Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

(Expressed in US dollars)

Grant Thornton

Independent auditor's report

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To the shareholders of Santacruz Silver Mining Ltd.:

We have audited the accompanying consolidated financial statements of Santacruz Silver Mining Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Santacruz Silver Mining Ltd. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Vancouver, Canada
April 24, 2013

Chartered accountants

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

	Note	December 31, 2012 $	December 31, 2011 $
ASSETS			
Current			
Cash and cash equivalents	**6**	2,879,378	183,072
Receivables	**7**	1,737,284	406,754
Prepaid expenses and deposits		90,831	10,638
Deferred financing costs	**8**	61,748	531,072
		4,769,241	1,131,536
Plant and equipment	**9**	5,943,868	57,036
Mine under construction and development costs	**10**	3,834,596	-
Exploration and evaluation properties	**11**	11,378,439	6,960,510
		25,926,144	8,149,082
LIABILITIES			
Current			
Accounts payable and accrued liabilities		523,450	170,567
Due to shareholders	**12**	133,089	564,322
Exploration obligations	**11(b)**	2,383,177	-
Share purchase warrants	**13(b)(v)**	-	1,154
		3,039,716	736,043
Other long-term liabilities	**11(b)**	-	2,960,540
		3,039,716	3,696,583
SHAREHOLDERS' EQUITY			
Share capital	**13**	38,186,694	4,886,038
Stock options and warrants reserve	**13(d)**	3,797,949	150,559
Accumulated other comprehensive loss		(89,198)	-
Deficit		(19,009,017)	(584,098)
		22,886,428	4,452,499
		25,926,144	8,149,082

Nature of Operations *(Note 1)*
Commitments *(Notes 10 and 11)*
Subsequent Events *(Note 20)*

Approved on behalf of the Board:

"Arturo Préstamo Elizondo"
Director – Arturo Préstamo Elizondo

"Craig A. Angus"
Director – Craig A. Angus

(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, 2012 and 2011
(Expressed in US Dollars)

	Note	2012 $	2011 $
General and administrative expenses			
Administrative		734,834	101,099
Depreciation		5,982	6,140
Management and consulting fees	**14**	235,893	163,237
Other		9,842	35,338
Professional fees	**14**	1,082,868	91,548
Salaries and benefits		96,573	12,533
Share-based payments	**13(e)**	3,279,082	66,000
Transfer agent and filing fees		28,354	-
Travel		191,351	17,558
		(5,664,779)	(493,453)
Other income (expenses)			
(Loss) gain on derivative liabilities	**13(b)(v)**	(3,495)	12,306
Charge related to public company listing	**5**	(12,967,741)	-
Foreign exchange gain (loss)		124,887	(99,223)
Other income		120,218	12
		(12,726,131)	(86,905)
Loss before income tax		(18,390,910)	(580,358)
Income tax expense	**19**	(34,009)	-
Net loss for the year		(18,424,919)	(580,358)
Other comprehensive loss			
Exchange differences on translating foreign operations		(89,198)	-
Comprehensive loss for the year		(18,514,117)	(580,358)
Loss per share – basic and diluted		(0.33)	(0.17)
Weighted average number of common shares outstanding		55,088,712	3,496,074

(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, 2012 and 2011
(Expressed in US Dollars)

Cash Provided By (Used In):	**2012** **$**	**2011** **$**
Operations:		
Net loss for the year	(18,424,919)	(580,358)
Items not affecting cash:		
Depreciation	5,982	6,140
Share-based payments	3,279,082	66,000
Warrants issued for services received	-	150,559
Gain on disposition of equipment	-	(12)
Loss (gain) on derivative liabilities	3,495	(12,306)
Charge related to public company listing	12,967,741	-
Changes in non-cash working capital:		
Receivables	(1,318,174)	(344,904)
Prepaid expenses and deposits	(80,193)	(10,638)
Deferred financing costs	448,148	(435,153)
Accounts payable and accrued liabilities	292,251	65,130
	(2,826,587)	(1,095,542)
Investing:		
Proceeds from disposition of equipment	-	27,352
Exploration and evaluation properties	(6,229,975)	(3,686,555)
Acquisition and development costs on mine under construction	(2,564,358)	-
Acquisition of plant and equipment	(5,919,396)	(90,516)
	(14,713,729)	(3,749,719)
Financing:		
Issuance of common shares, net	19,537,469	4,670,142
Cash acquired on reverse takeover	1,219,552	-
Due to shareholders	(431,233)	358,103
	20,325,788	5,028,245
Net increase in cash	2,785,472	182,984
Effect of exchange rate changes on cash	(89,166)	-
Cash and cash equivalents – beginning of year	183,072	88
Cash and cash equivalents – end of year	2,879,378	183,072

Non-cash Transactions *(Note 15)*

Santacruz Silver Mining Ltd.
Consolidated Statements of Changes in Equity
(Expressed in US Dollars)

