



**Condensed Interim Consolidated Financial Statements**  
**Three and Nine Months Ended September 30, 2016 and 2015**

(Unaudited – expressed in thousands of US dollars)

**Santacruz Silver Mining Ltd.**  
**Condensed Interim Consolidated Statements of Financial Position**

*(Unaudited – expressed in thousands of US dollars)*

		September 30, 2016	December 31, 2015
	Note	\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	3	1,023	277
Restricted cash	14	500	-
VAT recoverable and receivables	4	5,175	4,593
Inventory	5	603	342
Prepaid expenses and deposits		889	1,375
Derivative assets	12	-	3,721
		8,190	10,308
<b>VAT recoverable</b>	4	-	2,540
<b>Plant and equipment</b>	6	20,829	14,882
<b>Mine properties</b>	7	12,216	9,886
<b>Exploration and evaluation properties</b>	8	10,467	26,313
		51,702	63,929
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	9	9,023	5,701
Loan payable	10	387	670
Leases	11	1,403	-
Silver loan	12	-	7,987
JMET note	13	500	-
Forward contract derivative liability	14	1,185	-
JMET warrants derivative liability	12	191	-
		12,689	14,358
<b>Leases</b>	11	1,053	-
<b>Silver loan</b>	12	-	12,843
<b>JMET note</b>	13	5,190	-
<b>Forward contract derivative liability</b>	14	782	-
<b>Decommissioning and restoration provision</b>	15	498	533
<b>Deferred income tax liability</b>		2,558	3,380
		22,770	31,114
<b>EQUITY</b>			
<b>Share capital</b>	16	94,827	86,587
<b>Stock options and warrants reserve</b>	16(c)	9,237	5,869
<b>Warrants to be issued</b>	10	-	59
<b>Accumulated other comprehensive loss</b>		(2,006)	(1,434)
<b>Deficit</b>		(73,126)	(58,266)
		28,932	32,815
		51,702	63,929

**Nature of Operations and Going Concern** (Note 1)

**Commitments** (Notes 7, 8 and 11)

**Subsequent events** (Notes 7, 8 and 14)

**Approved on behalf of the Board:**

*“Arturo Préstamo Elizondo”*

Director – Arturo Préstamo Elizondo

*“Larry Okada”*

Director – Larry Okada

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

**Santacruz Silver Mining Ltd.**  
**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
**For the three and nine months ended September 30, 2016 and 2015**  
*(Unaudited – expressed in thousands of US dollars, except per share amounts)*

		Three months ended September 30,		Nine months ended September 30,	
	Note	2016	2015	2016	2015
		\$	\$	\$	\$
Revenues		3,026	2,592	9,938	6,141
Cost of sales	17	(2,240)	(3,147)	(8,093)	(7,778)
<b>Gross profit (loss)</b>		786	(555)	1,845	(1,637)
Operating expenses	17	(512)	(558)	(1,896)	(1,580)
Impairment	8	(16,688)	-	(16,688)	-
<b>Operating loss</b>		(16,414)	(1,113)	(16,739)	(3,217)
Interest earned and other finance income	18	6,636	2,271	7,220	2,068
Interest expense and other finance expenses	18	(2,146)	(1,345)	(6,055)	(3,426)
<b>Loss before income tax</b>		(11,924)	(187)	(15,574)	(4,575)
<b>Income tax recovery (expense)</b>		860	(1,441)	714	(1,622)
<b>Net loss for the period</b>		(11,064)	(1,628)	(14,860)	(6,197)
<b>Other comprehensive loss</b>					
<i>Items which maybe subsequently recycled to profit and loss</i>					
Currency translation differences		(44)	(635)	(572)	(1,064)
<b>Comprehensive loss for the period</b>		(11,108)	(2,263)	(15,432)	(7,261)
<b>Loss per share – basic and diluted</b>		(0.08)	(0.02)	(0.12)	(0.06)
<b>Weighted average number of common shares outstanding</b>		146,939,544	103,493,484	124,825,738	103,493,484

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

**Santacruz Silver Mining Ltd.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**For the nine months ended September 30, 2016 and 2015**  
*(Unaudited – expressed in thousands of US dollars)*

	<b>2016</b>	<b>2015</b>
<b>Cash Provided By (Used In):</b>	<b>\$</b>	<b>\$</b>
<b>Operations:</b>		
Net loss for the period	(14,860)	(6,197)
Items not affecting cash:		
Deferred income tax (recovery) expense	(822)	1,553
Accretion of decommissioning provision	28	35
Depletion, depreciation and amortization	1,805	1,164
Share-based payments	386	69
Interest expense on loan payable	59	-
Interest expense on silver loan	2,057	3,391
Change in fair value of derivative assets	3,911	(1,643)
Gain on settlement of debt	(6,377)	-
Impairment	16,688	-
Unrealized foreign exchange	(572)	(1,064)
Changes in non-cash working capital:		
Restricted cash	(500)	-
VAT recoverable and receivables	1,958	568
Prepaid expenses and deposits	486	(127)
Inventory	(261)	136
Accounts payable and accrued liabilities	1,462	1,070
	<b>5,448</b>	<b>(1,045)</b>
<b>Investing:</b>		
Exploration and evaluation properties	(881)	(529)
Acquisition and development costs on mine property	(877)	(458)
Acquisition of plant and equipment	(4,769)	(1,961)
	<b>(6,527)</b>	<b>(2,948)</b>
<b>Financing:</b>		
Proceeds from issuance of common shares	11,779	-
Share issuance costs	(968)	-
Proceeds from exercise of warrants	352	-
Cash received from settlement of derivative assets	-	224
Repayment of loan payable	(350)	-
Repayment of silver loan	(8,927)	(2,000)
Issuance costs incurred for silver loan	(121)	-
	<b>1,765</b>	<b>(1,776)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>686</b>	<b>(5,769)</b>
Effect of exchange rate changes on cash and cash equivalents	60	(90)
<b>Cash and cash equivalents – beginning of period</b>	<b>277</b>	<b>6,016</b>
<b>Cash and cash equivalents – end of period</b>	<b>1,023</b>	<b>157</b>
<b>Cash paid during the period for:</b>		
Interest	-	-
Income taxes	108	49

