Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

(Expressed in US Dollars)

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, 2013, and 2012, 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, 2013, and 2012, 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 25, 2014

Chartered Accountants

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

	Note	December 31, 2013 $	December 31, 2012 $
ASSETS			
Current			
Cash and cash equivalents	**6**	1,618,472	2,879,378
VAT recoverable and receivables	**7**	5,637,805	1,737,284
Inventory	**8**	633,580	-
Prepaid expenses and deposits		135,794	90,831
Deferred financing costs	**9**	-	61,748
		8,025,651	4,769,241
Plant and equipment	**10**	10,632,230	5,943,868
Mine under construction and development costs	**11**	8,770,992	3,834,596
Exploration and evaluation properties	**12**	33,583,145	11,378,439
		61,012,018	25,926,144
LIABILITIES			
Current			
Accounts payable and accrued liabilities		1,045,846	523,450
Due to shareholders	**13**	-	133,089
Exploration obligations	**12(b)**	-	2,383,177
		1,045,846	3,039,716
Decommissioning and restoration provision	**14**	595,953	-
Deferred income tax liability	**21(b)**	3,974,151	-
		5,615,950	3,039,716
EQUITY			
Share capital	**15**	75,912,147	38,186,694
Stock options and warrants reserve	**15(d)**	5,316,201	3,797,949
Accumulated other comprehensive loss		(503,931)	(89,198)
Deficit		(25,328,349)	(19,009,017)
		55,396,068	22,886,428
		61,012,018	25,926,144

Commitments *(Notes 11, 12 and 22)*
Subsequent Events *(Note 23)*

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, 2013 and 2012
(Expressed in US Dollars)

	Note	2013 $	2012 $
General and administrative expenses			
Administrative		491,239	526,832
Depreciation		9,339	5,982
Management and consulting fees	**16**	275,438	235,893
Other		32,095	9,842
Professional fees	**16**	488,061	1,082,868
Salaries and benefits		174,019	96,573
Share-based payments	**15(e)**	675,205	3,279,082
Shareholder communications		431,259	208,002
Transfer agent and filing fees		94,004	28,354
Travel		132,132	191,351
		(2,802,791)	(5,664,779)
Other income (expenses)			
Loss on derivative liabilities		-	(3,495)
Loss on disposal of equipment	**10**	(13,949)	-
Charge related to public company listing	**5**	-	(12,967,741)
Foreign exchange gain		178,269	124,887
Other income		323,608	120,218
		487,928	(12,726,131)
Loss before income tax		(2,314,863)	(18,390,910)
Income tax expense	**21(a)**	(4,004,469)	(34,009)
Net loss for the year		(6,319,332)	(18,424,919)
Other comprehensive loss			
Exchange differences on translating foreign operations		(414,733)	(89,198)
Comprehensive loss for the year		(6,734,065)	(18,514,117)
Loss per share – basic and diluted		(0.07)	(0.33)
Weighted average number of common shares outstanding		87,426,762	55,088,712

Santacruz Silver Mining Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31, 2013 and 2012
(Expressed in US Dollars)

Cash Provided By (Used In):	**2013 $**	**2012 $**
Operations:		
Net loss for the year	(6,319,332)	(18,424,919)
Items not affecting cash:		
Deferred income tax expense	3,974,151	-
Depreciation	9,339	5,982
Share-based payments	675,205	3,279,082
Loss on derivative liabilities	-	3,495
Loss on disposal of equipment	13,949	-
Charge related to public company listing	-	12,967,741
Changes in non-cash working capital:		
VAT recoverable and other receivables	(3,589,711)	(1,318,174)
Prepaid expenses and deposits	(44,963)	(80,193)
Inventory	(633,580)	-
Accounts payable and accrued liabilities	229,679	292,251
	(5,685,263)	(3,274,735)
Investing:		
Exploration and evaluation properties	(22,992,297)	(6,229,975)
Acquisition and development costs on mine under construction	(3,696,686)	(2,564,358)
Proceeds from disposal of equipment	14,943	-
Acquisition of plant and equipment	(5,691,908)	(5,919,396)
	(32,365,948)	(14,713,729)
Financing:		
Issuance of common shares, net	37,337,287	19,985,617
Cash acquired on reverse takeover	-	1,219,552
Due to shareholders	(133,089)	(431,233)
	37,204,198	20,773,936
Net (decrease) increase in cash	(847,013)	2,785,472
Effect of exchange rate changes on cash	(413,893)	(89,166)
Cash and cash equivalents – beginning of year	2,879,378	183,072
Cash and cash equivalents – end of year	1,618,472	2,879,378

