



AVINO SILVER & GOLD MINES LTD.

Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2016 and 2015

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The condensed consolidated interim financial statements of Avino Silver & Gold Mines Ltd. (the "Company") are the responsibility of the Company's management. The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and reflect management's best estimates and judgments based on information currently available.

Management has developed and is maintaining a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Audit Committee reviews the results of the annual audit and reviews the condensed consolidated interim financial statements prior to their submission to the Board of Directors for approval.

The condensed consolidated interim financial statements as at September 30, 2016, and for the periods ended September 30, 2016 and 2015 have not been audited by the Company's independent auditors.

"David Wolfin"

David Wolfin
President & CEO
November 8, 2016

"Malcolm Davidson"

Malcolm Davidson, CPA, CA
Chief Financial Officer
November 8, 2016

AVINO SILVER & GOLD MINES LTD.

Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars)

| | Note | September 30, 2016 (unaudited) | December 31, 2015 |
|--|------|--------------------------------------|----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | \$ 14,908,063 | \$ 7,475,134 |
| Amounts receivable | | 4,906,514 | 3,730,317 |
| Taxes recoverable | 3 | 4,205,765 | 3,053,035 |
| Prepaid expenses and other assets | | 1,210,597 | 1,177,053 |
| Inventory | 4 | 8,460,219 | 4,612,234 |
| | | 33,691,158 | 20,047,773 |
| Exploration and Evaluation Assets | 5 | 36,438,735 | 41,376,974 |
| Plant, Equipment and Mining Properties | 7 | 34,335,397 | 25,733,033 |
| Reclamation Bonds | | 145,500 | 145,500 |
| Investments | 8 | 52,120 | 38,712 |
| | | \$ 104,662,910 | \$ 87,341,992 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | \$ 3,924,086 | \$ 4,178,571 |
| Amounts due to related parties | 9(b) | 277,763 | 217,822 |
| Taxes payable | | 963,296 | 1,151,224 |
| Current portion of term facility | 10 | 3,497,867 | 6,458,660 |
| Current portion of equipment loans | 11 | 1,290,610 | 222,192 |
| Current portion of finance lease obligations | 12 | 1,764,566 | 1,815,747 |
| Current portion of warrant liabilities | 13 | 271,012 | - |
| | | 11,989,200 | 14,044,216 |
| Term Facility | 10 | 8,744,667 | 7,381,340 |
| Equipment Loans | 11 | 1,862,473 | 731,918 |
| Finance Lease Obligations | 12 | 1,339,837 | 2,305,534 |
| Warrant Liabilities | 13 | 65,060 | - |
| Reclamation Provision | 14 | 5,644,856 | 6,047,369 |
| Deferred Income Tax Liabilities | | 6,582,123 | 4,892,916 |
| Total liabilities | | 36,228,216 | 35,403,293 |
| EQUITY | | | |
| Share Capital | 15 | 79,884,125 | 62,262,954 |
| Equity Reserves | | 9,245,284 | 9,531,512 |
| Treasury Shares (14,180 shares, at cost) | | (101,869) | (101,869) |
| Accumulated Other Comprehensive Income | | 3,950,978 | 5,652,534 |
| Accumulated Deficit | | (24,543,824) | (25,406,432) |
| Total Equity | | 68,434,694 | 51,938,699 |
| | | \$ 104,662,910 | \$ 87,341,992 |

Commitments – Note 18
Subsequent Events – Note 21

Approved by the Board of Directors on November 8, 2016:

Gary Robertson Director David Wolfin Director

The accompanying notes are an integral part of the condensed consolidated interim financial statements

AVINO SILVER & GOLD MINES LTD.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss)

For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

| | Note | Three months ended September 30, | | Nine months ended September 30, | |
|--|--------------|-------------------------------------|--------------|------------------------------------|---------------|
| | | 2016 | 2015 | 2016 | 2015 |
| Revenue from Mining Operations | 16 | \$ 13,218,226 | \$ 5,028,314 | \$ 27,888,924 | \$ 15,222,738 |
| Cost of Sales | 16 | 7,255,272 | 2,839,746 | 16,932,153 | 8,573,411 |
| Mine Operating Income | | 5,962,954 | 2,188,568 | 10,956,771 | 6,649,327 |
| Operating Expenses | | | | | |
| General and administrative expenses | 17 | 1,825,697 | 1,130,009 | 3,820,978 | 3,152,046 |
| Share-based payments | 15 | 1,026,135 | 32,472 | 1,026,135 | 40,820 |
| Income before other items | | 3,111,122 | 1,026,087 | 6,109,658 | 3,456,461 |
| Other Items | | | | | |
| Foreign exchange gain (loss) | | (50,127) | (898,991) | 279,445 | (1,035,368) |
| Unrealized gain (loss) on investments | 8 | 14,020 | (53,194) | 13,408 | (9,440) |
| Interest and other income (expense) | | (28,004) | 27,317 | 13,000 | 50,169 |
| Fair value adjustment on warrant liabilities | | 334,180 | 36,942 | (336,073) | 212,118 |
| Interest expense | | (49,497) | (59,477) | (130,386) | (136,178) |
| Accretion of reclamation provision | | 60,590 | (34,374) | (89,027) | (101,929) |
| Net Income Before Income Taxes | | 3,392,284 | 44,310 | 5,860,025 | 2,435,833 |
| Income Taxes | | | | | |
| Current income tax recovery (expense) | | (2,369,058) | 655,746 | (3,281,489) | (1,522,232) |
| Deferred income tax recovery (expense) | | 143,473 | (1,325,249) | (1,803,878) | (786,852) |
| | | (2,225,585) | (669,503) | (5,085,367) | (2,309,084) |
| Net Income (Loss) | | 1,166,699 | (625,193) | 774,658 | 126,749 |
| Other Comprehensive Income (Loss) - Items that may be reclassified subsequently to income or loss | | | | | |
| Currency translation differences of foreign operations | | 1,035,309 | 1,501,548 | (1,701,556) | 3,111,102 |
| Comprehensive Income (Loss) | | \$ 2,202,008 | \$ 876,355 | \$ (926,898) | \$ 3,237,851 |
| Earnings (Loss) per Share | | | | | |
| Basic | 15(e) | \$ 0.03 | \$ (0.02) | \$ 0.02 | \$ 0.00 |
| Diluted | 15(e) | \$ 0.03 | \$ (0.02) | \$ 0.02 | \$ 0.00 |
| Weighted Average Number of Common Shares Outstanding | | | | | |
| Basic | | 41,220,102 | 36,453,755 | 40,974,524 | 36,037,472 |
| Diluted | | 42,216,480 | 36,800,790 | 41,576,017 | 36,600,853 |

The accompanying notes are an integral part of the condensed consolidated interim financial statements

AVINO SILVER & GOLD MINES LTD.