**Non-cash Transactions** (Note 20)

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

**Santacruz Silver Mining Ltd.**

**Condensed Interim Consolidated Statements of Changes in Equity**

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

	Share Capital		Stock Options and Warrants Reserve \$	Warrants to be Issued \$	AOCI \$	Deficit \$	Total \$
	Number of Shares	Amount \$					
Balance, December 31, 2014	103,493,484	85,607	5,792	-	(372)	(34,034)	56,993
Share-based payments	-	-	69	-	-	-	69
Comprehensive loss for the period	-	-	-	-	(1,064)	(6,197)	(7,261)
Balance, September 30, 2015	103,493,484	85,607	5,861	-	(1,436)	(40,231)	49,801
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	-	-	8	-	-	-	8
Comprehensive loss for the period	-	-	-	-	2	(18,035)	(18,033)
Balance, December 31, 2015	113,493,484	86,587	5,869	59	(1,434)	(58,266)	32,815
Issued pursuant to private placement	37,975,000	8,793	2,986	-	-	-	11,779
Share issuance costs	-	(968)	-	-	-	-	(968)
Issuance of warrants pursuant to transaction costs on loan payable	-	-	59	(59)	-	-	-
Exercise of warrants	3,022,500	415	(63)	-	-	-	352
Share-based payments	-	-	386	-	-	-	386
Comprehensive loss for the period	-	-	-	-	(572)	(14,860)	(15,432)
<b>Balance, September 30, 2016</b>	<b>154,490,984</b>	<b>94,827</b>	<b>9,237</b>	<b>-</b>	<b>(2,006)</b>	<b>(73,126)</b>	<b>28,932</b>

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

**Santacruz Silver Mining Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Nine Months Ended September 30, 2016 and 2015**  
*(Unaudited – expressed in thousands of US dollars, except share and per share amounts)*

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**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 Mine and related properties in Charcas, San Luis Potosi, Mexico.
- Veta Grande Mine and related properties in Veta Grande, Zacatecas, Mexico.
- Minillas in Genaro Cidina, Zacatecas, México.
- Zacatecas in Zacatecas, Zacatecas, Mexico.
- San Felipe in San Felipe de Jesús, Sonora, Mexico.
- Gavilanes in San Dimas, Durango, Mexico.

These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its obligations, and continue its operations for the next twelve months. At September 30, 2016, the Company had a working capital deficiency of \$4,499 and had accumulated an inception to date deficit of \$73,126. 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 generate positive cash flows from operations, and/or raise adequate funding through equity or debt financings to discharge its liabilities as they come due. The Company has a capital management process in place to safeguard the Company’s ability to continue as a going concern. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

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

**2. Basis of Presentation**

**a) Statement of Compliance**

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015 which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on November 23, 2016.

**Santacruz Silver Mining Ltd.**  
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**b) Initial Adoption of Accounting Policies**

These condensed interim consolidated financial statements have been prepared on a basis consistent with the significant accounting policies disclosed in Note 3 of the annual consolidated financial statements for the year ended December 31, 2015, except for the following policy adopted in the current financial period:

**Leases**

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

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

**Restricted Cash**

Cash which is subject to legal or contractual restrictions on its use is classified separately as restricted cash. Restricted cash is stated at cost, which approximates fair value.

**c) 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 are the same as the ones disclosed in Note 3 of the annual consolidated financial statements for the year ended December 31, 2015, except for the following:

When a project nears the end of construction, management has to exercise judgement to determine the date in which the asset was in the location and condition necessary to operate as intended by management. The identification of this date is important since it establishes the point in time at which costs cease to be capitalized unless they provide an enhancement to the economic benefits of the asset, borrowing costs cease to be capitalized, processing costs begin to stabilize, the capitalization of pre-production revenue ceases and depreciation of the asset begins. Management determined the start date of the Veta Grande Mine commercial production to be October 1, 2016.

**d) New Standards and Interpretations Not Yet Adopted**

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

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

In January 2016, the IASB amended IAS 7, *Statement of Cash Flows*. The amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from

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obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfill the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. This amendment will be mandatory for reporting periods beginning on or after January 1, 2018. The Company is currently evaluating the impact, of any, 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.

**3. Cash and Cash Equivalents**

	September 30, 2016	December 31, 2015
	\$	\$
Cash on hand or held with banks	1,014	269
Short-term investments	9	8
<b>Total</b>	<b>1,023</b>	<b>277</b>

**4. VAT Recoverable and Receivables**

	September 30, 2016	December 31, 2015
	\$	\$
Mexican value added taxes recoverable	4,386	6,367
Canadian GST recoverable	16	186
Trade receivables	699	519
Other receivables	74	61
<b>Total</b>	<b>5,175</b>	<b>7,133</b>
Current portion	(5,175)	(4,593)
Non-current portion	-	2,540



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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.

