Condensed Interim Consolidated Financial Statements

Three Months Ended March 31, 2014 and 2013

(Unaudited – expressed in US Dollars)

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

	Note	March 31, 2014 $	December 31, 2013 $
ASSETS			
Current			
Cash and cash equivalents	**4**	6,486,119	1,618,472
VAT recoverable and receivables	**5**	6,333,173	5,637,805
Inventory	**6**	302,349	633,580
Prepaid expenses and deposits		235,168	135,794
		13,356,809	8,025,651
Plant and equipment	**7**	10,520,207	10,632,230
Mine property	**8**	8,646,730	8,770,992
Exploration and evaluation properties	**9**	36,208,051	33,583,145
		68,731,797	61,012,018
LIABILITIES			
Current			
Accounts payable and accrued liabilities		963,355	1,045,846
		963,355	1,045,846
Decommissioning and restoration provision	**10**	606,048	595,953
Deferred income tax liability		3,916,391	3,974,151
		5,485,794	5,615,950
EQUITY			
Share capital	**11**	85,610,084	75,912,147
Stock options and warrants reserve	**11(d)**	5,524,362	5,316,201
Accumulated other comprehensive loss		(497,817)	(503,931)
Deficit		(27,390,626)	(25,328,349)
		63,246,003	55,396,068
		68,731,797	61,012,018

Commitments *(Notes 8, 9 and 16)*
Subsequent Event *(Note 17)*

Approved on behalf of the Board:

"Arturo Préstamo Elizondo"
Director – Arturo Préstamo Elizondo

"Craig A. Angus"
Director – Craig A. Angus

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

Santacruz Silver Mining Ltd.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended March 31, 2014 and 2013
(Unaudited – expressed in US Dollars)

	Note	2014 $	2013 $
Revenues		1,931,567	-
Expenses			
Operating expenses		2,965,608	-
Amortization and depletion		313,070	-
		3,278,678	-
Mine operating loss		(1,347,111)	-
General and administrative expenses			
Administrative		195,818	105,231
Depreciation		1,897	1,016
Management and consulting fees	**12**	178,515	72,937
Other		52,200	385
Professional fees	**12**	130,519	70,011
Salaries and benefits		45,745	48,992
Share-based payments	**11(e)**	8,492	370,971
Shareholder communications		45,396	132,898
Transfer agent and filing fees		26,673	47,432
Travel		38,251	53,771
		(723,506)	(903,644)
Other income (expenses)			
Accretion	**10**	(10,296)	-
Foreign exchange (loss) gain		(61,418)	117,079
Other income		38,694	44,021
		(33,020)	161,100
Loss before income tax		(2,103,637)	(742,544)
Income tax recovery (expense)			
Current		(16,400)	(210)
Deferred		57,760	-
		41,360	(210)
Net loss for the period		(2,062,277)	(742,754)
Other comprehensive income (loss)			
Exchange differences on translating foreign operations		6,114	(153,771)
Comprehensive loss for the period		(2,056,163)	(896,525)
Loss per share – basic and diluted		(0.02)	(0.01)
Weighted average number of common shares outstanding		94,033,762	77,619,340

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

Santacruz Silver Mining Ltd.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended March 31, 2014 and 2013
(Unaudited – expressed in US Dollars)

Cash Provided By (Used In):	**2014 $**	**2013 $**
Operations:		
Net loss for the period	(2,062,277)	(742,754)
Items not affecting cash:		
Deferred income tax recovery	(57,760)	-
Accretion	10,296	-
Amortization and depletion	313,070	-
Depreciation	1,897	1,016
Share-based payments	8,492	370,971
Changes in non-cash working capital:		
VAT recoverable and receivables	(695,368)	(2,217,768)
Prepaid expenses and deposits	(99,374)	8,097
Inventory	331,231	(50,563)
Deferred financing costs	-	61,748
Accounts payable and accrued liabilities	(82,491)	(135,988)
	(2,332,284)	(2,705,241)
Investing:		
Exploration and evaluation properties	(2,621,936)	(16,973,050)
Acquisition and development costs on mine property	(20,000)	(1,084,051)
Acquisition of plant and equipment	(62,085)	(1,962,503)
	(2,704,021)	(20,019,604)
Financing:		
Issuance of common shares, net	9,897,606	37,096,066
Due to shareholders	-	(49,339)
	9,897,606	37,046,727
Net increase in cash	4,861,301	14,321,882
Effect of exchange rate changes on cash	6,346	(153,497)
Cash and cash equivalents – beginning of period	1,618,472	2,879,378
Cash and cash equivalents – end of period	6,486,119	17,047,763