Non-cash Transactions *(Note 17)*

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

	Share Capital		Stock Options and Warrants			
	Number of Shares	Amount $	Reserve $	AOCI $	Deficit $	Total $
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	-	-	-	20,999,480
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)	438,980	-	-	(1,489,137)
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
Issued pursuant to prospectus offering	21,910,000	39,949,557	-	-	-	39,949,557
Issued for mineral properties	1,250,000	1,292,961	-	-	-	1,292,961
Exercise of warrants	324,545	386,444	(154,595)	-	-	231,849
Share issuance costs	-	(3,903,509)	997,642	-	-	(2,905,867)
Share-based payments	-	-	675,205	-	-	675,205
Net loss and comprehensive loss for the year	-	-	-	(414,733)	(6,319,332)	(6,734,065)
Balance, December 31, 2013	91,330,984	75,912,147	5,316,201	(503,931)	(25,328,349)	55,396,068

(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 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".

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.
- San Felipe de Jesús in the mining municipality of Sonora, Mexico.
- Gavilanes in the mining municipality of San Dimas, Durango, Mexico.

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 25, 2014.

b) Basis of Measurement

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

c) Basis of Consolidation

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

Control is achieved when the Company is exposed to, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained and continue to be consolidated until the date that such control ceases. Intercompany balances, transactions and unrealized intercompany gains and losses are eliminated upon consolidation.

d) Functional and Presentation Currency

The financial statements for the Company and each of its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of the parent company, 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. The presentation currency of the Company is the U.S. dollar.

Entities whose functional currencies differ from the presentation currency are translated into US dollars as follows: assets and liabilities – at the closing rate as at the reporting date, and income and expenses – at the average rate of the period. All resulting changes are recognized in other comprehensive loss as cumulative translation differences.

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

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

3. Significant Accounting Policies

a) Cash and Cash Equivalents

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

b) Inventory

Concentrate inventory and mined ore are valued at the lower of average production cost and net realizable value. Net realizable value is the amount estimated to be obtained from sale of the inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale. The production cost of inventories is determined on a weighted average basis and includes cost of production consumables, direct labour, mine-site overhead and depreciation and depletion of mine properties and plant and equipment.

Write-down of inventory is recognized as an expense in profit or loss in the period the write-down occurs. Reversal of any write-down of inventory, arising from an increase in net realizable value, is recorded in profit or loss as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs. Prior to commencement of commercial production, write-down of inventory is capitalized to mine under construction and development costs.

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.

Mine under Construction and Development Costs

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

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 mineable tonnes of ore available. 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 Non-Financial Assets

The Company performs impairment tests on non-financial assets when events or circumstances occur which indicate the carrying amount of the assets may not be recoverable. 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 only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

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

Fair value less cost of disposal is the amount 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 of disposal is often estimated using a discounted cash flow approach because a fair value is not readily available from an active market or binding sale agreement. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs.

f) Site Closure and Reclamation Provision

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

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in 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.

g) 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.

h) Valuation of Equity Units Issued in Private Placements

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

i) Revenue

Revenue is recognized when:

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

Revenue is measured at the fair value of consideration received or receivable. Proceeds from the sale of concentrate produced prior to commercial production are credited to mine under construction and development costs.

j) Share-based Payments

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

k) 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) 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.

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:

<u>Loans and Receivables</u>

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

<u>Financial Assets at Fair Value Through Profit or Loss</u>

An instrument is classified at fair value through profit or loss ("FVTPL") if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. The Company does not have any financial instruments classified as FVTPL.

<u>Available-for-sale Financial Assets</u>

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.

<u>Held-to-maturity Investments</u>

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

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are recognized initially at fair value adjusted for directly attributable transaction costs and are subsequently stated at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized directly in earnings or loss in the period in which they arise.

Impairment of Financial Assets

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

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

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

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.