**5. Inventory**

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>\$</b>	<b>\$</b>
Ore stockpiles	50	-
Concentrate inventory	167	127
Supplies inventory	386	215
<b>Total</b>	<b>603</b>	<b>342</b>

**6. Plant and Equipment**

<b>Cost</b>	Office Furniture and Equipment \$	Assets under Construction \$	Plant and Equipment \$	Vehicles \$	Computer Hardware \$	Total \$
Balance, December 31, 2014	56	383	14,324	356	157	15,276
Additions	5	206	2,386	25	11	2,633
Foreign exchange	(2)	-	-	-	-	(2)
Balance, December 31, 2015	59	589	16,710	381	168	17,907
Additions	1	2,904	4,305	-	15	7,225
<b>Balance, September 30, 2016</b>	<b>60</b>	<b>3,493</b>	<b>21,015</b>	<b>381</b>	<b>183</b>	<b>25,132</b>
<b>Accumulated Depreciation</b>						
Balance, December 31, 2014	12	-	1,707	144	75	1,938
Additions	5	-	997	60	26	1,088
Foreign exchange	(1)	-	-	-	-	(1)
Balance, December 31, 2015	16	-	2,704	204	101	3,025
Additions	4	-	1,222	35	17	1,278
<b>Balance, September 30, 2016</b>	<b>20</b>	<b>-</b>	<b>3,926</b>	<b>239</b>	<b>118</b>	<b>4,303</b>
<b>Carrying amount at December 31, 2015</b>	<b>43</b>	<b>589</b>	<b>14,006</b>	<b>177</b>	<b>67</b>	<b>14,882</b>
<b>Carrying amount at September 30, 2016</b>	<b>40</b>	<b>3,493</b>	<b>17,089</b>	<b>142</b>	<b>65</b>	<b>20,829</b>

Depreciation during the three and nine months ended September 30, 2016 was \$471 and \$1,278 (2015 – \$346 and \$727). During the three and nine months ended September 30, 2016, \$77 and \$123 of the depreciation was capitalized to mine properties (2015 – \$nil and \$nil) and \$7 and \$20 of the depreciation was capitalized to exploration and evaluation properties (2015 – \$2 and \$16).

As at September 30, 2016, the Company's plant and equipment includes a net carrying amount of \$1,912 (December 31, 2015 – \$nil) for the leased mining equipment.

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**7. Mine Properties**

	<b>Rosario Mine</b>	<b>Veta Grande</b>	<b>Total</b>
	<b>\$</b>	<b>Mine</b>	<b>\$</b>
		<b>\$</b>	
Balance, December 31, 2014	9,032	-	9,032
Additions	493	1,112	1,605
Decommissioning and restoration provision <i>(Note 15)</i>	(79)	-	(79)
Amortization and depletion	(672)	-	(672)
Balance, December 31, 2015	8,774	1,112	9,886
Additions	133	4,284	4,417
Capitalized interest	-	204	204
Pre-production sales proceeds	-	(1,621)	(1,621)
Amortization and depletion	(670)	-	(670)
<b>Balance, September 30, 2016</b>	<b>8,237</b>	<b>3,979</b>	<b>12,216</b>

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

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

As at September 30, 2016, the Company has made total payments of \$2,000 and acquired 100% interest in the Rey David property located in the municipality of Charcas, San Luis Potosi, Mexico, in accordance with the terms of the Rey David Agreement. The property is subject to a 0.4% Net Smelter Returns (“NSR”). The NSR increases by 0.1% per year, until it reaches a maximum of 1%. The payments were due to start on December 31, 2015, but the Company is currently re-negotiating the extension of the NSR payments.

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

As at September 30, 2016, the Company has made total payments of \$220 and acquired 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.

*Cinco Estrellas, Charcas, San Luis Potosi, Mexico*

Pursuant to an option agreement dated September 7, 2016, the Company was granted an option to acquire a 100% interest in the Cinco Estrellas property located in Charcas, San Luis Potosí, Mexico. The property is subject to a 2.5% NSR.

In order to acquire the Cinco Estrellas property the Company is required to pay the sum of \$130 including an initial payment of \$50 on signing the agreement (paid) plus additional payments as follows:

- \$50 at the inscription in the Public Mining Registry; and
- \$5 for 6 months beginning 30 days after the first payment (\$15 paid subsequent to September 30, 2016).

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

On November 2, 2015, the Company entered into a definitive agreement (the "Contracuña Agreement") with Minera Contracuña I, S.A. de C.V. and 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. Consideration for the Contracuña Agreement was \$500, \$200 of which was paid at the time of signing and an additional \$300 was paid following registration of the agreement with the Deputy of Mines. During the term of the Contracuña Agreement a 40% net profits interest basis ("NPI") will be paid to Contracuña. In the event the price of silver is greater than \$22.00 per ounce, the NPI changes to 45%.

The Company determined its Veta Grande Mine to be in commercial production effective October 1, 2016.

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**8. Exploration and Evaluation Properties**

The Company is actively investigating, evaluating and conducting exploration activities on projects in Mexico. A summary of accumulated costs on its exploration and evaluation properties as of September 30, 2016 and December 31, 2015 is as follows:

	Balance, Dec 31, 2014 \$	Additions Year Ended Dec 31, 2015 \$	Balance, Dec 31, 2015 \$	Additions Period Ended Sep 30, 2016 \$	Balance, Sep 30, 2016 \$
<b>a) Gavilanes, San Dimas, Durango, Mexico</b>					
<i>Acquisition costs</i>					
Option payments – cash	5,115	131	5,246	23	5,269
<i>Exploration costs</i>					
Depreciation	9	-	9	-	9
Drilling	1,989	-	1,989	-	1,989
Geological consulting	25	11	36	10	46
Mining claims, taxes and duties	97	72	169	32	201
Mine site support and office costs	72	49	121	35	156
Professional fees	53	-	53	-	53
Safety and maintenance	9	-	9	-	9
	2,254	132	2,386	77	2,463
	7,369	263	7,632	100	7,732
<b>b) San Felipe, San Felipe de Jesús, Sonora, Mexico</b>					
<i>Acquisition costs</i>					
Option payments – cash	25,884	-	25,884	-	25,884
Option payments – shares	1,293	-	1,293	-	1,293
	27,177	-	27,177	-	27,177
<i>Exploration costs</i>					
Depreciation	17	24	41	20	61
Drilling	5,392	24	5,416	-	5,416
Ejidal surface right payments	649	-	649	-	649
Environmental studies	28	46	74	-	74
Geological consulting	1,941	92	2,033	3	2,036
Mining claims, taxes and duties	673	405	1,078	358	1,436
Mine site support and office costs	1,125	331	1,456	74	1,530
Professional fees	134	15	149	-	149
Safety and maintenance	30	4	34	60	94
	9,989	941	10,930	515	11,445
Impairment	-	(19,426)	(19,426)	(16,688)	(36,114)
	37,166	(18,485)	18,681	(16,173)	2,508
<b>c) Zacatecas, Zacatecas, Zacatecas, Mexico</b>					
<i>Acquisition costs</i>					
Option payments – cash	-	-	-	200	200
<i>Exploration costs</i>					
Mining claims, taxes and duties	-	-	-	27	27
	-	-	-	227	227
<b>Total</b>	44,535	(18,222)	26,313	(15,846)	10,467

