Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in thousands of US dollars)

April 30, 2018

Independent Auditor's Report

To the Shareholders of Santacruz Silver Mining Ltd.

We have audited the accompanying consolidated financial statements of Santacruz Silver Mining Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Santacruz Silver Mining and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants

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

	Note	December 31, 2017 $	December 31, 2016 $
ASSETS			
Current			
Cash and cash equivalents	**5**	35	40
Restricted cash	**16**	-	150
VAT recoverable and receivables	**6**	5,460	4,631
Inventory	**7**	383	608
Prepaid expenses and deposits		246	181
Exploration and evaluation properties held for sale	**8**	-	3,746
		6,124	9,356
VAT recoverable	**6**	2,080	-
Plant and equipment	**9**	12,723	21,383
Mine properties	**10**	5,747	12,833
Exploration and evaluation properties	**11**	997	8,307
		27,671	51,879
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**12**	15,783	10,137
Loan payable	**13**	1,231	394
Leases	**14**	1,477	1,684
JMET note	**15**	-	5,000
Forward contract derivative liability	**16**	-	3,716
JMET warrants derivative liability	**15**	-	93
		18,491	21,024
Leases	**14**	489	1,216
JMET note	**15**	-	749
Decommissioning and restoration provision	**17**	486	485
Deferred income tax liability	**27(b)**	1,198	2,951
		20,664	26,425
EQUITY			
Share capital	**18**	98,570	95,057
Stock options and warrants reserve	**18(c)**	9,267	8,986
Accumulated other comprehensive loss		(1,152)	(1,817)
Deficit		(99,678)	(76,772)
		7,007	25,454
		27,671	51,879

Nature of Operations and Going Concern *(Note 1)*
Subsequent events (Note 28)

Approved on behalf of the Board:

"Arturo Préstamo Elizondo"	*"Larry Okada"*
Director – Arturo Préstamo Elizondo	Director – Larry Okada

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

Santacruz Silver Mining Ltd.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2017 and 2016
(Expressed in thousands of US dollars, except per share amounts)

	Note	2017 $	2016 $
Revenues			
Mining operations		7,816	11,812
Mining services	**19**	3,580	-
Total revenues		11,396	11,812
Cost of sales			
Mining operations	**20**	13,828	11,863
Mining services	**19**	2,724	-
Total cost of sales		16,552	11,863
Gross profit (loss)			
Mining operations		(6,012)	(51)
Mining services		856	-
Total gross loss		(5,156)	(51)
Operating expenses	**20**	(1,882)	(2,219)
Loss on disposal of equipment		(415)	-
Impairment	**10,11**	(20,079)	(15,615)
Operating loss		(27,532)	(17,885)
Interest earned and other finance income	**21**	4,054	7,052
Interest expense and other finance expenses	**21**	(1,013)	(7,954)
Loss before income tax		(24,491)	(18,787)
Income tax recovery	**27(a)**	1,585	281
Net loss for the year		(22,906)	(18,506)
Other comprehensive loss			
Currency translation differences		665	(383)
Comprehensive loss for the year		(22,241)	(18,889)
Loss per share – basic and diluted		(0.14)	(0.14)
Weighted average number of common shares outstanding		168,318,285	132,282,575

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

Santacruz Silver Mining Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed in thousands of US dollars)

Cash Provided By (Used In):	**2017 $**	**2016 $**
Operations:		
Net loss for the year	(22,906)	(18,506)
Items not affecting cash:		
Deferred income tax recovery	(1,753)	(429)
Accretion of decommissioning provision	34	37
Depletion, depreciation and amortization	2,155	2,464
Loss on disposal of equipment	415	-
Share-based payments	1	386
Interest expense on loan payable	61	66
Interest expense on silver loan	-	2,057
Interest expense on JMET Note	224	232
Loss on settlement of JMET Note	172	-
Gain on settlement of debt	-	(6,377)
Change in fair value of derivative assets / liabilities	(3,716)	5,562
Impairment	20,079	15,615
IVA inflationary gain	(464)	-
Unrealized foreign exchange	640	(141)
Changes in non-cash working capital:		
Restricted cash	150	(150)
VAT recoverable and receivables	(2,536)	1,010
Prepaid expenses and deposits	(65)	353
Inventory	225	(266)
Accounts payable and accrued liabilities	4,024	2,075
	(3,260)	3,988
Investing:		
Exploration and evaluation properties	(4,513)	409
Proceeds from disposal of exploration and evaluation	13,000	-
Acquisition and development costs on mine properties	(816)	(1,241)
Acquisition of plant and equipment	(223)	(5,118)
Disposal of plant and equipment	540	-
Lease payments on plant and equipment	-	-
	7,988	(5,950)
Financing:		
Proceeds from issuance of common shares	758	11,779
Share issuance costs	(39)	(968)
Proceeds from exercise of warrants	-	352
Repayment of silver loan and issuance costs incurred	-	(9,048)
Repayment of JMET Note	(6,238)	-
Proceeds from (repayment of) loan payable	776	(350)
	(4,743)	1,765
Net increase (decrease) in cash and cash equivalents	(15)	(197)
Effect of exchange rate changes on cash and cash equivalents	10	(40)
Cash and cash equivalents – beginning of year	40	277
Cash and cash equivalents – end of year	35	40
Cash paid during the year for:		
Interest	127	166
Income taxes	137	147

Non-cash Transactions *(Note 23)*

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

Santacruz Silver Mining Ltd.
Consolidated Statements of Changes in Equity
(Expressed in thousands of US dollars, except share and per share amounts)

	Share Capital						
	Number of Shares	Amount $	Stock Options and Warrants Reserve $	Warrants to be Issued $	AOCI $	Deficit $	Total $
Balance, December 31, 2015	113,493,484	86,587	5,869	59	(1,434)	(58,266)	32,815
Issued pursuant to private placement	37,975,000	8,793	2,986	-	-	-	11,779
Share issuance costs	-	(738)	(251)	-	-	-	(989)
Issuance of warrants pursuant to transaction costs on loan payable	-	-	59	(59)	-	-	-
Exercise of warrants	3,022,500	415	(63)	-	-	-	352
Share-based payments	-	-	386	-	-	-	386
Comprehensive loss for the year	-	-	-	-	(383)	(18,506)	(18,889)
Balance, December 31, 2016	154,490,984	95,057	8,986	-	(1,817)	(76,772)	25,454
Issued for mineral properties	15,055,000	3,074	-	-	-	-	3,074
Issued pursuant to private placement	4,875,000	478	305	-	-	-	783
Share issuance costs	-	(39)	(25)	-	-	-	(64)
Share-based payments	-	-	1	-	-	-	1
Comprehensive loss for the year	-	-	-	-	665	(22,906)	(22,241)
Balance, December 31, 2017	174,420,984	98,570	9,267	-	(1,152)	(99,678)	7,007

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

1. Nature of Operations and Going Concern

Santacruz Silver Mining Ltd. ("Santacruz") was incorporated pursuant to the Business Corporations Act of British Columbia on January 24, 2011. The Company's registered office is located at 10th Floor, 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5. The Company is listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "SCZ" and the Santiago Stock Exchange Venture under the trading symbol "SZCL".

Santacruz, together with its subsidiaries (the "Company"), is engaged in the 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 Project including the Rosario Mine and various other properties in Charcas, San Luis Potosi, Mexico.
- Veta Grande Project including the Veta Grande Mine and various other properties in Veta Grande, Zacatecas, Mexico.
- Minillas Property in Genaro Cidina, Zacatecas, México.
- Zacatecas Properties in Zacatecas, Zacatecas, Mexico.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months. At December 31, 2017, the Company had a working capital deficiency of $12,367 and had accumulated an inception to date deficit of $99,678. These factors indicate the existence of a material uncertainty that cast significant doubt upon the Company's ability to continue as a going concern. As a result, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flows from operations, and/or raise adequate funding through equity or debt financings to discharge its liabilities as they come due. The Company has a capital management process in place to safeguard the Company's ability to continue as a going concern. Refer to Note 25. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

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

2. Basis of Presentation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved for issue by the Board of Directors on April 27, 2018.

b) Basis of Measurement

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

c) Basis of Consolidation

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

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

d) Functional and Presentation Currency

The financial statements for the Company and each of its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of Santacruz and Holdings is the Canadian dollar. The functional currency of IMSC is the US dollar. The functional currency of OMA is the Mexican peso. The presentation currency of the Company is the US dollar.