Derecognition of financial assets and liabilities

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

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

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

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:

Depletion and depreciation

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

Impairment of mineral property assets

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

Decommissioning and restoration provision

Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation and exploration and development property. In addition, future changes to environmental laws and regulations may increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for site closure and reclamation. The provision represents management's best estimate of the present value of the future site closure and reclamation obligation.

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

Deferred taxes

Deferred tax assets and liabilities are measured using the tax rates expected to be in effect in future periods. Management estimates these future tax rates based on information available at the period end. Actual future rates may be significantly different. Factors causing such differences include changes in the ruling government or changes in national or regional economic circumstances of the areas where mines are located.

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. Changes in Accounting Policies Including Initial Adoption

a) Changes in Accounting Standards that are Effective and Have Been Adopted by the Company

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning before or on January 1, 2013. The following new standards, amendments and interpretations that have been adopted for the Company's current fiscal year have not had a material impact on the Company:

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 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.

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

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

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. The mandatory effective date for IFRS 9 is unspecified. The Company is currently evaluating the impact, if any, that the new guidance is expected to have on its consolidated financial statements.

In May 2013, the IASB issued IFRIC 21, *Levies* ("IFRIC 21"), an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company is currently evaluating the impact of applying IFRIC 21 on its consolidated financial statements.

5. Reverse Takeover Transaction

On April 12, 2012, SSM entered into a qualifying transaction (the "Transaction") with Forte, a capital pool company publicly listed on the TSX-V, 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-V.

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 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.

(Expressed in US Dollars)

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%; 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

	December 31, 2013 $	**December 31, 2012 $**
Cash on hand or held with banks:		
US dollar	32,969	463,644
Canadian dollar	1,089,535	119,507
Mexican peso	485,156	510,667
	1,607,660	1,093,818
Short-term investments	10,812	1,785,560
Total	1,618,472	2,879,378

(Expressed in US Dollars)

7. VAT recoverable and receivables

	December 31, 2013 $	**December 31, 2012 $**
Value added taxes recoverable	5,226,118	1,664,329
Trade receivables	310,810	-
Other receivables	100,877	72,955
Total	5,637,805	1,737,284

8. Inventory

	December 31, 2013 $	**December 31, 2012 $**
Mined ore inventory	265,636	-
Concentrate inventory	238,800	-
Supplies inventory	129,144	-
Total	633,580	-

9. Deferred Financing Costs

Deferred financing costs as at December 31, 2012 consisted of fees incurred relating to the prospectus offering as described in Note 15(b)(viii).

10. Plant and Equipment

Cost	Office Furniture and Equipment $	Plant and Equipment $	Vehicles $	Computer Hardware $	Total $
Balance, December 31, 2011	8,053	-	46,580	7,324	61,957
Additions	31,520	5,671,066	151,062	74,721	5,928,369
Balance, December 31, 2012	39,573	5,671,066	197,642	82,045	5,990,326
Additions	16,309	5,471,593	147,214	56,792	5,691,908
Disposals	-	-	(32,180)	(466)	(32,646)
Foreign exchange	(948)	-	-	-	(948)
Balance, December 31, 2013	54,934	11,142,659	312,676	138,371	11,648,640
Accumulated Depreciation					
Balance, December 31, 2011	495	-	3,484	942	4,921
Additions	2,561	598	27,069	11,309	41,537
Balance, December 31, 2012	3,056	598	30,553	12,251	46,458
Additions	4,389	878,670	59,408	31,347	973,814
Disposals	-	-	(3,626)	(128)	(3,754)
Foreign exchange	(108)	-	-	-	(108)
Balance, December 31, 2013	7,337	879,268	86,335	43,470	1,016,410
Carrying amount at December 31, 2012	36,517	5,670,468	167,089	69,794	5,943,868
Carrying amount at December 31, 2013	47,597	10,263,391	226,341	94,901	10,632,230

(Expressed in US Dollars)

Depreciation during the year ended December 31, 2013 was $973,814 (2012 – $41,537). During the year ended December 31, 2013, $954,567 and $9,908 of the depreciation was capitalized to mine under construction and development costs and exploration and evaluation properties, respectively (2012 – $35,555 and $nil). The Company does not have any equipment under lease for any of the periods presented.