Condensed Consolidated Interim Statements of Changes in Equity

For the nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

| | Note | Number of Common Shares | Share Capital Amount | Equity Reserves | Treasury Shares | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Equity |
|--|--------|-------------------------------|----------------------------|----------------------|---------------------|---|------------------------|----------------------|
| Balance, December 31, 2014 | | 35,374,813 | \$ 58,606,898 | \$ 10,797,709 | \$ (101,869) | \$ 1,672,009 | \$ (25,924,356) | \$ 45,050,391 |
| Common shares issued for cash: | | | | | | | | |
| Brokered public offerings | 15 | 953,589 | 1,480,397 | - | - | - | - | 1,480,397 |
| Less share issuance costs | 15 | - | (102,457) | - | - | - | - | (102,457) |
| Exercise of stock options | 15 | 381,000 | 385,920 | - | - | - | - | 385,920 |
| Carrying value of stock options exercised | | - | 330,613 | (330,613) | - | - | - | - |
| Share-based payments | 15 | - | - | 40,820 | - | - | - | 40,820 |
| Net income for the period | | - | - | - | - | - | 126,749 | 126,749 |
| Currency translation differences of foreign operations | | - | - | - | - | 3,111,102 | - | 3,111,102 |
| Balance, September 30, 2015 | | 36,709,402 | \$ 60,701,371 | \$ 10,507,916 | \$ (101,869) | \$ 4,783,111 | \$ (25,797,607) | \$ 50,092,922 |
| Balance, December 31, 2015 | | 37,298,009 | \$ 62,262,954 | \$ 9,531,512 | \$ (101,869) | \$ 5,652,534 | \$ (25,406,432) | \$ 51,938,699 |
| Common shares issued for cash: | | | | | | | | |
| Brokered public offerings | 15 (b) | 6,919,562 | 15,726,891 | - | - | - | - | 15,726,891 |
| Less share issuance costs | 15 (b) | - | (622,594) | - | - | - | - | (622,594) |
| Exercise of stock options | 15 (b) | 1,011,900 | 1,163,470 | - | - | - | - | 1,163,470 |
| Carrying value of stock options exercised | | - | 1,324,304 | (1,324,304) | - | - | - | - |
| Stock options cancelled or expired | | - | - | (87,950) | - | - | 87,950 | - |
| Shares issued for exploration and evaluation property | 5 (b) | 10,000 | 29,100 | - | - | - | - | 29,100 |
| Share-based payments (net of costs of \$4,539) | 15 (b) | - | - | 1,126,026 | - | - | - | 1,126,026 |
| Net income for the period | | - | - | - | - | - | 774,658 | 774,658 |
| Currency translation differences of foreign operations | | - | - | - | - | (1,701,556) | - | (1,701,556) |
| Balance, September 30, 2016 | | 45,239,471 | \$ 79,884,125 | \$ 9,245,284 | \$ (101,869) | \$ 3,950,978 | \$ (24,543,824) | \$ 68,434,694 |

The accompanying notes are an integral part of the condensed consolidated interim financial statements

AVINO SILVER & GOLD MINES LTD.

Condensed Consolidated Interim Statements of Cash Flows
For the nine months ended September 30, 2016 and 2015
(Expressed in Canadian dollars) (unaudited)

| | Note | 2016 | 2015 |
|---|------|---------------|--------------|
| Cash Provided By (Used In): | | | |
| Operating Activities | | | |
| Net income | | \$ 774,658 | \$ 126,749 |
| Adjustments for non-cash items: | | | |
| Deferred income tax expense | | 1,803,878 | 786,852 |
| Depreciation and depletion | | 1,480,252 | 950,515 |
| Share-based payments | | 1,026,135 | 40,820 |
| Fair value adjustment on warrant liabilities | | 336,073 | (212,118) |
| Accretion of reclamation provision | | 89,027 | 101,929 |
| Foreign exchange loss (gain) | | (664,067) | (313,306) |
| Unrealized loss (gain) on investments | | (13,408) | 9,440 |
| | | 4,832,548 | 1,490,881 |
| Net change in non-cash working capital items | 19 | (2,998,442) | (3,905,970) |
| | | 1,834,106 | (2,415,089) |
| Financing Activities | | | |
| Shares and units issued for cash, net of issuance costs | | 16,267,767 | 1,763,860 |
| Finance lease payments | | (1,508,113) | (1,176,373) |
| Term facility payment | | (861,134) | - |
| Equipment loan payments | | (505,374) | - |
| Proceeds from term facility | | - | 13,345,000 |
| | | 13,393,146 | 13,932,487 |
| Investing Activities | | | |
| Recovery of exploration costs from concentrate proceeds | | 6,020,183 | 15,604,659 |
| Exploration and evaluation expenditures | | (10,061,555) | (19,745,457) |
| Additions to plant, equipment and mining properties | | (3,378,791) | (2,806,526) |
| | | (7,420,163) | (6,947,324) |
| Change in cash | | 7,807,089 | 4,570,074 |
| Effect of exchange rate changes on cash | | (374,160) | 325,720 |
| Cash, Beginning | | 7,475,134 | 4,249,794 |
| Cash, Ending | | \$ 14,908,063 | \$ 9,145,588 |

Supplementary Cash Flow Information (Note 19)

The accompanying notes are an integral part of the condensed consolidated interim financial statements

AVINO SILVER & GOLD MINES LTD.

Notes to the condensed consolidated interim financial statements

For the nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

1. NATURE OF OPERATIONS

Avino Silver & Gold Mines Ltd. (the “Company” or “Avino”) was incorporated in 1968 under the laws of the Province of British Columbia, Canada. The Company is engaged in the production and sale of silver, gold, and copper and the acquisition, exploration, and advancement of mineral properties.

The Company’s head office and principal place of business is Suite 900, 570 Granville Street, Vancouver, BC, Canada. The Company is a reporting issuer in Canada and the United States and trades on the TSX Venture Exchange (“TSX-V”), the NYSE MKT, and the Frankfurt and Berlin Stock Exchanges.

The Company owns interests in mineral properties located in Durango, Mexico, as well as in British Columbia and the Yukon, Canada. On October 1, 2012, the Company commenced production of silver and gold at levels intended by management at its San Gonzalo Mine, and on April 1, 2016, the Company commenced production of copper, silver, and gold at levels intended by management at its Avino Mine. Both of these mines are located on the Company’s Avino property in the state of Durango, Mexico.

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting under International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company, except for the accounting policies which have changed as a result of the adoption of new and revised standards and interpretations which are effective January 1, 2016. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company’s December 31, 2015 annual consolidated financial statements, which were prepared in accordance with IFRS as issued by the IASB.

Basis of Presentation

These condensed consolidated interim financial statements are expressed in Canadian dollars and have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting on a going concern basis. The accounting policies set out below have been applied consistently to all years presented in these condensed consolidated interim financial statements as if the policies have always been in effect.

