



**Condensed Interim Consolidated Financial Statements**  
**Three and Six Months Ended June 30, 2013 and 2012**

(Unaudited – expressed in US Dollars)

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of the Company and all information contained in the second quarter 2013 report have been prepared by and are the responsibility of the Company's management.

The Audit Committee of the Board of Directors has reviewed the condensed interim consolidated financial statements and related financial reporting matters.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

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

	Note	June 30, 2013 \$	December 31, 2012 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	5	10,350,963	2,879,378
Receivables	6	4,732,073	1,737,284
Prepaid expenses and deposits		145,830	90,831
Inventory	7	307,191	-
Deferred financing costs	8	-	61,748
		15,536,057	4,769,241
<b>Plant and equipment</b>	<b>9</b>	<b>8,705,801</b>	<b>5,943,868</b>
<b>Mine under construction and development costs</b>	<b>10</b>	<b>7,378,291</b>	<b>3,834,596</b>
<b>Exploration and evaluation properties</b>	<b>11</b>	<b>30,060,517</b>	<b>11,378,439</b>
		61,680,666	25,926,144
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		437,699	523,450
Due to shareholders	12	13,376	133,089
Exploration obligations	11(b)	1,173,092	2,383,177
		1,624,167	3,039,716
<b>Decommissioning and restoration provision</b>	<b>13</b>	<b>1,245,500</b>	<b>-</b>
		2,869,667	3,039,716
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share capital</b>	<b>14</b>	<b>74,545,288</b>	<b>38,186,694</b>
<b>Stock options and warrants reserve</b>	<b>14(d)</b>	<b>5,145,744</b>	<b>3,797,949</b>
<b>Accumulated other comprehensive loss</b>		<b>(563,018)</b>	<b>(89,198)</b>
<b>Deficit</b>		<b>(20,317,015)</b>	<b>(19,009,017)</b>
		58,810,999	22,886,428
		61,680,666	25,926,144

**Nature of Operations** (Note 1)  
**Commitments** (Notes 10 and 11)  
**Subsequent event** (Note 18)

**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 six months ended June 30, 2013 and 2012**  
*(Unaudited – expressed in US Dollars)*

	Note	Three months ended June 30,		Six months ended June 30,	
		2013 \$	2012 \$	2013 \$	2012 \$
<b>General and administrative expenses</b>					
Administrative		278,591	368,375	516,720	456,599
Depreciation		25,178	1,529	26,194	1,813
Management and consulting fees	15	102,322	46,055	175,259	75,435
Other		-	41	385	4,331
Professional fees	15	124,546	814,179	194,557	823,278
Salaries and benefits		44,003	22,709	92,995	22,709
Share-based payments	14(e)	56,838	2,780,916	427,809	2,780,916
Transfer agent and filing fees		21,143	15,253	68,575	15,253
Travel		34,694	39,763	88,465	78,108
		(687,315)	(4,088,820)	(1,590,959)	(4,258,442)
<b>Other income (expenses)</b>					
Loss on derivative liabilities		-	(4,559)	-	(3,483)
Gain on disposal of equipment		1,046	-	1,046	-
Charge related to public company listing	4	-	(12,967,741)	-	(12,967,741)
Foreign exchange gain		67,847	72,502	184,926	106,654
Interest income		54,792	43,345	98,813	45,241
		123,685	(12,856,453)	284,785	(12,819,329)
<b>Loss before income tax</b>		(563,630)	(16,945,273)	(1,306,174)	(17,077,771)
<b>Income tax expense</b>		(1,614)	-	(1,824)	-
<b>Net loss for the period</b>		(565,244)	(16,945,273)	(1,307,998)	(17,077,771)
<b>Other comprehensive loss</b>					
Exchange differences on translating foreign operations		(320,049)	(104,456)	(473,820)	(104,456)
<b>Comprehensive loss for the period</b>		(885,293)	(17,049,729)	(1,781,818)	(17,182,227)
<b>Loss per share – basic and diluted</b>		(0.01)	(0.27)	(0.02)	(0.40)
<b>Weighted average number of common shares outstanding</b>		89,973,369	62,350,652	83,830,482	42,256,750

(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 six months ended June 30, 2013 and 2012**  
*(Unaudited – expressed in US Dollars)*