Non-cash Transactions *(Note 13)*

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

	Share Capital		Stock Options and Warrants Reserve			
	Number of Shares	Amount $	$	AOCI $	Deficit $	Total $
Balance, December 31, 2012	67,846,439	38,186,694	3,797,949	(89,198)	(19,009,017)	22,886,428
Issued pursuant to prospectus offering	21,910,000	39,949,557	-	-	-	39,949,557
Exercise of warrants	51,563	68,465	(16,976)	-	-	51,489
Share issuance costs	-	(3,903,509)	997,642	-	-	(2,905,867)
Share-based payments	-	-	370,971	-	-	370,971
Net loss and comprehensive loss for the period	-	-	-	(153,771)	(742,754)	(896,525)
Balance, March 31, 2013	89,808,002	74,301,207	5,149,586	(242,969)	(19,751,771)	59,456,053
Issued for mineral properties	1,250,000	1,292,961	-	-	-	1,292,961
Exercise of warrants	272,982	317,979	(137,619)	-	-	180,360
Share-based payments	-	-	304,234	-	-	304,234
Net loss and comprehensive loss for the period	-	-	-	(260,962)	(5,576,578)	(5,837,540)
Balance, December 31, 2013	91,330,984	75,912,147	5,316,201	(503,931)	(25,328,349)	55,396,068
Issued pursuant to prospectus offering	12,162,500	10,864,694	-	-	-	10,864,694
Share issuance costs	-	(1,166,757)	199,669	-	-	(967,088)
Share-based payments	-	-	8,492	-	-	8,492
Net loss and comprehensive loss for the period	-	-	-	6,114	(2,062,277)	(2,056,163)
Balance, March 31, 2014	103,493,484	85,610,084	5,524,362	(497,817)	(27,390,626)	63,246,003

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

1. Nature of Operations

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

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

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

2. Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013 which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements have been prepared on a basis consistent with the significant accounting policies disclosed in Note 3 of the annual consolidated financial statements for the year ended December 31, 2013 and were approved for issue by the Board of Directors on May 28, 2014.

3. Significant Accounting Policies

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2013, except for the following policies and disclosure requirements adopted in the current financial period:

a) Commencement of Commercial Production

The Company assesses the stage of each mine under construction to determine when a property reaches the stage when it is substantially complete and ready for its intended use. Criteria used to assess when a property has commenced commercial production include, among other considerations:

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

(Unaudited – expressed in US Dollars)

When management determines that a property has reached commercial production, costs capitalized during development are amortized. The Company determined its Rosario Mine to be in commercial production effective January 1, 2014.

b) IFRIC 21 – Levies Imposed by Governments

In May 2013, the IASB issued IFRIC 21, *Levies* (“IFRIC 21”), an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company has evaluated the impact of IFRIC 21 and has determined that it has no material impact on its financial statements.

c) IAS 32 – Offsetting of Financial Instruments (“IAS 32”)

The amendments to IAS 32, *Financial Instruments: Presentation*, clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of set off in respect of its financial instruments. Amendments to IAS 32 are applicable to annual periods beginning on or after January 1, 2014, with retrospective application required. The Company has evaluated the impact of IAS 32 and has determined that it has no material impact on its financial statements.

4. Cash and Cash Equivalents

	March 31, 2014 $	**December 31, 2013 $**
Cash on hand or held with banks:		
US dollar	44,537	32,969
Canadian dollar	6,373,814	1,089,535
Mexican peso	57,365	485,156
	6,475,716	1,607,660
Short-term investments	10,403	10,812
Total	6,486,119	1,618,472

5. VAT recoverable and receivables

	March 31, 2014 $	**December 31, 2013 $**
Value added taxes recoverable	5,757,436	5,226,118
Trade receivables	529,017	310,810
Other receivables	46,720	100,877
Total	6,333,173	5,637,805