Significant Accounting Judgments and Estimates

The Company’s management makes judgments in its process of applying the Company’s accounting policies to the preparation of its condensed consolidated interim financial statements. In addition, the preparation of financial data requires that the Company’s management make assumptions and estimates of the impacts on the carrying amounts of the Company’s assets and liabilities at the end of the reporting period from uncertain future events and on the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting impacts on the carrying amounts of the Company’s assets and liabilities are accounted for prospectively.

AVINO SILVER & GOLD MINES LTD.

Notes to the condensed consolidated interim financial statements

For the nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

2. BASIS OF PRESENTATION (continued)

Significant Accounting Judgments and Estimates (continued)

The critical judgments and estimates applied in the preparation of the Company's unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2016, are consistent with those applied and disclosed in note 2 to the Company's audited consolidated financial statements for the year ended December 31, 2015. Effective April 1, 2016, management determined that the Avino Mine, located in the "ET zone" on the La Platosa property, had commenced production at levels intended by management, as explained in the section "commencement of production at levels intended by management" below.

Commencement of production at levels intended by management

Prior to reaching production levels intended by management, costs incurred are capitalized as part of the costs of related exploration and evaluation assets, and proceeds from concentrate sales are offset against costs capitalized. Depletion of capitalized costs for mining properties and depreciation of plant and equipment begin when operating levels intended by management have been reached. Management considers several factors in determining when a mining property has reached the intended production levels, including production capacity, recoveries, and number of uninterrupted production days. The results of operations of the Company during the periods presented in these condensed consolidated interim financial statements have been impacted by management's determination that the Avino Mine had achieved production levels intended by management as of April 1, 2016.

The basis for achievement of production levels intended by management as indicated by technical feasibility and commercial viability is generally established with proven reserves based on a NI 43-101-compliant technical report or a comparable resource statement and feasibility study, combined with pre-production operating statistics and other factors. In cases where the Company does not have a NI 43-101-compliant reserve report on which to base a production decision, such as with the Avino Mine, the technical feasibility and commercial viability of extracting a mineral resource are considered in light of additional factors including but not limited to:

- Acquisition and installation of all critical capital components to achieve desired mining and processing results has been completed. Capital components have been acquired directly and are also available on an as-needed basis from the underground mining contractor;
- The necessary labour force, including mining contractors, has been secured to mine and process at planned levels of output;
- The mill has consistently processed at levels above design capacity and budgeted production levels with consistent recoveries and grades; and,
- The Company has entered into a long-term sales agreement for Avino Mine concentrates.

AVINO SILVER & GOLD MINES LTD.

Notes to the condensed consolidated interim financial statements

For the nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

2. BASIS OF PRESENTATION (continued)

Basis of Consolidation

The condensed consolidated interim financial statements include the accounts of the Company and its Canadian and Mexican subsidiaries as follows:

| Subsidiary | Ownership Interest | Jurisdiction | Nature of Operations |
|--|--|--------------|---------------------------------------|
| Oniva Silver and Gold Mines S.A. de C.V. | 100% | Mexico | Mexican operations and administration |
| Promotora Avino, S.A. de C.V. ("Promotora") | 79.09% | Mexico | Holding company |
| Compañía Minera Mexicana de Avino, S.A. de C.V. ("Avino Mexico") | 98.45% direct 1.22% indirect (Promotora) 99.67% effective | Mexico | Mining and exploration |
| Bralorne Gold Mines Ltd. | 100% | Canada | Mining and exploration |

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the condensed consolidated interim financial statements.

On October 20, 2014, the Company acquired a 100% ownership interest in Bralorne Gold Mines Ltd. ("Bralorne").

On August 26, 2015, the Company converted existing loans advanced to Avino Mexico into new additional shares, resulting in an increase of the Company's ownership by 0.01% to an effective 99.67%. The intercompany loans and investments are eliminated upon consolidation of the financial statements. The Company had a pre-existing effective ownership interest of 99.66% in Avino Mexico prior to the 0.01% increase. The issuance of shares to the Company by Avino Mexico on August 26, 2015, resulted in a reduction in the non-controlling interest from 0.34% to 0.33%.

Financial Instruments

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivables, or fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. Loans and receivables and other financial liabilities are subsequently measured at amortized cost. Financial instruments comprise cash, amounts receivable, investments, reclamation bonds, accounts payable, amounts due to related parties, term facility, equipment loans, finance lease obligations, and warrant liabilities.

The Company has classified its cash, amounts receivable, investments, and warrant liabilities as FVTPL. Reclamation bonds are classified as loans and receivables. Accounts payable, amounts due to related parties, term facility, equipment loans and finance lease obligations are classified as other financial liabilities.

AVINO SILVER & GOLD MINES LTD.

Notes to the condensed consolidated interim financial statements

For the nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

2. BASIS OF PRESENTATION (continued)

Financial Instruments (continued)

Subsequent to initial recognition, financial assets are measured in accordance with the following:

- (i) Financial assets classified as fair value through profit or loss are measured at fair value. All gains and losses resulting from changes in their fair value are included in net income (loss) in the period in which they arise.
- (ii) Held-to-maturity investments and loans and receivables are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and transaction costs are amortized into net income (loss), using the effective interest method less any impairment.
- (iii) Available-for-sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income (loss) until the asset is realized, at which time they will be recorded in net income (loss). Other than temporary impairments on available-for-sale financial assets are recorded in net income (loss).

Subsequent to initial recognition, financial liabilities are measured in accordance with the following:

- (i) Financial liabilities classified as other financial liabilities are initially recognized at fair value less transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.
- (ii) Financial liabilities classified as fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss. Fair value changes to financial liabilities classified as fair value through profit or loss are recognized in net income (loss). At September 30, 2016, the Company classified share purchase warrants with an exercise price in U.S. dollars (see Note 13) as financial liabilities at fair value through profit or loss. As these warrants are exercised, the fair value of the recorded derivative liability on date of exercise is included in share capital along with the proceeds from the exercise. If these warrants expire, the related decrease in the derivative liability is recognized in net income (loss).

Share-based payment transactions

The Company's share option plan and restricted share unit ("RSU") plan allow directors, officers, employees, and consultants to acquire common shares of the Company. All options and RSUs granted are measured at fair value, and are recognized in the condensed consolidated interim statement of operations and comprehensive income (loss) as an expense or in the condensed consolidated interim statement of financial position as exploration and evaluation assets over the vesting period with a corresponding increase in equity reserves in the condensed consolidated interim statement of financial position.

The fair value of equity-settled RSUs is measured at the grant date based on the market value of the Company's common shares on that date, and each tranche is recognized using the graded vesting method over the period during which the RSUs vest. At each financial position reporting date, the amount recognized as share-based payment is adjusted to reflect the actual number of RSUs that are expected to vest.

AVINO SILVER & GOLD MINES LTD.

Notes to the condensed consolidated interim financial statements

For the nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

2. BASIS OF PRESENTATION (continued)

Recent Accounting Pronouncements

The following accounting standards were issued but not yet effective as of September 30, 2016:

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its condensed consolidated interim financial statements.

