Consolidated Financial Statements

Years Ended December 31, 2015 and 2014

(Expressed in thousands of US dollars)

April 28, 2016

Independent Auditor's Report

To the Shareholders of Santacruz Silver Mining Ltd.

We have audited the accompanying consolidated financial statements of Santacruz Silver Mining Ltd. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Santacruz Silver Mining Ltd. and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Santacruz Silver Mining Ltd.
Consolidated Statements of Financial Position
(Expressed in thousands of US dollars)

	Note	December 31, 2015 $	December 31, 2014 $
ASSETS			
Current			
Cash and cash equivalents	**5**	277	6,016
VAT recoverable and receivables	**6**	4,593	3,018
Inventory	**7**	342	395
Prepaid expenses and deposits		1,375	675
Derivative assets	**13**	3,721	2,253
		10,308	12,357
VAT recoverable	**6**	2,540	4,778
Holdback receivable	**13**	-	800
Derivative assets	**13**	-	2,125
Plant and equipment	**8**	14,882	13,338
Mine properties	**9**	9,886	9,032
Exploration and evaluation properties	**10**	26,313	44,535
		63,929	86,965
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**11**	5,701	2,920
Loan payable	**12**	670	-
Silver loan	**13**	7,987	10,120
		14,358	13,040
Silver loan	**13**	12,843	11,470
Decommissioning and restoration provision	**14**	533	663
Deferred income tax liability	**23**	3,380	4,799
		31,114	29,972
EQUITY			
Share capital	**15**	86,587	85,607
Stock options and warrants reserve	**15(d)**	5,869	5,792
Warrants to be issued	**12**	59	-
Accumulated other comprehensive loss		(1,434)	(372)
Deficit		(58,266)	(34,034)
		32,815	56,993
		63,929	86,965

Nature of Operations and Going Concern *(Note 1)*
Commitments *(Notes 9, 10 and 24)*
Subsequent Events *(Notes 6, 9, 12, 13, 15 and 25)*

Approved on behalf of the Board:

"Arturo Préstamo Elizondo"	*"Larry Okada"*
Director – Arturo Préstamo Elizondo	Director – Larry Okada

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

Santacruz Silver Mining Ltd.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2015 and 2014
(Expressed in thousands of US dollars, except share and per share amounts)

	Note	2015 $	2014 $
Revenues		8,643	10,626
Cost of sales	**16**	(10,682)	(12,647)
Gross loss		(2,039)	(2,021)
Operating expenses	**16**	(1,946)	(2,869)
Impairment	**10**	(19,426)	-
Operating loss		(23,411)	(4,890)
Interest earned and other finance income	**17**	2,952	936
Interest expense and other finance expenses	**17**	(5,094)	(3,881)
Loss before income tax		(25,553)	(7,835)
Income tax recovery (expense)	**23(a)**	1,321	(871)
Net loss for the year		(24,232)	(8,706)
Other comprehensive (loss) income			
Currency translation differences		(1,062)	132
Comprehensive loss for the year		(25,294)	(8,574)
Loss per share – basic and diluted		(0.23)	(0.09)
Weighted average number of common shares outstanding		105,285,593	101,194,272

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

Santacruz Silver Mining Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014
(Expressed in thousands of US dollars)

Cash Provided By (Used In):	**2015** **$**	**2014** **$**
Operations:		
Net loss for the year	(24,232)	(8,706)
Items not affecting cash:		
Deferred income tax (recovery) expense	(1,419)	825
Accretion of decommissioning and restoration provision	46	41
Depletion, depreciation and amortization	1,736	1,493
Share-based payments	77	276
Interest expense on loan payable	4	-
Interest expense on silver loan	5,044	958
Loss on settlement of silver loan	-	2,322
Change in fair value of derivative assets	(2,477)	(923)
Impairment	19,426	-
Unrealized foreign exchange	(169)	273
Changes in non-cash working capital:		
VAT recoverable and receivables	325	(1,280)
Prepaid expenses and deposits	(878)	(539)
Inventory	53	238
Accounts payable and accrued liabilities	2,143	1,974
	(321)	(3,048)
Investing:		
Exploration and evaluation properties	(913)	(11,806)
Acquisition and development costs on mine property	(1,266)	(861)
Acquisition of plant and equipment	(3,054)	(3,628)
	(5,233)	(16,295)
Financing:		
Proceeds from issuance of common shares	986	10,865
Share issuance costs	(6)	(970)
Proceeds from silver loan	-	27,000
Repayment of silver loan	(2,000)	(9,000)
Cash received from settlement of derivative assets	224	-
Cash costs of derivative assets	-	(3,891)
Issuance costs incurred for silver loan	(94)	(192)
Proceeds from loan payable	725	-
	(165)	23,812
Net (decrease) increase in cash and cash equivalents	(5,719)	4,469
Effect of exchange rate changes on cash and cash equivalents	(20)	(71)
Cash and cash equivalents – beginning of year	6,016	1,618
Cash and cash equivalents – end of year	277	6,016

Non-cash Transactions *(Note 19)*

Santacruz Silver Mining Ltd.
Consolidated Statements of Changes in Equity
(Expressed in thousands of US dollars, except share and per share amounts)