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

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

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

3. Significant Accounting Policies

a) Cash and Cash Equivalents

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

b) Restricted Cash

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

c) Inventory

Concentrate inventory and mined ore inventory are valued at the lower of average production cost and net realizable value. Net realizable value is the amount estimated to be obtained from sale of the inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale. The production cost of inventories is determined on a weighted average basis and includes cost of production consumables, direct labour, mine-site overhead and depreciation and depletion of mine properties and plant and equipment. Joint-product costing is applied as the primary concentrate products both contribute to the profitability of the operation. Joint costing allocates total production costs based on the relative values of the products.

Write-down of inventory is recognized within cost of sales in the period the write-down occurs. Reversal of any write-down of inventory, arising from an increase in net realizable value, is recorded within cost of sales to the extent that the related inventory has not been sold. Prior to commencement of commercial production, any write-down of inventory is capitalized to mine under construction and development costs.

Supplies inventory is valued at the lower of average cost and net realizable value. Costs include acquisition, freight and other directly attributable costs.

d) Plant and Equipment

Plant and equipment are stated at historical cost net of accumulated depreciation and impairment losses.

The cost of an item of plant and equipment includes the purchase price or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and for qualifying assets, the associated borrowing costs.

Where an item of plant and equipment is comprised of major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Costs incurred for major overhaul of existing equipment and sustaining capital are capitalized as plant and equipment and are subject to depreciation once they are available for use. Major overhauls include improvement programs that increase the productivity or extend the useful life of an asset beyond that initially envisaged. The costs of routine maintenance and repairs that do not constitute improvement programs are accounted for as a cost of inventory.

Costs incurred for leasehold improvements are capitalized as plant and equipment and are subject to depreciation once they are available for use. Once available for use, the leasehold improvement costs incurred will be amortized on a straight line basis, over the term of the underlying lease.

The carrying amounts of plant and equipment are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of mine or lease, if shorter. Depreciation starts on the date when commissioning is complete and the asset is ready for its intended use. The major categories of plant and equipment are depreciated on a units-of-production or declining-balance basis at the following annual rates:

Office furniture and equipment	10%
Vehicles	25%
Computer hardware	30%
Mine plant and equipment	Life of mine
Mine buildings	Life of mine
Leasehold improvements	Life of lease

e) Mineral Property Interests

Pre-license Costs

Exploration and evaluation expenditures are expensed until the Company has obtained the legal right to explore an area.

Exploration and Evaluation Costs

Once the legal right to explore has been acquired, the Company capitalizes on a property by property basis, the costs of acquiring, maintaining its interest in, exploring and evaluating mineral properties until such time as the lease expires, the mineral properties are abandoned, or sold or are considered impaired in value. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage.

Mine Property

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

The Company assesses the stage of each mine under construction to determine when a property reaches the stage when it is in the condition for it to be capable of operating in a manner intended by management. When management determines that a property is capable of commercial production, costs capitalized during development are amortized. The Company determined its Rosario Mine to be in commercial production effective January 1, 2014 and its Veta Grande Mine to be in commercial production effective October 1, 2016.

Once a mineral property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for development programs which constitute a betterment, which will be deferred and depleted over the remaining useful life of the related assets. Mine properties include decommissioning and restoration costs related to the reclamation of mine properties. Mine properties are derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds received and the carrying amount of the asset is recognized in profit or loss.

Mine properties are depreciated and depleted on the unit-of-production basis using the mineable tonnes extracted from the mine in the period as a percentage of the total mineable tonnes to be extracted in current and future periods based on mineral resources.

Mine properties are recorded at cost, net of accumulated depreciation and depletion and accumulated impairment losses, and are not intended to represent future values. Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related mineral property.

Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset until such time as the asset is substantially complete and ready for its intended use or sale. Where funds have been borrowed specifically to finance an asset, the amount capitalized is the actual borrowing costs incurred. Where the funds used to finance an asset form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

f) Impairment of Non-Financial Assets

The Company performs impairment tests on non-financial assets when events or circumstances occur which indicate the carrying amount of the assets may not be recoverable.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

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

Fair value less cost of disposal is the amount that would be received from selling an asset in an orderly transaction between market participants at the measurement date, less the costs of disposal. For mining assets, fair value less cost of disposal is often estimated using a discounted cash flow approach because a fair value is not readily available from an active market or binding sale agreement. Estimated future post-tax cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs.

g) Leases

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

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

h) Site Closure and Reclamation Provision

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

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in mine property, plant and equipment. These costs are depreciated on a basis consistent with the depreciation, depletion, and amortization of the underlying assets.

The obligation is accreted over time for the change in its present value, with this accretion charge recognized as a finance expense in profit or loss. The obligation is also adjusted for changes in the estimated timing and amount of expected future cash flows, and changes in the discount rate. Such changes in estimates are added to or deducted from the related asset except where deductions are greater than the carrying value of the related asset in which case, the amount of the excess is recognized in profit or loss.

i) Share Capital

The Company records proceeds from share issuances net of issue costs and any tax effects in equity. Common shares issued for consideration other than cash are valued based on their fair value at the date of issuance.

j) Valuation of Equity Units Issued in Private Placements

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

k) Revenue

The Company recognizes revenue from its operations 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.

These conditions are generally satisfied when title passes to the customer. In most instances, sales revenue is recognized when the product is delivered to the destination specified by the customer, which is typically at the customer's premises.

Revenue is measured at the fair value of consideration received or receivable. Revenue from the sale of concentrate is recorded net of charges for treatment, refining and penalties.

Revenue from the sale of metal-bearing concentrate is recognized on a provisional basis using management's estimate of contained metals. Final settlement is based on applicable commodity prices, based on contractually determined quotational periods, and receipt of final weights and assays, which is typically one to four months after shipment.

Variations between the price recorded when revenue is initially recorded and the actual final price are caused by changes in metal prices and result in an embedded derivative. The derivative is recorded at fair value each period until final settlement occurs, with value adjustments recognized in revenue.

Proceeds from the sale of concentrate prior to commercial production are credited to mine under construction and development costs.

Revenue from mining services is recognized with reference to the stage of completion, based on an output appropriate to the particular service contract, such as performance of agreed service deliverables. Payments received prior to recognition of the related revenue are recorded as deferred revenue.

l) Share-based Payments

From time to time, the Company grants options to directors, officers, employees and non-employees to purchase common shares. The Company accounts for share-based payments, including stock options, at their fair value on the grant date and recognizes the cost as a compensation expense over the period that the employees become entitled to the award. The fair value of the options on the grant date is determined using the Black-

Scholes option pricing model for stock option awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date. A corresponding increase is recognized in equity for these costs.

m) Loss per Share

Basic loss per share is calculated using the weighted average number of shares issued and outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. When a loss is incurred during the year, diluted and basic loss per share are the same because the effects of potential issuances of shares under options and warrants will be anti-dilutive.

n) Income Taxes

Provision for income taxes consists of current and deferred tax expense. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized either in other comprehensive loss or directly in equity, in which case it is recognized in other comprehensive loss or in equity, respectively. Mining duties, taxes, royalties and withholding taxes are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to taxable income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences associated with the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss and temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

o) Financial Instruments

Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. Management determines the classification of its financial assets and liabilities at initial recognition. All transactions related to financial instruments are recorded on a trade date basis. The Company’s accounting policy for each of the other categories is as follows:

Loans and Receivables

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

Financial Assets at Fair Value Through Profit or Loss

An instrument is classified at fair value through profit or loss ("FVTPL") if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. The Company's financial assets at FVTPL include the derivative assets.

Financial Liabilities

All financial liabilities are initially recorded at fair value and classified upon inception as FVTPL or other financial liabilities. The Company's financial liabilities at FVTPL included the forward contract derivative liability and the JMET warrants derivative liability.

Financial liabilities classified as other financial liabilities are recognized initially at fair value adjusted for directly attributable transaction costs and are subsequently stated at amortized cost using the effective interest method. The Company's other financial liabilities consist of accounts payable and accrued liabilities, loan payable, silver loan and JMET note.

Impairment of Financial Assets

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

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

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

The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced

through the use of an allowance account. When a receivable is considered uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Derecognition of financial assets and liabilities

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

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

p) Critical Judgements in Applying Accounting Policies

The critical judgements that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations *(Note 3(q))* that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

Economic Recoverability and Probability of Future Economic Benefits of Exploration, Evaluation and Development Costs

Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

Commencement of Commercial Production

When a project nears the end of construction, management has to exercise judgement to determine the date in which the asset was in the location and condition necessary to operate as intended by management at which point commercial production is considered to have commenced. The identification of this date is important since it establishes the point in time at which costs cease to be capitalized unless they provide an enhancement to the economic benefits of the asset, borrowing costs cease to be capitalized, processing costs begin to stabilize, the capitalization of pre-production revenue ceases and depreciation of the asset begins. Criteria used to assess when a property has commenced commercial production include, among other considerations:

- the level of capital expenditures incurred relative to the expected costs to complete;
- the completion of a reasonable period of testing of the mine plant and equipment;
- the ability to produce saleable metals;
- the attainment of relevant permits;
- the ability to sustain ongoing production; and
- the achievement of pre-determined production targets.