	Share Capital		Stock Options and Warrants Reserve	AOCI	Deficit	Total
	Number of Shares	Amount $	$	$	$	$
Balance, December 31, 2010	1,888,938	150,448	-	-	(3,740)	146,708
Reorganization of common shares	1,857,510	(3,387)	-	-	-	(3,387)
Issued pursuant to private placements	1,701,736	4,692,159	-	-	-	4,692,159
Share issuance costs	-	(32,090)	-	-	-	(32,090)
Share-based payments	19,727	78,908	150,559	-	-	229,467
Net loss and comprehensive loss for the year	-	-	-	-	(580,358)	(580,358)
Balance, December 31, 2011	5,467,911	4,886,038	150,559	-	(584,098)	4,452,499
Issued pursuant to private placements	25,796,721	20,999,480	438,980	-	-	21,438,460
Exercise of special warrants	399,166	150,559	(150,559)	-	-	-
Exercise of warrants	116,586	113,254	(86,128)	-	-	27,126
Subdivision of common shares	20,626,055	-	-	-	-	-
Recapitalization transactions (Note 5)						
Pursuant to the acquisition of Forte	(27,492,631)	-	-	-	-	-
Exchange of shares	27,492,631	-	-	-	-	-
Exchange of warrants	-	-	4,680	-	-	4,680
Shares of Forte at the RTO date	15,440,000	13,965,480	-	-	-	13,965,480
Warrants of Forte at the RTO date	-	-	161,335	-	-	161,335
Share issuance costs	-	(1,928,117)	-	-	-	(1,928,117)
Share-based payments	-	-	3,279,082	-	-	3,279,082
Net loss and comprehensive loss for the year	-	-	-	(89,198)	(18,424,919)	(18,514,117)
Balance, December 31, 2012	67,846,439	38,186,694	3,797,949	(89,198)	(19,009,017)	22,886,428

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

1. Nature of Operations

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

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

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

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

2. Basis of Presentation

a) Statement of Compliance

These 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 24, 2013.

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 subsidiaries subject to control by the Company, which include Santacruz Holdings Ltd. ("Holdings"), Impulsora Minera Santacruz, S.A. de C.V. ("IMSC"), and Operadora Minera Anacore, S.A. De C.V. ("OMA").

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

d) Functional and Presentation Currency

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

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

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

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

Transactions in foreign currencies are translated into the functional currency at exchange rates at the date of the transactions. Foreign currency differences arising on translation are recognized in profit or loss. Foreign currency monetary assets and liabilities are translated at the functional currency exchange rate at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when 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, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

b) Deferred Financing Costs

Costs directly identifiable with the raising of capital are charged against the related share capital. Costs related to shares not yet issued are recorded as deferred financing costs. These costs are presented as other assets until the issuance of the shares to which the costs relate, at which time the costs are charged against the related share capital or charged to operations if the shares are not issued.

c) Plant and Equipment

Plant and equipment are stated at historical cost net of accumulated depreciation and impairment losses. Depreciation is recorded on a declining-balance basis at the following annual rates:

Office furniture and equipment	10%
Machinery and equipment	10%
Vehicles	25%
Computer hardware	30%

d) Mineral Property Interests

Pre-license Costs

Costs incurred before the Company has obtained the legal right to explore are expensed as incurred.

Exploration and Evaluation Costs

Once the legal right to explore has been acquired, exploration and evaluation expenditures are charged to profit or loss as incurred, unless future economic benefit is more likely than not to be realized. 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.

Mines under Construction and Development Costs

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 mines under construction and development costs.

In order for production to occur, the Company must first obtain exploitation and other permits on such properties. Such permits are subject to the approval of the local government and government controlled entities. Unless and until such permits are obtained there can be no assurance that such permits will be obtained.

Mine Properties

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 deferred stripping costs and 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.

Costs of producing mine properties are depreciated and depleted on the unit-of-production basis using estimated proven and probable reserves. Depreciation or depletion is recorded against the mine property only upon the commencement of commercial production.

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.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, non-compliance with regulatory requirements or title may be affected by undetected defects.

e) Impairment of Assets

The Company performs impairment tests on its mineral properties and plant and equipment when events or circumstances occur which indicate the assets may not be recoverable. For an intangible asset that is not yet in use, the recoverable amount is estimated annually at the same time, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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 to sell and 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 to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. For mining assets, fair value less cost to sell 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 cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs.

f) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The increase in the obligation due to the passage of time is recognized as finance expense. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

g) 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. As at December 31, 2012, the Company had not recognized any decommissioning liabilities.

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

The obligation is accreted over time for the change in their 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, 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.

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, and as new information concerning the Company's closure and reclamation obligations becomes available.

h) Share Capital

The Company records proceeds from share issuances net of issue costs and any tax effects in shareholders' equity. Common shares issued for consideration other than cash are valued based on their fair value at the date the agreement to issue shares was concluded. Common shares held by the Company are classified as treasury stock and recorded as a reduction to shareholders' equity.

i) 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.

j) 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. Diluted and basic loss per share are the same because the effects of potential issuances of shares under options and warrants would be anti-dilutive.

k) Comprehensive Loss

Comprehensive loss is the change in net assets arising from transactions and other events and circumstances from non-owner sources, and comprises net loss and other comprehensive loss.

l) 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 shareholders' equity for these costs.

m) 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. 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.

n) 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 category 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, and other receivables.

Financial Assets at Fair Value Through Profit or Loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss 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 fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company does not have any financial instruments classified as fair value through profit or loss.

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive loss. When an instrument is derecognized, the cumulative gain or loss in other comprehensive loss is transferred to profit or loss. The Company does not have any available-for-sale financial assets.

Held-to-maturity Investments

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any held-to-maturity investments.