IFRS 9 – Financial Instruments

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") which is intended to reduce the complexity in the classification and measurement of financial instruments. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its condensed consolidated interim financial statements.

IFRS 7 Financial instruments: Disclosure

IFRS 7 was amended to require additional disclosures on transition from IAS 39 to IFRS 9. The standard is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company is currently evaluating the impact this standard is expected to have on its condensed consolidated interim financial statements.

IFRS 16 Leases

IFRS 16 was issued on January 13, 2016, and will be effective for accounting periods beginning on or after January 1, 2019. Early adoption is permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting. The Company is currently evaluating the impact this standard is expected to have on its condensed consolidated interim financial statements.

Annual improvements

In September 2014, the IASB issued the Annual Improvements 2012-2014 cycle, effective for annual periods beginning on or after July 1, 2016. These annual improvements made necessary but non-urgent amendments to existing IFRSs. These amendments are not expected to have a significant impact on the Company's condensed consolidated interim financial statements.

AVINO SILVER & GOLD MINES LTD.

Notes to the condensed consolidated interim financial statements

For the nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

3. TAXES RECOVERABLE

The Company's taxes recoverable consist of the Mexican I.V.A. ("VAT") and income taxes recoverable and Canadian sales taxes ("GST/HST") recoverable.

| | September 30, 2016 | December 31, 2015 |
|--------------------------|-----------------------|----------------------|
| VAT recoverable | \$ 2,806,460 | \$ 1,641,023 |
| Income taxes recoverable | 1,268,258 | 1,240,685 |
| GST/HST recoverable | 131,047 | 171,327 |
| | \$ 4,205,765 | \$ 3,053,035 |

4. INVENTORY

| | September 30, 2016 | December 31, 2015 |
|-----------------------------|-----------------------|----------------------|
| Process material stockpiles | \$ 4,094,047 | \$ 3,369,961 |
| Concentrate inventory | 2,950,970 | 221,437 |
| Materials and supplies | 1,415,202 | 1,020,836 |
| | \$ 8,460,219 | \$ 4,612,234 |

The amount of inventory recognized as an expense for the nine months ended September 30, 2016 totalled \$16,932,153 (September 30, 2015 – \$8,573,411), and includes production costs and depreciation and depletion directly attributable to the inventory production process.

AVINO SILVER & GOLD MINES LTD.

Notes to the condensed consolidated interim financial statements

For the nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

5. EXPLORATION AND EVALUATION ASSETS

The Company has accumulated the following acquisition, exploration and evaluation costs which are not subject to depletion:

| | Durango, Mexico | British Columbia, Canada | Yukon, Canada | Total |
|---------------------------------------|--------------------|--------------------------------|------------------|---------------|
| Balance, January 1, 2015 | \$ 19,281,859 | \$ 10,627,360 | \$ 1 | \$ 29,909,220 |
| Costs incurred during 2015: | | | | |
| Mine and camp costs | 20,171,792 | 5,233,511 | - | 25,405,303 |
| Provision for reclamation | - | 3,860,437 | - | 3,860,437 |
| Effect of movements in exchange rates | 1,560,711 | - | - | 1,560,711 |
| Depreciation of plant and equipment | 1,002,747 | 153,575 | - | 1,156,322 |
| Drilling and exploration | 81,545 | 700,920 | - | 782,465 |
| Interest and financing costs | 240,338 | 259,659 | - | 499,997 |
| Geological and related services | 119,262 | 133,331 | - | 252,593 |
| Assessments and taxes | 137,586 | 41,909 | - | 179,495 |
| Assays | - | 45,727 | - | 45,727 |
| Sale of concentrate | (21,501,272) | (774,024) | - | (22,275,296) |
| Balance, December 31, 2015 | \$ 21,094,568 | \$ 20,282,405 | \$ 1 | \$ 41,376,974 |
| Costs incurred during 2016: | | | | |
| Acquisition costs | - | 210,596 | - | 210,596 |
| Mine and camp costs | 4,522,132 | 4,161,718 | - | 8,683,850 |
| Depreciation of plant and equipment | 272,209 | 220,463 | - | 492,672 |
| Interest and other costs | 136,128 | 487,623 | - | 623,751 |
| Drilling and exploration | 361,783 | 95,421 | - | 457,204 |
| Geological and related services | 15,690 | 188,651 | - | 204,341 |
| Assessments and taxes | 108,057 | 27,614 | - | 135,671 |
| Assays | - | 1,349 | - | 1,349 |
| Transfers | (9,222,913) | - | - | (9,222,913) |
| Sale of concentrate | (6,020,183) | - | - | (6,020,183) |
| Effect of movements in exchange rates | (504,577) | - | - | (504,577) |
| Balance, September 30, 2016 | \$ 10,762,894 | \$ 25,675,840 | \$ 1 | \$ 36,438,735 |

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5. EXPLORATION AND EVALUATION ASSETS (continued)

Additional information on the Company's exploration and evaluation properties by region is as follows:

(a) Durango, Mexico

The Company's subsidiary Avino Mexico owns 42 mineral claims and leases 4 mineral claims in the state of Durango, Mexico. The Company's mineral claims in Mexico are divided into the following four groups:

(i) Avino mine area property

The Avino mine area property is situated around the towns of Panuco de Coronado and San Jose de Avino and surrounding the historic Avino mine site. There are four exploration concessions covering 154.4 hectares, 24 exploitation concessions covering 1,284.7 hectares, and one leased exploitation concession covering 98.83 hectares. Within the Avino mine site area is the Company's San Gonzalo mine which achieved production levels intended by management as of October 1, 2012, and on that date accumulated exploration and evaluation costs for the San Gonzalo mine were transferred to mining properties.

(ii) Gomez Palacio property

The Gomez Palacio property is located near the town of Gomez Palacio, and consists of nine exploration concessions covering 2,549 hectares.

(iii) Santiago Papasquiario property

The Santiago Papasquiario property is located near the village of Papasquiario, and consists of four exploration concessions covering 2,552.6 hectares and one exploitation concession covering 602.9 hectares.

(iv) Unification La Platosa properties

The Unification La Platosa properties, consisting of three leased concessions in addition to the leased concession described in note (i) above, are situated within the Avino mine area property around the towns of Panuco de Coronado and San Jose de Avino and surrounding the formerly producing Avino mine.

In February 2012, the Company's wholly-owned Mexican subsidiary entered into a new agreement with Minerales de Avino, S.A. de C.V. ("Minerales") whereby Minerales has indirectly granted to the Company the exclusive right to explore and mine the La Platosa property known as the "ET zone". The ET zone includes the Avino Mine, where production at levels intended by management was achieved on April 1, 2016.

Under the agreement, the Company has obtained the exclusive right to explore and mine the property for an initial period of 15 years, with the option to extend the agreement for another 5 years. In consideration of the granting of these rights, the Company issued 135,189 common shares with a fair value of \$250,100 during the year ended December 31, 2012.