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

*Gavilanes I, San Dimas, Durango, Mexico*

As at September 30 2016, the Company has made total payments of \$3,600 and acquired 100% interest in the Gavilanes property located in San Dimas, Durango, Mexico, in accordance with the terms of the Gavilanes I Agreement. The property is subject to a 3% NSR, up to a maximum of \$2,000.

*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, 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 September 30, 2016, the Company has made total payments of \$1,569 and an additional payment of \$150 was made subsequent to September 30, 2016. The remaining amount of \$545 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 may acquire 100% of the Gavilanes MHM Fraccion 2 concession and two mining concession applications, Gavilanes MHM Fraccion 1 and Gavilanes HMX. As at September 30, 2016, the Company has paid \$100 and must pay a further \$1,000 upon commencement of commercial production. The property is subject to a 3% NSR.

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

Pursuant to a mining exploration and promissory sale agreement dated August 3, 2011 and amended on certain dates between December 9, 2011 and July 7, 2015 (the "San Felipe Agreement"), the Company was granted an option to acquire a 100% interest in the San Felipe project located in San Felipe de Jesús, Sonora, Mexico and the El Gachi property located near the San Felipe project, including all assets related to the properties. In addition to cash payments of \$25,884 made to September 30, 2016 and the issuance of 1,250,000 common shares of the Company, in order to maintain and exercise the option, the Company incurred exploration expenditures of \$3,000 and must make additional payments as follows:

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

The project is subject to a 1% NSR. 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.

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*2015 Impairment*

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

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

Discount rate

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

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

Sensitivity

The assumptions subject to the most estimation uncertainty for the FVLCTD calculation are the commodity prices. To illustrate this sensitivity, at December 31, 2015 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.

*2016 Impairment*

At September 30, 2016, an impairment indicator test was performed with the result that an adjustment of \$16,688 was recorded.

**c) Zacatecas, Zacatecas, Zacatecas, Mexico**

On May 2, 2016 the Company entered into an option agreement to acquire from Golden Minerals Company (“Golden Minerals”) certain mineral claims located in the Zacatecas Mining District, Zacatecas, Mexico (the “Zacatecas Properties”) consisting of 149

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concessions. A 1% NSR exists with the original property vendors on some of the claims included in the Zacatecas Properties.

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

- \$200 on or before November 2, 2016 (paid subsequent to September 30, 2016);
- \$300 on or before May 2, 2017;
- \$300 on or before November 2, 2017; and
- \$500 on or before May 2, 2018.

**9. Accounts Payable and Accrued Liabilities**

	September 30, 2016 \$	December 31, 2015 \$
Trade payables	7,529	4,647
Accrued liabilities	1,494	1,054
<b>Total</b>	<b>9,023</b>	<b>5,701</b>

**10. Loan Payable**

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

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 the 3,000,000 bonus warrants, each of which was exercisable to purchase one common share for a price of CDN\$0.15 and would expire January 11, 2017. All 3,000,000 bonus warrants were exercised during the nine months ended September 30, 2016. The fair value of the bonus warrants (\$59) was estimated using the Black Scholes option-pricing model and was recorded against the balance of the loan payable. The assumptions used in the option pricing model were as follows: risk-free interest rate – 0.85%; expected life – 1 year; expected volatility – 78.58%; and expected dividends – nil.

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

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The change in the loan payable during the year ended December 31, 2015 and the nine months ended September 30, 2016 is as follows:

	\$
Proceeds advanced	725
Transaction costs	(59)
Net loan proceeds	666
Interest expense	4
Balance, December 31, 2015	670
Repayment	(350)
Interest expense	67
Balance, September 30, 2016	387

\$8 of the interest expense has been capitalized to mine property.

### 11. Leases

The Company entered into certain mining equipment leases expiring between 2017 and 2019 with an interest rate between 6.5% and 10.5% per annum. The Company's obligations under these finance leases are secured by the lessor's title to the leased assets. The terms and the outstanding balances as at September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016 \$	December 31, 2015 \$
Equipment under finance lease repayable in monthly instalments of \$91 with interest between 6.5% and 10.5% per annum. Due dates are between October 2017 and December 2019.	2,456	-
Current portion	(1,403)	-
Non-current portion	1,053	-

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

	September 30, 2016 \$
2016	434
2017	1,322
2018	702
2019	450
Total minimum lease payments	2,908
Less: imputed interest	(452)
Total present value of minimum lease payments	2,456
Less: Current portion	(1,403)
Non-current portion	1,053



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## **12. Silver Loan**

### **Initial Prepaid Silver Purchase Agreement**

On October 2, 2014, the Company entered a Prepaid Silver Purchase Agreement (the "Original JMET Agreement") with JMET, LLC ("JMET") to receive \$28,400 in exchange for agreeing to sell 4,635,000 ounces of silver bullion through August 2019. The Company recorded the obligation to sell 4,635,000 ounces of silver bullion to JMET at a US\$10/ounce discount as debt recognized initially at fair value and subsequently at amortized cost using the effective interest rate method. The Company incurred transaction costs of \$2,322. JMET held back \$800 of the principal amount of the debt which would 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 to 2,600,000 ounces of silver; 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 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. Immediately before the amendment 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 the Company recognized a loss of \$2,322.