11. 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, 2013 and 2012 are as follows:

	Balance, Dec 31, 2011 $	Year Ended Dec 31, 2012 $	Balance, Dec 31, 2012	Year Ended Dec 31, 2013 $	Balance, Dec 31, 2013 $
Rosario, Charcas, San Luis Potosi, Mexico *(see Note 12(c))*					
Acquisition costs					
Option payments – cash	-	457,818	457,818	622,182	1,080,000
Transferred from exploration and evaluation properties	-	395,000	395,000	-	395,000
	-	852,818	852,818	622,182	1,475,000
Exploration, development and pre-production costs					
Depreciation	-	35,555	35,555	954,567	990,122
Drilling	-	683,564	683,564	58,673	742,237
Geological consulting	-	9,237	9,237	467,173	476,410
Mine development	-	-	-	580,038	580,038
Mine site support and office costs	-	1,067,259	1,067,259	1,351,194	2,418,453
Permitting and other expenses	-	240,430	240,430	121,989	362,419
Safety and maintenance	-	22,608	22,608	660,137	682,745
Water well project	-	83,442	83,442	598,948	682,390
Transferred from exploration and evaluation properties	-	839,683	839,683	-	839,683
Pre-production revenue	-	-	-	(1,441,602)	(1,441,602)
Ore purchased	-	-	-	367,144	367,144
	-	2,981,778	2,981,778	3,718,261	6,700,039
Decommissioning liabilities *(Note 14)*	-	-	-	595,953	595,953
Total	-	3,834,596	3,834,596	4,936,396	8,770,992

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, March 20, 2012, August 15, 2013, October 15, 2013, February 4, 2014 and April 14, 2014, 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, 2013, the Company has made total payments of $1,355,000 and the residual payments are as follows:

- $200,000 on April 15, 2014 (paid subsequent to December 31, 2013); and
- $445,000 on July 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, 2013, the Company has made total payments of $120,000 and the residual payments are as follows:

- $20,000 on February 22, 2014 (paid subsequent to December 31, 2013);
- $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.

12. 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, 2013 and 2012 are as follows:

(Expressed in US Dollars)

	Balance, Dec 31, 2011 $	Year Ended Dec 31, 2012 $	Balance, Dec 31, 2012 $	Year Ended Dec 31, 2013 $	Balance, Dec 31, 2013 $
a) Gavilanes, San Dimas, Durango, Mexico					
Acquisition costs					
Option payments – cash	715,000	800,000	1,515,000	1,800,000	3,315,000
	715,000	800,000	1,515,000	1,800,000	3,315,000
Exploration costs					
Depreciation	-	-	-	4,130	4,130
Drilling	7,614	805,485	813,099	1,005,028	1,818,127
Mine site support and office costs	321	21,942	22,263	45,557	67,820
Professional fees	-	-	-	46,951	46,951
Safety and maintenance	2,892	25,185	28,077	40,808	68,885
	10,827	852,612	863,439	1,142,474	2,005,913
	725,827	1,652,612	2,378,439	2,942,474	5,320,913
b) San Felipe de Jesús, Sonora, Mexico					
Acquisition costs					
Option payments – cash	2,000,000	4,000,000	6,000,000	16,883,997	22,883,997
Option payments – shares	-	-	-	1,292,961	1,292,961
Exploration obligation still to be incurred	2,960,540	(577,363)	2,383,177	(2,383,177)	-
	4,960,540	3,422,637	8,383,177	15,793,781	24,176,958
Exploration costs					
Depreciation	-	-	-	5,778	5,778
Drilling	18,779	83,675	102,454	2,749,794	2,852,248
Geological consulting	-	-	-	76,608	76,608
Mine site support and office costs	20,681	164,421	185,102	130,591	315,693
Professional fees	-	106,404	106,404	27,576	133,980
Safety and maintenance	-	222,863	222,863	478,104	700,967
	39,460	577,363	616,823	3,468,451	4,085,274
	5,000,000	4,000,000	9,000,000	19,262,232	28,262,232
c) Rosario, Charcas, San Luis Potosi, Mexico *(see Note 11)*					
Acquisition costs					
Option payments – cash	395,000	-	395,000	-	395,000
Transferred to mine under construction and development costs	-	(395,000)	(395,000)	-	(395,000)
	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	278,290	-	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)	-	(839,683)
	839,683	(839,683)	-	-	-
	1,234,683	(1,234,683)	-	-	-
Total	6,960,510	4,417,929	11,378,439	22,204,706	33,583,145