The Company has agreed to pay to Minerales a royalty equal to 3.5% of net smelter returns ("NSR") at the commencement of production from the property. In addition, after the start of production, if the minimum monthly processing rate of the mine facilities is less than 15,000 tonnes, then the Company must pay to Minerales a minimum royalty equal to the applicable NSR royalty based on processing at a monthly rate of 15,000 tonnes.

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5. EXPLORATION AND EVALUATION ASSETS (continued)

(a) Durango, Mexico (continued)

(iv) Unification La Platosa properties (continued)

Minerales has also granted to the Company the exclusive right to purchase a 100% interest in the property at any time during the term of the agreement (or any renewal thereof), upon payment of US\$8 million within 15 days of the Company's notice of election to acquire the property. The purchase would be subject to a separate purchase agreement for the legal transfer of the property.

The Company commenced production at levels intended by management at the Avino Mine on April 1, 2016. In connection with the transition to production at levels intended by management the Company assessed the \$9,222,913 estimated carrying value of Avino Mine exploration and evaluation assets for impairment, and subsequently transferred the carrying value to inventory in the amount of \$3,408,766 and to mining properties in the amount of \$5,814,147.

In the periods before production at levels intended by management had been achieved, the Company recorded in its consolidated statement of financial position the costs of extracting and processing mineralized material from the Avino Mine as exploration and evaluation costs, and recorded a reduction to the carrying value of those costs for any proceeds from sales of Avino Mine concentrate. For the nine months ended September 30, 2016, the Company reduced its exploration and evaluation costs in the condensed consolidated interim statement of financial position by \$6,020,183 (US\$4,425,914) for sales of 2,603 tonnes of Avino Mine copper/silver/gold concentrate, prior to commencing production at levels intended by management on April 1, 2016.

(b) British Columbia, Canada

(i) Bralorne Mine

The Company owns a 100% undivided interest in certain mineral properties located in the Lillooet Mining Division. There is an underlying agreement on 12 crown grants in which the Company is required to pay 1.6385% of Net Smelter Proceeds of Production from the claims, and pay fifty cents (\$0.50) per ton of ore produced from these claims if the ore grade exceeds 0.75 ounces per ton gold.

During the nine months ended September 30, 2016, the Company acquired land and mineral claims for the Bralorne Mine project in connection with ongoing plans for exploration and potential expansion. The acquisitions included nine mineral claims covering approximately 2,114 hectares in the Lillooet Mining Division of British Columbia (the "BRX Property"), for which the Company paid \$65,000 and issued 10,000 common shares at their TSX-V market value of \$29,100. The BRX Property carries a 1% net smelter returns royalty to a maximum of \$250,000, and a 2½% net smelter returns royalty.

(ii) Minto and Olympic-Kelvin properties

The Company's mineral claims in British Columbia encompass two additional properties, Minto and Olympic-Kelvin, each of which consists of 100% owned Crown-granted mineral claims located in the Lillooet Mining Division.

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5. EXPLORATION AND EVALUATION ASSETS (continued)

(c) Yukon, Canada

The Company has a 100% interest in 14 quartz leases located in the Mayo Mining Division of Yukon, Canada, which collectively comprise the Eagle property. In January 2012, the Company entered into an option agreement on the Eagle property, under which the optionee is required to make cash payments, incur exploration expenditures, and issue shares to the Company in order to earn a 75% interest in the property. During the year ended December 31, 2015, the optionee withdrew from the option agreement, and the entire interest in the property reverted back to the Company.

6. NON-CONTROLLING INTEREST

At September 30, 2016, the Company had an effective 99.67% (December 31, 2015 - 99.67%) interest in its subsidiary Avino Mexico and the remaining 0.33% (December 31, 2015 - 0.33%) interest represents a non-controlling interest. The accumulated deficit and current period income (loss) attributable to the non-controlling interest are insignificant and accordingly have not been recognized in the condensed consolidated interim financial statements.

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7. PLANT, EQUIPMENT AND MINING PROPERTIES

| | Mining properties | Office equipment, furniture, and fixtures | Computer equipment | Mine machinery and transportation equipment | Mill machinery and processing equipment | Buildings | Total |
|---|----------------------|--|-----------------------|--|---|------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| COST | | | | | | | |
| Balance at January 1, 2015 | 4,518,129 | 65,519 | 223,051 | 8,474,154 | 7,074,760 | 1,584,932 | 21,940,545 |
| Additions and transfers | 799,208 | 14,972 | 47,701 | 4,088,146 | 1,817,862 | 154,394 | 6,922,283 |
| Effect of movements in exchange rates | 810,601 | 11,755 | 40,018 | 1,520,355 | 1,269,289 | 284,354 | 3,936,372 |
| Balance at December 31, 2015 | 6,127,938 | 92,246 | 310,770 | 14,082,655 | 10,161,911 | 2,023,680 | 32,799,200 |
| Additions and transfers | 6,708,333 | 14,101 | 26,398 | 2,825,296 | 1,685,087 | 1,030,195 | 12,289,410 |
| Effect of movements in exchange rates | (287,965) | (4,335) | (14,604) | (661,776) | (477,532) | (95,097) | (1,541,309) |
| Balance at September 30, 2016 | 12,548,306 | 102,012 | 322,564 | 16,246,175 | 11,369,466 | 2,958,778 | 43,547,301 |
| ACCUMULATED DEPLETION AND DEPRECIATION | | | | | | | |
| Balance at January 1, 2015 | 773,099 | 22,362 | 68,704 | 1,999,069 | 444,089 | 459,709 | 3,767,032 |
| Additions | 708,020 | 11,299 | 41,839 | 1,464,662 | 331,726 | 65,741 | 2,623,287 |
| Effect of movements in exchange rates | 138,703 | 4,012 | 12,326 | 358,656 | 79,674 | 82,477 | 675,848 |
| Balance at December 31, 2015 | 1,619,822 | 37,673 | 122,869 | 3,822,387 | 855,489 | 607,927 | 7,066,167 |
| Additions | 996,234 | 8,539 | 25,553 | 1,141,416 | 245,027 | 61,024 | 2,477,793 |
| Effect of movements in exchange rates | (76,119) | (1,771) | (5,774) | (40,201) | (179,623) | (28,568) | (332,056) |
| Balance at September 30, 2016 | 2,539,937 | 44,441 | 142,648 | 4,923,602 | 920,893 | 640,383 | 9,211,904 |
| NET BOOK VALUE | | | | | | | |
| At September 30, 2016 | 10,008,369 | 57,571 | 179,916 | 11,322,573 | 10,448,573 | 2,318,395 | 34,335,397 |
| At December 31, 2015 | 4,508,116 | 54,573 | 187,901 | 10,260,268 | 9,306,422 | 1,415,753 | 25,733,033 |

Mining properties includes \$5,814,147 reclassified from exploration and evaluation assets in connection with the commencement of production at levels intended by management on April 1, 2016. Buildings includes \$1,121,647 as at September 30, 2016 (December 31, 2015 - \$526,033), on which no depreciation was charged in the periods then ended.