### **2015 and 2016 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. The Company also agreed that all payments 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, December 15, 2015, April 22, 2016 and June 14, 2016, the Amended JMET Agreement was further amended. As a result of these amendments, the Company was to sell to JMET 2,644,625 ounces of silver through October 2019 at spot less US\$10, which included an additional 44,625 ounces of silver which represented a restructuring fee. The Company incurred transaction costs of \$94 in 2015 and \$21 in 2016 in relation to these amendments. Further, the Company agreed to pay JMET \$100 (paid) on or before April 30, 2016 and another \$100 (paid) on or before May 30, 2016. The repayment date for the \$3,040 balance due to be paid on December 31, 2015 was also deferred until August 25, 2016.

As the change in future payment terms expected was not determined to be substantial, each amendment which occurred in 2015 and up to June 14, 2016 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.

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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.

During the nine months ended September 30, 2016, the Company applied \$1,777 against the current portion of the silver loan upon settlement of 1,262,856 ounces of silver, 495 tonnes of lead and 1,038 tonnes of zinc that matured during the period. In addition, a lump sum repayment of \$1,004 was made on April 20, 2016, with \$200 applied against the April and May restructure fees, and \$804 applied against the remaining cash principal balance.

**Restructuring of the Amended JMET Agreement and JMET Note**

On July 14, 2016, the Company completed the restructuring of the Amended JMET Agreement such that the Company no longer has any metal delivery obligations to JMET. Specifically, the Company has made a \$7,777 partial payment of the outstanding indebtedness under the Amended JMET Agreement and has issued JMET a new secured note in the amount of \$4,890 (the “JMET Note”), representing the remaining indebtedness to JMET after giving effect to the restructuring. Refer to Note 13. The Company incurred transaction costs of \$100 in relation to the restructuring.

Also pursuant to the restructuring, the Company has issued 3,750,000 warrants to JMET (the “JMET Warrants”). Each JMET Warrant is exercisable to acquire one common share of the Company at a price of CAD\$0.55 per share and expires on December 31, 2018; provided that, if the volume weighted average price of the Company’s common shares for any consecutive 20-day trading period on the TSX-V equals or exceeds CAD\$0.88, the Company has the right to deem the JMET Warrants to be exercised.

The JMET Warrants meet the definition of a derivative liability as outlined in IAS 39. As a result, the JMET Warrants are required to be recorded as a derivative liability and measured initially at fair market value and revalued on each subsequent reporting date with the changes in the fair value of the derivative liability being recorded in profit and loss.

The value of the derivative liability was estimated to be \$191 as at September 30, 2016. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.15%; expected life – 2.25 years; expected volatility – 88.86%; expected forfeitures – 0%; and expected dividends – \$nil. Expected price volatility was calculated based on the Company’s historical share prices.

The restructuring of the Amended JMET Agreement was accounted for as an extinguishment as the change in expected payment terms was determined to be substantial. As a result the Company derecognized the debt that arose from the Amended JMET Agreement and recognized the debt as a result of the restructuring. Immediately before the restructuring, the carrying value of the Amended JMET Agreement debt was \$20,085. As a result of the restructuring the Company recognized a gain of \$6,377.

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The change in the silver loan during the year ended December 31, 2015 and the nine months ended September 30, 2016 is as follows:

	\$
Balance, December 31, 2014	14,590
Holdback receivable	(800)
Transaction costs	(94)
Amount originally due on April 1, 2015 and subsequently amended to December 31, 2015	7,000
Repayment on April 1, 2015	(2,000)
Repayment by settlement of matured derivative assets	(2,910)
Interest expense	5,044
Balance, December 31, 2015	20,830
Transaction costs	(21)
Repayment on April 20, 2016	(1,004)
Repayment by settlement of matured derivative assets	(1,777)
Interest expense	2,057
Subtotal	20,085
Repayment on July 14, 2016	(7,777)
Transaction costs	(100)
Fair value of JMET Warrants	(191)
Gain on restructuring of Amended JMET loan	(6,377)
Conversion to JMET Note	(5,640)
Balance, September 30, 2016	-

	September 30, 2016 \$	December 31, 2015 \$
Current portion	-	7,987
Non-current portion	-	12,843
Total	-	20,830

The change in the derivative assets arising from the revised minimum price protection program during the year ended December 31, 2015 and the nine months ended September 30, 2016 is as follows:

	\$
Balance, December 31, 2014	4,378
Cash settlement received	(224)
Settlement applied against current portion of the silver loan	(2,910)
Change in fair value	2,477
Balance, December 31, 2015	3,721
Settlement applied against current portion of the silver loan	(1,777)
Change in fair value	(1,944)
<b>Balance, September 30, 2016</b>	<b>-</b>

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**13. JMET Note**

On July 14, 2016, pursuant to the restructuring of the Amended JMET Agreement, the Company has issued the JMET Note in the amount of \$4,890. Refer to Note 12. The JMET Note bears interest at a rate of 14% per annum, payable quarterly in arrears commencing September 30, 2016, with principal repayments of \$500 per quarter commencing September 30, 2017 and ending on December 31, 2019.

The Company has also agreed to pay JMET \$1,500 of restructuring and finance fees, which fees will be payable in 2019. In certain circumstances, the principal repayments due under the JMET Note and payment of the restructuring and finance fees will be accelerated without penalty if the Company receives net proceeds from sources other than the sale of concentrates or if the Company's working capital and cash balance exceed certain thresholds.

The change in the JMET Note during the nine months ended September 30, 2016 is as follows:

	\$
Fair value of JMET Note	5,640
Accrued interest	(146)
Interest expense	196
Balance, September 30, 2016	5,690

  

	September 30, 2016 \$	December 31, 2015 \$
Current portion	500	-
Non-current portion	5,190	-
Total	5,690	-

\$196 of the interest expense has been capitalized to mine property.