Management determined the start date of the Veta Grande Mine commercial production to be October 1, 2016.

Functional Currency

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

Collectability and Classification of Value Added Tax ("VAT") Recoverable

VAT recoverable is collectible from the government of Mexico. The collection of VAT is subject to risk due to the complex application and collection process and therefore, risk related to the collectability and timing of payment from the Mexican government. The Company uses its best estimates based on the facts known at the time and its experience to determine its best estimate of the collectability and timing of these recoveries. At December 31, 2017, $1,751 of the balance recoverable is expected to be recovered within twelve months from the year end. Changes in the assumptions regarding collectability and the timing of collection could impact the valuation and classification of VAT recoverable.

q) Key Sources of Estimation Uncertainty

The preparation of consolidated financial statements requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the Company's consolidated financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

Mineral resources estimate

The lives of the Rosario Mine and the Veta Grande Mine are determined from the tonnes of ore that are available to be extracted at the end of each reporting period. The Company initially estimates the tonnes of ore available based on either the findings of qualified, independent, mining professionals, or on the findings of its own technical staff. These estimates are updated from time to time as additional technical and economic information becomes available. Factors that impact the computation of tonnes of ore available include the geological data on the size, depth and shape of the ore body, the prevailing and expected market price for the underlying metals to be extracted and the expected costs to extract and process the mined material. Changes in the mineable tonnes of ore available may impact the carrying values of mine properties, exploration and evaluation properties, plant and equipment, site closure and reclamation provision and changes in the recognition of deferred tax amounts in addition to changes in the recognition of depreciation and depletion.

Review of asset carrying values and impairment assessment

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

Each asset or CGU is evaluated every reporting period to determine whether there are any indicators of impairment. If any such indicators exist, which is often judgment-based, a formal estimate of recoverable amount is performed and an impairment charge is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or CGU of assets is measured at the higher of fair value less costs of disposal (“FVLCTD”) or value in use (“VIU”).

The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, metal prices and forecasts, production budgets and forecasts, and life-of-mine estimates.

The determination of FVLCTD and VIU requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, discount rates, mineral resources, operating costs, taxes and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reversed with the impact recorded in profit or loss.

Based on a review of the Rosario Project CGU and Veta Grande Project CGU for impairment indicators, it was identified that there were indicators that an impairment loss may have occurred at both these CGU’s, primarily as a result of the actual performance being less than expected. The recoverable amount for the Veta Grande Project was determined by reference to the Carrizal LOI which implied a recoverable amount post earn-in that exceeded the carrying value of the Veta Grande Project CGU at December 31, 2017 by $4,351. As such no impairment charge has been recognized on the Veta Grande Project in the statement of loss in 2017.

The recoverable amount for the Rosario Project was determined by reference to a FVLCD model which was less than the carrying value of the Rosario Project CGU at September 30, 2017 by $4,350 and at December 31, 2017 by a further $10,445.

The recoverable amount of the Rosario Project CGU is classified as level 3 under the fair value hierarchy. In arriving at FVLCD, post-tax cash flows expressed in real terms have been estimated until the end of the life of mine plan and discounted using an asset specific post-tax discount rate of 10%.

Significant assumptions included within the FVLCD for Rosario Project include silver, gold, lead and zinc future prices, forecast production rates, discount rate, operating and capital costs and estimates of mineral resources including measured, indicated and a portion of inferred.

Fair value of derivative assets and liabilities

The fair value of the derivative assets and liabilities are determined using the Black-Scholes pricing model at each reporting period and changes in fair value recorded in profit and loss. The Black-Scholes pricing model utilizes assumptions including silver, gold, lead and zinc commodity price volatility, and counterparty credit adjusted discount rate. Changes in these input assumptions can significantly affect the fair value estimate. Fair value of the foreign exchange forward contacts is determined based on the discounted payoff on maturity date.

Decommissioning and restoration provision

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

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

Deferred taxes

The determination of the tax expense for the period and deferred tax assets and liabilities involves significant estimation and judgment by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Management also makes estimates of future earnings which affect the extent to which potential future tax benefits may be used. The Company is subject to assessments by various taxation authorities, which may interpret legislation differently. These differences may affect the final amount or the timing of the payment of taxes. The Company provides for such differences where known based on its best estimate of the probable outcome of these matters.

Share-based Payments

Share-based payments are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to the statement of loss and comprehensive loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility, expected life of the option, risk free interest rates, and forfeiture rates. Different estimates of input assumptions could have resulted in a significantly different fair value estimate.

4. Changes in Accounting Policies Including Initial Adoption

Accounting Standards Issued But Not Yet Effective

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

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

Management has performed an assessment on the impact of the implementation of IFRS 15 and concluded it will not change neither the timing nor the amount of revenue recognized compared to the treatment of revenue under the current accounting policies.

The Company expects to present additional disclosure of revenue related to the provisional pricing adjustments of the Company's concentrate sales, separately within the revenue note.

IFRS 9, *Financial Instruments* ("IFRS 9") addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through P&L. The standard introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted.

The Company is currently evaluating the impact that the new guidance is expected to have on its consolidated financial statements.

IFRS 16, *Leases* ("IFRS 16") specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact that the new guidance is expected to have on its consolidated financial statements.

5. Cash and Cash Equivalents

	December 31, 2017 $	December 31, 2016 $
Cash on hand or held with banks	26	31
Short-term investments	9	9
Total	35	40

6. VAT Recoverable and Receivables

	December 31, 2017 $	December 31, 2016 $
Mexican value added taxes recoverable	3,831	4,367
Canadian GST recoverable	4	11
Trade receivables	3,654	198
Other receivables	51	55
Total	7,540	4,631
Non-current portion of Mexican value added taxes recoverable	(2,080)	-
	5,460	4,631

The Company expects full recovery of the value added taxes recoverable and trade receivables amounts outstanding and therefore, no allowance has been recorded against these receivables. No trade receivables are past due and all are have been collected subsequent to year end.

7. Inventory

	December 31, 2017 $	December 31, 2016 $
Ore stockpiles	-	43
Concentrate inventory	44	186
Supplies inventory	339	379
Total	383	608

8. Exploration and Evaluation Properties Held For Sale

	Balance, Dec 31, 2015 $	Additions Year Ended Dec 31, 2016 $	Balance, Dec 31, 2016 $	Additions Year Ended Dec 31, 2017 $	Balance, Dec 31, 2017 $
a) Gavilanes Property, San Dimas, Durango, Mexico					
Reclassification as held for sale	-	-	-	3,500	3,500
Disposal	-	-	-	(3,500)	(3,500)
	-	-	-	-	-
b) San Felipe Project, San Felipe de Jesús, Sonora, Mexico					
Acquisition costs					
Option payments – cash	25,884	-	25,884	2,500	28,384
Option payments – shares	1,293	-	1,293	2,862	4,155
	27,177	-	27,177	5,362	32,539
Exploration costs					
Depreciation	41	22	63	4	67
Drilling	5,416	-	5,416	-	5,416
Ejidal surface right	649	-	649	77	726
Environmental studies	74	-	74	-	74
Geological consulting	2,033	14	2,047	-	2,047
Mining claims, taxes and duties	1,078	475	1,553	311	1,864
Mine site support and office costs	1,456	96	1,552	-	1,552
Professional fees	149	-	149	-	149
Safety and maintenance	34	73	107	-	107
	10,930	680	11,610	392	12,002
Impairment	(19,426)	(15,615)	(35,041)	-	(35,041)
Disposal	-	-	-	(9,500)	(9,500)
	18,681	(14,935)	3,746	(3,746)	-
Total	18,681	(14,935)	3,746	(3,746)	-

c) Gavilanes Property, San Dimas, Durango, Mexico

During the year the Company made total cash payments of $500 and acquired a 100% interest in the Gavilanes property located in San Dimas, Durango, Mexico. In addition, on August 16, 2017, the Company issued 1,250,000 common shares of the Company to the property vendor with an estimated fair value of $212.

Disposal of Gavilanes Property

On August 16, 2017, the Company completed the sale of the Gavilanes property to Marlin Gold Mining Ltd. (“Marlin”), pursuant to which Marlin acquired 100% of the Company’s interest in the Gavilanes property for cash consideration of $3,500 plus applicable value added taxes.