(Unaudited – expressed in US Dollars)

6. Inventory

	March 31, 2014 $	December 31, 2013 $
Mined ore inventory	15,180	265,636
Concentrate inventory	28,099	238,800
Supplies inventory	259,070	129,144
Total	302,349	633,580

7. Plant and Equipment

Cost	Office Furniture and Equipment $	Plant and Equipment $	Vehicles $	Computer Hardware $	Total $
Balance, December 31, 2012	39,573	5,671,066	197,642	82,045	5,990,326
Additions	16,309	5,471,593	147,214	56,792	5,691,908
Disposals	-	-	(32,180)	(466)	(32,646)
Foreign exchange	(948)	-	-	-	(948)
Balance, December 31, 2013	54,934	11,142,659	312,676	138,371	11,648,640
Additions	-	48,823	11,357	1,905	62,085
Foreign exchange	(520)	-	-	-	(520)
Balance, March 31, 2014	54,414	11,191,482	324,033	140,276	11,710,205
Accumulated Depreciation					
Balance, December 31, 2012	3,056	598	30,553	12,251	46,458
Additions	4,389	878,670	59,408	31,347	973,814
Disposals	-	-	(3,626)	(128)	(3,754)
Foreign exchange	(108)	-	-	-	(108)
Balance, December 31, 2013	7,337	879,268	86,335	43,470	1,016,410
Additions	1,234	150,940	14,383	7,118	173,675
Foreign exchange	(87)	-	-	-	(87)
Balance, March 31, 2014	8,484	1,030,208	100,718	50,588	1,189,998
Carrying amount at December 31, 2013	47,597	10,263,391	226,341	94,901	10,632,230
Carrying amount at March 31, 2014	45,930	10,161,274	223,315	89,688	10,520,207

Depreciation during the three months ended March 31, 2014 was $173,675 (2013 – $17,025). During the three months ended March 31, 2014, $nil and $2,970 of the depreciation was capitalized to mine property and exploration and evaluation properties, respectively (2013 – $16,009 and $nil). The Company does not have any equipment under lease for any of the periods presented.

(Unaudited – expressed in US Dollars)

8. Mine Property

The summary of accumulated costs in the Company's mine property as of March 31, 2014 and December 31, 2013 are as follows:

	Balance, Dec 31, 2012 $	Year Ended Dec 31, 2013 $	Balance, Dec 31, 2013 $	Period Ended March 31, 2014 $	Balance, March 31, 2014 $
Rosario, Charcas, San Luis Potosi, Mexico					
Acquisition costs					
Option payments – cash	852,818	622,182	1,475,000	20,000	1,495,000
	852,818	622,182	1,475,000	20,000	1,495,000
Exploration, development and pre-production costs					
Depreciation	39,873	954,567	994,440	-	994,440
Drilling	912,865	58,673	971,538	-	971,538
Geological consulting	55,649	467,173	522,822	-	522,822
Mine development	119,627	580,038	699,665	-	699,665
Mine site support and office costs	1,345,549	1,351,194	2,696,743	-	2,696,743
Permitting and other expenses	395,963	121,989	517,952	-	517,952
Safety and maintenance	22,608	660,137	682,745	-	682,745
Water well project	89,644	598,948	688,592	-	688,592
Pre-production revenue	-	(1,441,602)	(1,441,602)	-	(1,441,602)
Ore purchased	-	367,144	367,144	-	367,144
	2,981,778	3,718,261	6,700,039	-	6,700,039
Amortization and depletion	-	-	-	(144,262)	(144,262)
Decommissioning liabilities *(Note 10)*	-	595,953	595,953	-	595,953
Total	3,834,596	4,936,396	8,770,992	(124,262)	8,646,730

Rosario, Charcas, San Luis Potosi, Mexico

Rey David, Charcas, San Luis Potosi, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated February 15, 2010, as amended on February 15, 2012, March 20, 2012, August 15, 2013, October 15, 2013, February 4, 2014 and April 14, 2014, the Company was granted an option to acquire a 100% interest in the Rey David property located in the municipality of Charcas, San Luis Potosi, Mexico. The property covers 42 hectares and is subject to a 0.4% Net Smelter Returns ("NSR") in favour of the optionor. The NSR increases by 0.1% per year, until it reaches a maximum of 1%. The Company has the right to buy back the NSR for a cash payment of $637,000 within the 48 months following the execution of the agreement. Following the 48-month option period, the purchase price of the buyout will increase in proportion to the 0.1% increase to a maximum of $1,592,500 in year 10.