**14. Forward Contract Derivative Liability**

The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. During the nine months ended September 30, 2016, the Company entered into a forward contract to purchase \$10,081 in exchange for CAD\$13,000 with settlement date of less than one month. The forward contract settled during the nine months ended September 30, 2016.

During the nine months ended September 30, 2016, the Company entered into a series of forward contracts to purchase Mexican pesos in exchange for a total of \$42,000 at 18.874 Mexican pesos per US dollar over the time period from October 31, 2016 to December 31, 2017 inclusive. At September 30, 2016, the Company had outstanding foreign currency forward contracts to buy Mexican pesos in exchange for \$31,264 with settlement dates between February 28, 2017 and December 31, 2017.

The fair value of the outstanding foreign currency forward contract is estimated to be a derivative liability of \$1,967, determined using the forward rate at the measurement date, with the resulting value discounted to present value and is categorized within level 2 of the fair value hierarchy. A portion of the derivative liability has been classified as non-current as these contracts are expected to be settled after twelve months from September 30, 2016.

Pursuant to the foreign exchange forward contract, the Company was required to maintain a deposit of \$500 in a margin account. The balance in the margin account was classified as

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restricted cash at September 30, 2016. In early October 2016 these funds were released to the Company in connection with the strengthened Mexican peso relative to the US dollar.

In early November the Mexican peso experienced a significant weakening relative to the US dollar which prompted a margin call to the Company. As of November 23, 2016 the amount of the margin call is approximately \$2,700 of which the Company has paid \$150 and has a payment plan in place to fulfill the residual margin requirement.

**15. Decommissioning and Restoration Provision**

The Company's estimates of future decommissioning and restoration for reclamation and closure costs for its mine are based on reclamation standards that meet Mexican regulatory requirements. The undiscounted amount of estimated cash flows required to settle the decommissioning and reclamation costs was estimated at \$1,002 (2015 – \$1,002). The key assumptions on which the provision 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 inflation rate used is 4.08% (2015 – 4.24%).
- The discount rate used is 7% (2015 – 7%).

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

	September 30, 2016 \$	December 31, 2015 \$
Balance, beginning of period / year	533	663
Accretion expense	28	46
Change in estimate	-	(79)
Foreign exchange	(63)	(97)
Balance, end of period / year	498	533

**16. Share Capital**

**a) Authorized**

Unlimited number of common shares without par value.

**b) Share Capital Transactions**

- (i) 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 (CAD\$1,300). The Company incurred share issuance costs of \$6 in connection with the private placement.
- (ii) On July 14, 2016, the Company closed a public offering (the "Offering") through a syndicate of agents (collectively, the "Agents"). The Company issued 37,975,000 units (the "Units") pursuant to the Offering at a price of CAD\$0.40 per Unit for total gross proceeds of \$11,779 (CAD\$15,190). Each Unit consisted of one common share and one-half of a common share purchase warrant ("Warrant"). Each Warrant entitles the holder to acquire one common share at a price of CAD\$0.55 per share for a period of 30 months from closing. The Company incurred share issuance costs

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of \$986 in connection with the private placement.

The Company has assigned a value of \$2,986 to the warrants based on the estimated fair value using a Black-Scholes option pricing model with the balance of \$8,793 assigned to the shares. The fair value of the warrants issued was estimated on the date of issue using the Black-Scholes option valuation model. The assumptions used in the option pricing model were as follows: risk-free interest rate – 1.15%; expected life – 2.5 years; expected volatility – 87.04%; and expected dividends – nil.

- (iii) During the nine months ended September, 2016, the Company issued 3,022,500 common shares pursuant to exercise of warrants for total gross proceeds of \$352. A value of \$63 was transferred from warrants reserve to share capital as a result.

**c) Stock Options and Warrants Reserve**

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

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>\$</b>	<b>\$</b>
Stock options	4,694	4,308
Warrants	4,543	1,561
	<b>9,237</b>	<b>5,869</b>

**d) Stock Options**

The Company established a stock option plan (the “Plan”) for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates. The maximum number of shares available under the Plan is limited to 10% of the issued common shares. Options granted under the Plan have a maximum term of ten years and the vesting provisions of options granted are at the discretion of the Board. Details of options activity for the year ended December 31, 2015 and the nine months ended September 30, 2016 are as follows:

	<b>Number of Stock Options</b>	<b>Weighted Average Exercise Price (CDN\$)</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>
Balance, December 31, 2014	7,606,666	0.97	2.62
Expired	(4,303,332)	0.90	-
Balance, December 31, 2015	3,303,334	1.06	1.75
Granted	4,500,000	0.15	-
Expired	(2,601,667)	0.90	-
<b>Balance, September 30, 2016</b>	<b>5,201,667</b>	<b>0.25</b>	<b>3.84</b>
<b>Unvested</b>	<b>125,000</b>	<b>0.15</b>	<b>4.37</b>
<b>Exercisable, September 30, 2016</b>	<b>5,076,667</b>	<b>0.25</b>	<b>3.84</b>

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The balance of options outstanding as at September 30, 2016 is as follows:

<b>Expiry Date</b>	<b>Exercise Price CDN\$</b>	<b>Remaining Life (Years)</b>	<b>Options Vested and Outstanding</b>
April 12, 2017	0.90	0.53	701,667
February 10, 2021	0.15	4.37	4,500,000
			5,201,667

4,500,000 options were granted during the nine months ended September 30, 2016 (2015 – nil). The fair values of the options granted during the nine months ended September 30, 2016 were estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.50%; expected life – 5 years; expected volatility – 83.36%; expected forfeitures – 0%; and expected dividends – \$nil. Expected price volatility was calculated based on the Company's historical share prices.