	Share Capital						
	Number of Shares	Amount $	Stock Options and Warrants Reserve $	Warrants to be Issued $	AOCI $	Deficit $	Total $
Balance, December 31, 2013	91,330,984	75,912	5,316	-	(504)	(25,328)	55,396
Issued pursuant to prospectus offering	12,062,500	10,865	-	-	-	-	10,865
Issued for finder's fees	100,000	92	-	-	-	-	92
Share issuance costs	-	(1,262)	200	-	-	-	(1,062)
Share-based payments	-	-	276	-	-	-	276
Comprehensive loss for the year	-	-	-	-	132	(8,706)	(8,574)
Balance, December 31, 2014	103,493,484	85,607	5,792	-	(372)	(34,034)	56,993
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	-	-	77	-	-	-	77
Comprehensive loss for the year	-	-	-	-	(1,062)	(24,232)	(25,294)
Balance, December 31, 2015	113,493,484	86,587	5,869	59	(1,434)	(58,266)	32,815

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

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 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. Should the Company be unable to continue as a going concern, asset realization values may be substantially different from their carrying values. These 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.

At December 31, 2015, the Company had not yet achieved profitable operations, had a working capital deficiency of $4,050, had accumulated an inception to date deficit of $58,266 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. Refer to Note 22. 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.

2. Basis of Presentation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved for issue by the Board of Directors on April 28, 2016.

b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 3.

c) Basis of Consolidation

These consolidated financial statements include the financial statements of all wholly owned 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 is exposed to, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. 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.

d) Functional and Presentation Currency

The financial statements for the Company and each of its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of Santacruz and Holdings is the Canadian dollar. The functional currency of IMSC is the US dollar. The functional currency of OMA is the Mexican peso. The presentation currency of the Company is the US dollar.

Entities whose functional currencies differ from the presentation currency 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 loss as cumulative translation differences.

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 the fair value is determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

When the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive loss related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive loss related to the subsidiary are reallocated between controlling and non-controlling interests.

3. Significant Accounting Policies

a) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less.

b) Inventory

Concentrate inventory and mined ore inventory are valued at the lower of average production cost and net realizable value. Net realizable value is the amount estimated to be obtained from sale of the inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale. The production cost of inventories is determined on a weighted average basis and includes cost of production consumables, direct labour, mine-site overhead and depreciation and depletion of mine properties and plant and equipment. Joint-product costing is applied as the primary concentrate products both contribute to the profitability of the operation. Joint costing allocates total production costs based on the relative values of the products.

Write-down of inventory is recognized within cost of sales in the period the write-down occurs. Reversal of any write-down of inventory, arising from an increase in net realizable value, is recorded within cost of sales to the extent that the related inventory has not been sold. Prior to commencement of commercial production, any write-down of inventory is capitalized to mine under construction and development costs.

Supplies inventory is valued at the lower of average cost and net realizable value. Costs include acquisition, freight and other directly attributable costs.

c) Plant and Equipment

Plant and equipment are stated at historical cost net of accumulated depreciation and impairment losses.

The cost of an item of plant and equipment includes the purchase price or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and for qualifying assets, the associated borrowing costs.

Where an item of plant and equipment is comprised of major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Costs incurred for major overhaul of existing equipment and sustaining capital are capitalized as plant and equipment and are subject to depreciation once they are available for use. Major overhauls include improvement programs that increase the productivity or extend the useful life of an asset beyond that initially envisaged. The costs of routine maintenance and repairs that do not constitute improvement programs are accounted for as a cost of inventory.

Costs incurred for leasehold improvements are capitalized as plant and equipment and are subject to depreciation once they are available for use. Once available for use, the leasehold improvement costs incurred will be amortized on a straight line basis, over the term of the underlying lease.

The carrying amounts of plant and equipment are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of mine or lease, if shorter. Depreciation starts on the date when commissioning is complete and the asset is ready for its intended use. The major categories of plant and equipment are depreciated on a units-of-production or declining-balance basis at the following annual rates:

Office furniture and equipment	10%
Vehicles	25%
Computer hardware	30%
Mine plant and equipment	Life of mine
Mine buildings	Life of mine
Leasehold improvements	Life of lease

d) Mineral Property Interests

Pre-license Costs

Exploration and evaluation expenditures are expensed until we have obtained the legal right to explore an area.

Exploration and Evaluation Costs

Once the legal right to explore has been acquired, the Company capitalizes on a property by property basis, the costs of acquiring, maintaining its interest in, exploring and evaluating mineral properties until such time as the lease expires, the mineral properties are abandoned, or sold or are considered impaired in value. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage.

Mine Property

The costs associated with exploration and evaluation properties are transferred to mine properties once the work completed to date supports the future development of the property and such development receives appropriate approvals. All costs relating to the construction, installation or completion of a mine that are incurred subsequent to the exploration and evaluation stage are capitalized to mine properties. Development expenditure is net of proceeds from the sale of ore extracted during the development phase.

The Company assesses the stage of each mine under construction to determine when a property reaches the stage when it is in the condition for it to be capable of operating in a manner intended by management. When management determines that a property is capable of commercial production, costs capitalized during development are amortized. The Company determined its Rosario Mine to be in commercial production effective January 1, 2014.

Once a mineral property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for development programs which constitute a betterment, which will be deferred and depleted over the remaining useful life of the related assets. Mine properties include decommissioning and restoration costs related to the reclamation of mine properties. Mine properties are derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset,

determined as the difference between the proceeds received and the carrying amount of the asset is recognized in profit or loss.

Mine properties are depreciated and depleted on the unit-of-production basis using the mineable tonnes extracted from the mine in the period as a percentage of the total mineable tonnes to be extracted in current and future periods based on mineral resources.