Financial Liabilities

Financial liabilities other than derivative liabilities are recognized initially at fair value and are subsequently stated at amortized cost using the effective interest method. These liabilities include accounts payable and accrued liabilities, due to shareholders, and exploration obligations. Transaction costs on financial assets and liabilities other than those classified as fair value through profit and loss are treated as part of the carrying value of the asset or liability. Transaction costs for liabilities at fair value through profit and loss are expensed as incurred.

Derivative Financial Instruments

Before SSM changed its functional currency, the Company's warrants that had an exercise price denominated in Canadian dollars were treated as derivative liabilities at fair value determined using the Black-Scholes option pricing model. Changes in fair values were recorded as gains or losses in profit or loss.

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, 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.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

o) 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(p))*, 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 has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, 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. The functional currency of SSM and Holdings is the Canadian dollar. The functional currency of IMSC is the US dollar. The functional currency of OMA is the Mexican peso. Determination of functional currency may involve certain judgements to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

p) 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 Reserves

Proven and probable mineral reserves are the economically mineable parts of the Company's measured and indicated mineral resources demonstrated by at least a preliminary feasibility study. The Company estimates its proven and probable reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. Qualified persons are defined in accordance with Canadian Securities Administrators National Instrument 43-101. The information relating to the geological data on the size, depth and shape of the ore body requires complex geological judgments to interpret the data. The estimation of future cash flows related to proven and probable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the proven and probable reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of mine under construction and development costs, exploration and evaluation properties, plant and equipment, site closure and reclamation provision, recognition of deferred tax amounts and depreciation and depletion.

The recoverability of the mineral reserve amounts is dependent on the Company's ability to secure and maintain title and beneficial interests in the properties to obtain the necessary financing, to continue the exploration and future developments of the properties, and/or to realize the carrying amount through a sale or partial disposal.

Impairment of Mineral Property Interest

The carrying value of mineral properties, plant and equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in profit or loss. The assessment of fair values 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.

Site Closure and Reclamation Provision

The Company assesses its provision for site closure and reclamation on an annual basis or when new material information becomes available. 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. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could 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. The actual future expenditures may differ from the amounts currently provided.

Deferred Taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax values (temporary differences) and loss carryforwards. Deferred tax assets and liabilities are measured using the tax rates expected to be in effect when temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is included in profit or loss in the period in which the change is substantively enacted. The amount of deferred tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

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 and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

4. Recent Accounting Pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not yet early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

a) Accounting Standards Issued and Effective January 1, 2013

IFRS 10, *Consolidated Financial Statements,* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

- Requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements;
- Defines the principle of control, and establishes control as the basis for consolidation;
- Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and
- Sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 10 supersedes IAS 27 and SIC-12, *Consolidation – Special Purpose Entities*.

IFRS 11, *Joint Arrangements,* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12, *Disclosure of Interests in Other Entities,* requires the disclosure of information that enables users of consolidated financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13, *Fair Value Measurement,* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for the following:

- Share-based payment transactions within the scope of IFRS 2, *Share-based Payment*;
- Leasing transactions within the scope of IAS 17, *Leases*;
- Measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2, *Inventories*, or value in use in IAS 36, *Impairment Assets*.

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

IFRIC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*, summarizes the method of accounting for waste removal costs incurred as a result of surface mining activity during the production phase of a mine.

b) Accounting Standards Issued and Effective January 1, 2015

IFRS 9, *Financial Instruments,* replaces the current standard IAS 39, *Financial Instruments: Recognition and Measurement*, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

5. Reverse Takeover Transaction

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

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

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

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

	$
Cash	1,219,552
HST recoverable	12,356
Equipment	8,973
Accounts payable and accrued liabilities	(81,807)
Net assets acquired	1,159,074
Fair value of 15,440,000 shares deemed issued by SSM	13,965,480
Fair value of 200,000 share purchase warrants deemed issued by SSM	161,335
Aggregate fair value of consideration paid	14,126,815
Charge related to public company listing	12,967,741

The fair value of the 15,440,000 shares deemed issued ($13,965,480) was determined to be CDN$0.90 per share based on the fair value of SSM shares immediately prior to the completion of the Transaction.

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

The public company listing does not meet the criteria for recognition of an intangible asset in accordance with IAS 38, *Intangible Assets*. Accordingly, the Company charged $12,967,741 to the statement of loss and comprehensive loss on the date of the Transaction.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	December 31, 2012 $	**December 31, 2011 $**
Cash on hand or held with banks:		
US dollar	463,644	25,616
Canadian dollar	119,507	1,276
Mexican peso	510,667	156,180
	1,093,818	183,072
Short-term investments	1,785,560	-
Total	**2,879,378**	**183,072**

7. Receivables

Receivables consist of the following:

	December 31, 2012 $	**December 31, 2011 $**
HST and value added tax recoverable	1,664,329	394,440
Other receivables	72,955	12,314
Total	1,737,284	406,754

8. Deferred Financing Costs

Deferred financing costs as at December 31, 2012 consist of fees incurred relating to the prospectus offering as described in Note 20. Deferred financing costs at December 31, 2011 consisted of fees incurred related to the reverse takeover transaction described in Note 5.