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, March 20, 2012, April 26, 2013 and December 17, 2013, 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 $3,600,000 of cash payments to the vendor. As at December 31, 2013, the Company has made total payments of $2,500,000 and must make one residual payment of $1,100,000 on April 1, 2014 (paid subsequent to December 31, 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, January 7, 2011, November 8, 2013 and April 10, 2014, 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, 2013, the Company has made total payments of $715,000 and the residual payments are as follows:

- $400,000 on April 1, 2014 (paid subsequent to December 31, 2013); and
- $1,150,000 on December 17, 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

San Felipe de Jesús

Pursuant to a mining exploration and promissory sale agreement dated August 3, 2011 and amended December 9, 2011, October 8, 2012 and August 13, 2013 (the "San Felipe Agreement"), the Company was granted an option to acquire a 100% interest in the San Felipe de Jesús project located in Sonora, Mexico. In addition to cash payments of $22,700,000 made to date and the issuance of 1,250,000 common shares of the Company at a deemed issue price of CDN$1.07 per share, in order to maintain and exercise the option, the Company must incur exploration expenditures of $3,000,000 by October 31, 2015 and make additional payments as follows:

- Annual surface right payments of 520,000 Mexican Pesos ($39,766) on or before February 19 of each year until the project reaches commercial production;

- $1,000,000 on June 15, 2014;
- $5,000,000 on October 31, 2014 (as described under "El Gachi" below);
- $15,000,000 on or before October 31, 2015; and
- $1,000,000 for restructuring fees on or before October 31, 2015. At the Company's election this payment may be made in cash or through the issuance of $1,500,000 of common shares of the Company, at an issuance price calculated at the time of issuance pursuant to the policies of the TSX-V and subject to a minimum issuance price of CDN$1.07 per share.

If the 1,250,000 common shares issued to the optionor are sold to third parties for total proceeds of less than $1,300,000 before August 13, 2014, the Company must reimburse the optionor for the difference between $1,300,000 and the actual proceeds. On December 30, 2013, the 1,250,000 common shares were sold for $1,116,003. As such, the difference of $183,997, which was paid subsequent to December 31, 2013, has been capitalized as mineral property acquisition costs with an offsetting charge for accrued liabilities as at December 31, 2013.

With respect to the exploration expenditures commitment, if the Company did not incur $3,000,000 of expenditures by October 31, 2015, it was obligated to reimburse the optionor for the difference between $3,000,000 and the actual exploration expenditures incurred. As such, upon execution of the San Felipe Agreement, $3,000,000 was capitalized as mineral property acquisition costs with an offsetting charge for exploration obligations. All $3,000,000 of exploration expenditures have been incurred to December 31, 2013 (December 31, 2012 – $616,823), so there are $nil exploration obligations as at December 31, 2013 (December 31, 2012 – $2,383,177).

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

The project is subject to a 1% NSR in favour of the optionor. The Company has the right at any time to buy back the NSR for a cash payment of $3,000,000. 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 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.

El Gachi

On March 7, 2013, pursuant to the San Felipe Agreement, the Company obtained an option to acquire a 100% interest in the 48,057.33 hectare El Gachi property located 30 kilometers from the San Felipe project in Sonora State. Under the terms of the San Felipe Agreement, the Company has the option to acquire the El Gachi property, milling equipment, buildings, land property, and water rights by making a $5,000,000 payment before or by October 2014 (as referred to above).

13. Due to Shareholders

The balances due to shareholders were non-interest bearing loans made to the Company by its shareholders to finance its activities in order to continue its operations. These loans were due on demand, had no maturity date and were repaid in full during the year ended December 31, 2013.

(Expressed in US Dollars)

14. Decommissioning and Restoration Provision

The Company's estimates of future decommissioning and restoration for reclamation and closure costs for its mines are based on reclamation standards that meet Mexican regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, reclamation plans and cost estimates, discount rates and timing of expected expenditures.

