| Less: Current portion | (283) |
| Non-current portion | 137 |

12. Silver Loan

Initial Prepaid Silver Purchase Agreement

On October 2, 2014, the Company entered a Prepaid Silver Purchase Agreement (the "Original JMET Agreement") with JMET, LLC ("JMET") to receive \$28,400 in exchange for agreeing to sell 4,635,000 ounces of silver bullion through August 2019. The Company recorded the obligation to sell 4,635,000 ounces of silver bullion to JMET at a US\$10/ounce discount as debt recognized initially at fair value and subsequently at amortized cost using the effective interest rate method. The Company incurred certain transaction fees and costs in the amount of \$2,322. JMET held back \$800 of the principal amount of the debt which will be received by the Company on satisfaction of all obligations to JMET.

In conjunction with the Original JMET Agreement, the Company entered into a minimum price protection program with JMET ("Original PPP") to set a floor price for silver, gold, lead and zinc. As a result at October 2, 2014 the Company recognized derivative assets totaling \$2,361.

2014 Amendments to the JMET Agreement

On November 27, 2014, the terms of the Original JMET Agreement were amended ("the Amended JMET Agreement") such that the contractual quantity of silver to be sold to JMET was reduced; the terms of the Original PPP were changed; the Company repaid JMET \$9,000 on execution of the Amended JMET Agreement; and the Company agreed to repay a further \$7,000 on or before April 1, 2015. The amendment of the JMET Agreement and derecognition of the Original PPP were accounted for as an extinguishment as the change in expected payment terms as a result of the Amended JMET Agreement was determined to be substantial. As a result the Company derecognized the debt and derivative assets that arose from the Original JMET Agreement and recognized the debt and derivative asset which arose as a result of the Amended JMET Agreement ("the Settlement Event"). Immediately before the Settlement Event the carrying value of the Original JMET Agreement debt was \$26,691 and the fair value of the derivative assets was \$2,626. As a result of the Settlement Event the Company recognized a loss of \$2,322.

Pursuant to the Amended JMET Agreement the Company agreed to sell to JMET 2,600,000 ounces of silver. The sale price of silver bullion is based on the spot price less a US\$10 per ounce discount. The US\$10 per ounce discount represents the manner of repaying the principal and interest of the borrowed amount. The first delivery of silver to JMET was to be 52,000 ounces in July 2015, and sales of an additional 52,000 ounces each month through August 2019, at which point the contract would be fulfilled.

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As part of the Amended JMET Agreement the Company revised the Original PPP as follows:

- with respect to silver, a floor price of \$17 per ounce from January 2015 through March 2016 and \$16 per ounce for the balance of 2016 was put in place. The floor price covers 98,640 ounces per month for 2015 and 105,238 ounces per month for 2016; and
- with respect to gold, lead and zinc, floor prices of \$1,145 per ounce, \$1,975 per metric tonne and \$2,200 per metric tonne were established for the period January 2015 through March 2016. The corresponding quantities of metal covered per month for the respective metals were 180 ounces for 2015 and 190 ounces for the first three months of 2016 for gold; 155 tonnes for 2015 and 165 tonnes for the first three months of 2016 for lead; and 325 tonnes for 2015 and 346 tonnes for the first three months of 2016 for zinc.

In the event the spot price of any of the above referenced metals is greater than or equal to the respective floor price for any particular month, the Company receives the spot price for all metal shipped less US\$10. In the event the spot price of any of the metals is less than the floor price for any particular month, the Company receives the spot price plus cash payments from JMET for the difference between the spot price and the floor price multiplied by the contracted monthly amount of the respective metal less US\$10. The revised minimum price protection program is accounted for as a financial asset classified at fair value through profit or loss ("FVTPL") and remeasured at each period end with changes in fair value being recorded through profit and loss.

The derivative asset is valued upon initial measurement and subsequent periods using a Black Scholes pricing models. Key inputs used by the Company in its valuation include: the spot commodity price, the floor price, estimated volatility of the commodity over the life of the individual monthly contracts and the counterparty credit adjusted discount rate.