Mine properties are recorded at cost, net of accumulated depreciation and depletion and accumulated impairment losses, and are not intended to represent future values. Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related mineral property.

Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset until such time as the asset is substantially complete and ready for its intended use or sale. Where funds have been borrowed specifically to finance an asset, the amount capitalized is the actual borrowing costs incurred. Where the funds used to finance an asset form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

e) Impairment of Non-Financial Assets

The Company performs impairment tests on non-financial assets when events or circumstances occur which indicate the carrying amount of the assets may not be recoverable.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

The recoverable amount is the higher of the fair value less costs of disposal and the value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash generating units" or "CGU"s). These are typically the individual mines or projects. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assignments of the time value of money and the risks specific to the asset.

Fair value less cost of disposal is the amount that would be received from selling an asset in an orderly transaction between market participants at the measurement date, less the costs of disposal. For mining assets, fair value less cost of disposal is often estimated using a discounted cash flow approach because a fair value is not readily available from an active market or binding sale agreement. Estimated future post-tax cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs.

f) Site Closure and Reclamation Provision

The Company recognizes a provision for statutory, contractual, constructive or legal obligations associated with decommissioning of mining operations and reclamation and rehabilitation costs arising when environmental disturbance is caused by the exploration or development of mineral properties, plant and equipment. Provisions for site closure and reclamation are recognized in the period in which the obligation is incurred or acquired, and are measured based on expected future cash flows to settle the obligation, discounted to their present value. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in mine property, plant and equipment. These costs are depreciated on a basis consistent with the depreciation, depletion, and amortization of the underlying assets.

The obligation is accreted over time for the change in its present value, with this accretion charge recognized as a finance expense in profit or loss. The obligation is also adjusted for changes in the estimated timing and amount of expected future cash flows, and changes in the discount rate. Such changes in estimates are added to or deducted from the related asset except where deductions are greater than the carrying value of the related asset in which case, the amount of the excess is recognized in profit or loss.

g) Share Capital

The Company records proceeds from share issuances net of issue costs and any tax effects in equity. Common shares issued for consideration other than cash are valued based on their fair value at the date of issuance.

h) Valuation of Equity Units Issued in Private Placements

The Company follows the residual method with respect to the measurement of common shares and common share purchase warrants issued as private placement units. Proceeds from private placements are first allocated to warrants according to their fair value at the time of issuance. The fair value of the warrants is determined at the issue date using the Black-Scholes option pricing model and recorded in warrant reserve. Any residual in the proceeds is allocated to common shares.

i) Revenue

The Company's primary source of revenue is from the sale of metal-bearing concentrate. Revenue is recognized when:

- The significant risks and rewards of ownership have been transferred;
- Neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold has been retained;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

These conditions are generally satisfied when title passes to the customer. In most instances, sales revenue is recognized when the product is delivered to the destination specified by the customer, which is typically at the customer's premises.

Revenue is measured at the fair value of consideration received or receivable. Revenue from the sale of concentrate is recorded net of charges for treatment, refining and penalties.

Concentrate sales are recognized on a provisional basis using management's estimate of contained metals. Final settlement is based on applicable commodity prices, based on contractually determined quotational periods, and receipt of final weights and assays, which is typically one to four months after shipment.

Variations between the price recorded when revenue is initially recorded and the actual final price are caused by changes in metal prices and result in an embedded derivative. The derivative is recorded at fair value each period until final settlement occurs, with value adjustments recognized in revenue.

Proceeds from the sale of concentrate prior to commercial production are credited to mine under construction and development costs.

j) Share-based Payments

From time to time, the Company grants options to directors, officers, employees and non-employees to purchase common shares. The Company accounts for share-based payments, including stock options, at their fair value on the grant date and recognizes the cost as a compensation expense over the period that the employees become entitled to the award. The fair value of the options on the grant date is determined using the Black-Scholes option pricing model for stock option awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date. A corresponding increase is recognized in equity for these costs.

k) Loss per Share

Basic loss per share is calculated using the weighted average number of shares issued and outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. When a loss is incurred during the year, diluted and basic loss per share are the same because the effects of potential issuances of shares under options and warrants will be anti-dilutive.

l) Income Taxes

Provision for income taxes consists of current and deferred tax expense. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized either in other comprehensive loss or directly in equity, in which case it is recognized in other comprehensive loss or in equity, respectively. Mining duties, taxes, royalties and withholding taxes are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to taxable income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences associated with the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss and temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

m) Financial Instruments

Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. Management determines the classification of its financial assets and liabilities at initial recognition. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each of the other categories is as follows:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities of greater than 12 months after the end of the reporting periods, which are classified as non-current assets. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest method. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired as well as through the amortization process. The Company's loans and receivables consist of cash and cash equivalents, trade receivables and other receivables.

Financial Assets at Fair Value Through Profit or Loss

An instrument is classified at fair value through profit or loss ("FVTPL") if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. The Company's financial assets at FVTPL include the derivative assets.

Financial Liabilities

All financial liabilities are initially recorded at fair value and classified upon inception as FVTPL or other financial liabilities. The Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as other financial liabilities are recognized initially at fair value adjusted for directly attributable transaction costs and are subsequently stated at amortized cost using the effective interest method. The Company's other financial liabilities consist of accounts payable and accrued liabilities and silver loan.

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been negatively impacted.