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8. INVESTMENTS

The Company classifies its investments as long-term investments designated at fair value through profit and loss.

Investments are summarized as follows:

| | Cost | Accumulated Unrealized Gains (Losses) | Fair Value September 30, 2016 | Fair Value December 31, 2015 |
|--|-----------|---|-------------------------------------|------------------------------------|
| (a) Avaron Mining Corp. | \$ 40,000 | \$ (40,000) | \$ - | \$ - |
| (b) Benz Mining Corp. | 14,500 | (13,000) | 1,500 | 2,000 |
| (c) Levon Resources Ltd. | 803 | 33,791 | 34,594 | 12,708 |
| (c) VBI Vaccines Inc. | 3,433 | 12,593 | 16,026 | 24,004 |
| (d) Oniva International Services Corp. | 1 | (1) | - | - |
| | \$ 58,737 | \$ (6,617) | \$ 52,120 | \$ 38,712 |

During the nine months ended September 30, 2016, the Company recorded an unrealized gain of \$13,408 (September 30, 2015 – unrealized loss of \$9,440) on its investments, representing the change in fair value during the period.

(a) Avaron Mining Corp. (“Avaron”)

In January 2012, the Company acquired 150,000 common shares of Avaron at a cost of \$15,000. In April 2013, Avino received an additional 250,000 common shares at a cost of \$25,000. During the year ended December 31, 2015, the carrying value of the Avaron shares was written down to \$Nil.

(b) Benz Mining Corp. (“Benz”)

In April 2013, the Company acquired 50,000 common shares of Benz, and the value assigned at the time to the investment was based on the market price of Benz’s common shares on the date the agreement was entered into.

(c) Levon Resources Ltd. (“Levon”) and VBI Vaccines Inc. (“VBI”)

The Company’s investment in Levon consists of 70,600 common shares with a quoted market value of \$34,594 as at September 30, 2016 (December 31, 2015 – 70,600 common shares with a quoted market value of \$12,708.)

The Company’s investment in VBI was initially obtained in a transaction between Levon and SciVac Therapeutics Inc. (“SciVac”) during the year ended December 31, 2015 which resulted in the Company exchanging 140,200 common shares of Levon for 140,200 common shares of SciVac. As at September 30, 2016, the Company’s investment in VBI (formerly SciVac) consists of 3,530 common shares with a quoted market value of \$16,026 (December 31, 2015 – 141,200 common shares with a quoted market value of \$24,004). During the nine months ended September 30, 2016, SciVac completed a reverse-takeover of VBI with VBI continuing as the surviving corporation. SciVac changed its name to VBI Vaccines Inc. and its trading symbol on the TSX to “VBV”, and listed its shares on the Nasdaq Capital Market. In connection with the VBI transaction a 1:40 share consolidation of SciVac shares was effected on April 29, 2016 and SciVac’s shares began trading on a split-adjusted basis on May 2, 2016. Prior to the VBI transaction the Company held 141,200 common shares of SciVac, and upon completion held 3,530 common shares of VBI.

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8. INVESTMENTS (Continued)*(d) Oniva International Services Corp. ("Oniva")*

Prior to December 2015, the Company held a 1/5 indirect beneficial ownership interest in Oniva International Services Corp. ("Oniva"), with four other companies holding equal 1/5 indirect beneficial ownership interests. David Wolfen and Malcolm Davidson, the Company's CEO and CFO, serve as directors of Oniva, and certain of the Company's directors and officers also serve in those capacities in the four other companies. The companies' interests in Oniva were held in trust by David Wolfen until November 2015, when the beneficial ownership interests were dissolved, and legal and beneficial ownership was then solely held by Mr. Wolfen. See Note 9(c) for a description of transactions with Oniva and Note 18 for disclosure of the Company's commitments with Oniva.

9. RELATED PARTY TRANSACTIONS AND BALANCES

All related party transactions are recorded at the exchange amount which is the amount agreed to by the Company and the related party.

(a) Key management personnel

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs, including share-based payments, for key management personnel for the three and nine months ended September 30, 2016 and 2015 were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Salaries, benefits, and consulting fees \$ | 1,559,692 | \$ 330,769 | \$ 2,054,018 | \$ 716,188 |

(b) Amounts due to/from related parties

In the normal course of operations the Company transacts with companies related to Avino's directors or officers. All amounts payable and receivable are non-interest bearing, unsecured and due on demand. Advances to Oniva International Services Corp. of \$187,920 (December 31, 2015 - \$187,532) for expenditures to be incurred on behalf of the Company are included in prepaid expenses and other assets on the condensed consolidated interim statements of financial position. As at September 30, 2016, and December 31, 2015, the following amounts were due to related parties:

| | September 30, 2016 | December 31, 2015 |
|------------------------------------|-----------------------|----------------------|
| Oniva International Services Corp. | \$ 177,276 | \$ 164,285 |
| Directors | 83,750 | 47,741 |
| Jasman Yee & Associates, Inc. | 16,737 | 5,796 |
| | <u>\$ 277,763</u> | <u>\$ 217,822</u> |

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9. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**(c) Other related party transactions**

The Company has entered into a cost sharing agreement with Oniva International Services Corp. ("Oniva") for office and administration services. Pursuant to the cost sharing agreement, the Company will reimburse Oniva for the Company's percentage of overhead and corporate expenses and for out-of-pocket expenses incurred on behalf of the Company. The cost sharing agreement may be terminated with one-month notice by either party without penalty. The transactions with Oniva during the three and nine months ended September 30, 2016 and 2015 are summarized below:

| | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Office and miscellaneous | \$ 155,163 | \$ 105,185 | \$ 480,451 | \$ 473,040 |
| Salaries and benefits | 99,235 | 111,115 | 270,192 | 341,295 |
| Exploration and evaluation assets | 71,810 | 27,770 | 222,687 | 27,770 |
| | \$ 326,208 | \$ 244,070 | \$ 973,330 | \$ 842,105 |

For services provided to the Company as President and Chief Executive Officer, the Company pays Intermark Capital Corporation ("ICC"), a company controlled by David Wolfin, the Company's president and CEO and also a director, for consulting services. For the nine months ended September 30, 2016, the Company paid \$592,200, including bonus (2015 - \$300,000, including bonus) to ICC.

The Company pays Jasman Yee & Associates, Inc. ("JYAI"), a company whose managing director is Jasman Yee, a director of the Company, for operational, managerial, metallurgical, engineering and consulting services related to the Company's activities. For the nine months ended September 30, 2016 and 2015, the Company paid \$156,858 and \$55,680 respectively to JYAI.

The Company pays Wear Wolfin Designs Ltd. ("WWD"), a company whose director is the brother-in-law of David Wolfin, the Company's president and CEO and also a director, for financial consulting services related to ongoing consultation with stakeholders and license holders. For the nine months ended September 30, 2016 and 2015, the Company paid \$20,000 and \$22,500 respectively to WWD.