Impairment

At June 30, 2017, an assessment for impairment indicators was performed which indicated that an impairment test was required. This resulted in an impairment of $5,284 which was based on the net sales proceeds from the disposal of the Gavilanes property.

d) San Felipe Project, San Felipe de Jesús, Sonora, Mexico

Pursuant to a mining exploration and promissory sale agreement dated August 3, 2011 and amended on certain dates between December 9, 2011 and February 28, 2017 (the "San Felipe Agreement"), the Company was granted an option to acquire a 100% interest in the San Felipe project located in San Felipe de Jesús, Sonora, Mexico and the El Gachi property located near the San Felipe project, including all assets related to the properties.

Pursuant to the terms of the February 27, 2017 amendment to the San Felipe Agreement, the Company was required to make cash payments to the property vendor of $2,000, $500, and $8,000 respectively on March 3, March 31, and December 15, 2017. In addition, on March 9, 2017 the Company issued 13,415,000 common shares of the Company to the property vendor with an estimated fair value of $2,781.

Disposal of San Felipe Property

On March 2, 2017, the Company entered into an agreement with Americas Silver Corporation ("Americas Silver") to assign 100% of its interest in the San Felipe project to Americas Silver for $7,000, which was paid on execution of the agreement. Of this amount $2,000 was paid to the property vendor. The requirement to make a cash payment of $8,000 by December 15, 2017 was also assigned to Americas Silver. In consideration for financial advisory services rendered in connection with the transaction, the Company issued 390,000 common shares to an arms-length consultant with an estimated fair value of $81.

Disposal of El Gachi Property

On March 28, 2017, the Company completed the sale of its interest in the El Gachi property to First Majestic Silver Corp. for total consideration of $2,500. Of this amount $500 was paid to the property vendor.

2016 Impairment

At December 31, 2016, an assessment for impairment indicators was performed which indicated that an impairment test was required. This resulted in an impairment of $15,615 which was based on the net sales proceeds from the disposal of the San Felipe project.

9. Plant and Equipment

Cost	Office Furniture and Equipment $	Plant and Equipment $	Vehicles $	Computer Hardware $	Total $
Balance, December 31, 2015	59	17,299	381	168	17,907
Additions	1	8,117	-	14	8,132
Balance, December 31, 2016	60	25,416	381	182	26,039
Additions	11	210	-	2	223
Disposals	(11)	(955)	-	-	(966)
Impairment[1]	-	(6,514)	-	-	(6,514)
Balance, December 31, 2017	60	18,157	381	184	18,782
Accumulated Depreciation					
Balance, December 31, 2015	16	2,704	204	101	3,025
Depreciation for the year	5	1,560	42	24	1,631
Balance, December 31, 2016	21	4,264	246	125	4,656
Depreciation for the year	11	1,349	34	20	1,414
Disposals	(11)	-	-	-	(11)
Balance, December 31, 2017	21	5,613	280	145	6,059
Carrying amount at December 31, 2016	39	21,152	135	57	21,383
Carrying amount at December 31, 2017	39	12,544	101	39	12,723

(1) The impairment relates to the impairment charge recorded on the Rosario CGU of $14,795. The remaining $8,281 impairment was taken on the Rosario Project (see Note 10).

Depreciation during the year ended December 31, 2017 was $1,414 (2016 – $1,631). During the year ended December 31, 2017, $nil of the depreciation was capitalized to mine properties (2016 – $123) and $4 of the depreciation was capitalized to exploration and evaluation properties (2016 – $22).

As at December 31, 2017, the Company's plant and equipment includes a net carrying amount of $3,737 for the leased mining equipment.

10. Mine Properties

	Rosario Project	Veta Grande Project	Total
	$	$	$
Balance, December 31, 2015	8,774	1,112	9,886
Additions	514	4,902	5,416
Capitalized interest	-	204	204
Decommissioning and restoration provision *(Note 15)*	(46)	-	(46)
Pre-production sales proceeds	-	(1,772)	(1,772)
Amortization and depletion	(818)	(37)	(855)
Balance, December 31, 2016	8,424	4,409	12,833
Additions	757	1,183	1,940
Amortization and depletion	(585)	(160)	(745)
Impairment	(8,281)	-	(8,281)
Balance, December 31, 2017	315	5,432	5,747

a) Rosario Project, Charcas, San Luis Potosi, Mexico

Rey David, Charcas, San Luis Potosi, Mexico

As at December 31, 2017, the Company has made total payments of $2,000 and acquired a 100% interest in the Rey David property located in the municipality of Charcas, San Luis Potosi, Mexico. The property is subject to a 0.4% Net Smelter Return (“NSR”). The NSR increases by 0.1% per year, until it reaches a maximum of 1%. The payments were due to start on December 31, 2015, but have been deferred for the time being and are being accrued for by the Company.

San Rafael, Charcas, San Luis Potosi, Mexico

As at December 31, 2017, the Company has made total payments of $220 and acquired 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 has agreed to pay the vendor an annual fee of $40. The Company also has an obligation to pay the local indigenous community 300,000 Mexican pesos ($17) per year for surface access on the San Rafael concessions.

Cinco Estrellas, Charcas, San Luis Potosi, Mexico

Pursuant to an option agreement dated September 7, 2016, the Company has made total payments of $130 and acquired a 100% interest in the Cinco Estrellas property located in Charcas, San Luis Potosí, Mexico. The property is subject to a 2.5% NSR.

$392 of the $757 additions to the Rosario Project above related to the development of the Cinco Estrellas property.

Membrillo, Charcas, San Luis Potosi, Mexico

On May 29, 2017 the Company entered into an agreement (the “Membrillo Agreement”) pursuant to which the Company has acquired the exclusive right for five years (the “Exclusive Mining Right”) to explore, develop and mine the Membrillo silver-zinc-lead-gold vein structure (“Membrillo Vein”) situated approximately four km from the Rosario Project mill facility located near Charcas, San Luis Potosi, Mexico.

The Exclusive Mining Right covers an area of approximately 500 hectares that is situated within the San Rafael concession.

As consideration for being granted the Exclusive Mining Right, the Company agreed to pay the vendor an annual fee of $60 plus has granted to them a 2.5% NSR on any mineralized material from the Membrillo Vein that is mined and milled or otherwise treated for the eventual sale of the contained metal.

$262 of the $757 additions to the Rosario Project above related to the development of the Membrillo Vein.

2017 Impairment

Based on a review of the Rosario Project CGU for impairment indicators, it was identified that there were indicators that an impairment loss may have occurred at the CGU, primarily as a result of the actual performance being less than expected. The recoverable amount for the Rosario Project was determined by reference to a FVLCD model which was less than the carrying value of the Rosario Project CGU at September 30, 2017 by $4,350 and at December 31, 2017 by a further $10,445.

Although management believes the estimates applied in this impairment assessment is reasonable, such estimates are subject to significant uncertainties and judgments. The Company has recorded an impairment charge of $14,795 before tax against the carrying value of the Rosario Project during the year ended December 31, 2017.

Significant assumptions included within the FVLCD for Rosario Project include silver, gold, lead and zinc future prices, forecast production rates, an after-tax discount rate of 10%, operating and capital costs and estimates of mineral resources including measured, indicated and a portion of inferred.

Year End Commodity Price Assumptions	2018	2019	2020	2021	2022
Silver ($/oz)	17.91	18.46	18.87	19.05	19.05
Gold $/oz)	1,295	1306	1,316	1,310	1,316
Lead ($/lb)	1.06	1.04	1.00	0.98	0.93
Zinc ($/lb)	1.44	1.32	1.19	1.17	1.07

The assumptions subject to the most estimation uncertainty for the FVLCD calculation are the commodity prices. To illustrate this sensitivity, the recoverable amount would be reduced by $198 if the commodity prices declined by 1%.

b) Veta Grande Project, Veta Grande, Zacatecas, Mexico

On November 2, 2015, the Company entered into a definitive agreement (the “Contracuña Agreement”) with Minera Contracuña I, S.A. de C.V. and Vetalinda Compania Minera, S.A. de C.V. (together “Contracuña”), pursuant to which Contracuña granted the Company the right for thirty years to explore, mine and operate Contracuña’s Veta Grande and Minillas silver-gold-zinc-lead mineral properties within the State of Zacatecas, in central Mexico.

The Contracuña Agreement had an initial term of 15 years, with an additional 15 year term extension, at the Company’s option. Consideration for the Contracuña Agreement was $500 (paid). During the term of the Contracuña Agreement a 40% net profits interest basis (“NPI”) was to be paid to Contracuña. In the event the price of silver is greater than $22.00 per ounce, the NPI increases to 45%.

