Condensed Interim Consolidated Financial Statements

Three Months Ended March 31, 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 first 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	March 31, 2013 $	December 31, 2012 $
ASSETS			
Current			
Cash and cash equivalents	**4**	17,047,763	2,879,378
Receivables	**5**	3,955,052	1,737,284
Prepaid expenses and deposits		82,734	90,831
Inventory		50,563	-
Deferred financing costs	**6**	-	61,748
		21,136,112	4,769,241
Plant and equipment	**7**	7,889,072	5,943,868
Mine under construction and development costs	**8**	4,934,656	3,834,596
Exploration and evaluation properties	**9**	27,861,143	11,378,439
		61,820,983	25,926,144
LIABILITIES			
Current			
Accounts payable and accrued liabilities		387,462	523,450
Due to shareholders	**10**	83,750	133,089
Exploration obligations	**9(b)**	1,892,831	2,383,177
		2,364,043	3,039,716
SHAREHOLDERS' EQUITY			
Share capital	**11**	74,298,378	38,186,694
Stock options and warrants reserve	**11(d)**	5,153,302	3,797,949
Accumulated other comprehensive loss		(242,969)	(89,198)
Deficit		(19,751,771)	(19,009,017)
		59,456,940	22,886,428
		61,820,983	25,926,144

Nature of Operations *(Note 1)*
Commitments *(Notes 8 and 9)*

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 months ended March 31, 2013 and 2012
(Unaudited – expressed in US Dollars)

	Note	2013 $	2012 $
General and administrative expenses			
Administrative		238,129	88,224
Depreciation		1,016	284
Management and consulting fees	**12**	72,937	29,380
Other		385	4,290
Professional fees	**12**	70,011	9,099
Salaries and benefits		48,992	-
Share-based payments	**11(e)**	370,971	-
Transfer agent and filing fees		47,432	-
Travel		53,771	38,345
		(903,644)	(169,622)
Other income			
Gain on derivative liabilities		-	1,076
Foreign exchange gain		117,079	34,152
Other income		44,021	1,896
		161,100	37,124
Loss before income tax		(742,544)	(132,498)
Income tax expense		(210)	-
Net loss for the period		(742,754)	(132,498)
Other comprehensive loss			
Exchange differences on translating foreign operations		(153,771)	-
Comprehensive loss for the period		(896,525)	(132,498)
Loss per share – basic and diluted		(0.01)	(0.01)
Weighted average number of common shares outstanding		77,619,340	22,162,848

(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 three months ended March 31, 2013 and 2012
(Unaudited – expressed in US Dollars)

Cash Provided By (Used In):	**2013** **$**	**2012** **$**
Operations:		
Net loss for the period	(742,754)	(132,498)
Items not affecting cash:		
Depreciation	1,016	284
Share-based payments	370,971	-
Gain on derivative liabilities	-	(1,076)
Changes in non-cash working capital:		
Receivables	(2,217,768)	75,367
Prepaid expenses and deposits	8,097	4,580
Inventory	(50,563)	-
Deferred financing costs	61,748	(5,654)
Accounts payable and accrued liabilities	(135,988)	26,387
	(2,705,241)	(32,610)
Investing:		
Exploration and evaluation properties	(16,973,050)	(181,962)
Acquisition and development costs on mine under construction	(1,084,051)	(260,453)
Acquisition of plant and equipment	(1,962,503)	(14,901)
	(20,019,604)	(457,316)
Financing:		
Issuance of common shares, net	37,096,066	399,480
Due to shareholders	(49,339)	8,042
	37,046,727	407,522
Net increase (decrease) in cash	14,321,882	(82,404)
Effect of exchange rate changes on cash	(153,497)	-
Cash and cash equivalents – beginning of period	2,879,378	183,072
Cash and cash equivalents – end of period	17,047,763	100,668