The undiscounted amount of estimated cash flows required to settle the decommissioning and reclamation costs was estimated at $956,970. The key assumptions on which this estimate was based on are:

- Expected timing of the cash flows is based on the estimated useful life of the Rosario Mine to the extent of currently known measured and indicated mineral resources. The majority of the expenditures are expected to occur in 2020, which is the anticipated closure date.
- The discount rate used is 7%.

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

	December 31, 2013 $	December 31, 2012 $
Balance, beginning of year	-	-
Provision	595,953	-
Balance, end of year	595,953	-

15. Share Capital

a) Authorized

Unlimited number of common shares without par value.

b) Share Capital Transactions

(i) 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.

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

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

(iv) 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.

(v) 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.

(vi) 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: 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.

(vii) 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.

(viii) On February 19, 2013, the Company closed a prospectus offering (the “Offering”) through a syndicate of underwriters (the “Underwriters”). The Company issued 21,850,000 common shares at a price of CDN$1.85 per share for gross proceeds of $39,949,557 (CDN$40,422,500). The Underwriters received a cash fee of $2,396,973, as well as 1,311,000 warrants, each of which is exercisable to purchase one common share for a price of CDN$1.85 up to February 19, 2015. The fair value of the broker warrants ($997,642) 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: risk-free interest rate – 0.78%; expected life – 2 years; expected volatility – 77.33%; and expected dividends – nil. The Company also issued 60,000 common shares as corporate finance fee and incurred additional issue costs of $508,894, $61,748 of which was recorded as deferred financing costs as at December 31, 2012.

(ix) On August 16, 2013, as described in Note 12(b), the Company issued 1,250,000 common shares at a deemed issue price of CDN$1.07 per share as an option payment pursuant to the San Felipe Agreement.

(x) During the year ended December 31, 2013, the Company issued 324,545 common shares pursuant to exercise of warrants for total gross proceeds of $231,849. A value of $154,595 was transferred from warrants reserve to share capital as a result.

c) Escrow

There are 9,488,784 common shares of the Company held in escrow as at December 31, 2013 (December 31, 2012 – 15,814,640 shares). 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, 2014 (released subsequent to December 31, 2013), October 13, 2014 and April 13, 2015.

(Expressed in US Dollars)

d) Stock Options and Warrants Reserve

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

	December 31, 2013 $	December 31, 2012 $
Stock options	3,954,287	3,279,082
Warrants	1,361,914	518,867
	5,316,201	3,797,949

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, 2013 and 2012 are as follows:

	Number of Stock Options	Weighted Average Exercise Price CDN$	Weighted Average Remaining Contractual Life (Years)
Balance, 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
Granted	700,000	1.58	-
Balance, December 31, 2013	6,606,666	0.97	3.34
Unvested	(145,000)	1.06	1.84
Exercisable, December 31, 2013	6,461,666	0.97	3.37

The balance of options outstanding as at December 31, 2013 is as follows:

Expiry Date	Exercise Price (CDN$)	Remaining Life (Years)	Options Outstanding	Unvested	Vested
April 12, 2017	0.90	3.28	4,806,666	-	4,806,666
May 10, 2015	0.90	1.36	300,000	120,000	180,000
July 24, 2017	0.90	3.56	800,000	-	800,000
February 28, 2018	1.85	4.16	400,000	25,000	375,000
July 29, 2018	1.22	4.58	300,000	-	300,000
			6,606,666	145,000	6,461,666

The fair values of the options granted during the year ended December 31, 2013 were estimated using the Black-Scholes option-pricing model. Assumptions used in the model are as follows: risk-free interest rate – 1.63% (2012 – 1.60%); expected life – 5 years (2012 – 4.90 years); expected volatility – 74.53% (2012 – 78.8%); expected forfeitures – 0% (2012 – 0%); and expected dividends – $nil (2012 – $nil).

(Expressed in US Dollars)

The weighted average fair value of stock options granted during the year ended December 31, 2013 was $0.91 (2012 – $0.57) per option.

During the year ended December 31, 2013, the Company recorded share-based payments expense of $675,205 (2012 – $3,279,082).

f) Warrants

Details of warrants activity for the years ended December 31, 2013 and 2012 are as follows:

	Number of Warrants	Weighted Average Exercise Price CDN$	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2011	664,476(1)	1.25	0.55
Pursuant to Transaction (see Note 5)	200,000	0.10	-
Issued	1,333,333	1.00	-
Exercised	(116,586)	0.23	-
Expired	(664,476)	1.25	-
Balance, December 31, 2012	1,416,747	0.94	1.24
Issued	1,311,000	1.85	-
Exercised	(324,545)	0.72	-
Balance, December 31, 2013	2,403,202	1.45	0.75

(1) After giving effect to the Subdivision described in Note 15(b)(i).