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

On June 14, 2017, as amended on December 13, 2017, the Company amended the terms of the Contracuña Agreement (the "Amended Contracuña Agreement") to acquire 100% ownership of the Veta Grande Project, including the Veta Grande mine and milling facility as well as the Minillas property located in Zacatecas, Mexico.

Details of the payment schedule per the amended Option Agreement are as follows:

1. US$500 paid on December 13, 2017 (paid);
2. US$500 on or before December 13, 2018;
3. US$2,500 on or before December 2, 2019;
4. US$2,500 on or before December 2, 2020;
5. US$5,000 on or before December 2, 2021; and
6. US$4,500 on or before December 2, 2022;

In addition, the Company granted to Contracuña a 1% net smelter royalty ("NSR") that commences December 14, 2022. The Company has the right to acquire the NSR at any time by paying Contracuña US$1,500.

Carrizal LOI

On November 30, 2017 the Company entered into a binding Letter of Intent (the "Carrizal LOI") wherein the Company granted Carrizal Mining, S.A. de C.V. ("Carrizal"), a private Mexican mining company, the right to earn a 20% working interest in all mining concessions and assets the Company has the right to acquire from Contracuña under the Amended Contracuña Agreement, as well as the mining concessions the Company has the right to acquire from Golden Minerals (see Note 11).

In order to earn its 20% working interest Carrizal must fund all expenditures necessary to increase the mining and milling rate at the Veta Grande mine to 750 tpd and in addition must fund an exploration program sufficient to allow an appropriate mine plan to be developed for the ongoing operation of the Veta Grande mine, subject to the Company agreeing to contribute on an as-is where-is basis a 250 tpd ball mill and motor plus other redundant equipment not in use at the Rosario Project. Subsequent to December 31, 2107 Carrizal completed decommissioning the ball mill from the Rosario Project and completed installing and commissioning it at the Veta Grande Project.

11. Exploration and Evaluation Properties

The Company is actively investigating, evaluating and conducting exploration activities on projects in Mexico. A summary of accumulated costs on its exploration and evaluation properties as of December 31, 2017 and 2016 is as follows:

	Balance, Dec 31, 2015 $	Additions Year Ended Dec 31, 2016 $	Balance, Dec 31, 2016 $	Additions Year Ended Dec 31, 2017 $	Balance, Dec 31, 2017 $
a) Gavilanes Property, San Dimas, Durango, Mexico (refer to Note 6)					
Acquisition costs					
Option payments – cash	5,246	144	5,390	500	5,890
Option payments – shares	-	-	-	212	212
	5,246	144	5,390	712	6,102
Exploration costs					
Depreciation	9	-	9	-	9
Drilling	1,989	-	1,989	-	1,989
Geological consulting	36	10	46	31	77
Mining claims, taxes and duties	169	42	211	32	243
Mine site support and office costs	121	42	163	36	199
Professional fees	53	-	53	103	156
Safety and maintenance	9	-	9	-	9
	2,386	94	2,480	202	2,682
Impairment	-	-	-	(5,284)	(5,284)
Reclassification as held for sale	-	-	-	(3,500)	(3,500)
	7,632	238	7,870	(7,870)	-
b) Zacatecas Properties, Zacatecas, Zacatecas, Mexico					
Acquisition costs					
Option payments – cash	-	385	385	450	835
Exploration costs					
Mining claims, taxes and duties	-	52	52	110	162
	-	437	437	560	997
Total	7,632	675	8,307	(7,310)	997

On May 2, 2016 the Company entered into an option agreement, as amended February 8, 2018, to acquire from Golden Minerals Company ("Golden Minerals") certain mineral claims located in the Zacatecas Mining District, Zacatecas, Mexico (the "Zacatecas Properties") consisting of 149 concessions. A 1% NSR exists with the original property vendors on some of the claims included in the Zacatecas Properties.

Pursuant to the amended agreement, in order to acquire the Zacatecas Properties the Company is required to pay to Golden Minerals the sum of $1,525 including an initial payment of $200 on signing the agreement (paid) plus additional payments as follows:

- $200 on or before November 2, 2016 (paid);
- $300 on or before May 2, 2017 (paid);
- $150 on or before November 2, 2017 (paid);
- $24 on February 8, 2018 (paid)
- $225 on or before March 15, 2018 (paid);
- $225 on or before July 15, 2018; and
- $225 on or before September 15, 2018.

12. Accounts Payable and Accrued Liabilities

	December 31, 2017 $	December 31, 2016 $
Trade payables	15,484	8,686
Accrued liabilities	299	1,451
Total	15,783	10,137

13. Loan Payable

a) Trafigura loan

On December 22, 2015, the Company entered into a short-term loan facility (the "Loan") with Trafigura Mexico, S.A. de C.V. ("Trafigura") in the principal amount of $725. The Loan bore interest at LIBOR plus 10%, payable monthly in arrears, with the principal to be repaid in six equal monthly installments commencing January 31, 2016. The Loan was secured by certain personal assets of the CEO of the Company. Subsequently, the Loan terms were amended at various dates in 2016 and 2017 pursuant to which the Company at various times repaid a portion of the Loan and at other times received new advances under the Loan such that as at December 22, 2017, the date of the most recent amendment (the "Amended Loan") the outstanding principal balance of the Loan was $731. Pursuant to the terms of the Amended Loan, Trafigura will advance an additional $580 bringing the balance of the Amended Loan to $1,311. The Amended Loan bears interest at LIBOR plus 10%, payable monthly in arrears, with the principal to be repaid in twelve monthly installments commencing April 30, 2018 and terminating on March 31, 2019. The monthly installment amounts will be the greater of $109 and 10% of the net concentrate sales amount for the respective month. The Amended Loan is secured by certain personal assets of the CEO of the Company and by a first charge on the Rosario Project mineral concessions. On February 15, 2018, Trafigura advanced the $580 to the Company.

In connection with this personal guarantee of the Loan, the Company agreed to issue 3,000,000 bonus warrants to the CEO. On January 11, 2016, the Company issued the 3,000,000 bonus warrants, each of which was exercisable to purchase one common share for a price of CDN$0.15 expiring January 11, 2017. All 3,000,000 bonus warrants were exercised during the year ended December 31, 2016. The fair value of the bonus warrants ($59) was estimated using the Black Scholes option-pricing model and was recorded against the balance of the loan payable. The assumptions used in the option pricing model were as follows: risk-free interest rate – 0.85%; expected life – 1 year; expected volatility – 78.58%; and expected dividends – nil.

The change in the loan payable during the years ended December 31, 2016 and 2017 is as follows:

	$
Balance, December 31, 2015	670
Repayment	(350)
Interest expense	74
Balance, December 31, 2016	394
Proceeds advanced	950
Repayment	(674)
Interest expense	61
Balance, December 31, 2017	731

b) Credit facility

On November 30, 2017, the Company entered into a credit facility (the "Credit Facility") with a private Mexican financial institution.

The change in the loan payable during the years ended December 31, 2016 and 2017 is as follows:

	$
Balance, December 31, 2015 and 2016	-
Proceeds advanced	500
Balance, December 31, 2017	500

Funds may be drawn down under the Credit Facility either in US dollars or Mexican pesos. Funds drawn down must be repaid within 10 to 12 business days following the drawdown date. Funds drawn down in US dollars must be repaid in Mexican pesos and vice-versa. Drawdown amounts are limited to a maximum of $200 or the equivalent amount in Mexican pesos but can be increased at the discretion of the lender. Upon repayment of any particular draw down amount the Company may borrow the same amount immediately as a new draw under the Credit Facility. The Credit Facility is unsecured and the implied carrying charges that are tied to the spread between the US dollar and Mexican peso foreign exchange rates is approximately 70% per annum.

14. Leases

The Company entered into certain mining equipment leases expiring between 2018 and 2020 with interest rates between 6.5% and 10.5% per annum. The Company's obligations under these finance leases are secured by the lessor's title to the leased assets. The terms and the outstanding balances as at December 31, 2017 and 2016 are as follows:

	December 31, 2017 $	December 31, 2016 $
Equipment under finance lease repayable in monthly instalments of $91 with interest between 6.5% and 10.5% per annum. Due dates are between October 2017 and June 2020.	1,966	2,900
Current portion	(1,477)	(1,684)
Non-current portion	489	1,216

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

	December 31, 2017 $
2018	1,396
2019	532
2020	63
Total minimum lease payments	1,991
Less: imputed interest	(25)
Total present value of minimum lease payments	1,966
Less: Current portion	(1,477)
Non-current portion	489

15. JMET Note

Initial Prepaid Silver Purchase Agreement

On October 2, 2014, the Company entered a Prepaid Silver Purchase Agreement (the "Original JMET Agreement") with JMET, LLC ("JMET") to receive $28,400 in exchange for agreeing to sell 4,635,000 ounces of silver bullion through August 2019. In conjunction with the Original JMET Agreement, the Company entered into a minimum price protection program with JMET to set a floor price for silver, gold, lead and zinc.

