Condensed Interim Consolidated Financial Statements

Three and Nine Months Ended September 30, 2013 and 2012

(Unaudited – expressed in US Dollars)

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

	Note	September 30, 2013 $	December 31, 2012 $
ASSETS			
Current			
Cash and cash equivalents	**5**	5,599,450	2,879,378
Receivables	**6**	4,740,217	1,737,284
Prepaid expenses and deposits		182,180	90,831
Inventory	**7**	128,098	-
Deferred financing costs	**8**	-	61,748
		10,649,945	4,769,241
Plant and equipment	**9**	9,614,955	5,943,868
Mine under construction and development costs	**10**	9,518,048	3,834,596
Exploration and evaluation properties	**11**	32,350,414	11,378,439
		62,133,362	25,926,144
LIABILITIES			
Current			
Accounts payable and accrued liabilities		853,904	523,450
Due to shareholders	**12**	13,388	133,089
Exploration obligations	**11(b)**	-	2,383,177
		867,292	3,039,716
Decommissioning and restoration provision	**13**	1,245,500	-
		2,112,792	3,039,716
EQUITY			
Share capital	**14**	75,910,217	38,186,694
Stock options and warrants reserve	**14(d)**	5,300,966	3,797,949
Accumulated other comprehensive loss		(370,093)	(89,198)
Deficit		(20,820,520)	(19,009,017)
		60,020,570	22,886,428
		62,133,362	25,926,144

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

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 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, 2013 and 2012
(Unaudited – expressed in US Dollars)

	Note	Three months ended September 30, 2013 $	Three months ended September 30, 2012 $	Nine months ended September 30, 2013 $	Nine months ended September 30, 2012 $
General and administrative expenses					
Administrative		212,261	66,149	751,386	522,748
Depreciation		3,103	2,959	6,892	4,772
Management and consulting fees	**15**	68,973	55,833	244,232	131,268
Other		-	4,757	385	9,088
Professional fees	**15**	104,020	93,638	298,577	916,916
Salaries and benefits		37,384	33,910	130,379	56,619
Share-based payments	**14(e)**	232,161	469,506	659,970	3,250,422
Transfer agent and filing fees		12,157	7,699	80,732	22,952
Travel		21,768	26,376	110,233	104,484
		(691,827)	(760,827)	(2,282,786)	(5,019,269)
Other income (expenses)					
Loss on derivative liabilities		-	-	-	(3,495)
Loss on disposal of equipment		(15,091)	-	(14,045)	-
Charge related to public company listing	**4**	-	-	-	(12,967,741)
Foreign exchange gain (loss)		160,749	(16,021)	345,675	90,645
Interest income		46,253	46,828	145,066	92,069
		191,911	30,807	476,696	(12,788,522)
Loss before income tax		(499,916)	(730,020)	(1,806,090)	(17,807,791)
Income tax expense		(3,589)	(33,821)	(5,413)	(33,821)
Net loss for the period		(503,505)	(763,841)	(1,811,503)	(17,841,612)
Other comprehensive income (loss)					
Exchange differences on translating foreign operations		192,925	151,473	(280,895)	47,017
Comprehensive loss for the period		(310,580)	(612,368)	(2,092,398)	(17,794,595)
Loss per share – basic and diluted		(0.01)	(0.01)	(0.02)	(0.35)
Weighted average number of common shares outstanding		90,597,832	67,729,853	86,111,054	50,809,762

(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, 2013 and 2012
(Unaudited – expressed in US Dollars)

Cash Provided By (Used In):	**2013 $**	**2012 $**
Operations:		
Net loss for the period	(1,811,503)	(17,841,612)
Items not affecting cash:		
Depreciation	6,892	4,772
Share-based payments	659,970	3,250,422
Loss on derivative liabilities	-	3,495
Loss on disposal of equipment	14,045	-
Charge related to public company listing	-	12,967,741
Changes in non-cash working capital:		
Receivables	(3,002,933)	(697,425)
Prepaid expenses and deposits	(91,349)	(47,719)
Inventory	(128,098)	-
Accounts payable and accrued liabilities	330,454	205,245
	(4,022,522)	(2,155,081)
Investing:		
Exploration and evaluation properties	(22,055,873)	(1,573,810)
Acquisition and development costs on mine under construction	(3,856,931)	(2,320,320)
Proceeds from disposal of equipment	14,847	-
Acquisition of plant and equipment	(4,294,650)	(2,400,493)
	(30,192,607)	(6,294,623)
Financing:		
Issuance of common shares, net	37,335,357	19,702,059
Cash acquired on reverse takeover	-	1,219,552
Due to shareholders	(119,701)	(500,000)
	37,215,656	20,421,611
Net increase in cash	3,000,527	11,971,907
Effect of exchange rate changes on cash	(280,455)	259,126
Cash and cash equivalents – beginning of period	2,879,378	183,072
Cash and cash equivalents – end of period	5,599,450	12,414,105