<b>Cash Provided By (Used In):</b>	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<b>Operations:</b>		
Net loss for the period	(1,307,998)	(17,077,771)
Items not affecting cash:		
Depreciation	26,194	1,813
Share-based payments	427,809	2,780,916
Loss on derivative liabilities	-	3,483
Gain on disposal of equipment	(1,046)	-
Charge related to public company listing	-	12,967,741
Changes in non-cash working capital:		
Receivables	(2,994,789)	(467,406)
Prepaid expenses and deposits	(54,999)	(3,488)
Inventory	(185,036)	-
Deferred financing costs	61,748	-
Accounts payable and accrued liabilities	(85,751)	214,187
	(4,113,868)	(1,580,525)
<b>Investing:</b>		
Exploration and evaluation properties	(19,892,163)	(863,364)
Acquisition and development costs on mine under construction	(2,209,660)	(860,316)
Proceeds from disposal of equipment	12,880	-
Acquisition of plant and equipment	(3,011,360)	(1,116,698)
	(25,100,303)	(2,840,378)
<b>Financing:</b>		
Issuance of common shares, net	37,278,580	18,785,689
Cash acquired on reverse takeover	-	1,219,552
Due to shareholders	(119,713)	-
	37,158,867	20,005,241
<b>Net increase in cash</b>	7,944,696	15,584,338
Effect of exchange rate changes on cash	(473,111)	116,007
<b>Cash and cash equivalents – beginning of period</b>	2,879,378	183,072
<b>Cash and cash equivalents – end of period</b>	10,350,963	15,883,417

**Non-cash Transactions** *(Note 16)*

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

**Santacruz Silver Mining Ltd.**  
**Condensed Interim Consolidated Statements of Changes in Equity**  
*(Unaudited – expressed in US Dollars)*

	Share Capital		Stock Options and Warrants Reserve \$	AOCI \$	Deficit \$	Total \$
	Number of Shares	Amount \$				
Balance, December 31, 2011	5,467,911	4,886,038	150,559	-	(584,098)	4,452,499
Issued pursuant to private placements	25,796,721	20,999,480	438,980	-	-	21,438,460
Exercise of special warrants	399,166	150,559	(150,559)	-	-	-
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)	-	-	-	(1,928,117)
Share-based payments	-	-	2,780,916	-	-	2,780,916
Net loss and comprehensive loss for the period	-	-	-	(104,456)	(17,077,771)	(17,182,227)
Balance, June 30, 2012	67,729,853	38,073,440	3,385,911	(104,456)	(17,661,869)	23,693,026
Exercise of warrants	116,586	113,254	(86,128)	-	-	27,126
Share-based payments	-	-	498,166	-	-	498,166
Net loss and comprehensive loss for the period	-	-	-	15,258	(1,347,148)	(1,331,890)
Balance, December 31, 2012	67,846,439	38,186,694	3,797,949	(89,198)	(19,009,017)	22,886,428
Issued pursuant to private placements	21,910,000	39,949,557	-	-	-	39,949,557
Exercise of warrants	224,545	296,064	(73,928)	-	-	222,136
Share issuance costs	-	(3,887,027)	993,914	-	-	(2,893,113)
Share-based payments	-	-	427,809	-	-	427,809
Net loss and comprehensive loss for the period	-	-	-	(473,820)	(1,307,998)	(1,781,818)
<b>Balance, June 30, 2013</b>	<b>89,980,984</b>	<b>74,545,288</b>	<b>5,145,744</b>	<b>(563,018)</b>	<b>(20,317,015)</b>	<b>58,810,999</b>

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

**Santacruz Silver Mining Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended June 30, 2013 and 2012**  
*(Unaudited – expressed in US Dollars)*

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**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 August 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.

**Santacruz Silver Mining Ltd.**  
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**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 costs deferred during development.