Amendments to the JMET Agreement

On November 27, 2014, April 1, July 15, October 27, December 15, 2015, April 22, 2016 and June 14, 2016, the terms of the Original JMET Agreement were amended ("the Amended JMET Agreement") and the Company repaid a total of $11,000 to JMET. As a result of these amendments, the Company was to sell to JMET 2,644,625 ounces of silver through October 2019 at spot price less US$10, which included an additional 44,625 ounces of silver, representing a restructuring fee. The Company incurred transaction costs of $94 in 2015 and $21 in 2016 in relation to these amendments. Further, the Company agreed to pay JMET $100 (paid) on or before April 30, 2016 and another $100 (paid) on or before May 30, 2016.

As the change in future payment terms expected was determined to not be substantial, each amendment which occurred in 2015 and up to June 14, 2016 was recorded as a debt modification. Accordingly, the effective interest rate on the silver loan was recalculated at each amendment date based on the carrying value of the debt and the expected future payment terms and no gain or loss was recorded through profit and loss.

During the year ended December 31, 2016, the Company applied $1,777 against the current portion of the silver loan upon settlement of 1,262,856 ounces of silver, 495 tonnes of lead and 1,038 tonnes of zinc. In addition, a lump sum repayment of $1,004 was made on April 20, 2016, with $200 applied against the April and May restructure fees, and $804 applied against the remaining cash principal balance.

Restructuring of the Amended JMET Agreement and JMET Note

On July 14, 2016, the Company completed the restructuring (the "Restructuring") of the Amended JMET Agreement such that the Company no longer had any metal delivery obligations to JMET. In connection with the Restructuring, the Company made a $7,777 payment of the outstanding indebtedness under the Amended JMET Agreement and issued JMET a new secured note in the amount of $4,890 (the "JMET Note"). The Company incurred transaction costs of $100 in relation to the Restructuring.

Also pursuant to the Restructuring, the Company issued 3,750,000 warrants to JMET (the "JMET Warrants"). Each JMET Warrant was exercisable to acquire one common share of the Company at a price of CAD$0.55 per share and was to expire on December 31, 2018; provided that, if the volume weighted average price of the Company's common shares for any consecutive 20-day trading period on the TSX-V equals or exceeds CAD$0.88, whereby the Company would have the right to deem the JMET Warrants to be exercised.

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

The value of the derivative liability was estimated to be $93 as at December 31, 2016. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.15%; expected life – 2 years; expected volatility – 88.78%; expected forfeitures – 0%; and expected

dividends – $nil. Expected price volatility was calculated based on the Company's historical share prices.

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

The Company also agreed to pay JMET $1,500 of restructuring and finance fees, which fees would be payable in 2019 and were secured by all of the assets of the Company. During the year ended December 31, 2017, the amount outstanding on the JMET Note was repaid in full.

Pursuant to an early repayment agreement dated July 19, 2017, the Company paid $1,200 which was applied toward settling all remaining outstanding debt owing to JMET. JMET released and discharged all of its security and registrations over the Company's assets and the 3,750,000 JMET Warrants were cancelled.

The change in the JMET Note during the years ended December 31, 2017 and 2016 is as follows:

	$
Balance, December 31, 2015	20,830
Transaction costs	(21)
Repayment on April 20, 2016	(1,004)
Repayment by settlement of matured derivative assets	(1,777)
Interest expense	2,057
Subtotal	20,085
Repayment on July 14, 2016	(7,777)
Transaction costs	(100)
Fair value of JMET Warrants	(191)
Gain on Restructuring	(6,377)
Fair value of JMET Note on initial recognition	5,640
Interest payment	(146)
Accrued interest waived by JMET	(173)
Interest expense	428
Balance, December 31, 2016	5,749
Repayment	(6,090)
Transaction costs	(29)
Interest payment	(119)
Interest expense	224
Loss on settlement of JMET Note[1]	265
Balance, December 31, 2017	-

Note 1: The loss on settlement of JMET note is offset by the gain on the settlement of the JMET warrants.

$196 of the interest expense was capitalized to mine property during the year ended December 31, 2016, which was capitalized at the weighted average rate of the Company's general borrowings of 7.5%.

16. Forward Contract Derivative Liability

The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. During the year ended December 31, 2016, the Company entered into a forward contract to purchase $10,081 in exchange for CAD$13,000 with settlement date of less than one month. The forward contract settled during the year ended December 31, 2016.
During the year ended December 31, 2016, the Company entered into a series of forward contracts to purchase Mexican pesos in exchange for a total of $42,000 at 18.874 Mexican pesos per US dollar over the time period from October 31, 2016 to December 31, 2017 inclusive.

The fair value of the outstanding foreign currency forward contract at December 31, 2016 was estimated to be a derivative liability of $3,716, determined using the forward rate at the measurement date, with the resulting value discounted to present value and was categorized within Level 2 of the fair value hierarchy. As of December 31, 2016 the weak Mexican peso prompted a margin call of approximately $3,600, of which the Company paid $150. The margin call was reflected in the forward contract derivative liability balance of $3,716 at December 31, 2016. The deposit of $150 in the margin account was classified as restricted cash at December 31, 2016.

All of the outstanding forward contracts were settled during the year ended December 31, 2017. A loss of $145 was incurred in connection with the settlement of the contracts.

17. Decommissioning and Restoration Provision

The Company's estimates of future decommissioning and restoration for reclamation and closure costs are based on reclamation standards that meet Mexican regulatory requirements.

The undiscounted amount of estimated cash flows required to settle the decommissioning and reclamation costs at the Rosario Project was estimated at $779 (2016 – $779).

The key assumptions on which the provision estimates was based on are:

- Expected timing of the cash flows is based on the estimated useful life of the Rosario Project. The majority of the expenditures are expected to occur in 2022, which is the anticipated closure date.
- The inflation rate used is 3.66% (2016 – 3.66%).
- The discount rate used is 7% (2016 – 7%).

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

	December 31, 2017 $	December 31, 2016 $
Rosario		
Balance, beginning of year	485	533
Accretion expense	34	37
Change in estimate	-	(125)
Foreign exchange	(33)	40
Balance, end of year	486	485

18. Share Capital

a) Authorized

Unlimited number of common shares without par value.

b) Share Capital Transactions

(i) On July 14, 2016, the Company closed a public offering (the "Offering") through a syndicate of agents. The Company issued 37,975,000 units (the "Units") pursuant to the Offering at a price of CAD$0.40 per Unit for total gross proceeds of $11,779 (CAD$15,190). Each Unit consisted of one common share and one-half of a common share purchase warrant ("Warrant"). Each full Warrant entitles the holder to acquire one common share at a price of CAD$0.55 per share for a period of 30 months from closing. The Company incurred share issuance costs of $986 in connection with the Offering.

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

(ii) During the year ended December 31, 2016, the Company issued 3,022,500 common shares pursuant to exercise of warrants for total gross proceeds of $352. A value of $63 was transferred from warrants reserve to share capital as a result.

(iii) On March 9, 2017, the Company issued 13,415,000 common shares of the Company at a price of $0.207 per share valued at $2,781, pursuant to an amended acquisition agreement for the San Felipe project.

(iv) On March 10, 2017, in connection with the disposal of the San Felipe project, the Company issued 390,000 common shares to an arms-length consultant with a fair value of $81 in consideration for financial advisory services rendered.

(v) On August 16, 2017, the Company issued 1,250,000 common shares of the Company with a fair value of $212, pursuant to an amended acquisition agreement for the Gavilanes property.

(vi) On July 28 and August 21, 2017, the Company closed two tranches of a non-brokered private placement for gross proceeds of $783 (CAD$975) by issuing 4,875,000 units (the "Units") at price of CAD$0.20 per Unit. Each unit consists of one common share of the Company and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to acquire one common share of the Company at a price of CAD$0.28 per share for a period of 30 months. The Company incurred share issuance costs of $64 in connection with the private placement.