The weighted average fair value of stock options granted during the nine months ended September 30, 2016 was \$0.08 per option.

During the three and nine months ended September 30, 2016, the Company recorded share-based payments expense of \$8 and \$386 (2015 – \$16 and \$69).

**e) Warrants**

Details of warrants activity for the year ended December 31, 2015 and nine months ended September 30, 2016 are as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price CDN\$</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>
Balance, December 31, 2014	2,034,750	1.53	0.51
Expired	(1,311,000)	1.85	-
Balance, December 31, 2015	723,750	1.00	0.19
Issued	25,737,500	0.15	-
Expired	(723,750)	1.00	-
Exercised	(3,022,500)	0.15	-
<b>Balance, September 30, 2016</b>	<b>22,715,000</b>	<b>0.15</b>	<b>2.28</b>

The balance of warrants outstanding as at September 30, 2016 is as follows:

<b>Expiry Date</b>	<b>Exercise Price CDN\$</b>	<b>Remaining Life (Years)</b>	<b>Options Vested and Outstanding</b>
December 31, 2018	0.55	2.25	3,750,000
January 14, 2019	0.55	2.29	18,965,000
			22,715,000

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**17. Operating Costs by Nature**

**a) Cost of sales**

	Three months ended September 30,		Nine months ended September 30,	
	2016 \$	2015 \$	2016 \$	2015 \$
Direct cost of sales	1,655	2,568	6,293	6,763
Depletion and amortization	585	554	1,800	1,159
Adjustment to NRV of mined ore and concentrate inventory	-	25	-	(144)
	2,240	3,147	8,093	7,778

**b) Operating expenses**

	Three months ended September 30,		Nine months ended September 30,	
	2016 \$	2015 \$	2016 \$	2015 \$
Administrative	138	161	387	296
Depreciation	2	2	5	5
Management and consulting fees	73	144	278	331
Other	74	41	211	136
Professional fees	171	117	497	465
Salaries and benefits	17	49	55	129
Share-based payments	8	16	386	69
Shareholder communications	17	11	27	48
Transfer agent and filing fees	5	7	25	63
Travel	7	10	25	38
	512	558	1,896	1,580

**18. a) Interest Earned and Other Finance Income**

	Three months ended September 30,		Nine months ended September 30,	
	2016 \$	2015 \$	2015 \$	2015 \$
Interest earned	-	1	3	11
IVA recovery inflationary gain	-	-	172	-
Change in fair value of derivative assets	-	1,786	-	1,643
Gain on settlement of debt	6,377	-	6,377	-
Foreign exchange gain	259	484	668	414
	6,636	2,271	7,220	2,068



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**b) Interest Expense and Other Finance Expenses**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Accretion of decommissioning and restoration provision	(9)	(12)	(28)	(35)
Change in fair value of derivative assets	(2,000)	-	(3,911)	-
Interest expense on loan payable	(6)	-	(59)	-
Interest expense on silver loan	(131)	(1,333)	(2,057)	(3,391)
	(2,146)	(1,345)	(6,055)	(3,426)

**19. Related Party Transactions**

During the three and nine months ended September 30, 2016 and 2015, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Accounting and corporate secretarial fees	72	44	249	184
Directors' fees	19	64	51	80
Management fees	46	52	174	161
Share-based payments	-	16	293	69
Salaries and benefits capitalized	30	51	94	184

At September 30, 2016, directors and officers or their related companies were owed \$159 (December 31, 2015 – \$125) in respect of the services rendered. These are non-interest bearing with standard payment terms.

In connection with the personal guarantee of the Loan by the CEO of the Company, the Company issued 3,000,000 bonus warrants to the CEO, each of which was exercisable to purchase one common share for a price of CDN\$0.15 and would expire January 11, 2017. The Company entered into certain mining equipment leases expiring between 2017 and 2019 with an interest rate between 6.5% and 10.5% per annum. \$1,145 of the leases payable outstanding at September 30, 2016 were owed to a company owned by the CEO of the Company.

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.

**20. 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 nine months ended September 30, 2016, the following transactions were excluded from the consolidated statements of cash flows:

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- Mineral property exploration expenditures of \$2,775 included in accounts payable and accrued liabilities at September 30, 2016, less mineral property exploration expenditures included in accounts payable and accrued liabilities at December 31, 2015 of \$915 (net inclusion of \$1,860);
- \$2,456 of leases payable that have been capitalized to plant and equipment at September 30, 2016;
- Fair value of the 3,000,000 bonus warrants (\$59) issued in connection with the CEO's personal guarantee of the Loan; and
- The settlement proceeds of \$1,777 under the revised minimum price protection program applied against the current portion of the silver loan.

During the nine months ended September 30, 2015, the following transactions were excluded from the consolidated statements of cash flows:

- Mineral property exploration expenditures of \$373 included in accounts payable and accrued liabilities at September 30, 2015 were excluded from the consolidated statements of cash flows; and
- The settlement proceeds of \$1,513 under the revised minimum price protection program applied against the current portion of the silver loan.