The criteria used to determine if there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

n) Critical Judgements in Applying Accounting Policies

The critical judgements that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations *(Note 3(o))* that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

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

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

Commencement of Commercial Production

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

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

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

Functional Currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency involves certain judgements to determine the primary economic environment of an entity. The Company re-evaluates the functional currency of its entities when there is a change in events and conditions which previously determined the primary economic environment of an entity.

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

VAT recoverable is collectible from the government of Mexico. The collection of VAT is subject to risk due to the complex application and collection process and therefore, risk related to the collectability and timing of payment from the Mexican government. The Company uses its best estimates based on the facts known at the time and its experience to determine its best estimate of the collectability and timing of these recoveries. At December 31, 2015, $3,827 of the balance is expected to be recoverable and collectible within twelve months from the year end and the remaining $2,540 is expected to not be collected within twelve months and has been classified as non-current. Changes in the assumptions regarding collectability and the timing of collection could impact the valuation and classification of VAT recoverable.

o) Key Sources of Estimation Uncertainty

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

historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

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

Mineral resources estimate

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

Review of asset carrying values and impairment assessment

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

Each asset or CGU is evaluated every reporting period to determine whether there are any indicators of impairment. If any such indicators exist, which is often judgment-based, a formal estimate of recoverable amount is performed and an impairment charge is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or CGU of assets is measured at the higher of fair value less costs of disposal ("FVLCTD") or value in use ("VIU").

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

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

Based on the review of the Rosario Mine CGU for impairment indicators, it was identified that there were indicators that an impairment loss may have occurred at the Rosario Mine

CGU, primarily as a result of the decline in silver commodity prices. The recoverable amount for Rosario Mine was determined by reference to a FVLCD model and exceeded the carrying value of the CGU at December 31, 2015 by $4,485. As such is the case, no impairment charge has been recognized on the Rosario Mine in the profit or loss in 2015.

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

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

Year End Commodity Price Assumptions	**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

The assumptions subject to the most estimation uncertainty for the FVLCD calculation is the commodity prices. To illustrate this sensitivity, the recoverable amount would be reduced by $550 if the commodity prices declined by 1% and the carrying value would exceed the recoverable amount if commodity prices declined greater than 8% with all other assumptions remaining equal.

Management's impairment evaluation did not result in the identification of an impairment loss on the Rosario Mine as at December 31, 2015. Although management believes the estimates applied in these impairment assessments are reasonable, such estimates are subject to significant uncertainties and judgments.

Based on the review of the San Felipe project CGU for impairment indicators, it was identified that there were also indicators that an impairment loss may have occurred at the San Felipe project CGU, primarily as a result of the decline in silver commodity prices. The impairment assessment at December 31, 2015 for the San Felipe project is discussed in Note 10.

Fair value of derivative assets

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

Decommissioning and restoration provision

Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will

incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation and exploration and development property. In addition, future changes to environmental laws and regulations may increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for site closure and reclamation. The provision represents management's best estimate of the present value of the future site closure and reclamation obligation.

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

Deferred taxes

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

Share-based Payments

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

4. Changes in Accounting Policies Including Initial Adoption

Changes in Accounting Standards that Are Not Yet Effective and Have Not Been Early Adopted by the Company

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.

5. Cash and Cash Equivalents

	December 31, 2015 $	December 31, 2014 $
Cash on hand or held with banks	269	6,006
Short-term investments	8	10
Total	277	6,016

6. VAT Recoverable and Receivables

	December 31, 2015 $	December 31, 2014 $
Mexican value added taxes recoverable	6,367	6,771
Canadian GST recoverable	186	129
Trade receivables	519	817
Other receivables	61	79
Total	7,133	7,796
Current portion	(4,593)	(3,018)
Non-current portion	2,540	4,778

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 December 31, 2015.

Subsequent to December 31, 2015, $2,053 of the Mexican value added taxes recoverable has been collected.

7. Inventory

	December 31, 2015 $	December 31, 2014 $
Ore stockpiles	-	133
Concentrate inventory	127	20
Supplies inventory	215	242
Total	342	395

At December 31, 2014, the Company wrote down ore stockpiles and concentrate inventory to their net realizable values, recording a charge of $659. The amount of inventory held at NRV at December 31, 2014 was $153.

8. Plant and Equipment

Cost	Office Furniture and Equipment $	Assets under Construction $	Plant and Equipment $	Vehicles $	Computer Hardware $	Total $
Balance, December 31, 2013	55	-	11,143	313	138	11,649
Additions	2	383	3,181	43	19	3,628
Foreign exchange	(1)	-	-	-	-	(1)
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
Accumulated Depreciation						
Balance, December 31, 2013	7	-	879	86	44	1,016
Additions	5	-	828	58	31	922
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
Carrying amount at December 31, 2014	44	383	12,617	212	82	13,338
Carrying amount at December 31, 2015	43	589	14,006	177	67	14,882

Depreciation during the year ended December 31, 2015 was $1,088 (2014 – $922). During the year ended December 31, 2015, $24 of the depreciation was capitalized to exploration and evaluation properties (2014 – $16).