The Company has assigned a value of $305 to the warrants based on the estimated fair value using a Black-Scholes option pricing model with the balance of $478 assigned to the shares. The assumptions used in the option pricing model were as follows: risk-free interest rate – 1.35%; expected life – 2.5 years; expected volatility – 84.72%; and expected dividends – nil.

c) Stock Options and Warrants Reserve

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

	December 31, 2017 $	December 31, 2016 $
Stock options	4,695	4,694
Warrants	4,572	4,292
	9,267	8,986

d) Stock Options

The Company established a stock option plan (the "Plan") for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates. The maximum number of shares available under the Plan is limited to 10% of the issued common shares. Options granted under the Plan have a maximum term of ten years and the vesting provisions of options granted are at the discretion of the Board.

Details of options activity for the year ended December 31, 2017 and 2016 are as follows:

	Number of Stock Options	Weighted Average Exercise Price (CDN$)	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2015	3,303,334	1.06	1.75
Granted	4,500,000	0.15	-
Cancelled	(2,101,667)	1.15	-
Forfeited	(500,000)	0.90	-
Balance, December 31, 2016	5,201,667	0.25	3.59
Expired	(1,301,667)	0.90	-
Balance and Exercisable, December 31, 2017	3,900,000	0.15	3.12

The balance of options outstanding as at December 31, 2017 is as follows:

Expiry Date	Exercise Price CDN$	Remaining Life (Years)	Options Outstanding
February 10, 2021	0.15	3.12	3,900,000

4,500,000 options were granted during the year ended December 31, 2016. The fair values of the options granted during the year ended December 31, 2016 were estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.50%; expected life – 5 years; expected volatility – 83.36%; expected forfeitures – 0%; and expected dividends – $nil. Expected price volatility was calculated based on the Company's historical share prices.

The weighted average fair value of stock options granted during the year ended December 31, 2016 was $0.08 per option.

During the year ended December 31, 2017, the Company recorded share-based payments expense of $1 (2016 – $386).

e) Warrants

Details of warrants activity for the year ended December 31, 2017 and 2016 are as follows:

	Number of Warrants	Weighted Average Exercise Price CDN$	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2015	723,750	1.00	0.19
Issued	25,737,500	0.50	-
Expired	(723,750)	1.00	-
Exercised	(3,022,500)	0.15	-
Balance, December 31, 2016	22,715,000	0.55	1.54
Issued	4,875,000	0.28	-
Cancelled (Note 15)	(3,750,000)	0.55	-
Balance, December 31, 2017	23,840,000	0.49	1.25

The balance of warrants outstanding as at December 31, 2017 is as follows:

Expiry Date	Exercise Price CDN$	Remaining Life (Years)	Warrants Outstanding
January 14, 2019	0.55	1.04	18,965,000
January 28, 2020	0.28	2.08	4,675,000
February 21, 2020	0.28	2.14	200,000
			23,840,000

19. Mine Services Agreement

On November 28, 2017 the Company entered into an agreement (the "Mine Services Agreement") with Carrizal whereby the Company will provide Carrizal with certain mine development, metallurgical and geological consulting services as well as administrative services in connection with Carrizal's mining activities. The Mine Services Agreement has no fixed termination date but may be terminated by either party giving 30 days written notice to the counter party.

20. Operating Costs by Nature

a) Cost of sales

Years ended December 31,	2017 $	2016 $
Direct cost of mining operations	11,684	9,404
Direct cost of mining services	2,724	-
Depletion and amortization	2,144	2,459
	16,552	11,863

b) Operating expenses

Years ended December 31,	2017 $	2016 $
Administrative	449	295
Depreciation	11	5
Management and consulting fees	401	342
Other	246	315
Professional fees	625	683
Salaries and benefits	48	72
Share-based payments	1	386
Shareholder communications	22	51
Transfer agent and filing fees	42	28
Travel	37	42
	1,882	2,219

21. a) Interest Earned and Other Finance Income

Years ended December 31,	2017 $	2016 $
Interest earned	21	6
IVA recovery inflationary gain	464	166
Change in fair value of derivative assets	3,569	-
Gain on settlement of debt	-	6,377
Foreign exchange gain	-	503
	4,054	7,052

b) Interest Expense and Other Finance Expenses

Years ended December 31,	2017 $	2016 $
Accretion of decommissioning and restoration provision	(34)	(37)
Change in fair value of derivative assets / liabilities	-	(5,562)
Foreign exchange loss	(522)	-
Interest expense on loan payable	(61)	(66)
Interest expense on silver loan	-	(2,057)
Interest expense on JMET Note	(224)	(232)
Loss on settlement of JMET Note	(172)	-
	(1,013)	(7,954)

22. Related Party Transactions

During the years ended December 31, 2017 and 2016, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	2017 $	2016 $
Mining Services		
Revenues	3,580	-
Cost of sales	1,500	-
Expenses		
Accounting and corporate secretarial fees	149	252
Directors' fees	62	68
Management fees	196	186
Share-based payments	-	293
Salaries and benefits capitalized	-	113

At December 31, 2017, directors and officers or their related companies were owed $266 (December 31, 2016 – $227) in respect of the services rendered. These are non-interest bearing with standard payment terms.

In connection with the personal guarantee of the Loan by the CEO of the Company, the Company issued 3,000,000 bonus warrants to the CEO, each of which was exercisable to purchase one common share for a price of CDN$0.15 expiring January 11, 2017. All 3,000,000 bonus warrants were exercised during the year ended December 31, 2016.

The Company entered into certain mining equipment leases expiring between 2017 and 2020 with an interest rate between 6.5% and 10.5% per annum. $532 of lease payments were paid during the year ended December 31, 2017 (2016 - $583) and $998 of the leases payable outstanding at December 31, 2017 were owed to a company owned by the CEO of the Company (2016 - $1,484).

The Company entered into the Mine Services Agreement (note 19) as well as the Carrizal LOI (Note 10b) with a related company with common directors during the year ended December 31, 2017. As at December 31, 2017, $1,552 was owing from Carrizal (2016 - $nil).

Key management includes directors and executive officers of the Company. Other than the amounts disclosed above, there was no other compensation paid or payable to key management for employee services for the reported periods.

23. Non-cash Transactions

Investing and financing activities that do not have a direct impact on cash flows are excluded from the consolidated statements of cash flows. During the year ended December 31, 2017, the following transactions were excluded from the consolidated statements of cash flows:

- Mineral property exploration expenditures of $4,210 included in accounts payable and accrued liabilities at December 31, 2017, less mineral property exploration expenditures included in accounts payable and accrued liabilities at December 31, 2016 of $3,462 (net inclusion of $748);
- Property, plant, and equipment of $541 that was included in accounts payable and accrued liabilities at December 31, 2017;
- 13,415,000 common shares of the Company issued pursuant to an amended acquisition agreement for the San Felipe project, valued at $2,781;
- 390,000 common shares of the Company issued in connection with the disposal of the San Felipe project, valued at $81; and
- 1,250,000 common shares of the Company issued pursuant to an amended acquisition agreement for the Gavilanes property, valued at $212;

During the year ended December 31, 2016, the following transactions were excluded from the consolidated statements of cash flows:

- Mineral property exploration expenditures of $3,462 included in accounts payable and accrued liabilities at December 31, 2016, less mineral property exploration expenditures included in accounts payable and accrued liabilities at December 31, 2015 of $915 (net inclusion of $2,547);
- $2,900 of leases payable that have been capitalized to plant and equipment at December 31, 2016; and
- The settlement proceeds of $1,777 under the revised minimum price protection program applied against the current portion of the silver loan.