9. Plant and Equipment

Cost	Office Furniture and Equipment $	Assets under Construction $	Machinery and Equipment $	Vehicles $	Computer Hardware $	Total $
Balance, December 31, 2010	-	-	-	-	-	-
Additions	9,807	-	-	73,385	7,324	90,516
Disposals	(1,754)	-	-	(26,805)	-	(28,559)
Balance, December 31, 2011	8,053	-	-	46,580	7,324	61,957
Additions	31,520	5,663,038	8,028	151,062	74,721	5,928,369
Disposals	-	-	-	-	-	-
Balance, December 31, 2012	39,573	5,663,038	8,028	197,642	82,045	5,990,326

Accumulated Depreciation	Office Furniture and Equipment $	Assets under Construction $	Machinery and Equipment $	Vehicles $	Computer Hardware $	Total $
Balance, December 31, 2010	-	-	-	-	-	-
Additions	597	-	-	4,601	942	6,140
Disposals	(102)	-	-	(1,117)	-	(1,219)
Balance, December 31, 2011	495	-	-	3,484	942	4,921
Additions	2,561	-	598	27,069	11,309	41,537
Disposals	-	-	-	-	-	-
Balance, December 31, 2012	3,056	-	598	30,553	12,251	46,458
Carrying amount at December 31, 2011	7,558	-	-	43,096	6,382	57,036
Carrying amount at December 31, 2012	36,517	5,663,038	7,430	167,089	69,794	5,943,868

Additions to the assets under construction during the year ended December 31, 2012 were $5,663,038 (2011 – $nil) and included purchase of mill equipment, costs incurred for the construction of the mill and the tailings dam at the mine, water system, and electrical power line installation costs.

Depreciation during the year ended December 31, 2012 was $41,537 (2011 – $6,140). $35,555 of the depreciation during the year ended December 31, 2012 was capitalized to mine under construction and development costs (2011 – $nil). The Company does not have any equipment under lease for any of the periods presented.

10. Mine under Construction and Development Costs

The summary of accumulated costs in the Company's mine under construction and development costs as of December 31, 2012 and 2011 are as follows:

	Balance, December 31, 2010 $	Year Ended December 31, 2011 $	Balance, December 31, 2011 $	Year Ended December 31, 2012 $	Balance, December 31, 2012 $
a) Rosario, Charcas, San Luis Potosi, Mexico *(see Note 11(c))*					
Acquisition costs					
Option payments – cash	-	-	-	457,818	457,818
Transferred from exploration and evaluation properties	-	-	-	395,000	395,000
	-	-	-	852,818	852,818
Exploration costs					
Depreciation	-	-	-	35,555	35,555
Drilling	-	-	-	683,564	683,564
Geological consulting	-	-	-	9,237	9,237
Mine site support and office costs	-	-	-	1,067,259	1,067,259
Permitting and other expenses	-	-	-	240,430	240,430
Safety and maintenance	-	-	-	22,608	22,608
Water well project	-	-	-	83,442	83,442
Transferred from exploration and evaluation properties	-	-	-	839,683	839,683
	-	-	-	2,981,778	2,981,778
Net book value	-	-	-	3,834,596	3,834,596
Total	-	-	-	3,834,596	3,834,596

a) Rosario, Charcas, San Luis Potosi, Mexico

Rey David, Charcas, San Luis Potosi, Mexico

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

To maintain and exercise the option, the Company must make $2,000,000 of cash payments to the property vendor. As at December 31, 2012, the Company has made total payments of $772,818 and the residual payments are as follows:

- $232,182 on February 15, 2013 (paid subsequent to year end);
- $350,000 on August 15, 2013; and
- $645,000 on February 15, 2014.

San Rafael, Charcas, San Luis Potosi, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated February 22, 2011, the Company was granted an option to acquire a 100% interest in the San Rafael property, located in the municipality of Charcas, San Luis Potosí, Mexico. The vendor retains a 2.5% NSR. The Company also has an obligation to pay the local Ejido 300,000 Mexican pesos per year for surface access on the San Rafael concessions. To maintain and exercise the option, the Company must make $220,000 of cash payments to the property vendor. As at December 31, 2012, the Company has made total payments of $80,000 and the residual payments are as follows:

- $20,000 on February 22, 2013 (paid subsequent to year end);
- $20,000 on August 22, 2013;
- $20,000 on February 22, 2014;
- $20,000 on August 22, 2014;
- $20,000 on February 22, 2015;
- $20,000 on August 22, 2015; and
- $20,000 on February 22, 2016.

11. Exploration and Evaluation Properties

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

	Balance, December 31, 2010 $	Year Ended December 31, 2011 $	Balance, December 31, 2011 $	Year Ended December 31, 2012 $	Balance, December 31, 2012 $
a) Gavilanes, San Dimas, Durango, Mexico					
Acquisition costs					
Option payments – cash	130,000	585,000	715,000	800,000	1,515,000
	130,000	585,000	715,000	800,000	1,515,000
Exploration costs					
Drilling	-	7,614	7,614	805,485	813,099
Mine site support and office costs	-	321	321	21,942	22,263
Safety and maintenance	-	2,892	2,892	25,185	28,077
	-	10,827	10,827	852,612	863,439
Net book value	130,000	595,827	725,827	1,652,612	2,378,439
b) San Felipe de Jesús, Sonora, Mexico					
Acquisition costs					
Option payments – cash	-	2,000,000	2,000,000	4,000,000	6,000,000
Exploration expenditures obligation still to be incurred	-	2,960,540	2,960,540	(577,363)	2,383,177
	-	4,960,540	4,960,540	3,422,637	8,383,177
Exploration costs					
Drilling	-	18,779	18,779	83,675	102,454
Mine site support and office costs	-	20,681	20,681	164,421	185,102
Professional fees	-	-	-	106,404	106,404
Safety and maintenance	-	-	-	222,863	222,863
	-	39,460	39,460	577,363	616,823
Net book value	-	5,000,000	5,000,000	4,000,000	9,000,000
c) Rosario, Charcas, San Luis Potosi, Mexico *(see Note 10(a))*					
Acquisition costs					
Option payments – cash	105,000	290,000	395,000	-	395,000
Transferred to mine under construction and development costs	-	-	-	(395,000)	(395,000)
	105,000	290,000	395,000	(395,000)	-
Exploration costs					
Depreciation	-	4,318	4,318	-	4,318
Drilling	-	229,301	229,301	-	229,301
Geological consulting	-	46,412	46,412	-	46,412
Mine development	-	119,627	119,627	-	119,627
Mine site support and office costs	46,412	231,878	278,290	-	278,290
Permitting and other expenses	-	155,533	155,533	-	155,533
Water well project	-	6,202	6,202	-	6,202
Transferred to mine under construction and development costs	-	-	-	(839,683)	(839,683)
	46,412	793,271	839,683	(839,683)	-
Net book value	151,412	1,083,271	1,234,683	(1,234,683)	-
Total	281,412	6,679,098	6,960,510	4,417,929	11,378,439