2015 amendments to the Amended JMET Agreement

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

On July 15, October 27 and December 15, 2015, the Amended JMET Agreement was further amended. As a result of these amendments, the Company as at December 31, 2015 must sell to JMET 2,644,625 ounces of silver at spot less US\$10, which includes an additional 44,625 ounces of silver at spot less US\$10 which represents a restructuring fee. The first delivery of silver to JMET is to be 67,811 ounces in June 2016, with sales of 67,811 ounces occurring each month through August 2019. The Company incurred transaction costs of \$94 in relation to these amendments. Further, as consideration for the deferral of the silver delivery, the Company agreed to pay JMET \$100 on or before April 30, 2016 and another \$100 on or before May 30, 2016.

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

During the year ended December 31, 2015, the Company received cash payments of \$224

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under the revised price protection plan and applied \$2,910 against the current portion of the silver loan upon settlement of 1,183,680 ounces of silver, 2,730 ounces of gold, 1,860 tonnes of lead and 3,900 tonnes of zinc that matured during the year.

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

The change in the silver loan during the year ended December 31, 2015 and the three months ended March 31, 2016 is as follows:

| | \$ |
|--|---------|
| Balance, December 31, 2014 | 14,590 |
| Holdback receivable | (800) |
| Transaction costs | (94) |
| Amount originally due on April 1, 2015 and subsequently amended to December 31, 2015 | 7,000 |
| Repayment on April 1, 2015 | (2,000) |
| Repayment by settlement of matured derivative assets | (2,910) |
| Interest expense | 5,044 |
| Balance, December 31, 2015 | 20,830 |
| Repayment by settlement of matured derivative assets | (1,339) |
| Interest expense | 991 |
| Balance, March 31, 2016 | 20,482 |

| | March 31, 2016 \$ | December 31, 2015 \$ |
|---------------------|-------------------------|----------------------------|
| Current portion | 8,759 | 7,987 |
| Non-current portion | 11,723 | 12,843 |
| Total | 20,482 | 20,830 |

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

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

The change in the derivative assets during the year ended December 31, 2015 and March 31, 2016 is as follows:

| | \$ |
|---|--------------|
| Balance, December 31, 2014 | 4,378 |
| Cash settlement received | (224) |
| Settlement applied against current portion of the silver loan | (2,910) |
| Change in fair value | 2,477 |
| Balance, December 31, 2015 | 3,721 |
| Settlement applied against current portion of the silver loan | (1,339) |
| Change in fair value | (1,247) |
| Balance, March 31, 2016 | 1,135 |

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13. Decommissioning and Restoration Provision

The Company's estimates of future decommissioning and restoration for reclamation and closure costs for its mine are based on reclamation standards that meet Mexican regulatory requirements. The undiscounted amount of estimated cash flows required to settle the decommissioning and reclamation costs was estimated at \$1,002 (2015 – \$1,002). The key assumptions on which this estimate was based on are:

- Expected timing of the cash flows is based on the estimated useful life of the Rosario Mine. The majority of the expenditures are expected to occur in 2023, which is the anticipated closure date.
- The discount rate used is 7% (2015 – 7%).

The discounted liability for the decommissioning and restoration provision is as follows:

| | March 31, 2016 \$ | December 31, 2015 \$ |
|-------------------------------------|-------------------------|----------------------------|
| Balance, beginning of period / year | 533 | 663 |
| Accretion expense | 9 | 46 |
| Change in estimate | - | (79) |
| Foreign exchange | (4) | (97) |
| Balance, end of period / year | 538 | 533 |

14. Share Capital

a) Authorized

Unlimited number of common shares without par value.

b) Share Capital Transactions

On October 23, 2015, October 29, 2015 and November 12, 2015, the Company closed the first, second and the third tranches of a non-brokered private placement and issued 10,000,000 common shares at a price of CDN\$0.13 per common share for gross proceeds of \$986 (CDN\$1,300). The Company incurred share issuance costs of \$6 in connection with the private placement.

c) Stock Options and Warrants Reserve

The following is a summary of the stock options and warrants reserve:

| | March 31, 2016 \$ | December 31, 2015 \$ |
|---------------|-------------------------|----------------------------|
| Stock options | 4,672 | 4,308 |
| Warrants | 1,620 | 1,561 |
| | 6,292 | 5,869 |