Non-cash Transactions *(Note 16)*

Santacruz Silver Mining Ltd.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited – expressed in US Dollars)

	Share Capital		Stock Options and Warrants Reserve			
	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)	-	-	-
Subdivision of common shares	20,626,055	-	-	-	-	-
Recapitalization transactions (Note 4)						
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	-	-	3,250,422	-	-	3,250,422
Net loss and comprehensive loss for the period	-	-	-	47,017	(17,841,612)	(17,794,595)
Balance, September 30, 2012	67,729,853	38,073,440	3,855,417	47,017	(18,425,710)	23,550,164
Exercise of warrants	116,586	113,254	(86,128)	-	-	27,126
Share-based payments	-	-	28,660	-	-	28,660
Net loss and comprehensive loss for the period	-	-	-	(136,215)	(583,307)	(719,522)
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	-	(3,905,439)	997,642	-	-	(2,907,797)
Share-based payments	-	-	659,970	-	-	659,970
Net loss and comprehensive loss for the period	-	-	-	(280,895)	(1,811,503)	(2,092,398)
Balance, September 30, 2013	91,330,984	75,910,217	5,300,966	(370,093)	(20,820,520)	60,020,570

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

1. Nature of Operations

Santacruz Silver Mining Ltd. ("SSM" or the "Company") (formerly Forte Resources Inc. ("Forte")) was incorporated pursuant to the Business Corporations Act of British Columbia on January 24, 2011. The Company's registered office is located at Suite 1125, 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5. The Company is listed for trading on the TSX Venture Exchange ("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.
- Gavilanes in the mining municipality of San Dimas, Durango, Mexico.
- San Felipe de Jesús in the mining municipality of Sonora, Mexico.

2. Basis of Presentation

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, 2012 which have been prepared in accordance with IFRS as issued by the IASB.

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, 2012 and were approved for issue by the Board of Directors on November 29, 2013.

3. Significant Accounting Policies

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2012, except for the following standards and interpretations, applicable to the Company, adopted in the current financial period:

a) 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 raw materials, 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 recognized 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.

b) 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.

4. Reverse Takeover Transaction

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

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:

(Unaudited – expressed in US Dollars)

	$
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.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	September 30, 2013 $	December 31, 2012 $
Cash on hand or held with banks:		
US dollar	25,523	463,644
Canadian dollar	4,966,391	119,507
Mexican peso	596,355	510,667
	5,588,269	1,093,818
Short-term investments	11,181	1,785,560
Total	5,599,450	2,879,378

6. Receivables

Receivables consist of the following:

	September 30, 2013 $	December 31, 2012 $
GST/HST and value added tax recoverable	4,679,848	1,664,329
Other receivables	60,369	72,955
Total	4,740,217	1,737,284

(Unaudited – expressed in US Dollars)

7. Inventory

Inventory consists of the following:

	September 30, 2013 $	December 31, 2012 $
Concentrate inventory	128,098	-
Total	128,098	-

8. Deferred Financing Costs

Deferred financing costs as at December 31, 2012 consisted of fees incurred relating to the prospectus offering as described in Note 14(b)(viii).