a) Gavilanes, San Dimas, Durango, Mexico

Gavilanes I, San Dimas, Durango, Mexico

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

To maintain and exercise the option, the Company must make $3,500,000 of cash payments to the vendor. As at December 31, 2012, the Company has made total payments of $1,000,000 and the residual payment of $2,500,000 is to be paid on April 27, 2013.

Gavilanes II, San Dimas, Durango, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated May 1, 2010, as amended October 12, 2010, December 27, 2010 and January 7, 2011, the Company was granted an option to acquire a 100% interest in the Gavilanes property (named Gavilanes II) located in San Dimas, Durango, Mexico. The property is subject to a 2% NSR in favour of the optionor, up to a maximum of $1,000,000. The NSR may be purchased by the Company for $1,000,000. To maintain and exercise the option, the Company must make $2,265,000 of cash payments to the property vendor. As at December 31, 2012, the Company has made total payments of $415,000 and the residual payments are as follows:

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

Gavilanes MHM Fraccion, San Dimas, Durango, Mexico

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

b) San Felipe de Jesús, Sonora, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated August 3, 2011 and amended December 9, 2011 and October 9, 2012, the Company was granted an option to acquire a 100% interest in the San Felipe de Jesús property located in Sonora, Mexico. In addition to cash payments of $6,000,000 made to date, in order to maintain and exercise the option, the Company must incur exploration expenditures of $3,000,000 by December 1, 2013 and make additional cash payments as follows:

- Annual surface right payments of 520,000 Mexican Pesos ($39,969) on or before February 19 of each year until the property reaches commercial production;
- $16,000,000 on April 1, 2013 (paid subsequent to year end); and
- $18,000,000 on October 1, 2014.

If the exploration expenditures of $3,000,000 are not made, the Company has an obligation to reimburse the optionor for the difference between $3,000,000 and the actual exploration expenditures incurred regardless of whether or not the Company exercises its option on this property. As such, $3,000,000 has been capitalized as mineral property acquisition costs. Since $616,823 of exploration expenditures have been incurred to December 31, 2012 (December 31, 2011 – $39,460), the remaining amount of $2,383,177 (December 31, 2011 – $2,960,540) yet to be spent has been recorded as exploration obligations.

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

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

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

12. Due to Shareholders

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

13. Share Capital

a) Authorized

Unlimited number of common shares without par value.

b) Share Capital Transactions

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

(ii) On July 15, 2011, SSM and IMSC entered into a stock purchase agreement whereby SSM purchased 1,936,848 issued and outstanding shares of IMSC that represent 99.999% of the issued and outstanding common shares of IMSC. Total consideration for the purchase includes 3,794,358 common shares of SSM and cash of $3,387. As a result of the acquisition, IMSC became the wholly owned subsidiary of SSM. The resulting non-controlling interest that represents 0.001% of the issued and outstanding common shares of IMSC is considered to be not material.

(iii) On July 15, 2011, SSM issued 16,500 common shares for services rendered by an officer of the Company. The services were determined to have a fair value of $66,000.

(iv) On July 15, 2011, SSM issued 1,302,525 common shares for proceeds of $3,800,000.

(v) On July 20, 2011, SSM issued 139,239 units, for total proceeds of $520,000. Each unit consisted of one common share and one share purchase warrant. Each warrant was exercisable to purchase one additional common share at a price of CDN$5.95 per common share on or before July 20, 2012. As the exercise price of the share purchase warrants was fixed in Canadian dollars and the functional currency of SSM at the time was the US dollar, the warrants were considered a derivative, as a variable amount of cash in the Company's functional currency would be received on exercise. At December 31, 2011, the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was $1,154. As a result of the change in functional currency from the US dollar to the Canadian dollar on April 1, 2012, the warrants are no longer considered a derivative. The share purchase warrants were re-measured at fair value at the date of the functional currency change, with a loss of $3,495 recorded for the year ended December 31, 2012. The fair value of $4,680 was estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.15%; expected life – 0.27 years; expected volatility – 130.30%; expected forfeitures – nil%; and expected dividends – nil. The share purchase warrants expired unexercised.

(vi) On November 14, 2011, 3,227 common shares were issued for services received at $4.00 per share. The value of these shares of $12,908 was recorded as a deferred financing cost.