9. Mine Properties

	Rosario Mine, Charcas, San Luis Potosi, Mexico $	Veta Grande, Veta Grande, Zacatecas, Mexico $	Total $
Balance, December 31, 2013	8,771	-	8,771
Additions	751	-	751
Decommissioning and restoration provision *(Note 14)*	97	-	97
Amortization and depletion	(587)	-	(587)
Balance, December 31, 2014	9,032	-	9,032
Additions	493	1,112	1,605
Decommissioning and restoration provision *(Note 14)*	(79)	-	(79)
Amortization and depletion	(672)	-	(672)
Balance, December 31, 2015	8,774	1,112	9,886

a) Rosario Mine, 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 certain dates between February 15, 2012 and July 9, 2015 (the "Rey David Agreement"), 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 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.

As at December 31, 2015, the Company has made total payments of $2,000 and has exercised the option to acquire the 100% interest in accordance with the terms of the Rey David Agreement.

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 December 31, 2015, the Company has made total payments of $200 and the remaining payment of $20 is due on February 22, 2016 (paid subsequent to December 31, 2015).

b) Veta Grande, Veta Grande, Zacatecas, Mexico

On November 2, 2015, the Company announced that it has entered into a definitive agreement (the “Contracuña Agreement”) with Minera Contracuña I, S.A. de C.V. and Vetalinda 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, at the end of the original term. Consideration for the Contracuña Agreement was $500, $200 of which was paid and an additional payment of $300 is due 30 days following registration of the agreement with the Deputy of Mines (paid subsequent to December 31, 2015). 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/ounce, the NPI changes to 45% to be paid to Contracuña.

10. Exploration and Evaluation Properties

The Company is actively investigating, evaluating and conducting exploration activities on projects in Mexico. The summary of accumulated costs on its exploration and evaluation properties as of December 31, 2015 and 2014 is as follows:

	Balance, Dec 31, 2013 $	Additions Year Ended Dec 31, 2014 $	Balance, Dec 31, 2014 $	Additions Year Ended Dec 31, 2015 $	Balance, Dec 31, 2015 $
a) Gavilanes, San Dimas, Durango, Mexico					
Acquisition costs					
Option payments – cash	3,315	1,800	5,115	131	5,246
	3,315	1,800	5,115	131	5,246
Exploration costs					
Depreciation	4	5	9	-	9
Drilling	1,818	171	1,989	-	1,989
Geological consulting	-	25	25	11	36
Mining claims, taxes and duties	60	37	97	72	169
Mine site support and office costs	68	4	72	49	121
Professional fees	47	6	53	-	53
Safety and maintenance	9	-	9	-	9
	2,006	248	2,254	132	2,386
	5,321	2,048	7,369	263	7,632
b) San Felipe, San Felipe de Jesús, Sonora, Mexico					
Acquisition costs					
Option payments – cash	22,884	3,000	25,884	-	25,884
Option payments – shares	1,293	-	1,293	-	1,293
	24,177	3,000	27,177	-	27,177
Exploration costs					
Depreciation	6	11	17	24	41
Drilling	2,852	2,540	5,392	24	5,416
Ejidal surface right payments	358	291	649	-	649
Environmental studies	-	28	28	46	74
Geological consulting	76	1,865	1,941	92	2,033
Mining claims, taxes and duties	318	355	673	405	1,078
Mine site support and office costs	316	809	1,125	331	1,456
Professional fees	134	-	134	15	149
Safety and maintenance	25	5	30	4	34
	4,085	5,904	9,989	941	10,930
Impairment	-	-	-	(19,426)	(19,426)
	28,262	8,904	37,166	(18,485)	18,681
Total	33,583	10,952	44,535	(18,222)	26,313

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 on certain dates between October 12, 2010 and December 17, 2013 (the "Gavilanes I Agreement"), 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.

As at December 31, 2015, the Company has made total payments of $3,600 to the vendors and has exercised the option in accordance with the terms of the Gavilanes I Agreement.

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 December 31, 2015, the Company has made total payments of $1,546. The remaining payment of $719 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 $25,700 made to date 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 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 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 is 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.

11. Accounts Payable and Accrued Liabilities

	December 31, 2015	December 31, 2014
	$	$
Trade payables	4,647	2,397
Accrued liabilities	1,054	523
Total	5,701	2,920

12. 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.

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 charged 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.

The change in the loan payable during the year ended December 31, 2015 is as follows:

	$
Proceeds advanced	725
Transaction costs	(59)
Net loan proceeds	666
Interest expense	4
Balance, December 31, 2015	670

Subsequent to December 31, 2015, $181 of the principal payments have been made. On March 10, 2016, Trafigura has 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.

13. 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.

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 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 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.

The change in the silver loan during the years ended December 31, 2015 and 2014 is as follows:

	$
Proceeds advanced from original loan	28,400
Transaction costs	(2,322)
Net loan proceeds	26,078
Interest expense	613
Subtotal	26,691
Fair value of consideration on extinguishment	(14,768)
Loss on extinguishment of original loan	2,322
Fair value of amended loan	14,245
Interest expense	345
Balance, December 31, 2014	14,590
Holdback receivable	(800)
Transaction costs	(94)
Interest expense	4,094
Balance, December 31, 2015	17,790

	December 31, 2015 $	**December 31, 2014 $**
Current portion	4,947	3,120
Non-current portion	12,843	11,470
Total	17,790	14,590

The current portion of the silver loan of $7,987 (2014 - $10,120) included in the Consolidated Statement of Financial Position includes the $4,947 (2014 - $3,120) included in the table above and the $3,040 (2014 - $7,000) cash payment which was originally due April 1, 2015 and which was deferred as a result of the April 1, 2015 amendment to the Amended JMET Agreement:

	December 31, 2015 $	**December 31, 2014 $**
Current portion of the silver loan from table above	4,947	3,120
Amount originally due on April 1, 2015 and subsequently amended to December 31, 2015	7,000	7,000
Repayment on April 1, 2015	(2,000)	-
Repayment by settlement of matured derivative assets	(2,910)	-
Interest expense on unpaid balance due on December 31, 2015	950	-
Current portion	7,987	10,120

At December 31, 2015, $3,040 due to be paid on December 31, 2015 remained unpaid and is accruing interest at a rate of 30%. Subsequent to December 31, 2015, the Amended JMET 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 $3,040 balance due December 31, 2015.