9. Plant and Equipment

Cost	Office Furniture and Equipment $	Assets under Construction $	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	843,752	3,232,092	147,214	55,283	4,294,650
Disposals	-	-	-	(32,180)	(466)	(32,646)
Foreign exchange	(479)	-	-	-	-	(479)
Balance, September 30, 2013	55,403	843,752	8,903,158	312,676	136,862	10,251,851
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	3,172	-	527,638	41,571	21,850	594,231
Disposals	-	-	-	(3,626)	(128)	(3,754)
Foreign exchange	(39)	-	-	-	-	(39)
Balance, September 30, 2013	6,189	-	528,236	68,498	33,973	636,896
Carrying amount at December 31, 2012	36,517	-	5,670,468	167,089	69,794	5,943,868
Carrying amount at September 30, 2013	49,214	843,752	8,374,922	244,178	102,889	9,614,955

Depreciation during the three and nine months ended September 30, 2013 was $357,347 and $594,231 respectively (2012 – $8,225 and $19,201). $354,244 and $587,339 of the depreciation during the three and nine months ended September 30, 2013 was capitalized to mine under construction and development costs (2012 – $5,266 and $14,429). The Company does not have any equipment under lease for any of the periods presented.

(Unaudited – expressed in US Dollars)

10. Mine under Construction and Development Costs

The summary of accumulated costs in the Company's mine under construction and development costs as of September 30, 2013 and December 31, 2012 are as follows:

	Balance, Dec 31, 2011 $	Year Ended Dec 31, 2012 $	Balance, Dec 31, 2012 $	Period Ended Sept 30, 2013 $	Balance, Sept 30, 2013 $
Rosario, Charcas, San Luis Potosi, Mexico *(see Note 11(c))*					
Acquisition costs					
Option payments – cash	-	457,818	457,818	447,182	905,000
Transferred from exploration and evaluation properties	-	395,000	395,000	-	395,000
	-	852,818	852,818	447,182	1,300,000
Exploration, development and pre-production costs					
Depreciation	-	35,555	35,555	581,021	616,576
Drilling	-	683,564	683,564	45,882	729,446
Geological consulting	-	9,237	9,237	551,933	561,170
Mine development	-	-	-	669,395	669,395
Mine site support and office costs	-	1,067,259	1,067,259	1,174,683	2,241,942
Permitting and other expenses	-	240,430	240,430	180,488	420,918
Safety and maintenance	-	22,608	22,608	595,053	617,661
Water well project	-	83,442	83,442	564,639	648,081
Transferred from exploration and evaluation properties	-	839,683	839,683	-	839,683
Pre-production revenue	-	-	-	(493,965)	(493,965)
Mineral purchased	-	-	-	121,641	121,641
	-	2,981,778	2,981,778	3,990,770	6,972,548
Decommissioning liabilities *(Note 13)*	-	-	-	1,245,500	1,245,500
Total	-	3,834,596	3,834,596	5,683,452	9,518,048

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 and August 1, 2013, 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 September 30, 2013, the Company has made total payments of $1,180,000 and the residual payments are as follows:

- $125,000 on October 15, 2013 (paid subsequent to September 30, 2013); and
- $695,000 on February 15, 2014.

San Rafael, Charcas, San Luis Potosi, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated February 22, 2011, the Company was granted an option to acquire a 100% interest in the San Rafael property, located in the municipality of Charcas, San Luis Potosí, Mexico. The vendor retains a 2.5% NSR. The Company also has an obligation to pay the local Ejido 300,000 Mexican pesos per year for surface access on the San Rafael concessions. To maintain and exercise the option, the Company must make $220,000 of cash payments to the property vendor. As at September 30, 2013, the Company has made total payments of $120,000 and the residual payments are as follows:

- $20,000 on February 22, 2014;
- $20,000 on August 22, 2014;
- $20,000 on February 22, 2015;
- $20,000 on August 22, 2015; and
- $20,000 on February 22, 2016.

11. Exploration and Evaluation Properties

The Company is actively investigating, evaluating and conducting exploration activities in Mexico. The summary of accumulated costs in its exploration and evaluation properties as of September 30, 2013 and December 31, 2012 are as follows:

(Unaudited – expressed in US Dollars)