Non-cash Transactions *(Note 13)*

(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	444,444	399,480	-	-	-	399,480
Exercise of special warrants	399,166	150,559	(150,559)	-	-	-
Subdivision of common shares	20,626,055	-	-	-	-	-
Net loss and comprehensive loss for the period	-	-	-	-	(132,498)	(132,498)
Balance, March 31, 2012	26,937,576	5,436,077	-	-	(716,596)	4,719,481
Issued pursuant to private placements	25,352,277	20,600,000	438,980	-	-	21,038,980
Exercise of warrants	116,586	113,254	(86,128)	-	-	27,126
Recapitalization transactions (Note 3)						
Pursuant to the acquisition of Forte	(27,492,631)	-	-	-	-	-
Exchange of shares	27,492,631	-	-	-	-	-
Exchange of warrants	-	-	4,680	-	-	4,680
Shares of Forte at the RTO date	15,440,000	13,965,480	-	-	-	13,965,480
Warrants of Forte at the RTO date	-	-	161,335	-	-	161,335
Share issuance costs	-	(1,928,117)	-	-	-	(1,928,117)
Share-based payments	-	-	3,279,082	-	-	3,279,082
Net loss and comprehensive loss for the period	-	-	-	(89,198)	(18,292,421)	(18,381,619)
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	51,563	68,465	(16,976)	-	-	51,489
Share issuance costs	-	(3,906,338)	1,001,358	-	-	(2,904,980)
Share-based payments	-	-	370,971	-	-	370,971
Net loss and comprehensive loss for the period	-	-	-	(153,771)	(742,754)	(896,525)
Balance, March 31, 2013	89,808,002	74,298,378	5,153,302	(242,969)	(19,751,771)	59,456,940

1. Nature of Operations

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

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

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

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

2. Basis of Presentation

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 May 29, 2013.

3. Reverse Takeover Transaction

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

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

(Unaudited – expressed in US Dollars)

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

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

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

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

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

4. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	March 31, 2013 $	**December 31, 2012 $**
Cash on hand or held with banks:		
US dollar	245,547	463,644
Canadian dollar	16,473,652	119,507
Mexican peso	317,241	510,667
	17,036,440	1,093,818
Short-term investments	11,323	1,785,560
Total	17,047,763	2,879,378

(Unaudited – expressed in US Dollars)

5. Receivables

Receivables consist of the following:

	March 31, 2013 $	December 31, 2012 $
HST and value added tax recoverable	3,852,739	1,664,329
Other receivables	102,313	72,955
Total	3,955,052	1,737,284

6. Deferred Financing Costs

Deferred financing costs as at December 31, 2012 consisted of fees incurred relating to the prospectus offering as described in Note 11 (viii).

7. Plant and Equipment

Cost	Office Furniture and Equipment $	Assets under Construction $	Buildings $	Machinery and Equipment $	Vehicles $	Computer Hardware $	Total $
Balance, December 31, 2011	8,053	-	-	-	46,580	7,324	61,957
Additions	31,520	5,663,038	-	8,028	151,062	74,721	5,928,369
Balance, December 31, 2012	39,573	5,663,038	-	8,028	197,642	82,045	5,990,326
Additions	1,230	1,826,906	40,239	24,816	51,289	18,023	1,962,503
Foreign exchange	(298)	-	-	-	-	-	(298)
Balance, March 31, 2013	40,505	7,489,944	40,239	32,844	248,931	100,068	7,952,531

Accumulated Depreciation	Office Furniture and Equipment $	Assets under Construction $	Buildings $	Machinery and Equipment $	Vehicles $	Computer Hardware $	Total $
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	950	-	-	186	10,444	5,445	17,025
Foreign exchange	(24)	-	-	-	-	-	(24)
Balance, March 31, 2013	3,982	-	-	784	40,997	17,696	63,459
Carrying amount at December 31, 2012	36,517	5,663,038	-	7,430	167,089	69,794	5,943,868
Carrying amount at March 31, 2013	36,523	7,489,944	40,239	32,060	207,934	82,372	7,889,072

Depreciation during the three months ended March 31, 2013 was $17,025 (2012 – $3,794). $16,009 of the depreciation during the three months ended March 31, 2013 was capitalized to mine under construction and development costs (2012 – $3,510). The Company does not have any equipment under lease for any of the periods presented.

(Unaudited – expressed in US Dollars)

8. Mine under Construction and Development Costs

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

	Balance, December 31, 2011 $	Year Ended December 31, 2012 $	Balance, December 31, 2012 $	Period Ended March 31, 2013 $	Balance, March 31, 2013 $
a) Rosario, Charcas, San Luis Potosi, Mexico *(see Note 9(c))*					
Acquisition costs					
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
Exploration costs					
Depreciation	-	35,555	35,555	16,009	51,564
Drilling	-	683,564	683,564	35,185	718,749
Geological consulting	-	9,237	9,237	40	9,277
Mine development	-	-	-	7,969	7,969
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	40,904	281,334
Safety and maintenance	-	22,608	22,608	14,323	36,931
Water well project	-	83,442	83,442	376,337	459,779
Transferred from exploration and evaluation properties	-	839,683	839,683	-	839,683
	-	2,981,778	2,981,778	847,878	3,829,656
Total	-	3,834,596	3,834,596	1,100,060	4,934,656

a) Rosario, Charcas, San Luis Potosi, Mexico

Rey David, Charcas, San Luis Potosi, Mexico

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

To maintain and exercise the option, the Company must make $2,000,000 of cash payments to the property vendor. As at March 31, 2013, the Company has made total payments of $1,005,000 and the residual payments are as follows:

- $350,000 on August 15, 2013; and
- $645,000 on February 15, 2014.