The change in the derivative assets during the years ended December 31, 2015 and 2014 is as follows:

	$
Derivative asset – at inception	2,361
Change in fair value	265
Derecognition on extinguishment of original loan	(2,626)
Fair value of derivative assets	-
Derivative assets under Amended Loan	3,720
Change in fair value	658
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

	December 31, 2015 $	**December 31, 2014 $**
Current portion	3,721	2,253
Non-current portion	-	2,125
Total	3,721	4,378

14. 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 (2014 – $1,137). 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% (2014 – 7%).

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

	December 31, 2015 $	**December 31, 2014 $**
Balance, beginning of year	663	596
Accretion expense	46	41
Change in estimate	(79)	97
Foreign exchange	(97)	(71)
Balance, end of year	533	663

15. Share Capital

a) Authorized

Unlimited number of common shares without par value.

b) Share Capital Transactions

On March 11, 2014, the Company closed a prospectus offering (the "2014 Offering"), pursuant to which 12,062,500 common shares were issued at a price of CDN$1.00 per share for gross proceeds of $10,865 (CDN$12,063). The underwriters received a cash fee of $652 (CDN$724), as well as 723,750 warrants, each of which is exercisable to purchase one common share for a price of CDN$1.00 until March 11, 2016 for 645,000 warrants and March 20, 2016 for 78,750 warrants. Subsequent to December 31, 2015, the warrants expired unexercised. The fair value of the broker warrants ($200) was estimated using the Black Scholes option-pricing model and was charged to share issue costs and credited to warrants reserve. The assumptions used in the option pricing model were as follows: risk-free interest rate – 1.30%; expected life – 2 years; expected volatility – 51.08%; and expected dividends – nil. The Company also issued 100,000 common shares as a corporate finance fee and incurred additional issue costs of $318.

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) Escrow

There were no common shares of the Company held in escrow as at December 31, 2015 (2014 – 3,162,928 shares). Under the Escrow Agreement, the common shares held in escrow were released from escrow every six months. The final 3,162,928 common shares were released on April 13, 2015.

d) Stock Options and Warrants Reserve

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

	December 31, 2015 $	December 31, 2014 $
Stock options	4,308	4,231
Warrants	1,561	1,561
	5,869	5,792

e) 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 years ended December 31, 2015 and 2014 are as follows:

	Number of Stock Options	Weighted Average Exercise Price (CDN$)	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2013	6,606,666	0.97	3.09
Granted	1,000,000	0.96	-
Balance, December 31, 2014	7,606,666	0.97	2.62
Expired	(4,303,332)	0.90	-
Balance and Exercisable, December 31, 2015	3,303,334	1.06	1.75

The balance of options outstanding as at December 31, 2015 is as follows:

Expiry Date	Exercise Price CDN$	Remaining Life (Years)	Options Vested and Outstanding
April 12, 2017	0.90	1.28	2,203,334[1]
February 28, 2018	1.85	2.16	400,000[2]
July 29, 2018	1.22	2.59	300,000[2]
April 8, 2019	1.00	3.27	400,000[2]
			3,303,334

[1] Subsequent to December 31, 2015, 1,001,667 of these options were cancelled.
[2] Subsequent to December 31, 2015, all of these options were cancelled.

No options were granted during the year ended December 31, 2015 (2014 – 1,000,000). The fair values of the options granted during the year ended December 31, 2014 were estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate – 2.08%; expected life – 5 years; expected volatility – 52.37%; 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 year ended December 31, 2014 was $0.42 per option.

During the year ended December 31, 2015, the Company recorded share-based payments expense of $77 (2014 – $276).

Subsequent to December 31, 2015, the Company granted 4,500,000 incentive stock options to directors, officers, employees and consultants of the Company, at an exercise price of CDN$0.15 each expiring February 11, 2021.

f) Warrants

Details of warrants activity for the years ended December 31, 2015 and 2014 are as follows:

	Number of Warrants	Weighted Average Exercise Price CDN$	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2013	2,403,202	1.45	0.75
Issued	723,750	1.00	-
Exercised	(1,092,202)	1.00	-
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

The balance of warrants outstanding as at December 31, 2015 is as follows:

Expiry Date	Exercise Price CDN$	Remaining Life (Years)	Warrants Outstanding
March 11, 2016	1.00	0.19	645,000[1]
March 20, 2016	1.00	0.22	78,750[1]
			723,750

[1] All of these warrants expired unexercised subsequent to December 31, 2015.