The balance of warrants outstanding as at December 31, 2013 is as follows:

Expiry Date	Exercise Price CDN$	Remaining Life (Years)	Warrants Outstanding
April 12, 2014	1.00	0.28	1,092,202
February 19, 2015	1.85	1.14	1,311,000
			2,403,202

16. Related Party Transactions

During the years ended December 31, 2013 and 2012, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	2013 $	2012 $
Accounting and corporate secretarial fees	148,844	103,092
Directors' fees	102,183	-
Management fees	170,535	190,058
Share-based payments	329,020	2,512,093
Salaries and benefits capitalized in mine under construction and development costs	233,160	165,641

At December 31, 2013, directors and officers or their related companies were owed $28,333 (2012 – $25,415) in respect of the services rendered.

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.

17. 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, 2013, the following transactions were excluded from the consolidated statements of cash flows:

- Mineral property acquisition costs of $183,997 and exploration expenditures of $108,720 included in accounts payable and accrued liabilities at December 31, 2013;
- The Company issued 1,311,000 broker warrants at the fair value of $997,642 pursuant to the Offering;
- The Company issued 60,000 common shares as corporate finance fee at the fair value of $109,701 pursuant to the Offering;
- $61,748 of the share issue costs incurred pursuant to the Offering was recorded as deferred financing costs as at December 31, 2012; and
- The Company issued 1,250,000 common shares at a deemed issue price of CDN$1.07 per share as an option payment pursuant to the San Felipe Agreement.

During the year ended December 31, 2012, the following transactions were excluded from the consolidated statement 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.

18. 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.

(Expressed in US Dollars)

b) Geographic Segments

By geographic areas, the Company's non-current assets as at December 31, 2013 and 2012 and losses by geographic areas for the years ended December 31, 2013 and 2012 are as follows:

	Net loss	
	Year Ended December 31, 2013 $	**Year Ended December 31, 2012 $**
Canada	1,913,189	17,741,698
Mexico	4,406,143	683,221
Total	6,319,332	18,424,919

	Non-Current Assets	
	December 31, 2013 $	**December 31, 2012 $**
Canada	11,462	13,721
Mexico	52,974,905	21,143,182
Total	52,986,367	21,156,903

19. Financial Instruments

The classification of the financial instruments as well as their carrying values as at December 31, 2013 and 2012 is shown in the table below:

	December 31, 2013 $	**December 31, 2012 $**
Loans and receivables	2,030,159	2,952,333
Other financial liabilities	(1,045,846)	(3,039,716)

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, 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 had determined that such warrants with an exercise price denominated in a currency that was different from the entity's functional currency were 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 were no longer considered a derivative. The fair value of the derivative for the warrants had been estimated using the Black-Scholes option pricing model as it was 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, 2013 and 2012 are as follows:

	2013 $	2012 $
Balance, beginning of year	-	1,154
Loss on derivative liabilities	-	3,495
Foreign exchange revaluation	-	31
Reallocation to warrant reserve on change of functional currency	-	(4,680)
Balance, end of year	-	-

As at December 31, 2013, 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, trade receivables and other receivables. 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, trade receivables and other 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 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 equity offerings 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 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

Contractual cash flow requirements as at December 31, 2013 were as follows:

	< 1 year $	1 – 2 years $	2 – 5 years $	>5 years $	Total $
Accounts payable and accrued liabilities	1,045,846	-	-	-	1,045,846
Due to shareholders	-	-	-	-	-
Exploration obligations	-	-	-	-	-
Total	1,045,846	-	-	-	1,045,846

In the opinion of management, the Company's working capital at December 31, 2013 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 $470,000.