**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:



**Santacruz Silver Mining Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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	\$
Cash	1,219,552
HST recoverable	12,356
Equipment	8,973
Accounts payable and accrued liabilities	(81,807)
<b>Net assets acquired</b>	<b>1,159,074</b>
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
<b>Aggregate fair value of consideration paid</b>	<b>14,126,815</b>
<b>Charge related to public company listing</b>	<b>12,967,741</b>

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:

	June 30, 2013 \$	December 31, 2012 \$
Cash on hand or held with banks:		
US dollar	28,152	463,644
Canadian dollar	9,615,752	119,507
Mexican peso	696,119	510,667
	10,340,023	1,093,818
Short-term investments	10,940	1,785,560
<b>Total</b>	<b>10,350,963</b>	<b>2,879,378</b>

**6. Receivables**

Receivables consist of the following:

	June 30, 2013 \$	December 31, 2012 \$
Trade receivables	426,283	-
GST/HST and value added tax recoverable	3,998,717	1,664,329
Other receivables	307,073	72,955
<b>Total</b>	<b>4,732,073</b>	<b>1,737,284</b>

**Santacruz Silver Mining Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended June 30, 2013 and 2012**  
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**7. Inventory**

Inventory consists of the following:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Concentrate inventory	307,191	-
<b>Total</b>	<b>307,191</b>	<b>-</b>

**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**

<b>Cost</b>	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	5,919	207,196	2,604,782	147,214	46,249	3,011,360
Disposals	-	-	-	(13,138)	(466)	(13,604)
Foreign exchange	(787)	-	-	-	-	(787)
<b>Balance, June 30, 2013</b>	<b>44,705</b>	<b>207,196</b>	<b>8,275,848</b>	<b>331,718</b>	<b>127,828</b>	<b>8,987,295</b>
<b>Accumulated Depreciation</b>						
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	1,947	-	196,579	25,822	12,536	236,884
Disposals	-	-	-	(1,642)	(128)	(1,770)
Foreign exchange	(78)	-	-	-	-	(78)
<b>Balance, June 30, 2013</b>	<b>4,925</b>	<b>-</b>	<b>197,177</b>	<b>54,733</b>	<b>24,659</b>	<b>281,494</b>
<b>Carrying amount at December 31, 2012</b>	<b>36,517</b>	<b>-</b>	<b>5,670,468</b>	<b>167,089</b>	<b>69,794</b>	<b>5,943,868</b>
<b>Carrying amount at June 30, 2013</b>	<b>39,780</b>	<b>207,196</b>	<b>8,078,671</b>	<b>276,985</b>	<b>103,169</b>	<b>8,705,801</b>

Depreciation during the three and six months ended June 30, 2013 was \$219,860 and \$236,884 respectively (2012 – \$7,182 and \$10,976). \$72,527 and \$88,535 of the depreciation during the three and six months ended June 30, 2013 was capitalized to mine under construction and development costs (2012 – \$5,653 and \$9,163). \$122,155 of the depreciation during the three and six months ended June 30, 2013 was capitalized to inventory (2012 – \$nil). The Company does not have any equipment under lease for any of the periods presented.

**Santacruz Silver Mining Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended June 30, 2013 and 2012**  
*(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 June 30, 2013 and December 31, 2012 are as follows:

	Balance, Dec 31, 2011 \$	Year Ended Dec 31, 2012 \$	Balance, Dec 31, 2012 \$	Period Ended June 30, 2013 \$	Balance, June 30, 2013 \$
<b>Rosario, Charcas, San Luis Potosi, Mexico (see Note 11(c))</b>					
<i>Acquisition costs</i>					
Option payments – cash	-	457,818	457,818	252,182	710,000
Transferred from exploration and evaluation properties	-	395,000	395,000	-	395,000
	-	852,818	852,818	252,182	1,105,000
<i>Exploration and development costs</i>					
Depreciation	-	35,555	35,555	88,535	124,090
Drilling	-	683,564	683,564	40,386	723,950
Geological consulting	-	9,237	9,237	40	9,277
Mine development	-	-	-	26,019	26,019
Mine site support and office costs	-	1,067,259	1,067,259	357,111	1,424,370
Permitting and other expenses	-	240,430	240,430	45,057	285,487
Safety and maintenance	-	22,608	22,608	14,323	36,931
Water well project	-	83,442	83,442	396,734	480,176
Transferred from exploration and evaluation properties	-	839,683	839,683	-	839,683
	-	2,981,778	2,981,778	968,205	3,949,983
<i>Pre-production</i>					
Pre-production revenue	-	-	-	(449,793)	(449,793)
Pre-production cost	-	-	-	1,527,601	1,527,601
	-	-	-	1,077,808	1,077,808
Decommissioning liabilities (Note 13)	-	-	-	1,245,500	1,245,500
<b>Total</b>	-	3,834,596	3,834,596	3,543,695	7,378,291