		Balance, Dec 31, 2011 $	Year Ended Dec 31, 2012 $	Balance, Dec 31, 2012 $	Period Ended Sept 30, 2013 $	Balance, Sept 30, 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	-	-	-	2,581	2,581
	Drilling	7,614	805,485	813,099	955,543	1,768,642
	Mine site support and office costs	321	21,942	22,263	39,607	61,870
	Professional fees	-	-	-	48,839	48,839
	Safety and maintenance	2,892	25,185	28,077	20,444	48,521
		10,827	852,612	863,439	1,067,014	1,930,453
	Net book value	725,827	1,652,612	2,378,439	2,867,014	5,245,453
b)	**San Felipe de Jesús, Sonora, Mexico**					
	Acquisition costs					
	Option payments – cash	2,000,000	4,000,000	6,000,000	16,700,000	22,700,000
	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	15,609,784	23,992,961
	Exploration costs					
	Depreciation	-	-	-	3,737	3,737
	Drilling	18,779	83,675	102,454	1,727,025	1,829,479
	Mine site support and office costs	20,681	164,421	185,102	245,595	430,697
	Professional fees	-	106,404	106,404	43,987	150,391
	Safety and maintenance	-	222,863	222,863	474,833	697,696
		39,460	577,363	616,823	2,495,177	3,112,000
	Net book value	5,000,000	4,000,000	9,000,000	18,104,961	27,104,961
c)	**Rosario, Charcas, San Luis Potosi, Mexico** *(see Note 10)*					
	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)	-	-	-
	Net book value	1,234,683	(1,234,683)	-	-	-
Total		6,960,510	4,417,929	11,378,439	20,971,975	32,350,414

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 and April 26, 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 $3,539,167 of cash payments to the vendor. As at September 30, 2013, the Company has made total payments of $2,500,000 and must make one residual payment of $1,039,167 on December 23, 2013.

Gavilanes II, San Dimas, Durango, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated May 1, 2010, as amended October 12, 2010, December 27, 2010 and January 7, 2011, the Company was granted an option to acquire a 100% interest in the Gavilanes property (named Gavilanes II) located in San Dimas, Durango, Mexico. The property is subject to a 2% NSR in favour of the optionor, up to a maximum of $1,000,000. The NSR may be purchased by the Company for $1,000,000. To maintain and exercise the option, the Company must make $2,265,000 of cash payments to the property vendor. As at September 30, 2013, the Company has made total payments of $715,000 and the residual payments are as follows:

- $400,000 on April 1, 2014; and
- $1,150,000 on May 1, 2014.

Gavilanes MHM Fraccion, San Dimas, Durango, Mexico

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

b) San Felipe de Jesús, Sonora, Mexico

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 ($39,963) 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.

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 September 30, 2013 (December 31, 2012 – $616,823), so there are $nil exploration obligations as at September 30, 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 exercised its 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).

12. Due to Shareholders

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

13. 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 $2,000,000. 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.
- The discount rate used is 7%.

The discounted liability for the decommissioning and restoration provision is $1,245,500 as at September 30, 2013.

14. 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 4). 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.

(Unaudited – expressed in US Dollars)

(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 for a period of 24 months. 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 $510,824, $61,748 of which was recorded as deferred financing costs as at December 31, 2012.

(ix) On August 16, 2013, as described in Note 11(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 nine months ended September 30, 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 12,651,712 common shares of the Company held in escrow as at September 30, 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 October 13, 2013 (released subsequent to September 30, 2013), April 13, 2014, October 13, 2014 and April 13, 2015.

d) Stock Options and Warrants Reserve

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

	September 30, 2013 $	**December 31, 2012 $**
Stock options	3,939,052	3,279,082
Warrants	1,361,914	518,867
	5,300,966	3,797,949

(Unaudited – expressed in US Dollars)

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 nine months ended September 30, 2013 and the year ended December 31, 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, September 30, 2013	6,606,666	0.97	3.59
Unvested	(200,000)	1.14	2.31
Exercisable, September 30, 2013	6,406,666	0.97	3.63

The balance of options outstanding as at September 30, 2013 is as follows:

Expiry Date	Exercise Price (CDN$)	Remaining Life (Years)	Options Outstanding	Unvested	Vested
April 12, 2017	0.90	3.53	4,806,666	-	4,806,666
May 10, 2015	0.90	1.61	300,000	150,000	150,000
July 24, 2017	0.90	3.82	800,000	-	800,000
February 28, 2018	1.85	4.42	400,000	50,000	350,000
July 29, 2018	1.22	4.83	300,000	-	300,000
			6,606,666	200,000	6,406,666

The fair values of the options granted during the nine months ended September 30, 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 – 4.88 years); expected volatility – 74.53% (2012 – 78.8%); expected forfeitures – 0% (2012 – 0%); and expected dividends – $nil (2012 – $nil).

During the three and nine months ended September 30, 2013, the Company recorded share-based payments expense of $232,161 and $659,970 respectively (2012 – $469,506 and $3,250,422).