San Rafael, Charcas, San Luis Potosi, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated February 22, 2011, the Company was granted an option to acquire a 100% interest in the San Rafael property, located in the municipality of Charcas, San Luis Potosí, Mexico. The vendor retains a 2.5% NSR. The Company also has an obligation to pay the local Ejido 300,000 Mexican pesos per year for surface access on the San Rafael concessions. To maintain and exercise the option, the Company must make $220,000 of cash payments to the property vendor. As at March 31, 2013, the Company has made total payments of $100,000 and the residual payments are as follows:

- $20,000 on August 22, 2013;
- $20,000 on February 22, 2014;
- $20,000 on August 22, 2014;
- $20,000 on February 22, 2015;
- $20,000 on August 22, 2015; and
- $20,000 on February 22, 2016.

9. 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 March 31, 2013 and December 31, 2012 are as follows:

(Unaudited – expressed in US Dollars)

		Balance, December 31, 2011 $	Year Ended December 31, 2012 $	Balance, December 31, 2012 $	Period Ended March 31, 2013 $	Balance, March 31, 2013 $
a)	**Gavilanes, San Dimas, Durango, Mexico**					
	Acquisition costs					
	Option payments – cash	715,000	800,000	1,515,000	-	1,515,000
		715,000	800,000	1,515,000	-	1,515,000
	Exploration costs					
	Drilling	7,614	805,485	813,099	460,090	1,273,189
	Mine site support and office costs	321	21,942	22,263	12,800	35,063
	Safety and maintenance	2,892	25,185	28,077	9,814	37,891
		10,827	852,612	863,439	482,704	1,346,143
	Net book value	725,827	1,652,612	2,378,439	482,704	2,861,143
b)	**San Felipe de Jesús, Sonora, Mexico**					
	Acquisition costs					
	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	(490,346)	1,892,831
		4,960,540	3,422,637	8,383,177	15,509,654	23,892,831
	Exploration costs					
	Drilling	18,779	83,675	102,454	367,928	470,382
	Mine site support and office costs	20,681	164,421	185,102	3,894	188,996
	Professional fees	-	106,404	106,404	-	106,404
	Safety and maintenance	-	222,863	222,863	118,524	341,387
		39,460	577,363	616,823	490,346	1,107,169
	Net book value	5,000,000	4,000,000	9,000,000	16,000,000	25,000,000
c)	**Rosario, Charcas, San Luis Potosi, Mexico** *(see Note 8(a))*					
	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	16,482,704	27,861,143

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 March 31, 2013, the Company has made total payments of $1,000,000 and the residual payments are as follows:

- $1,500,000 on May 2, 2013 (paid subsequent to March 31, 2013); and
- $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 March 31, 2013, the Company has made total payments of $415,000 and the residual payments are as follows:

- $300,000 on May 1, 2013 (paid subsequent to March 31, 2013);
- $400,000 on November 1, 2013; and
- $1,150,000 on May 1, 2014.

Gavilanes MHM Fraccion, San Dimas, Durango, Mexico

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

b) San Felipe de Jesús, Sonora, Mexico

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

- Annual surface right payments of 520,000 Mexican Pesos ($42,090) on or before February 19 of each year until the property reaches commercial production; and

- $18,000,000 on October 1, 2014.

If the exploration expenditures of $3,000,000 are not made, the Company has an obligation to reimburse the optionor for the difference between $3,000,000 and the actual exploration expenditures incurred regardless of whether or not the Company exercises its option on this property. As such, $3,000,000 has been capitalized as mineral property acquisition costs. Since $1,107,169 of exploration expenditures have been incurred to March 31, 2013 (December 31, 2012 – $616,823), the remaining amount of $1,892,831 (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 property.

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

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

c) El Gachi, Sonora, Mexico

On March 7, 2013, pursuant to the San Felipe agreement as described in Note 9(b), the Company exercised its option to acquire a 100% interest in the 48,057.33 hectare El Gachi project located 30 kilometers from the San Felipe project in Sonora State. Under the terms of the agreement, the Company has the option to retain the property by making a $3,000,000 payment before or by October 2014.

10. 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.

11. 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 3). The fair value of the 15,440,000 common shares deemed issued (\$13,965,480) was estimated using a fair value of CDN\$0.90 per share.