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d) Stock Options

The Company 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. Details of options activity for the year ended December 31, 2015 and the three months ended March 31, 2016 are as follows:

| | Number of Stock Options | Weighted Average Exercise Price (CDN\$) | Weighted Average Remaining Contractual Life (Years) |
|------------------------------------|--|--|--|
| Balance, December 31, 2014 | 7,606,666 | 0.97 | 2.62 |
| Expired | (4,303,332) | 0.90 | - |
| Balance, December 31, 2015 | 3,303,334 | 1.06 | 1.75 |
| Granted | 4,500,000 | 0.15 | - |
| Expired | (500,000) | 0.90 | - |
| Balance, March 31, 2016 | 7,303,334 | 0.52 | 3.57 |
| Unvested | 187,500 | 0.15 | 4.87 |
| Exercisable, March 31, 2016 | 7,115,834 | 0.52 | 3.57 |

The balance of options outstanding as at March 31, 2016 is as follows:

| Expiry Date | Exercise Price CDN\$ | Remaining Life (Years) | Options Vested and Outstanding |
|--------------------|-------------------------------------|-----------------------------------|---|
| April 12, 2017 | 0.90 | 1.03 | 1,703,334 ⁽¹⁾ |
| February 28, 2018 | 1.85 | 1.92 | 400,000 ⁽²⁾ |
| July 29, 2018 | 1.22 | 2.33 | 300,000 ⁽²⁾ |
| April 8, 2019 | 1.00 | 3.02 | 400,000 ⁽²⁾ |
| February 10, 2021 | 0.15 | 4.87 | 4,500,000 |
| | | | 7,303,334 |

⁽¹⁾ Subsequent to March 31, 2016, 1,001,667 of these options were tendered by the optionees for cancellation.

⁽²⁾ Subsequent to March 31, 2016, all of these options were tendered by the optionees for cancellation.

4,500,000 options were granted during the three months ended March 31, 2016 (2015 – nil). The fair values of the options granted during the three months ended March 31, 2016 were estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.50%; expected life – 5 years; expected volatility – 83.36%; expected forfeitures – 0%; and expected dividends – \$nil. Expected price volatility was calculated based on the Company’s historical share prices.

The weighted average fair value of stock options granted during the three months ended March 31, 2016 was \$0.08 per option.

During the three months ended March 31, 2016, the Company recorded share-based payments expense of \$364 (2015 – \$26).

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e) Warrants

Details of warrants activity for the year ended December 31, 2015 and three months ended March 31, 2016 are as follows:

| | Number of Warrants | Weighted Average Exercise Price CDN\$ | Weighted Average Remaining Contractual Life (Years) |
|--------------------------------|---------------------------|--|--|
| Balance, December 31, 2014 | 2,034,750 | 1.53 | 0.51 |
| Expired | (1,311,000) | 1.85 | - |
| Balance, December 31, 2015 | 723,750 | 1.00 | 0.19 |
| Issued | 3,000,000 | 0.15 | - |
| Expired | (723,750) | 1.00 | - |
| Balance, March 31, 2016 | 3,000,000 | 0.15 | 0.78 |

The balance of warrants outstanding as at March 31, 2016 is as follows:

| Expiry Date | Exercise Price CDN\$ | Remaining Life (Years) | Warrants Outstanding |
|--------------------|-----------------------------|-------------------------------|-----------------------------|
| January 11, 2017 | 0.15 | 0.78 | 3,000,000 ⁽¹⁾ |

⁽¹⁾ Subsequent to March 31, 2016, 500,000 of these warrants were exercised.

15. Operating Costs by Nature

a) Cost of sales

| Three months ended March 31, | 2016 | 2015 |
|--|--------------|--------------|
| | \$ | \$ |
| Production costs | 2,503 | 1,728 |
| Depletion and amortization | 572 | 52 |
| Adjustment to NRV of mined ore and concentrate inventory | - | (169) |
| | 3,075 | 1,611 |

b) Operating expenses

| Three months ended March 31, | 2016 | 2015 |
|-------------------------------------|-------------|-------------|
| | \$ | \$ |
| Administrative | 104 | 50 |
| Depreciation | 1 | 1 |
| Management and consulting fees | 111 | 89 |
| Other | 55 | 53 |
| Professional fees | 128 | 120 |
| Salaries and benefits | 18 | 40 |
| Share-based payments | 364 | 26 |
| Shareholder communications | 2 | 20 |
| Transfer agent and filing fees | 5 | 37 |
| Travel | 10 | 16 |
| | 798 | 452 |