(vii) On November 14, 2011, 212,062 common shares were issued at $1.799997 per share for proceeds of $381,709.

(viii) On January 20, 2012, the Company subdivided its outstanding share capital (the "Subdivision") on the basis of 4.7722 new common shares for each existing common share. Prior to the Subdivision, the Company had outstanding 5,467,911 common shares, 83,644 special warrants, and 139,239 warrants to purchase common shares. Accordingly, the Subdivision resulted in the 5,467,911 common shares issued and outstanding being subdivided into 26,093,966 common shares on a post-Subdivision basis. In accordance with the adjustment provision of the special warrants and the warrants, the number of common shares issuable on the exercise of the special warrants and warrants had been adjusted to reflect the Subdivision. Accordingly, the special warrants were convertible into 399,166 common shares and the warrants were convertible into 664,476 common shares.

(ix) On January 25, 2012, all of the Company's special warrants were converted into 399,166 common shares.

(x) On January 27, 2012, 444,444 post-Subdivision common shares were issued at $0.90 per share for proceeds of $399,480.

(xi) On April 12, 2012, the Company completed a non-brokered private placement of 555,055 common shares at $0.90 per share for gross proceeds of $500,000.

(xii) On April 12, 2012, 15,440,000 common shares were deemed to be issued by SSM as a result of the reverse takeover transaction (refer to Note 5). The fair value of the 15,440,000 common shares deemed issued ($13,965,480) was estimated using a fair value of CDN$0.90 per share.

(xiii) On April 12, 2012, the Company completed a brokered private placement of 22,222,222 common shares at $0.90 per share for gross proceeds of $20,100,000. The agent for the offering received a commission consisting of $1,277,355 cash, 200,000 common shares, and 1,333,333 broker warrants entitling the agent to purchase 1,333,333 common shares of the Company at CDN$1.00 per share up to April 12, 2014. The fair value of the broker warrants ($438,980) was estimated using the Black Scholes option-pricing model and was charged to share issue costs and credited to warrants reserve. The assumptions used in the option pricing model are as follows: average risk-free interest rate – 1.15%; expected life – 2 years; expected volatility – 71.94%; and expected dividends – nil. The Company also issued 2,375,000 common shares as corporate finance fee and incurred additional issue costs of $211,782.

(xiv) During the year ended December 31, 2012, the Company issued 116,586 common shares pursuant to exercise of warrants for total gross proceeds of $27,126. A value of $86,128 was transferred from warrants reserve to share capital as a result.

c) Escrow

There are 15,814,640 common shares of the Company held in escrow as at December 31, 2012. Under the Escrow Agreement, the common shares held in escrow will be released from escrow as to 3,162,928 common shares on each of April 13, 2013 (released subsequent to year end), October 13, 2013, April 13, 2014, October 13, 2014 and April 13, 2015.

d) Stock Options and Warrants Reserve

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

	December 31, 2012 $	December 31, 2011 $
Stock options	3,279,082	-
Warrants	518,867	-
Special warrants	-	150,559
	3,797,949	150,559

e) Stock Options

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

Details of stock option activity for the years ended December 31, 2012 and 2011 are as follows:

	Number of Stock Options	Weighted Average Exercise Price $	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2010 and December 31, 2011	-	-	-
Granted	5,910,000	0.90	4.47
Forfeited	(3,334)	0.90	-
Balance, December 31, 2012	5,906,666	0.90	4.22
Unvested	(240,000)	0.90	2.36
Exercisable, December 31, 2012	5,666,666	0.90	4.30

The balance of options outstanding as at December 31, 2012 is as follows:

Expiry Date	Exercise Price $	Remaining Life (Years)	Options Outstanding	Unvested	Vested
April 12, 2017	0.90	4.28	4,806,666	-	4,806,666
May 10, 2015	0.90	2.36	300,000	240,000	60,000
July 24, 2017	0.90	4.56	800,000	-	800,000
			5,906,666	240,000	5,666,666

The fair values of the options granted during the year ended December 31, 2012 were estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model are as follows: average risk-free interest rate – 1.60%; expected life – 4.90 years; expected volatility – 79%; expected forfeitures – 0%; and expected dividends – $nil.

During the year ended December 31, 2012, the Company recorded share-based payments expense of $3,279,082 (2011 – $66,000).

f) Warrants

Details of warrants activity for the years ended December 31, 2012 and 2011 are as follows:

	Number of Warrants	Weighted Average Exercise Price $	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2010	-	-	-
Issued	664,476[(1)]	1.25[(1)]	0.55
Exercised	-	-	-
Balance, December 31, 2011	664,476	1.25	0.55
Pursuant to RTO (see Note 5)	200,000	0.10	1.02
Issued	1,333,333	1.00	1.53
Exercised	(116,586)	0.23	-
Expired	(664,476)	1.25	-
Balance, December 31, 2012	1,416,747	0.94	1.24

(1) After giving effect to the Subdivision described in Note 13(b)(viii).