To maintain and exercise the option, the Company must make $2,000,000 of cash payments to the property vendor. As at March 31, 2014, the Company has made total payments of $1,355,000 and the residual payments are as follows:

- $200,000 on April 15, 2014 (paid subsequent to March 31, 2014); and
- $445,000 on July 15, 2014.

San Rafael, Charcas, San Luis Potosi, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated February 22, 2011, the Company was granted an option to acquire a 100% interest in the San Rafael property, located in the municipality of Charcas, San Luis Potosí, Mexico. The vendor retains a 2.5% NSR. The Company also has an obligation to pay the local Ejido 300,000 Mexican pesos per year for surface access on the San Rafael concessions. To maintain and exercise the option, the Company must make $220,000 of cash payments to the property vendor. As at March 31, 2014, the Company has made total payments of $140,000 and the residual payments are as follows:

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

(Unaudited – expressed in US Dollars)

9. Exploration and Evaluation Properties

The Company is actively investigating, evaluating and conducting exploration activities in Mexico. The summary of accumulated costs in its exploration and evaluation properties as of March 31, 2014 and December 31, 2013 are as follows:

	Balance, Dec 31, 2012 $	Year Ended Dec 31, 2013 $	Balance, Dec 31, 2013 $	Period Ended March 31, 2014 $	Balance, March 31, 2014 $
a) Gavilanes, San Dimas, Durango, Mexico					
Acquisition costs					
Option payments – cash	1,515,000	1,800,000	3,315,000	1,500,000	4,815,000
	1,515,000	1,800,000	3,315,000	1,500,000	4,815,000
Exploration costs					
Depreciation	-	4,130	4,130	1,290	5,420
Drilling	813,099	1,005,028	1,818,127	7,472	1,825,599
Geological consulting	-	-	-	10,104	10,104
Mine site support and office costs	22,263	45,557	67,820	179	67,999
Professional fees	-	46,951	46,951	-	46,951
Safety and maintenance	28,077	40,808	68,885	20,927	89,812
	863,439	1,142,474	2,005,913	39,972	2,045,885
	2,378,439	2,942,474	5,320,913	1,539,972	6,860,885
b) San Felipe de Jesús, Sonora, Mexico					
Acquisition costs					
Option payments – cash	6,000,000	16,883,997	22,883,997	-	22,883,997
Option payments – shares	-	1,292,961	1,292,961	-	1,292,961
Exploration obligation still to be incurred	2,383,177	(2,383,177)	-	-	-
	8,383,177	15,793,781	24,176,958	-	24,176,958
Exploration costs					
Depreciation	-	5,778	5,778	1,680	7,458
Drilling	102,454	2,749,794	2,852,248	389,524	3,241,772
Geological consulting	-	76,608	76,608	294,304	370,912
Mine site support and office costs	185,102	130,591	315,693	168,542	484,235
Professional fees	106,404	27,576	133,980	-	133,980
Safety and maintenance	222,863	478,104	700,967	230,884	931,851
	616,823	3,468,451	4,085,274	1,084,934	5,170,208
	9,000,000	19,262,232	28,262,232	1,084,934	29,347,166
Total	11,378,439	22,204,706	33,583,145	2,624,906	36,208,051

a) Gavilanes, San Dimas, Durango, Mexico

Gavilanes I, San Dimas, Durango, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated April 27, 2010, as amended October 12, 2010, December 27, 2010, October 29, 2011, January 30, 2012, March 20, 2012, April 26, 2013 and December 17, 2013, the Company was granted an option to acquire a 100% interest in the Gavilanes property located in San Dimas, Durango, Mexico. The property is subject to a 3% NSR in favour of the optionor, up to a maximum of $2,000,000.

To maintain and exercise the option, the Company must make $3,600,000 of cash payments to the vendor. As at March 31, 2014, the Company has made total payments of $3,600,000.