**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.

**Santacruz Silver Mining Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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To maintain and exercise the option, the Company must make \$2,000,000 of cash payments to the property vendor. As at June 30, 2013, the Company has made total payments of \$1,005,000 and the residual payments are as follows:

- \$175,000 on August 15, 2013 (paid subsequent to June 30, 2013);
- \$175,000 on October 15, 2013; and
- \$645,000 on February 15, 2014.

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

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

- \$20,000 on August 22, 2013 (paid subsequent to June 30, 2013);
- \$20,000 on February 22, 2014;
- \$20,000 on August 22, 2014;
- \$20,000 on February 22, 2015;
- \$20,000 on August 22, 2015; and
- \$20,000 on February 22, 2016.

**11. Exploration and Evaluation Properties**

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

**Santacruz Silver Mining Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended June 30, 2013 and 2012**  
*(Unaudited – expressed in US Dollars)*

	Balance, Dec 31, 2011 \$	Year Ended Dec 31, 2012 \$	Balance, Dec 31, 2012 \$	Period Ended June 30, 2013 \$	Balance, June 30, 2013 \$
<b>a) Gavilanes, San Dimas, Durango, Mexico</b>					
<i>Acquisition costs</i>					
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
<i>Exploration costs</i>					
Drilling	7,614	805,485	813,099	828,756	1,641,855
Mine site support and office costs	321	21,942	22,263	30,435	52,698
Professional fees	-	-	-	13,073	13,073
Safety and maintenance	2,892	25,185	28,077	9,814	37,891
	10,827	852,612	863,439	882,078	1,745,517
Net book value	725,827	1,652,612	2,378,439	2,682,078	5,060,517
<b>b) San Felipe de Jesús, Sonora, Mexico</b>					
<i>Acquisition costs</i>					
Option payments – cash	2,000,000	4,000,000	6,000,000	16,000,000	22,000,000
Exploration expenditures obligation still to be incurred	2,960,540	(577,363)	2,383,177	(1,210,085)	1,173,092
	4,960,540	3,422,637	8,383,177	14,789,915	23,173,092
<i>Exploration costs</i>					
Drilling	18,779	83,675	102,454	798,113	900,567
Mine site support and office costs	20,681	164,421	185,102	123,455	308,557
Professional fees	-	106,404	106,404	1,852	108,256
Safety and maintenance	-	222,863	222,863	286,665	509,528
	39,460	577,363	616,823	1,210,085	1,826,908
Net book value	5,000,000	4,000,000	9,000,000	16,000,000	25,000,000
<b>c) Rosario, Charcas, San Luis Potosi, Mexico (see Note 10)</b>					
<i>Acquisition costs</i>					
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)	-	-	-
<i>Exploration costs</i>					
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)	-	-	-
<b>Total</b>	<b>6,960,510</b>	<b>4,417,929</b>	<b>11,378,439</b>	<b>18,682,078</b>	<b>30,060,517</b>

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**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 June 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 June 30, 2013, the Company has made total payments of \$715,000 and the residual payments are as follows:

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

*Gavilanes MHM Fraccion, San Dimas, Durango, Mexico*

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

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

*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 \$22,000,000 made to date, 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 (\$39,928) on or before February 19 of each year until the project reaches commercial production;
- \$700,000 (paid) on August 13, 2013 and the issuance of 1,250,000 common shares of the Company at a deemed issue price of CDN\$1.07 per share (issued);

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- \$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 exploration expenditures of \$3,000,000 are not made, the Company has an obligation to reimburse the optionor for the difference between \$3,000,000 and the actual exploration expenditures incurred regardless of whether or not the Company exercises its option on this project. As such, \$3,000,000 has been capitalized as mineral property acquisition costs. Since \$1,826,908 of exploration expenditures have been incurred to June 30, 2013 (December 31, 2012 – \$616,823), the remaining amount of \$1,173,092 (December 31, 2012 – \$2,383,177) yet to be spent has been recorded as exploration obligations.