10. TERM FACILITY

In July 2015, the Company entered into a term facility with Samsung C&T U.K. Limited ("Samsung"). Pursuant to the agreement, in August 2015 Avino commenced selling concentrates produced from the Avino Mine on an exclusive basis to Samsung, continuing for a period of 24 months, and Samsung made a payment of US\$10,000,000 in respect of the facility. Samsung pays for the concentrates at the prevailing metal prices for their silver, copper, and gold content at or about the time of delivery, less treatment, refining, shipping and insurance charges. Interest is charged on the facility at a rate of U.S. dollar LIBOR (3 month) plus 4.75%, and the facility will be repaid in 15 consecutive equal monthly instalments starting in June 2016.

During the nine months ended September 30, 2016, the Company and Samsung agreed to amend the term facility. Under the amendment, the Company made one repayment of US\$666,666 in June 2016 and will repay the remaining balance in 14 equal monthly instalments commencing in June 2017 and ending July 2018, and the Company will sell Avino Mine concentrates on an exclusive basis to Samsung until December 2019. The facility is secured by the common shares of the Company's wholly-owned subsidiary Bralorne Gold Mines Ltd.

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11. EQUIPMENT LOANS

The Company has entered into loans for mining equipment maturing between 2018 and 2020 with fixed interest rates of 4.35% and 5.26% per annum. The Company's obligations under the loans are secured by the mining equipment. As at September 30, 2016, plant, equipment and mining properties includes a net carrying amount of \$3,456,781 (December 31, 2015 - \$977,582) for this mining equipment.

The Contractual maturity and interest charges in respect of the Company's obligations under equipment loans are as follows:

| | September 30, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| Not later than one year | \$ 1,414,548 | \$ 261,386 |
| Later than one year and not later than five years | 1,944,067 | 784,595 |
| Less: Future interest charges | (205,532) | (91,871) |
| Present value of loan payments | 3,153,083 | 954,110 |
| Less: Current portion | (1,290,610) | (222,192) |
| Non-current portion | \$ 1,862,473 | \$ 731,918 |

The equipment loan credit facilities are a component of the master credit facilities described in Note 12.

12. FINANCE LEASE OBLIGATIONS

The Company has entered into mining equipment leases expiring between 2016 and 2020 with interest rates ranging from 2% to 11.99% per annum. The Company has the option to purchase the mining equipment at the end of the lease term for a nominal amount. The Company's obligations under finance leases are secured by the lessor's title to the leased assets. As at September 30, 2016, plant, equipment and mining properties includes a net carrying amount of \$5,463,412 (December 31, 2015 - \$8,162,189) for this leased mining equipment.

The contractual maturities and interest charges in respect of the Company's finance lease obligations are as follows:

| | September 30, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| Not later than one year | \$ 1,864,047 | \$ 1,960,844 |
| Later than one year and not later than five years | 1,488,387 | 2,464,106 |
| Less: Future interest charges | (248,031) | (303,669) |
| Present value of minimum lease payments | 3,104,403 | 4,121,281 |
| Less: Current portion | (1,764,566) | (1,815,747) |
| Non-current portion | \$ 1,339,837 | \$ 2,305,534 |

The Company has two master credit facilities with equipment suppliers for a total of US\$10,375,400. The facilities are used to acquire equipment necessary for advancing operations at the San Gonzalo Mine and the Avino Mine, and for continuing exploration activity at the Bralorne Mine. As of September 30, 2016, the Company had US\$6,281,810 in available credit remaining under these facilities.

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13. WARRANT LIABILITIES

The Company's warrant liabilities arise as a result of the issuance of warrants exercisable in U.S. dollars. As the denomination is different from the Canadian dollar functional currency of the entity issuing the underlying shares, the Company recognizes a derivative liability for these warrants and re-measures the liability at the end of each reporting period using the Black-Scholes model.

A reconciliation of the changes in the warrant liabilities during the nine months ended September 30, 2016 is as follows:

| | September 30, 2016 | December 31, 2015 |
|------------------------------------|-----------------------|----------------------|
| Balance at beginning of the period | \$ - | \$ 239,690 |
| Fair value adjustment | 336,072 | (239,690) |
| Balance at end of the period | \$ 336,072 | \$ - |

Derivative warrants of \$271,012 with an expiry date within the next twelve months are presented as current liabilities, and derivative warrants of \$65,060 with more than one year until expiry are presented as non-current liabilities.

Continuity of derivative warrants during the nine months ended September 30, 2016 is as follows:

| | Underlying Shares | Weighted Average Exercise Price |
|---|----------------------|---------------------------------------|
| Derivative warrants outstanding and exercisable, December 31, 2015 | 1,033,059 | US\$2.87 |
| Issued | 40,000 | US\$1.00 |
| Derivative warrants outstanding and exercisable, September 30, 2016 | 1,073,059 | US\$ 2.80 |

Derivative warrants outstanding and exercisable as at September 30, 2016 are as follows:

| Expiry Date | Exercise Price per Share | Derivative Warrants Outstanding and Exercisable | |
|-------------------|-----------------------------|---|-------------------|
| | | September 30, 2016 | December 31, 2015 |
| February 25, 2017 | US\$2.87 | 1,033,059 | 1,033,059 |
| March 14, 2019 | US\$1.00 | 40,000 | - |

As at September 30, 2016, the weighted average remaining contractual life of warrants outstanding was 0.48 years.

Valuation of the warrant liability requires the use of highly subjective estimates and assumptions including the expected stock price volatility. The expected volatility used in valuing warrants is based on volatility observed in historical periods. Changes in the underlying assumptions can materially affect the fair value estimates. The fair value of the warrant liability was calculated using the Black-Scholes model with the following weighted average assumptions and resulting fair values:

| | September 30, 2016 | December 31, 2015 |
|---------------------------------|-----------------------|----------------------|
| Weighted average assumptions: | | |
| Risk-free interest rate | 0.51% | 0.48% |
| Expected dividend yield | 0% | 0% |
| Expected option life (years) | 0.33 | 1.14 |
| Expected stock price volatility | 83.02% | 46.02% |
| Weighted average fair value | \$0.33 | \$0.00 |

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14. RECLAMATION PROVISION

Management's estimate of the reclamation provision at September 30, 2016 is \$5,644,856 (December 31, 2015 - \$6,047,369), and the undiscounted value of the obligation is \$6,410,488 (December 31, 2015 - \$6,790,812).

The present value of the obligation in Mexico was calculated using a risk-free interest rate of 7% (December 31, 2015 – 7%) and an inflation rate of 4.25% (December 31, 2015 – 4.25%). Reclamation activities are estimated to begin in 2019 for San Gonzalo and in 2028 for the Avino Mine.

The present value of the obligation for Bralorne was calculated using a risk-free interest rate of 3% (December 31, 2015 – 3%) and an inflation rate of 2.45% (December 31, 2015 – 2.45%). Reclamation activities are estimated to begin in 2021.