Gavilanes II, San Dimas, Durango, Mexico

Pursuant to a mining exploration and promise of assignment of rights agreement dated May 1, 2010, as amended October 12, 2010, December 27, 2010, January 7, 2011, November 8, 2013 and April 10, 2014, the Company was granted an option to acquire a 100% interest in the Gavilanes property (named Gavilanes II) located in San Dimas, Durango, Mexico. The property is subject to a 2% NSR in favour of the optionor, up to a maximum of $1,000,000. The NSR may be purchased by the Company for $1,000,000. To maintain and exercise the option, the Company must make $2,265,000 of cash payments to the property vendor. As at March 31, 2014, the Company has made total payments of $1,115,000 and must make one residual payment of $1,150,000 on December 17, 2014.

Gavilanes MHM Fraccion, San Dimas, Durango, Mexico

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

b) San Felipe de Jesús, Sonora, Mexico

San Felipe de Jesús

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

- Annual surface right payments of 520,000 Mexican Pesos ($39,744) on or before February 19 of each year until the project reaches commercial production;
- $1,000,000 on June 15, 2014;
- $5,000,000 on October 31, 2014 (as described under "El Gachi" below);
- $15,000,000 on or before October 31, 2015; and
- $1,000,000 for restructuring fees on or before October 31, 2015. At the Company’s election this payment may be made in cash or through the issuance of $1,500,000 of common shares of the Company, at an issuance price calculated at the time of issuance pursuant to the policies of the TSX-V and subject to a minimum issuance price of CDN$1.07 per share.

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

With respect to the exploration expenditures commitment, if the Company did not incur $3,000,000 of expenditures by October 31, 2015, it was obligated to reimburse the optionor for the difference between $3,000,000 and the actual exploration expenditures incurred. As such, upon execution of the San Felipe Agreement, $3,000,000 was capitalized as mineral property acquisition costs with an offsetting charge for exploration obligations. All $3,000,000 of exploration expenditures have been incurred and there are $nil exploration obligations as at March 31, 2014.

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

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

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

El Gachi

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

10. Decommissioning and Restoration Provision

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

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

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

(Unaudited – expressed in US Dollars)

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

	March 31, 2014 $	December 31, 2013 $
Balance, beginning of period / year	595,953	-
Provision	-	595,953
Accretion	10,296	-
Foreign exchange	(201)	-
Balance, end of period / year	606,048	595,953

11. Share Capital

a) Authorized

Unlimited number of common shares without par value.

b) Share Capital Transactions

(i) On February 19, 2013, the Company closed a prospectus offering (the “2013 Offering”) through a syndicate of underwriters (the “Underwriters”). The Company issued 21,850,000 common shares at a price of CDN$1.85 per share for gross proceeds of $39,949,557 (CDN$40,422,500). The Underwriters received a cash fee of $2,396,973, as well as 1,311,000 warrants, each of which is exercisable to purchase one common share for a price of CDN$1.85 up to February 19, 2015. The fair value of the broker warrants ($997,642) was estimated using the Black Scholes option-pricing model and was charged to share issue costs and credited to warrants reserve. The assumptions used in the option pricing model are as follows: risk-free interest rate – 0.78%; expected life – 2 years; expected volatility – 77.33%; and expected dividends – nil. The Company also issued 60,000 common shares as corporate finance fee and incurred additional issue costs of $508,894.

(ii) On August 16, 2013, as described in Note 9(b), the Company issued 1,250,000 common shares at a deemed issue price of CDN$1.07 per share as an option payment pursuant to the San Felipe Agreement.

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

(iv) On March 11, 2014, the Company closed a prospectus offering (the “2014 Offering”), pursuant to which 12,062,500 common shares were issued at a price of CDN$1.00 per share for gross proceeds of $10,864,694 (CDN$12,062,500). The underwriters received a cash fee of $651,882 (CDN$723,750), as well as 723,750 warrants, each of which is exercisable to purchase one common share for a price of CDN$1.00 until March 11, 2016 for 645,000 warrants and March 20, 2016 for 78,750 warrants. The fair value of the broker warrants ($199,669) was estimated using the Black Scholes option-pricing model and was charged to share issue costs and credited to warrants reserve. The assumptions used in the option pricing model are as follows: risk-free interest rate – 1.30%; expected life – 2 years; expected volatility – 51.08%; and expected dividends – nil. The Company also issued 100,000 common shares as corporate finance fee and incurred additional issue costs of $315,206.