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

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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 June 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



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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 \$2,388,013, 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 (\$993,914) 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 \$505,100.
- (ix) During the six months ended June 30, 2013, the Company issued 224,545 common shares pursuant to exercise of warrants for total gross proceeds of \$222,136. A value of \$73,928 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 June 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, 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:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Stock options	3,706,891	3,279,082
Warrants	1,438,853	518,867
	<b>5,145,744</b>	<b>3,797,949</b>

**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 six months ended June 30, 2013 and the year ended December 31, 2012 are as follows:

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	Number of Stock Options	Weighted Average Exercise Price \$	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	400,000	1.83	-
<b>Balance, June 30, 2013</b>	<b>6,306,666</b>	<b>0.96</b>	<b>3.79</b>
<b>Unvested</b>	<b>(255,000)</b>	<b>1.18</b>	<b>2.69</b>
<b>Exercisable, June 30, 2013</b>	<b>6,051,666</b>	<b>0.95</b>	<b>3.83</b>

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

Expiry Date	Exercise Price (\$)	Remaining Life (Years)	Options Outstanding	Unvested	Vested
April 12, 2017	0.90	3.79	4,806,666	-	4,806,666
May 10, 2015	0.90	1.86	300,000	180,000	120,000
July 24, 2017	0.90	4.07	800,000	-	800,000
February 28, 2013	1.83	4.67	400,000	75,000	325,000
			6,306,666	255,000	6,051,666

The fair values of the options granted during the six months ended June 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 – 80.35% (2012 – 78.8%); expected forfeitures – 0% (2012 – 0%); and expected dividends – \$nil (2012 – \$nil).

During the three and six months ended June 30, 2013, the Company recorded share-based payments expense of \$56,838 and \$427,809 respectively (2012 – \$2,780,916 and \$2,780,916).

**f) Warrants**

Details of warrants activity for the six months ended June 30, 2013 and the year ended December 31, 2012 are as follows:

	Number of Warrants	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2011	664,476 <sup>(1)</sup>	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	1.83	-
Exercised	(224,545)	1.00	-
<b>Balance, June 30, 2013</b>	<b>2,503,202</b>	<b>1.40</b>	<b>1.21</b>

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

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

<b>Expiry Date</b>	<b>Exercise Price \$</b>	<b>Remaining Life (Years)</b>	<b>Warrants Outstanding</b>
October 7, 2013	0.10	0.27	100,000
April 12, 2014	1.00	0.78	1,092,202
February 19, 2015	1.83	1.64	1,311,000
			<b>2,503,202</b>

**15. Related Party Transactions**

During the three and six months ended June 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:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2013 \$</b>	<b>2012 \$</b>	<b>2013 \$</b>	<b>2012 \$</b>
Accounting fees	37,035	34,279	70,749	34,279
Directors' fees	41,455	-	60,947	-
Management fees	54,467	46,055	107,912	75,435
Share-based payments	-	2,066,792	333,519	2,066,792
Salaries and benefits capitalized in mine under construction and development costs	-	5,300	39,773	10,340

At June 30, 2013, directors and officers or their related companies were owed \$24,160 (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.

**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 six months ended June 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 \$993,914 pursuant to the Offering; and
- The Company issued 60,000 common shares as corporate finance fee at the fair value of \$109,701 pursuant to the Offering.

During the six months ended June 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.

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**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 June 30, 2013 and December 31, 2012 and losses by geographic areas for the three and six months ended June 30, 2013 and 2012 are as follows:

	<b>Losses</b>			
	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<i>Canada</i>	474,878	16,597,114	1,091,430	16,617,709
<i>Mexico</i>	90,366	348,159	216,568	460,062
<b>Total</b>	565,244	16,945,273	1,307,998	17,077,771

	<b>Non-Current Assets</b>	
	<b>June 30,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<i>Canada</i>	12,292	13,721
<i>Mexico</i>	46,132,317	21,143,182
<b>Total</b>	46,144,609	21,156,903

**18. Subsequent Event**

On July 29, 2013, the Company granted 300,000 incentive stock options to an employee having an exercise price of CDN\$1.22 expiring July 29, 2018.