## **21. 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 operating and reportable segments have been identified: the Rosario Mine, Veta Grande Mine and exploration and evaluation properties. Below is a summary of the reported amounts of income or loss, and the carrying amounts of assets and liabilities by operating segment:

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For the Three and Nine Months Ended September 30, 2016 and 2015***(Unaudited – expressed in thousands of US dollars, except share and per share amounts)*

<b>Three Months Ended September 30, 2016</b>	<b>Rosario Mine \$</b>	<b>Veta Grande Mine \$</b>	<b>Exploration and evaluation properties \$</b>	<b>Corporate and other \$</b>	<b>Total \$</b>
Revenues	3,026	-	-	-	3,026
Direct cost of sales	(1,655)	-	-	-	(1,655)
Depletion and amortization	(585)	-	-	-	(585)
Cost of sales	(2,240)	-	-	-	(2,240)
Gross profit	786	-	-	-	786
Operating income (loss)	786	-	(16,688)	(512)	(16,414)
Income (loss) before tax	786	-	(16,688)	3,978	(11,924)
Interest earned and other finance income	-	-	-	6,636	6,636
Interest expense and other finance expenses	(9)	-	-	(2,137)	(2,146)
Income tax (expense) recovery	(232)	-	1,092	-	860

  

<b>Three Months Ended September 30, 2015</b>	<b>Rosario Mine \$</b>	<b>Veta Grande Mine \$</b>	<b>Exploration and evaluation properties \$</b>	<b>Corporate and other \$</b>	<b>Total \$</b>
Revenues	2,592	-	-	-	2,592
Direct cost of sales	(2,568)	-	-	-	(2,568)
Depletion and amortization	(554)	-	-	-	(554)
Adjustment to NRV of inventory	(25)	-	-	-	(25)
Cost of sales	(3,147)	-	-	-	(3,147)
Gross loss	(555)	-	-	-	(555)
Operating loss	(555)	-	-	(558)	(1,113)
Income (loss) before tax	(555)	-	-	368	(187)
Interest earned and other finance income	-	-	-	2,271	2,271
Interest expense and other finance expenses	(12)	-	-	(1,333)	(1,345)
Income tax expense	(1,441)	-	-	-	(1,441)

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<b>Nine Months Ended September 30, 2016</b>	<b>Rosario Mine \$</b>	<b>Veta Grande Mine \$</b>	<b>Exploration and evaluation properties \$</b>	<b>Corporate and other \$</b>	<b>Total \$</b>
Revenues	9,938	-	-	-	9,938
Direct cost of sales	(6,293)	-	-	-	(6,293)
Depletion and amortization	(1,800)	-	-	-	(1,800)
Cost of sales	(8,093)	-	-	-	(8,093)
Gross profit	1,845	-	-	-	1,845
Operating income (loss)	1,845	-	(16,688)	(1,896)	(16,739)
Income (loss) before tax	1,845	-	(16,688)	(731)	(15,574)
Interest earned and other finance income	-	-	-	7,220	7,220
Interest expense and other finance expenses	(28)	-	-	(6,027)	(6,055)
Income tax (expense) recovery	(378)	-	1,092	-	714
Total assets	26,398	7,319	10,467	7,518	51,702
Current assets	1,072	230	-	6,888	8,190
Non-current assets	25,326	7,089	10,467	630	43,512
Total liabilities	(3,957)	(2,433)	(342)	(16,038)	(22,770)

<b>Nine Months Ended September 30, 2015</b>	<b>Rosario Mine \$</b>	<b>Veta Grande Mine \$</b>	<b>Exploration and evaluation properties \$</b>	<b>Corporate and other \$</b>	<b>Total \$</b>
Revenues	6,141	-	-	-	6,141
Direct cost of sales	(6,763)	-	-	-	(6,763)
Depletion and amortization	(1,159)	-	-	-	(1,159)
Adjustment to NRV of inventory	144	-	-	-	144
Cost of sales	(7,778)	-	-	-	(7,778)
Gross loss	(1,637)	-	-	-	(1,637)
Operating loss	(1,637)	-	-	(1,580)	(3,217)
Loss before tax	(1,637)	-	-	(2,938)	(4,575)
Interest earned and other finance income	-	-	-	2,068	2,068
Interest expense and other finance expenses	(35)	-	-	(3,391)	(3,426)
Income tax expense	(1,622)	-	-	-	(1,622)

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

**b) Segment Revenue by Location and Major Customers**

For the Rosario Mine segment, in each of the 2016 and 2015 periods the Company had only one customer who individually accounted for 100% of total concentrate revenue in Mexico during the three and nine months ended September 30, 2016 and 2015.

**c) Non-current Assets by Location**

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>\$</b>	<b>\$</b>
<i>Canada</i>	6	7
<i>Mexico</i>	43,506	53,614
<b>Total</b>	<b>43,512</b>	<b>53,621</b>

**22. Financial Instruments**

**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.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>September 30, 2016</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial liabilities</b>				
Forward contract derivative liability	-	1,967	-	1,967
JMET warrants derivative liability	-	191	-	191

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**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.

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

**(iii) Liquidity Risk** – Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company endeavors to ensure 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 September 30, 2016 were as follows:

	<b>&lt; 1</b>	<b>1 – 2</b>	<b>2 – 5</b>	<b>&gt;5</b>	<b>Total</b>
	<b>year</b>	<b>years</b>	<b>years</b>	<b>years</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	9,023	-	-	-	9,023
Loan payable	394	-	-	-	394
Leases	434	1,322	1,152	-	2,908
JMET note	1,185	2,509	4,133	-	7,827
Minimum lease payments	13	10	-	-	23
<b>Total</b>	<b>11,049</b>	<b>3,841</b>	<b>5,285</b>	<b>-</b>	<b>20,175</b>

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

The Company’s financial assets and liabilities as at September 30, 2016 are denominated in Canadian dollars, US dollars, and Mexican pesos as follows:

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	Canadian dollar \$	US dollar \$	Mexican peso \$	Total \$
<b>Financial assets</b>				
Cash and cash equivalents	119	857	47	1,023
Restricted cash	-	500	-	500
Trade receivables	-	699	-	699
Other receivables	-	-	74	74
	119	2,056	121	2,296
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	(522)	-	(8,501)	(9,023)
Loan payable	-	(387)	-	(387)
Leases	-	(2,456)	-	(2,456)
JMET note	-	(5,690)	-	(5,690)
Forward contract derivative liability	-	(1,967)	-	(1,967)
JMET warrants derivative liability	(191)	-	-	(191)
	(713)	(10,500)	(8,501)	(19,714)
<b>Net financial liabilities</b>	(594)	(8,444)	(8,380)	(17,418)

**(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.