The Company's financial assets and liabilities as at December 31, 2013 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	1,100,347	32,969	485,156	1,618,472
Trade receivables	-	310,810	-	310,810
Other receivables	5,815	-	95,062	100,877
	1,106,162	343,779	580,218	2,030,159
Financial liabilities				
Accounts payable and accrued liabilities	(137,761)	(183,997)	(724,088)	(1,045,846)
	(137,761)	(183,997)	(724,088)	(1,045,846)
Net financial assets (liabilities)	968,401	159,782	(143,870)	984,313

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

20. 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 $55,396,068 as at December 31, 2013 (2012 – $22,886,428). The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, being mineral properties. In order to maintain or adjust the capital structure, the Company may issue new shares through equity offerings, issue debt, 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.

21. Income Taxes

a) Income Tax Expense

	December 31, 2013 $	December 31, 2012 $
Current	(30,318)	(34,009)
Deferred	(3,974,151)	-
Total	(4,004,469)	(34,009)

(Expressed in US Dollars)

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

	December 31, 2013 $	**December 31, 2012 $**
Statutory rate	25.75%	25.0%
Loss before income tax	(2,314,863)	(18,390,910)
Income tax recovery at statutory rates	596,077	4,597,727
Change due to differences in tax rates	(396,451)	47,450
Permanent differences	(499,151)	(4,304,453)
Deferred tax assets not recognized	(771,930)	(363,644)
Change due to foreign translation and other	(147,698)	(11,089)
Impact of Mexican tax reform	(2,785,316)	-
	(4,004,469)	(34,009)

b) Deferred Taxes

Deferred income taxes arise from temporary differences in the recognition of income and expenses for financial and tax purposes. The significant components of the Company's deferred tax liabilities are as follows:

	December 31, 2013 $	**December 31, 2012 $**
Mineral properties and equipment	3,974,151	-
Total deferred tax liability	3,974,151	-

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

	December 31, 2013 $	**December 31, 2012 $**
Deferred financing costs	706,659	355,848
Non-capital loss carry forwards and other	1,663,190	573,180
Unrecognized deferred tax assets	2,369,849	929,028

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

At December 31, 2013, the Company has non-capital losses of approximately CDN$3,779,000 that arose in Canada which will expire in various years between 2031 and 2033. At December 31, 2013, the Company also has non-capital losses of approximately 141,913,000 Mexican Pesos that arose in Mexico which will expire in various years between 2020 and 2033.

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. The flat tax was repealed effective January 1, 2014.

d) Mexican Tax Reform

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

22. Commitment

On May 1, 2012, the Company entered into a lease agreement for the use of office premises in Vancouver, BC, Canada in the amount of $4,549 (CAD$4,838) per month until April 30, 2014. Subsequent to the year ended December 31, 2013, the Company renewed the lease agreement for the same amount of rent per month until February 27, 2017. The amount of the total lease payments committed is $54,588 (CAD$58,056) for the fiscal years ending December 31, 2014, 2015, and 2016, and $9,098 (CAD$9,676) for the fiscal year ending December 31, 2017.

On October 15, 2013, the Company entered into a lease agreement for the use of office premises in the municipality of Monterrey, Nuevo León, Mexico in the amount of $2,294 (30,000 Mexican pesos) per month until April 15, 2014. Subsequent to the year ended December 31, 2013, the lease agreement expired and the Company is currently re-negotiating the terms of a new lease agreement. The amount of the total lease payments committed is $8,029 (105,000 Mexican pesos) for the fiscal year ending December 31, 2014.

23. Subsequent Events

a) Prospectus Offering

On March 11, 2014, the Company closed a prospectus offering through a syndicate of underwriters. The Company issued 10,750,000 common shares at a price of CDN$1.00 per share for gross proceeds of CDN$10,750,000. The underwriters also exercised their over-allotment option to acquire an additional 1,312,500 common shares for additional gross proceeds of CDN$1,312,500. Including the proceeds from the exercise of the over-allotment option, the total gross proceeds of the prospectus offering were CDN$12,062,500. The underwriters received a cash fee of CDN$723,750, as well as 723,750 warrants, each of which is exercisable to purchase one common share for a price of CDN$1.00 until March 11, 2016 for 645,000 warrants and March 20, 2016 for 78,750 warrants. One of the underwriters was issued an additional 100,000 common shares as a corporate finance fee.

b) Stock Options

On April 10, 2014, the Company granted 400,000 incentive stock options to a director having an exercise price of CDN$1.00 each expiring April 10, 2019.