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16. a) Interest Earned and Other Finance Income

| Three months ended March 31, | 2016 | 2015 |
|------------------------------|------|------|
| | \$ | \$ |
| Interest earned | - | 4 |
| Foreign exchange gain | - | 357 |
| | - | 361 |

b) Interest Expense and Other Finance Expenses

| Three months ended March 31, | 2016 | 2015 |
|--|---------|---------|
| | \$ | \$ |
| Accretion of decommissioning and restoration provision | (9) | (12) |
| Foreign exchange loss | (270) | - |
| Change in fair value of derivative assets | (1,247) | (615) |
| Interest expense on loan payable | (40) | - |
| Interest expense on silver loan | (991) | (822) |
| | (2,557) | (1,449) |

17. Related Party Transactions

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

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

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

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

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

18. Non-cash Transactions

Investing and financing activities that do not have a direct impact on cash flows are excluded from the consolidated statements of cash flows. During the three months ended March 31, 2016, the following transactions were excluded from the consolidated statements of cash flows:

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- Mineral property exploration expenditures of \$1,043 included in accounts payable and accrued liabilities at March 31, 2016, less mineral property exploration expenditures included in accounts payable and accrued liabilities at December 31, 2015 of \$915 (net inclusion of \$128);
- \$420 of leases payable that have been capitalized to mine properties at March 31, 2016;
- Fair value of the 3,000,000 bonus warrants (\$59) issued in connection with the CEO's personal guarantee of the Loan; and
- The settlement proceeds of \$1,339 under the revised minimum price protection program applied against the current portion of the silver loan.

During the three months ended March 31, 2015, the mineral property exploration expenditures of \$131 included in accounts payable and accrued liabilities at March 31, 2015 were excluded from the consolidated statements of cash flows.

19. 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, collectively the chief operating decision maker, in assessing performance and in determining the allocation of resources. We primarily manage our business by looking at individual resource projects and typically segregate these projects between production, development and exploration.

a) Operating Segments

The corporate division earns income that is considered incidental to our activities and therefore does not meet the definition of an operating segment. Consequently, the following segments have been identified: the Rosario Mine, Veta Grande Mine and exploration and evaluation properties. Below is a summary of the reported amounts of income or loss, and the carrying amounts of assets and liabilities by operating segment:

| Three Months Ended March 31, 2016 | Rosario Mine \$ | Veta Grande Mine \$ | Exploration and evaluation properties \$ | Corporate and other \$ | Total \$ |
|--|--------------------------------|--|---|---------------------------------------|---------------------|
| Revenues | 3,537 | - | - | - | 3,537 |
| Production costs | (2,503) | - | - | - | (2,503) |
| Depletion and amortization | (572) | - | - | - | (572) |
| Cost of sales | (3,075) | - | - | - | (3,075) |
| Gross profit | 462 | - | - | - | 462 |
| Operating income (loss) | 462 | - | - | (798) | (336) |
| Income (loss) before tax | 462 | - | - | (3,355) | (2,893) |
| Interest earned and other finance income | - | - | - | - | - |
| Interest expense and other finance expenses | (9) | - | - | (2,548) | (2,557) |
| Income tax expense | - | - | - | (107) | (107) |
| Total assets | 24,519 | 2,522 | 26,539 | 9,950 | 63,530 |
| Current assets | 1,422 | - | - | 8,173 | 9,595 |
| Non-current assets | 23,097 | 2,522 | 26,539 | 1,777 | 53,935 |
| Total liabilities | (9,149) | (660) | (1,930) | (21,607) | (33,346) |

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| Three Months Ended March 31, 2015 | Rosario Mine \$ | Veta Grande Mine \$ | Exploration and evaluation properties \$ | Corporate and other \$ | Total \$ |
|--|--------------------------------|--|---|---------------------------------------|---------------------|
| Revenues | 402 | - | - | - | 402 |
| Production costs | (1,728) | - | - | - | (1,728) |
| Depletion and amortization | (52) | - | - | - | (52) |
| Adjustment to NRV of inventory | 169 | - | - | - | 169 |
| Cost of sales | (1,611) | - | - | - | (1,611) |
| Gross loss | (1,209) | - | - | - | (1,209) |
| Operating loss | (1,209) | - | - | (452) | (1,661) |
| Loss before tax | (1,209) | - | - | (1,540) | (2,749) |
| Interest earned and other finance income | - | - | - | 361 | 361 |
| Interest expense and other finance expenses | (12) | - | - | (1,437) | (1,449) |
| Income tax recovery | - | - | - | 198 | 198 |