(Unaudited – expressed in US Dollars)

f) Warrants

Details of warrants activity for the nine months ended September 30, 2013 and the year ended December 31, 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 RTO (see Note 4)	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, September 30, 2013	2,403,202	1.45	1.00

(1) After giving effect to the Subdivision described in Note 14(b)(i).

The balance of warrants outstanding as at September 30, 2013 is as follows:

Expiry Date	Exercise Price CDN$	Remaining Life (Years)	Warrants Outstanding
April 12, 2014	1.00	0.53	1,092,202
February 19, 2015	1.85	1.39	1,311,000
			2,403,202

15. Related Party Transactions

During the three and nine months ended September 30, 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:

	Three months ended September 30, 2013 $	Three months ended September 30, 2012 $	Nine months ended September 30, 2013 $	Nine months ended September 30, 2012 $
Accounting fees	33,850	31,105	104,599	65,384
Directors' fees	18,756	-	79,703	-
Management fees	56,618	55,833	164,530	131,268
Share-based payments	-	438,535	331,060	2,505,327
Salaries and benefits capitalized in mine under construction and development costs	56,420	55,020	153,655	135,503

At September 30, 2013, directors and officers or their related companies were owed $22,480 (December 31, 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 were no other compensation paid or payable to key management for employee services for the reported periods.

(Unaudited – expressed in US Dollars)

16. 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, 2013, the following transactions were excluded from the consolidated statements of cash flows:

- 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 nine months ended September 30, 2012, the following transactions were excluded from the consolidated statement of cash flows:

- 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.

17. Segmented Information

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

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

a) Operating Segment

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

b) Geographic Segments

By geographic areas, the Company's non-current assets as at September 30, 2013 and December 31, 2012 and losses by geographic areas for the three and nine months ended September 30, 2013 and 2012 are as follows:

	Losses			
	Three months ended September 30,		**Nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Canada	495,532	711,158	1,586,962	17,328,867
Mexico	7,973	52,683	224,541	512,745
Total	503,505	763,841	1,811,503	17,841,612

	Non-Current Assets	
	September 30, 2013 $	**December 31, 2012 $**
Canada	12,208	13,721
Mexico	51,471,209	21,143,182
Total	51,483,417	21,156,903

18. Financial Instruments

The classification of the financial instruments as well as their carrying values as at September 30, 2013 and December 31, 2012 is shown in the table below:

	September 30, 2013 $	**December 31, 2012 $**
Loans and receivables	5,659,819	2,952,333
Other financial liabilities	(867,292)	(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, 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.

(Unaudited – expressed in US Dollars)

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 nine months ended September 30, 2013 and the year ended December 31, 2012 are as follows:

	Nine months ended September 30, 2013 $	**Year ended December 31, 2012 $**
Balance, beginning of period / 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 period / year	-	-

As at September 30, 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 and other receivables. The credit risk is minimized by placing cash with major financial institutions. The credit risk related to cash and cash equivalents and other receivables is considered minimal.

(ii) Interest Rate Risk – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If interest rates decrease, the Company will generate less interest revenue. Presently the Company has minimal risk of realizing a loss as a result of a decline in the fair value of its financial instruments because of the short-term nature of the investments.

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

Contractual obligated cash flow requirements as at December 31, 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 obligated cash flow requirements as at September 30, 2013 were as follows:

	< 1 year $	**1 – 2 years $**	**2 – 5 years $**	**>5 years $**	**Total $**
Accounts payable and accrued liabilities	853,904	-	-	-	853,904
Due to shareholders	13,388	-	-	-	13,388
Exploration obligations	-	-	-	-	-
Total	867,292	-	-	-	867,292

In the opinion of management, the Company's working capital at September 30, 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 $326,000.

The Company's financial assets and liabilities as at September 30, 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	4,977,572	25,523	596,355	5,599,450
Other receivables	1,120	-	59,249	60,369
	4,978,692	25,523	655,604	5,659,819
Financial liabilities				
Accounts payable and accrued liabilities	(145,619)	-	(708,285)	(853,904)
Due to shareholders	-	-	(13,388)	(13,388)
	(145,619)	-	(721,673)	(867,292)
Net financial assets (liabilities)	4,833,073	25,523	(66,069)	4,792,527

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