24. Segmented Information

The Company has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer and the executive management, collectively the chief operating decision maker, in assessing performance and in determining the allocation of resources. We primarily manage our business by looking at individual producing and developing resource projects as well as the aggregate of the exploration and evaluation properties and typically segregate these projects between production, development and exploration.

a) Operating Segments

The corporate division earns income that is considered incidental to our activities and therefore does not meet the definition of an operating segment. Consequently, the following operating and reportable segments have been identified: the Rosario Project, Veta Grande Project, Mine Services, and exploration and evaluation properties. Below is a summary of the reported amounts of income or loss, and the carrying amounts of assets and liabilities by operating segment:

Year Ended December 31, 2017	Rosario Project $	Veta Grande Project $	Exploration and evaluation properties $	Mine Services $	Corporate and other $	Total $
Revenues	4,153	3,663	-	3,580	-	11,396
Production costs	(5,823)	(5,861)	-	(2,724)	-	(14,408)
Depletion and amortization	(1,533)	(611)	-	-	-	(2,144)
Cost of sales	(7,356)	(6,472)	-	(2,724)	-	(16,552)
Gross (loss) profit	(3,203)	(2,809)	-	856	-	(5,156)
Operating (loss) income	(17,998)	(2,809)	(5,284)	856	(2,297)	(27,532)
(Loss) income before tax	(17,998)	(2,809)	(5,284)	856	744	(24,491)
Interest earned and other finance income	-	-	-	-	4,147	4,147
Interest expense and other finance expenses	(34)	-	-	-	(1,072)	(1,106)
Impairment	(14,795)	-	(5,284)	-	-	(20,079)
Income tax recovery	1,585	-	-	-	-	1,585
Total assets	7,859	11,597	997	3,051	4,167	27,671
Current assets	606	380	-	3,051	2,087	6,124
Non-current assets	7,253	11,217	997	-	2,080	21,547
Total liabilities	(5,194)	(4,211)	-	(2,724)	(8,538)	(20,667)

Year Ended December 31, 2016	Rosario Project $	Veta Grande Project $	Exploration and evaluation properties $	Corporate and other $	Total $
Revenues	10,922	890	-	-	11,812
Production costs	(7,447)	(1,957)	-	-	(9,404)
Depletion and amortization	(2,307)	(152)	-	-	(2,459)
Cost of sales	(9,754)	(2,109)	-	-	(11,863)
Gross profit (loss)	1,168	(1,219)	-	-	(51)
Operating income (loss)	1,168	(1,219)	(15,615)	(2,219)	(17,885)
Income (loss) before tax	1,168	(1,219)	(15,615)	(3,121)	(18,787)
Interest earned and other finance income	-	-	-	7,052	7,052
Interest expense and other finance expenses	(37)	-	-	(7,917)	(7,954)
Income tax (expense) recovery	(148)	-	429	-	281
Total assets	23,668	11,123	12,053	5,035	51,879
Current assets	547	259	3,746	4,804	9,356
Non-current assets	23,121	10,864	8,307	231	42,523
Total liabilities	(3,699)	(3,127)	(335)	(19,264)	(26,425)

a) Segment Revenue by Location and Major Customers

For the Rosario Project segment, in each of the 2017 and 2016 periods the Company had only one customer who individually accounted for 100% of total concentrate revenue in Mexico.

For the Veta Grande Project segment, the Company had only one customer, who is the same customer for the Rosario Project, who individually accounted for 100% of total concentrate revenue in Mexico during the year ended December 31, 2017.

For the Mine Services Agreement, the Company only had one customer, Carrizal, who individually accounted for 100% of total mining service revenue in Mexico.

b) Non-current Assets by Location

	December 31, 2017 $	December 31, 2016 $
Canada	-	6
Mexico	21,547	42,517
Total	21,547	42,523

25. Financial Instruments

a) Fair Value of Financial Instruments

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuation based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates;

Level 3: Valuation based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The carrying values of cash and cash equivalents, trade receivables, other receivables, and accounts payable and accrued liabilities, approximate their fair values because of their short term nature.

b) Management of Risks Arising from Financial Instruments

The Company is exposed to credit risk and market risks including interest rate risk, liquidity risk, foreign exchange rate risk, and price risk.

(i) Credit Risk – Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations. The Company's credit risk consists primarily of cash and cash equivalents, trade receivables and other receivables. The credit risk is minimized by placing cash with major financial institutions. Trade receivables are due from a large, multinational corporation that has

conducted business in Mexico for many years. The Company regularly reviews the collectability of its trade receivables and contractually receives up to 90% advance on all payments. The Company considers the credit risk related to cash and cash equivalents and trade receivables to be minimal.

(ii) Interest Rate Risk – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If interest rates increase, the Company will incur more interest costs. The sensitivity of the Company's net loss to changes in the interest rate would be as follows: a 10% change in the interest rate would change the Company's net loss by approximately $8.

(iii) Liquidity Risk – Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company endeavors to ensure that sufficient funds are raised from equity offerings or debt financings to meet its operating requirements, after taking into account existing cash and expected exercise of stock options and share purchase warrants. The Company's cash is held in business accounts which are available on demand for the Company's programs. Refer to Note 1 with respect to going concern matters.

Contractual cash flow requirements as at December 31, 2017 were as follows:

	< 1 year $	**1 – 2 years $**	**2 – 5 years $**	**>5 years $**	**Total $**
Accounts payable and accrued liabilities	15,783	-	-	-	15,783
Loan payable	1231	-	-	-	1,231
Leases	1,477	489	-	-	1,966
Total	18,491	489	0	-	18,980

(iv) Foreign Exchange Rate Risk – The Company operates in Canada and Mexico and is exposed to foreign exchange risk due to fluctuations in the US dollar and Mexican peso. Foreign exchange risk arises from financial assets and liabilities denominated in these foreign currencies. The sensitivity of the Company's net loss to changes in the exchange rate between the US dollar and respectively the Mexican peso and the Canadian dollar would be as follows: a 10% change in the US dollar exchange rate relative to the Mexican peso would change the Company's net loss by approximately $1,015 and a 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's net loss by approximately $108.

The Company's financial assets and liabilities as at December 31, 2017 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	10	14	11	35
Trade receivables	-	603	3,051	3,654
Other receivables	4	-	1,802	1,806
	14	617	4,864	5,495
Financial liabilities				
Accounts payable and accrued liabilities	443	72	15,268	15,783
Loan payable	-	1,231	-	1,231
	443	1,303	15,268	17,014
Net financial liabilities	(429)	(686)	(10,404)	(11,519)

(v) Price Risk – This is the risk that the fair value of derivative financial instruments will fluctuate because of changes in commodity prices. These commodity prices are affected by numerous factors that are outside of our control such as: global or regional consumption patterns; the supply of, and demand for, these metals; speculative activities; the availability and costs of metal substitutes; inflation; and political and economic conditions, including interest rates and currency values.

26. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and to bring its mineral properties to commercial production.

To date, the Company has depended on external financing to fund its activities. The capital structure of the Company currently consists of shareholders' equity, which was $7,007 as at December 31, 2017 (2016 – $25,454). The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, being mineral properties. In order to maintain or adjust the capital structure, the Company may issue new shares through equity offerings or sell assets to fund operations. Management reviews its capital management approach on a regular basis. The Company is not subject to externally imposed capital requirements.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly-rated financial instruments, such as cash and other short-term guaranteed deposits, all held with major financial institutions. There have not been changes to the Company's capital management policy during the year.

27. Income Taxes

a) Income Tax Expense

	December 31, 2017 $	December 31, 2016 $
Current	(168)	(148)
Deferred	1,753	429
Total	1,585	281

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

	December 31, 2017 $	December 31, 2016 $
Statutory rate	26.00%	26.00%
Loss before income tax	(24,491)	(18,506)
Income tax recovery at statutory rates	6,327	4,844
Change due to differences in tax rates	1,294	778
Permanent differences	(1,027)	(1,526)
Deferred tax assets not recognized	(7,699)	(2,146)
Change due to foreign translation and other	1,225	(2,182)
Mexican mining royalty tax	1,465	513
	1,585	281

The income tax rate will change to 27% in the following year as a result of an increase to the BC provincial income tax rate.

b) Deferred Taxes

The significant components of the Company's deferred tax liabilities are as follows:

	December 31, 2017 $	December 31, 2016 $
Withholdings taxes	(1,098)	(760)
Mineral properties and equipment	(100)	(2,191)
Total deferred tax liability	(1,198)	(2,951)

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

	December 31, 2017 $	December 31, 2016 $
Deferred income tax assets		
Deferred financing costs	524	1,683
Non-capital loss carry forwards and other	11,143	9,192
Mineral properties	6,155	-
Deferred income tax assets, total	17,822	10,875
Deferred income tax liabilities		
Mineral properties and equipment	-	(1,642)
Deferred income tax liabilities, total	-	(1,642)
Unrecognized deferred tax assets, net	17,822	9,233

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

At December 31, 2017, the Company has non-capital losses of approximately CDN$6,400 that arose in Canada which will expire in various years between 2031 and 2037. At December 31, 2017, the Company also has losses of approximately 752,625,000 Mexican Pesos that arose in Mexico which will expire in various years between 2020 and 2027.

Deferred tax assets have not been recognized on non-capital loss carry forwards.

28. Subsequent Event

a) Short-term loan

Subsequent to December 31, 2017 the Company entered into a short-term loan (the "Loan") with a private Bolivian mining company, for $2,300. The Loan bears interest at 9% per annum, is repayable July 1st, 2018, and is unsecured. In connection with the Loan the Company has agreed to issue the lender 2,000,000 warrants exercisable until March 6, 2019, at $0.16 per share. The issuance of the warrants is subject to TSX Venture Exchange approval.