| Year Ended December 31, 2015 | Rosario Mine \$ | Veta Grande Mine \$ | Exploration and evaluation properties \$ | Corporate and other \$ | Total \$ |
|---|--------------------------------|--|---|---------------------------------------|---------------------|
| Total assets | 23,122 | 1,318 | 26,313 | 13,176 | 63,929 |
| Current assets | 1,433 | - | - | 8,875 | 10,308 |
| Non-current assets | 22,780 | 1,318 | 26,313 | 3,210 | 53,621 |
| Total liabilities | (6,733) | (514) | (1,979) | (21,888) | (31,114) |

b) Segment Revenue by Location and Major Customers

For the Rosario Mine segment, in each of the 2016 and 2015 periods the Company had only one customer who individually accounted for 100% of total concentrate revenue in Mexico during the three months ended March 31, 2016 and 2015.

c) Non-current Assets by Location

| | March 31, 2016 \$ | December 31, 2015 \$ |
|---------------|----------------------------------|-------------------------------------|
| <i>Canada</i> | 7 | 7 |
| <i>Mexico</i> | 53,928 | 53,614 |
| Total | 53,935 | 53,621 |

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20. Financial Instruments

The classification of the financial instruments as well as their carrying values as at March 31, 2016 and December 31, 2015 is shown in the table below:

| | Loans and Receivables | FVTPL | Other Financial Liabilities | Total |
|--|--------------------------|--------------|-----------------------------------|---------------|
| At March 31, 2016 | \$ | \$ | \$ | \$ |
| Financial assets | | | | |
| Cash and cash equivalents | 652 | - | - | 652 |
| Trade and other receivables | 523 | - | - | 523 |
| Derivative assets | - | 1,135 | - | 1,135 |
| Total financial assets | 1,175 | 1,135 | - | 2,310 |
| Financial liabilities | | | | |
| Accounts payable and accrued liabilities | - | - | 7,927 | 7,927 |
| Loan payable | - | - | 520 | 520 |
| Leases | - | - | 420 | 420 |
| Silver loan | - | - | 20,482 | 20,482 |
| Total financial liabilities | - | - | 29,349 | 29,349 |
| At December 31, 2015 | | | | |
| | \$ | \$ | \$ | \$ |
| Financial assets | | | | |
| Cash and cash equivalents | 277 | - | - | 277 |
| Trade and other receivables | 580 | - | - | 580 |
| Derivative assets | - | 3,721 | - | 3,721 |
| Total financial assets | 857 | 3,721 | - | 4,578 |
| Financial liabilities | | | | |
| Accounts payable and accrued liabilities | - | - | 5,701 | 5,701 |
| Loan payable | - | - | 670 | 670 |
| Silver loan | - | - | 20,830 | 20,830 |
| Total financial liabilities | - | - | 27,201 | 27,201 |

a) Fair Value of Financial Instruments

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

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

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

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

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

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|---------|--------|
| March 31, 2016 | \$ | \$ | \$ | \$ |
| Financial assets measured at fair value | | | | |
| Derivative assets | - | 1,135 | - | 1,135 |
| Financial liabilities | | | | |
| Loan payable | - | - | 544 | 544 |
| Leases | - | - | 456 | 456 |
| Silver loan at fair value | - | - | 20,576 | 20,576 |

b) Management of Risks Arising from Financial Instruments

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

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

(ii) Interest Rate Risk – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If interest rates increase, the Company will incur more interest costs. The sensitivity of the Company's net loss to changes in the interest rate would be as follows: a 10% change in the interest rate would change the Company's net loss by approximately \$6.