The balance of warrants outstanding as at December 31, 2012 is as follows:

Expiry Date	Exercise Price $	Remaining Life (Years)	Warrants Outstanding
October 7, 2013	0.10	0.77	100,000
April 12, 2014	1.00	1.28	1,316,747
			1,416,747

On April 12, 2012, 200,000 share purchase warrants were deemed to be issued by SSM as a result of the reverse takeover transaction (refer to Note 5). The fair value of the 200,000 share purchase warrants deemed issued ($161,335) was estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.15%; expected life – 1.49 years; expected volatility – 79.07%; expected forfeitures – nil%; and expected dividends – nil.

g) Special Warrants

On November 16, 2011, 399,166 special warrants to purchase common shares for no additional consideration were issued for professional services received. As the fair value of the services received could not be estimated reliably, the Company measured these transactions by reference to the fair value of the equity instruments granted. The fair value of those special warrants was determined to be $150,559. The special warrants were converted to common shares on January 25, 2012.

14. Related Party Transactions

During the years ended December 31, 2012 and 2011, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	2012 $	2011 $
Accounting fees	103,092	-
Management fees	190,058	163,237
Consulting fees	45,029	-
Share-based payments	2,512,093	66,000
Salaries and benefits capitalized in mine under construction and development costs	165,641	8,958

At December 31, 2012, directors and officers or their related companies were owed $25,415 (December 31, 2011 – $nil) in respect of the services rendered.

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

15. 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, 2012, the following transactions were excluded from the consolidated statements of cash flows:

- Deferred financing costs of $61,748 included in accounts payable and accrued liabilities at December 31, 2012, less deferred financing costs and mineral property exploration expenditures included in accounts payable and accrued liabilities at December 31, 2011 of $82,924 (net inclusion of $21,176);
- The Company issued 1,333,333 broker warrants at the fair value of $438,980 pursuant to a private placement financing; and
- The Company issued 200,000 common shares to the agent and 2,375,000 common shares as corporate finance fee at the fair value of $2,329,087 pursuant to a private placement financing.

During the year ended December 31, 2011, the following transactions were excluded from the consolidated statement of cash flows:

- Deferred financing costs and mineral property exploration expenditures of $82,924 included in accounts payable and accrued liabilities at December 31, 2011;
- Exploration obligations of $2,960,540 assumed on the acquisition of the San Felipe de Jesús property (see *Note 11(b)*).

16. Segmented Information

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

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

a) Operating Segment

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

b) Geographic Segments

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

	Losses	
	Year Ended December 31, 2012 $	**Year Ended December 31, 2011 $**
Canada	17,741,698	66,983
Mexico	683,221	513,375
Total	18,424,919	580,358

	Non-Current Assets	
	December 31, 2012 $	**December 31, 2011 $**
Canada	13,721	-
Mexico	21,143,182	7,017,546
Total	21,156,903	7,017,546

17. Financial Instruments

The classification of the financial instruments as well as their carrying values as at December 31, 2012 and 2011 is shown in the table below:

	December 31, 2012 $	December 31, 2011 $
Loans and receivables	2,952,333	195,386
Derivative financial instruments	-	(1,154)
Other financial liabilities	(3,039,716)	(3,695,429)

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, other receivables, accounts payable and accrued liabilities, and exploration obligations approximate their fair values because of their short term nature. The carrying value of due to shareholders approximates its fair value because it is due on demand.

On July 20, 2011, SSM issued 139,239 pre-Subdivision share purchase warrants, with each warrant exercisable to purchase one additional common share at a price of CDN$5.95 per common share on or before July 20, 2012. As the exercise price of the share purchase warrants was fixed in Canadian dollars and the functional currency of SSM at the time was the US dollar, the Company has determined that such warrants with an exercise price denominated in a currency that is different from the entity's functional currency are classified as a derivative liability based on the evaluation of the warrant's settlement provisions, and carried at their fair value.

At December 31, 2011, the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was $1,154. As a result of the change in functional currency from the US dollar to the Canadian dollar on April 1, 2012, the warrants are no longer considered a derivative. The fair value of the derivative for the warrants has been estimated using the Black-Scholes option pricing model as it is considered a Level 3 financial instrument in the fair value hierarchy with significant unobservable inputs. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.15%; expected life – 0.27 years; expected volatility – 130.30%; expected forfeitures – nil%; and expected dividends – nil.

Details of activity for the derivative liabilities for the years ended December 31, 2012 and 2011 are as follows:

	2012 $	2011 $
Balance, beginning of year	1,154	-
Fair value of share purchase warrants on issuance date	-	13,460
Loss (gain) on derivative liabilities	3,495	(12,306)
Foreign exchange revaluation	31	-
Reallocation to warrant reserve on change of functional currency	(4,680)	-
Balance, end of year	-	1,154

As at December 31, 2012, the Company does not have any financial instruments measured at fair value.

b) Management of Risks Arising from Financial Instruments

The Company is exposed to credit risk and market risks including interest rate risk, liquidity risk, and foreign exchange rate 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 and other receivables. The credit risk is minimized by placing cash with major financial institutions. The credit risk related to cash and cash equivalents and other receivables is considered minimal.

(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 decrease, the Company will generate less interest revenue. Presently the Company has minimal risk of realizing a loss as a result of a decline in the fair value of its financial instruments because of the short-term nature of the investments.

(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 private placements 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.