16. Operating Costs by Nature

a) Cost of sales

Years ended December 31,	2015 $	2014 $
Production costs	8,952	10,503
Depletion and amortization	1,730	1,485
Adjustment to NRV of mined ore and concentrate inventory	-	659
	10,682	12,647

b) Operating expenses

Years ended December 31,	2015 $	2014 $
Administrative	284	666
Depreciation	6	8
Management and consulting fees	441	714
Other	177	20
Professional fees	624	574
Salaries and benefits	151	177
Share-based payments	77	276
Shareholder communications	54	193
Transfer agent and filing fees	74	122
Travel	58	119
	1,946	2,869

17. a) Interest Earned and Other Finance Income

Years ended December 31,	2015 $	2014 $
Interest earned	12	13
Change in fair value of derivative assets	2,477	923
Foreign exchange gain	463	-
	2,952	936

b) Interest Expense and Other Finance Expenses

Years ended December 31,	2015 $	2014 $
Accretion of decommissioning and restoration provision	(46)	(41)
Foreign exchange loss	-	(560)
Interest expense on loan payable	(4)	-
Interest expense on silver loan	(5,044)	(958)
Loss on settlement of silver loan (Note 13)	-	(2,322)
	(5,094)	(3,881)

18. Related Party Transactions

During the years ended December 31, 2015 and 2014, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	2015 $	2014 $
Accounting and corporate secretarial fees	164	196
Directors' fees	73	106
Management fees	230	336
Share-based payments	77	263
Salaries and benefits capitalized	234	318

At December 31, 2015, directors and officers or their related companies were owed $125 (2014 – $115) 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.

19. 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 year ended December 31, 2015, the following transactions were excluded from the consolidated statements of cash flows:

- Mineral property exploration expenditures of $915 included in accounts payable and accrued liabilities at December 31, 2015, less mineral property exploration expenditures included in accounts payable and accrued liabilities at December 31, 2014 of $8 (net inclusion of $907);
- 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 $2,910 under the revised minimum price protection program applied against the current portion of the silver loan.

During the year ended December 31, 2014, the following transactions were excluded from the consolidated statements of cash flows:

- Mineral property exploration expenditures of $8 included in accounts payable and accrued liabilities at December 31, 2014;
- The Company issued 723,750 broker warrants at the fair value of $200 pursuant to the 2014 Offering; and
- The Company issued 100,000 common shares as corporate finance fee at the fair value of $90 pursuant to the 2014 Offering.

20. 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 and exploration and evaluation properties. The following is a summary of the reported amounts of income or loss, and the carrying amounts of assets and liabilities by operating segment:

Year Ended December 31, 2015	Rosario Mine $	Veta Grande $	Exploration and evaluation properties $	Corporate & other $	Total $
Revenues	8,643	-	-	-	8,643
Production costs	(8,952)	-	-	-	(8,952)
Depletion and amortization	(1,730)	-	-	-	(1,730)
Cost of sales	(10,682)	-	-	-	(10,682)
Gross loss	(2,039)	-	-	-	(2,039)
Operating loss	(2,039)	-	(19,426)	(1,946)	(23,411)
Loss before tax	(2,039)	-	(19,426)	(4,088)	(25,553)
Interest earned and other finance income	-	-	-	2,952	2,952
Interest expense and other finance expenses	(46)	-	-	(5,048)	(5,094)
Impairment	-	-	(19,426)	-	(19,426)
Income tax recovery (expense)	(4,786)	-	6,558	(451)	1,321
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)

Year Ended December 31, 2014	Rosario Mine $	Veta Grande $	Exploration and evaluation properties $	Corporate & other $	Total $
Revenues	10,626	-	-	-	10,626
Production costs	(10,503)	-	-	-	(10,503)
Depletion and amortization	(1,485)	-	-	-	(1,485)
Adjustment to NRV of inventory	(659)	-	-	-	(659)
Cost of sales	(12,647)	-	-	-	(12,647)
Gross loss	(2,021)	-	-	-	(2,021)
Operating loss	(2,021)	-	-	(2,869)	(4,890)
Loss before tax	(2,021)	-	-	(5,814)	(7,835)
Interest earned and other finance income	-	-	-	936	936
Interest expense and other finance expenses	-	-	-	(3,881)	(3,881)
Income tax expense	-	-	-	(871)	(871)
Total assets	21,649	-	44,535	20,781	86,965
Non-current assets	21,649	-	44,535	8,424	74,608
Total liabilities	(7,741)	-	(118)	(22,113)	(29,972)

b) Segment Revenue by Location and Major Customers

For the Rosario Mine segment, in each of the 2015 and 2014 periods the Company had only one customer (a different customer in each period) who individually accounted for 100% of total concentrate revenue in Mexico during the years ended December 31, 2015 and 2014.

c) Non-current Assets by Location

	December 31, 2015 $	December 31, 2014 $
Canada	7	2,934
Mexico	53,614	71,674
Total	53,621	74,608

21. Financial Instruments

The classification of the financial instruments as well as their carrying values as at December 31, 2015 and 2014 is shown in the table below:

At December 31, 2015	Loans and Receivables $	FVTPL $	Other Financial Liabilities $	Total $
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

At December 31, 2014	Loans and Receivables $	FVTPL $	Other Financial Liabilities $	Total $
Financial assets				
Cash and cash equivalents	6,016	-	-	6,016
Trade and other receivables	896	-	-	896
Holdback receivable	800	-	-	800
Derivative assets	-	4,378	-	4,378
Total financial assets	7,712	4,378	-	12,090
Financial liabilities				
Accounts payable and accrued liabilities	-	-	2,920	2,920
Silver loan	-	-	21,590	21,590
Total financial liabilities	-	-	24,510	24,510

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;

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

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

At December 31, 2015	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets measured at fair value				
Derivative assets	-	3,721	-	3,721
Financial liabilities				
Loan payable	-	-	725	725
Silver loan at fair value	-	-	20,924	20,924

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 risk that the Company will realize a loss is limited because of the short-term nature of the liabilities.