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

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

(viii) On February 19, 2013, the Company closed a prospectus offering (the "Offering") through a syndicate of underwriters (the "Underwriters"). The Company issued 21,850,000 common shares at a price of CDN\$1.85 per share for gross proceeds of \$39,949,557 (CDN\$40,422,500). The Underwriters received a cash fee of \$2,405,899, 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 (\$1,001,358) 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 \$499,081.

(ix) During the three months ended March 31, 2013, the Company issued 51,563 common shares pursuant to exercise of warrants for total gross proceeds of \$51,489. A value of \$16,976 was transferred from warrants reserve to share capital as a result.

(Unaudited – expressed in US Dollars)

c) Escrow

There are 15,814,640 common shares of the Company held in escrow as at March 31, 2013. Under the Escrow Agreement, the common shares held in escrow will be released from escrow as to 3,162,928 common shares on each of April 13, 2013 (released subsequent to March 31, 2013), 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:

	March 31, 2013 $	December 31, 2012 $
Stock options	3,650,053	3,279,082
Warrants	1,503,249	518,867
	5,153,302	3,797,949

e) Stock Options

The Company has established a stock option plan (the "Plan") for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates. The maximum number of shares available under the Plan is limited to 10% of the issued common shares. Options granted under the Plan have a maximum term of ten years and the vesting provisions of options granted are at the discretion of the Board. Details of stock option activity for the three months ended March 31, 2013 and the year ended December 31, 2012 are as follows:

	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	-
Balance, March 31, 2013	6,306,666	0.96	4.04
Unvested	(310,000)	1.21	3.01
Exercisable, March 31, 2013	5,996,666	0.95	4.09

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

Expiry Date	Exercise Price $	Remaining Life (Years)	Options Outstanding	Unvested	Vested
April 12, 2017	0.90	4.04	4,806,666	-	4,806,666
May 10, 2015	0.90	2.11	300,000	210,000	90,000
July 24, 2017	0.90	4.32	800,000	-	800,000
February 28, 2013	1.83	4.92	400,000	100,000	300,000
			6,306,666	310,000	5,996,666

(Unaudited – expressed in US Dollars)

The fair values of the options granted during the three months ended March 31, 2013 were estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model are as follows: risk-free interest rate – 1.63%; expected life – 5 years; expected volatility – 80.35%; expected forfeitures – 0%; and expected dividends – $nil. No options were granted during the three months ended March 31, 2012.

During the three months ended March 31, 2013, the Company recorded share-based payments expense of $370,971 (2012 – $nil).

f) Warrants

Details of warrants activity for the three months ended March 31, 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[(1)]	1.25	0.55
Pursuant to RTO (see Note 3)	200,000	0.10	1.02
Issued	1,333,333	1.00	1.53
Exercised	(116,586)	0.23	-
Expired	(664,476)	1.25	-
Balance, December 31, 2012	1,416,747	0.94	1.24
Issued	1,311,000	1.83	1.89
Exercised	(51,563)	1.01	-
Balance, March 31, 2013	2,676,184	1.37	1.43

(1) After giving effect to the Subdivision described in Note 11(b)(i).

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

Expiry Date	Exercise Price $	Remaining Life (Years)	Warrants Outstanding
October 7, 2013	0.10	0.52	100,000
April 12, 2014	1.00	1.03	1,265,184
February 19, 2015	1.83	1.89	1,311,000
			2,676,184

12. Related Party Transactions

During the three months ended March 31, 2013 and 2012, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	2013 $	2012 $
Accounting fees	33,714	-
Management fees	53,445	29,380
Directors' fees	19,492	-
Share-based payments	336,017	-
Salaries and benefits capitalized in mine under construction and development costs	39,773	5,040

At March 31, 2013, directors and officers or their related companies were owed $34,029 (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 transactions with related parties or other compensation paid or payable to key management for employee services for the reported periods.

13. 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 three months ended March 31, 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 $1,001,358 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 three months ended March 31, 2012, the following transactions were excluded from the consolidated statement of cash flows:

- Deferred financing costs of $527,189 included in accounts payable and accrued liabilities at March 31, 2012.

14. 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.

(Unaudited – expressed in US Dollars)

b) Geographic Segments

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

	Losses	
	Three Months Ended March 31, 2013 $	**Three Months Ended March 31, 2012 $**
Canada	616,552	20,595
Mexico	126,202	111,903
Total	742,754	132,498

	Non-Current Assets	
	March 31, 2013 $	**December 31, 2012 $**
Canada	13,082	13,721
Mexico	40,671,789	21,143,182
Total	40,684,871	21,156,903