Contractual obligated cash flow requirements as at December 31, 2011 were as follows:

	< 1 year $	**1 – 2 years $**	**2 – 5 years $**	**>5 years $**	**Total $**
Accounts payable and accrued liabilities	170,567	-	-	-	170,567
Due to shareholders	564,322	-	-	-	564,322
Exploration obligations	-	2,960,540	-	-	2,960,540
Total	734,889	2,960,540	-	-	3,695,429

Contractual obligated cash flow requirements as at December 31, 2012 were as follows:

	< 1 year $	**1 – 2 years $**	**2 – 5 years $**	**>5 years $**	**Total $**
Accounts payable and accrued liabilities	523,450	-	-	-	523,450
Due to shareholders	133,089	-	-	-	133,089
Exploration obligations	2,383,177	-	-	-	2,383,177
Total	3,039,716	-	-	-	3,039,716

Subsequent to the year ended December 31, 2012, the Company closed a prospectus offering for total gross proceeds of CDN$40,422,500 (refer to Note 20). Therefore, in the opinion of management, the working capital at December 31, 2012, together with the proceeds from the prospectus offering, is sufficient to support the Company's commitments and further expansion and growth.

(iv) Foreign Exchange Rate Risk – The Company operates in Canada and Mexico but has the majority of its cash held in Canada in Canadian dollars. The Company is exposed to foreign exchange risk due to fluctuations in foreign currencies (Canadian dollar and Mexican peso). Foreign exchange risk arises from purchase transactions as well as financial assets and liabilities denominated in these foreign currencies. The sensitivity of the Company's net loss and other comprehensive loss to changes in the exchange rate between the US dollars and the Mexican pesos would be as follows: a 10% change in the US dollar exchange rate relative to the Mexican pesos would change the Company's net loss and comprehensive loss by approximately $163,000.

The Company's financial assets and liabilities as at December 31, 2012 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	1,905,067	463,644	510,667	2,879,378
Other receivables	42,452	-	30,503	72,955
	1,947,519	463,644	541,170	2,952,333
Financial liabilities				
Accounts payable and accrued liabilities	(230,780)	-	(292,670)	(523,450)
Due to shareholders	-	-	(133,089)	(133,089)
Exploration obligations	-	(2,383,177)	-	(2,383,177)
	(230,780)	(2,383,177)	(425,759)	(3,039,716)
Net financial assets (liabilities)	1,716,739	(1,919,533)	115,411	(87,383)

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

18. 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.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of shareholders' equity, which was $22,886,428 as at December 31, 2012 (2011 – $4,452,499). 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 private placements, 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.

19. Income Taxes

a) Income Tax Expense

	December 31, 2012 $	December 31, 2011 $
Current	(34,009)	-
Total	(34,009)	-

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

	December 31, 2012 $	December 31, 2011 $
Statutory rate	25.0%	26.5%
Loss before income tax	(18,390,910)	(580,358)
Income tax recovery at statutory rates	4,597,727	153,795
Change due to differences in tax rates	47,450	16,963
Permanent differences	(4,304,453)	(94,210)
Deferred tax assets not recognized	(363,644)	(196,926)
Change due to foreign translation and other	(11,089)	120,378
	(34,009)	-

b) **Deferred Taxes**

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

	December 31, 2012 $	December 31, 2011 $
Deferred financing costs	355,848	(51,909)
Non-capital loss carry forwards	573,180	209,769
Unrecognized deferred tax assets	929,028	157,860

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, 2012, the Company has non-capital losses of approximately CDN$180,000 that arose in Canada which will expire in 2031 and CDN$1,351,000 which will expire in 2032. At December 31, 2012, the Company also has non-capital losses of approximately 11,232,000 Mexican Pesos that arose in Mexico which will expire in 2022.

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

c) Mexico Flat Tax

The Company is cash taxable in Mexico. Mexico introduced a flat tax effective January 1, 2008 as alternative minimum tax that does not replace corporate income tax. The flat tax is calculated on a cash flow basis, with the tax base determined by reducing taxable revenue with specific deductions. In general, if deductions exceed revenues, a credit is granted which may be offset against the flat tax in the following ten years. Taxpayers first compute their income tax liability and then they calculate their flat tax liability for a fiscal year. The Company will pay the higher of the income tax liability or the flat tax liability. As the income tax liability may be credited against the flat tax liability, the flat tax is payable only to the extent it exceeds the income tax payable by a Mexican entity. In certain circumstances flat tax credits can be used to reduce income taxes in the year they are generated.

20. Subsequent Events

a) Prospectus Offering

On February 19, 2013, the Company closed a prospectus offering (the “Offering”) through a syndicate of underwriters (the “Underwriters”). The Company issued 19,000,000 common shares at a price of CDN$1.85 per share for gross proceeds of CDN$35,150,000. The Underwriters also exercised their over-allotment option to acquire an additional 2,850,000 common shares for additional gross proceeds of CDN$5,272,500. Including the proceeds from the exercise of the over-allotment option, the total gross proceeds of the Offering were CDN$40,422,500. The Underwriters received a cash fee of CDN$2,425,350, as well as 1,311,000 warrants, each of which is exercisable to purchase one common share for a price of CDN$1.85 for a period of 24 months. One of the Underwriters was issued an additional 60,000 common shares as a corporate finance fee.

b) Exploration and Evaluation Properties

On March 7, 2013, pursuant to the San Felipe agreement as described in Note 11(b), the Company has exercised its option to acquire a 100% interest in the 48,057.33 hectare El Gachi project located 30 kilometers from the San Felipe project in Sonora State. Under the terms of the agreement, the Company has the option to retain the property by making a $3 million payment before or by October 2014.

c) Stock Options

On February 28, 2013, the Company granted an aggregate of 400,000 incentive stock options to an employee and an officer having an exercise price of CDN$1.85 each expiring February 28, 2018.