(Unaudited – expressed in US Dollars)

c) Escrow

There are 9,488,784 common shares of the Company held in escrow as at March 31, 2014 (December 31, 2013 – 9,488,784 shares). Under the Escrow Agreement, the common shares held in escrow will be released from escrow as to 3,162,928 common shares on each of April 13, 2014 (released subsequent to March 31, 2014), October 13, 2014 and April 13, 2015.

d) Stock Options and Warrants Reserve

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

	March 31, 2014 $	December 31, 2013 $
Stock options	3,962,779	3,954,287
Warrants	1,561,583	1,361,914
	5,524,362	5,316,201

e) Stock Options

The Company has established a stock option plan (the "Plan") for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates. The maximum number of shares available under the Plan is limited to 10% of the issued common shares. Options granted under the Plan have a maximum term of ten years and the vesting provisions of options granted are at the discretion of the Board. Details of options activity for the three months ended March 31, 2014 and the year ended December 31, 2013 are as follows:

	Number of Stock Options	Weighted Average Exercise Price CDN$	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2012	5,906,666	0.90	4.22
Granted	700,000	1.58	-
Balance, December 31, 2013 and March 31, 2014	6,606,666	0.97	3.09
Unvested	(90,000)	0.90	1.11
Exercisable, March 31, 2014	6,516,666	0.97	3.12

The balance of options outstanding as at March 31, 2014 is as follows:

Expiry Date	Exercise Price (CDN$)	Remaining Life (Years)	Options Outstanding	Unvested	Vested
April 12, 2017	0.90	3.04	4,806,666	-	4,806,666
May 10, 2015	0.90	1.11	300,000	90,000	210,000
July 24, 2017	0.90	3.32	800,000	-	800,000
February 28, 2018	1.85	3.92	400,000	-	400,000
July 29, 2018	1.22	4.33	300,000	-	300,000
			6,606,666	90,000	6,516,666

(Unaudited – expressed in US Dollars)

No options were granted during the three months ended March 31, 2014. The fair values of the options granted during the three months ended March 31, 2013 were estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model are as follows: risk-free interest rate – 1.63%; expected life – 5 years; expected volatility – 80.35%; expected forfeitures – 0%; and expected dividends – $nil.

The weighted average fair value of stock options granted during the three months ended March 31, 2013 was $1.12 per option.

During the three months ended March 31, 2014, the Company recorded share-based payments expense of $8,492 (2013 – $370,971).

f) Warrants

Details of warrants activity for the three months ended March 31, 2014 and the year ended December 31, 2013 are as follows:

	Number of Warrants	Weighted Average Exercise Price CDN$	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2012	1,416,747	0.94	1.24
Issued	1,311,000	1.85	-
Exercised	(324,545)	0.72	-
Balance, December 31, 2013	2,403,202	1.45	0.75
Issued	723,750	1.00	-
Balance, March 31, 2014	3,126,952	1.33	0.84

The balance of warrants outstanding as at March 31, 2014 is as follows:

Expiry Date	Exercise Price CDN$	Remaining Life (Years)	Warrants Outstanding
April 12, 2014	1.00	0.03	1,092,202
February 19, 2015	1.85	0.89	1,311,000
March 11, 2016	1.00	1.95	645,000
March 20, 2016	1.00	1.97	78,750
			3,126,952

12. Related Party Transactions

During the three months ended March 31, 2014 and 2013, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	2014 $	2013 $
Accounting and corporate secretarial fees	32,592	33,714
Directors' fees	22,154	19,492
Management fees	103,060	93,218
Share-based payments	-	336,017

At March 31, 2014, directors and officers or their related companies were owed $42,811 (December 31, 2013 – $28,333) in respect of the services rendered.

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

13. Non-cash Transactions

Investing and financing activities that do not have a direct impact on cash flows are excluded from the consolidated statements of cash flows. During the three months ended March 31, 2014, the following transactions were excluded from the consolidated statements of cash flows:

- The Company issued 723,750 broker warrants at the fair value of $199,669 pursuant to the 2014 Offering; and
- The Company issued 100,000 common shares as corporate finance fee at the fair value of $90,070 pursuant to the 2014 Offering.