(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.

Contractual cash flow requirements as at December 31, 2015 were as follows:

	< 1 year $	1 – 2 years $	2 – 5 years $	>5 years $	Total $
Accounts payable and accrued liabilities	5,701	-	-	-	5,701
Loan payable	725	-	-	-	725
Silver loan	7,987	8,137	12,762	-	28,886
Minimum lease payments	84	39	-	-	123
Total	14,497	8,176	12,762	-	35,435

The cash flow requirements of the silver loan are satisfied by silver deliveries to JMET. Refer to Note 13.

(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 $1,372.

The Company's financial assets and liabilities as at December 31, 2015 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	25	230	22	277
Trade receivables	-	519	-	519
Other receivables	-	-	61	61
Derivative assets	-	3,721	-	3,721
	25	4,470	83	4,578
Financial liabilities				
Accounts payable and accrued liabilities	(360)	(300)	(5,041)	(5,701)
Loan payable	-	(670)	-	(670)
Silver loan	-	(20,830)	-	(20,830)
	(360)	(21,800)	(5,041)	(27,201)
Net financial liabilities	(335)	(17,330)	(4,958)	(22,623)

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

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

A 10% increase in the silver, lead and zinc prices as at December 31, 2015, with all other variables held constant, would have resulted in the following negative impact to our derivative asset and pre-tax net income:

	2015 **$**
10% increase in silver price	1,168
10% increase in lead price	52
10% increase in zinc price	160

22. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and to bring its mineral properties to commercial production.

To date, the Company has depended on external financing to fund its activities. The capital structure of the Company currently consists of shareholders' equity, which was $32,815 as at December 31, 2015 (2014 – $56,993). The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, being mineral properties. In order to maintain or adjust the capital structure, the Company may issue new shares through equity offerings or sell assets to fund operations. Management reviews its capital management approach on a regular basis. The Company is not subject to externally imposed capital requirements.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly-rated financial instruments, such as cash and other short-term guaranteed deposits, all held with major financial institutions. There have not been changes to the Company's capital management policy during the year.

23. Income Taxes

a) Income Tax Expense

	December 31, 2015 **$**	**December 31, 2014** **$**
Current	(98)	(46)
Deferred	1,419	(825)
Total	1,321	(871)

A reconciliation of income taxes at statutory rates is as follows:

	December 31, 2015 $	December 31, 2014 $
Statutory rate	26.00%	26.00%
Loss before income tax	(25,553)	(7,835)
Income tax recovery at statutory rates	6,644	2,037
Change due to differences in tax rates	849	65
Permanent differences	(393)	(1,034)
Deferred tax assets not recognized	(4,920)	63
Change due to foreign translation and other	(1,283)	(1,902)
Withholdings tax	(451)	-
Mexican mining royalty tax	875	(100)
	1,321	(871)

b) Deferred Taxes

The significant components of the Company's deferred tax liabilities are as follows:

	December 31, 2015 $	December 31, 2014 $
Withholdings taxes	(451)	-
Mineral properties and equipment	(2,929)	(4,799)
Total deferred tax liability	(3,380)	(4,799)

The significant components of the Company’s unrecognized deferred tax assets are as follows:

	December 31, 2015 $	December 31, 2014 $
Deferred income tax assets		
Deferred financing costs	2,524	1,413
Non-capital loss carry forwards and other	6,008	1,079
Deferred income tax assets, total	8,532	2,492
Deferred income tax liabilities		
Mineral properties and equipment	(1,048)	-
Deferred income tax liabilities, total	(1,048)	-
Unrecognized deferred tax assets, net	7,484	2,492

Deferred tax assets and liabilities that are probable to be utilized, are offset if they relate to the same taxable entity and same taxation authority. Future potential tax deductions that do not offset deferred tax liabilities are considered to be deferred tax assets.

At December 31, 2015, the Company has non-capital losses of approximately CDN$2,756 that arose in Canada which will expire in various years between 2031 and 2034. At December 31, 2015, the Company also has losses of approximately 236,154,000 Mexican Pesos that arose in Mexico which will expire in various years between 2020 and 2035.

Deferred tax assets have not been recognized on non-capital loss carry forwards.

c) Mexican Tax Reform

In December 2013, the Mexican President passed a bill that increased the effective tax rate applicable to the Company's Mexican operations. The law was effective January 1, 2014 and increased the future corporate income tax rate to 30%, created a 10% withholdings tax on dividends paid to non-resident shareholders (subject to any reduction by an Income Tax Treaty), and created a new Extraordinary Mining Duty equal to 0.5% of gross revenues from the sale of gold, silver, and platinum. In addition, the law required taxpayers with mining concessions to pay a new 7.5% Special Mining Duty. The Duties are deductible for income taxes. The Special Mining Duty is applicable to earnings before income tax, depreciation, depletion, amortization and interest. There are no deductions related to development costs but exploration and prospecting costs are deductible when incurred.

24. 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.

25. Subsequent Events

On February 11, 2016, the Company granted 4,500,000 incentive stock options to directors, officers, employees and consultants of the Company, at an exercise price of CDN$0.15 each expiring February 11, 2021.

On April 15, 2016, the Company cancelled the following stock options:

- 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