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

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Contractual cash flow requirements as at March 31, 2016 were as follows:

| | < 1 year \$ | 1 – 2 years \$ | 2 – 5 years \$ | >5 years \$ | Total \$ |
|--|-------------------|----------------------|----------------------|-------------------|---------------|
| Accounts payable and accrued liabilities | 7,927 | - | - | - | 7,927 |
| Loan payable | 544 | - | - | - | 544 |
| Leases | 232 | 224 | - | - | 456 |
| Silver loan | 8,759 | 8,137 | 10,728 | - | 27,624 |
| Minimum lease payments | 84 | 39 | - | - | 123 |
| Total | 17,546 | 8,400 | 10,728 | - | 36,674 |

The repayments of the silver loan are satisfied by silver deliveries to JMETS. Refer to Note 12.

(iv) Foreign Exchange Rate Risk – The Company operates in Canada and Mexico and is exposed to foreign exchange risk due to fluctuations in the US dollar and Mexican peso. Foreign exchange risk arises from financial assets and liabilities denominated in these foreign currencies. The sensitivity of the Company's net loss to changes in the exchange rate between the US dollar and the Canadian dollar would be as follows: a 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's net loss by approximately \$1,600.

The Company's financial assets and liabilities as at March 31, 2016 are denominated in Canadian dollars, US dollars, and Mexican pesos as follows:

| | Canadian dollar \$ | US dollar \$ | Mexican peso \$ | Total \$ |
|--|--------------------------|--------------------|-----------------------|-----------------|
| Financial assets | | | | |
| Cash and cash equivalents | 28 | 548 | 76 | 652 |
| Trade receivables | - | 523 | - | 523 |
| Other receivables | - | - | 46 | 46 |
| Derivative assets | - | 1,135 | - | 1,135 |
| | 28 | 2,206 | 122 | 2,356 |
| Financial liabilities | | | | |
| Accounts payable and accrued liabilities | (405) | (300) | (7,222) | (7,927) |
| Loan payable | - | (520) | - | (520) |
| Leases | - | (420) | - | (420) |
| Silver loan | - | (20,482) | - | (20,482) |
| | (405) | (21,722) | (7,222) | (29,349) |
| Net financial liabilities | (377) | (19,516) | (7,100) | (26,993) |

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

(v) Price Risk – This is the risk that the fair value of derivative financial instruments will fluctuate because of changes in commodity prices. These commodity prices are affected by numerous factors that are outside of our control such as: global or regional consumption patterns; the supply of, and demand for, these metals; speculative activities;

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the availability and costs of metal substitutes; inflation; and political and economic conditions, including interest rates and currency values.

The principal financial instruments that the Company holds that are impacted by commodity prices are the derivative assets. These derivatives settle monthly from January 2015 through the end of December 2016 for silver. Subsequent to March 31, 2016, the Company settled the remaining 947,142 ounces of silver under the revised price protection plan.

A 10% increase in the silver price as at March 31, 2016, with all other variables held constant, would have resulted in the following negative impact to our derivative asset and pre-tax net income:

| | 2016 |
|------------------------------|-------------|
| | \$ |
| 10% increase in silver price | 585 |

21. Commitments

The Company has a sub-lease agreement for the use of office premises in Vancouver, BC, Canada in the amount of \$5 (CAD\$5) per month until February 27, 2017. The amount of the total sub-lease payments committed is \$55 (CAD\$58) for the fiscal year ending December 31, 2016 and \$9 (CAD\$10) for the fiscal year ending December 31, 2017.

On October 1, 2014, the Company entered into an office lease agreement at new premises in the municipality of Monterrey, Nuevo León, Mexico in the amount of \$1 (21,000 Mexican pesos) per month until September 30, 2017. The amount of the total lease payments committed is \$30 (441,000 Mexican pesos) for the fiscal years ending December 31, 2016 and 2017.

22. Subsequent Events

a) Stock Options

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

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

b) Zacatecas Properties

On May 2, 2016 the Company entered into an option agreement to acquire from Golden Minerals Company (“Golden Minerals”) certain mineral claims located in the Zacatecas Mining District, Zacatecas, Mexico (the “Zacatecas Properties”) consisting of 149 concessions covering approximately 7,800 hectares. A 1% NSR exists with the original property vendors on some of the claims included in the Zacatecas Properties.

In order to acquire the Zacatecas Properties the Company will be required to pay to Golden Minerals the sum of \$1,500 including an initial payment of \$200 on signing the agreement (paid) plus additional payments as follows:

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- 6 months after signing \$200;
- 12 months after signing \$300;
- 18 months after signing \$300; and
- \$500 24 months after signing.