During the three months ended March 31, 2013, the following transactions were excluded from the consolidated statements of cash flows:

- The Company issued 1,311,000 broker warrants at the fair value of $997,642 pursuant to the 2013 Offering; and
- The Company issued 60,000 common shares as corporate finance fee at the fair value of $109,701 pursuant to the 2013 Offering.

14. Segmented Information

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

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

a) Operating Segment

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

b) Geographic Segments

By geographic areas, the Company's non-current assets as at March 31, 2014 and December 31, 2013 and losses by geographic areas for the three months ended March 31, 2014 and 2013 are as follows:

(Unaudited – expressed in US Dollars)

	Losses	
	Three Months Ended March 31, 2014 $	**Three Months Ended March 31, 2013 $**
Canada	405,847	616,552
Mexico	1,656,430	126,202
Total	2,062,277	742,754

	Non-Current Assets	
	March 31, 2014 $	**December 31, 2013 $**
Canada	10,698	11,462
Mexico	55,364,290	52,974,905
Total	55,374,988	52,986,367

15. Financial Instruments

The classification of the financial instruments as well as their carrying values as at March 31, 2014 and December 31, 2013 is shown in the table below:

	March 31, 2014 $	**December 31, 2013 $**
Loans and receivables	7,061,856	2,030,159
Other financial liabilities	(963,355)	(1,045,846)

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.

As at March 31, 2014, the Company does not have any financial instruments measured at fair value.

(Unaudited – expressed in US Dollars)

b) Management of Risks Arising from Financial Instruments

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

(i) Credit Risk – Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations. The Company's credit risk consists primarily of cash and cash equivalents, trade receivables and other receivables. The credit risk is minimized by placing cash with major financial institutions. Trade receivables are due from a large, multinational corporation that has conducted business in Mexico for many years. The Company regularly reviews the collectability of its trade receivables and contractually receives up to 90% advance on all payments. The Company considers the credit risk related to cash and cash equivalents, trade receivables and other receivables to be minimal.

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

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

Contractual cash flow requirements as at March 31, 2014 were as follows:

	< 1 year $	1 – 2 years $	2 – 5 years $	>5 years $	Total $
Accounts payable and accrued liabilities	963,355	-	-	-	963,355
Total	963,355	-	-	-	963,355

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

	< 1 year $	1 – 2 years $	2 – 5 years $	>5 years $	Total $
Accounts payable and accrued liabilities	1,045,846	-	-	-	1,045,846
Total	1,045,846	-	-	-	1,045,846

In the opinion of management, the Company's working capital at March 31, 2014 is sufficient to support the Company's commitments and further expansion and growth.

(iv) Foreign Exchange Rate Risk – The Company operates in Canada and Mexico but has the majority of its cash held in Canada in Canadian dollars. The Company is exposed to foreign exchange risk due to fluctuations in foreign currencies (Canadian dollar and Mexican peso). Foreign exchange risk arises from purchase transactions as well as financial assets and liabilities denominated in these foreign currencies. The sensitivity of the Company's net loss and other comprehensive loss to changes in the exchange rate between the US dollars and the Mexican pesos would be as follows: a 10% change in the US dollar exchange rate relative to the Mexican pesos would change the Company's net loss and comprehensive loss by approximately $542,000.

The Company's financial assets and liabilities as at March 31, 2014 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	6,384,217	44,537	57,365	6,486,119
Trade receivables	-	529,017	-	529,017
Other receivables	3,098	-	43,622	46,720
	6,387,315	573,554	100,987	7,061,856
Financial liabilities				
Accounts payable and accrued liabilities	(548,324)	-	(415,031)	(963,355)
	(548,324)	-	(415,031)	(963,355)
Net financial assets (liabilities)	5,838,991	573,554	(314,044)	6,098,501

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

16. Commitment

The Company has in effect a lease agreement for the use of office premises in Vancouver, BC, Canada in the amount of $4,549 (CAD$4,838) per month until February 27, 2017. The amount of the total lease payments committed is $54,588 (CAD$58,056) for the fiscal years ending December 31, 2014, 2015, and 2016, and $9,098 (CAD$9,676) for the fiscal year ending December 31, 2017.

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

17. Subsequent Event

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