A reconciliation of the changes in the reclamation provision during the periods is as follows:

| | September 30, 2016 | December 31, 2015 |
|--|-----------------------|----------------------|
| Balance at beginning of the period | \$ 6,047,369 | \$ 2,005,881 |
| Unwinding of discount | 215,285 | 136,925 |
| Changes in estimates | (315,869) | - |
| Effect of movements in exchange rates | (301,930) | 44,126 |
| New provision recognized for the Bralorne Mine project | - | 3,860,437 |
| Balance at end of the period | \$ 5,644,856 | \$ 6,047,369 |

15. SHARE CAPITAL AND SHARE-BASED PAYMENT

(a) Authorized: Unlimited common shares without par value.

(b) Issued:

- (i) During the nine months ended September 30, 2016, the Company continued to issue shares in an at-the-market offering under prospectus supplements, the latest of which was filed on June 14, 2016, for up to US\$15,000,000. The Company sold an aggregate of 6,119,562 common shares at an average price of \$2.40 (US\$1.85) per common share for gross proceeds of \$14,666,891 (US\$11,302,481) during the nine months ended September 30, 2016. The Company paid a 3% cash commission on the gross proceeds in the amount of \$440,000 (US\$339,074) and incurred additional accounting, legal, and regulatory costs of \$78,570.

During the nine months ended September 30, 2016, the Company also issued shares in a brokered public offering issued under a separate US\$800,000 prospectus supplement filed on March 10, 2016. In connection with this offering, the Company sold an aggregate of 800,000 common shares at an average price of \$1.33 (US\$1.00) per common share for gross proceeds of \$1,060,000 (US\$800,000). The Company paid a 7% cash commission on the gross proceeds in the amount of \$74,200 (US\$56,000), incurred additional accounting, legal and regulatory costs of \$29,824, and issued 40,000 agent's warrants exercisable at US\$1.00 until March 14, 2019.

- (ii) During the nine months ended September 30, 2016, the Company issued 1,011,900 common shares upon the exercise of stock options for gross proceeds of \$1,163,470.

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15. SHARE CAPITAL AND SHARE-BASED PAYMENT (continued)

(b) Issued (continued):

- (iii) During the year ended December 31, 2015, the Company continued to issue shares in an at-the-market offering under prospectus supplements, the latest of which was filed on May 27, 2015 for up to US\$6,000,000. The Company sold an aggregate of 1,001,196 common shares at an average price of \$1.55 (US\$1.26) per common share for gross proceeds of \$1,551,095 (US\$1,260,963) during the year ended December 31, 2015. The Company paid a 3% cash commission on the gross proceeds in the amount of \$46,533 (US\$37,828) and incurred additional accounting, legal and regulatory costs of \$58,763.
- (iv) During the year ended December 31, 2015, the Company issued 922,000 common shares upon the exercise of stock options for gross proceeds of \$937,740.

(c) Stock options:

The Company has a stock option plan to purchase the Company's common shares, under which it may grant stock options of up to 10% of the Company's total number of shares issued and outstanding on a non-diluted basis. The stock option plan provides for the granting of stock options to directors, officers, and employees (up to a limit of 5% per individual), and to persons providing investor relations or consulting services (up to a limit of 2% per individual), the limits being based on the Company's total number of issued and outstanding shares per year. The stock options vest on the date of grant, except for those issued to persons providing investor relations services, which vest over a period of one year. The option price must be greater than or equal to the discounted market price on the grant date, and the option term cannot exceed five years from the grant date.

Continuity of stock options for the nine months ended September 30, 2016 and the year ended December 31, 2015 is as follows:

| | Underlying Shares | Weighted Average Exercise Price |
|---|----------------------|---------------------------------------|
| Stock options outstanding, December 31, 2014 | 3,361,500 | \$1.39 |
| Granted | 50,000 | \$1.32 |
| Forfeited | (50,000) | \$1.90 |
| Exercised | (922,000) | \$1.02 |
| Stock options outstanding, December 31, 2015 | 2,439,500 | \$1.52 |
| Granted | 802,500 | \$2.95 |
| Exercised | (1,011,900) | \$1.15 |
| Forfeited | (50,000) | \$1.90 |
| Expired | (19,500) | \$1.02 |
| Stock options outstanding, September 30, 2016 | 2,160,600 | \$2.22 |

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15. SHARE CAPITAL AND SHARE-BASED PAYMENT (continued)

(c) Stock options (continued):

As at September 30, 2016, the weighted average remaining contractual life of stock options outstanding was 3.48 years.

Details of stock options outstanding and exercisable are as follows:

| Expiry Date | Exercise Price | Stock Options Outstanding and Exercisable | |
|--------------------|----------------|---|-------------------|
| | | September 30, 2016 | December 31, 2015 |
| January 18, 2016 | \$1.02 | - | 204,500 |
| September 30, 2016 | \$1.02 | - | 645,000 |
| February 18, 2018 | \$1.60 | 149,600 | 195,000 |
| September 9, 2018 | \$1.62 | 306,000 | 360,000 |
| September 19, 2019 | \$1.90 | 747,500 | 855,000 |
| December 22, 2019 | \$1.90 | 105,000 | 130,000 |
| September 29, 2020 | \$1.32 | 50,000 | 50,000 |
| September 2, 2021 | \$2.95 | 777,500 | - |
| | | 2,135,600 | 2,439,500 |

Option pricing requires the use of highly subjective estimates and assumptions including the expected stock price volatility. The expected volatility used in valuing stock options is based on volatility observed in historical periods. Changes in the underlying assumptions can materially affect the fair value estimates. The fair value of the options granted during the nine months ended September 30, 2016, was calculated using the Black-Scholes model with the following weighted average assumptions and resulting grant date fair value:

| | September 30, 2016 |
|---|--------------------|
| Weighted average assumptions: | |
| Risk-free interest rate | 0.69% |
| Expected dividend yield | 0% |
| Expected option life (years) | 5.00 |
| Expected stock price volatility | 49.23% |
| Weighted average fair value at grant date | \$1.26 |

During the nine months ended September 30, 2016, the Company charged \$912,027 (September 30, 2015 - \$40,820) to operations as share-based payments and capitalized \$99,855 (December 31, 2015 - \$Nil) to exploration and evaluation assets for the fair value of stock options granted.

(d) Restricted Share Units:

On May 27, 2016, the Company's Restricted Share Unit ("RSU") Plan was approved by its shareholders. The RSU Plan is administered by the compensation committee under the supervision of the board of directors as compensation to officers, directors, consultants, and employees. The compensation committee determines the terms and conditions upon which a grant is made, including any performance criteria or vesting period.

Upon vesting, each RSU entitles the participant to receive one common share, provided that the participant is continuously employed with or providing services to the Company. RSUs track the value of the underlying common shares, but do not entitle the recipient to the underlying common shares until such RSUs vest, nor do they entitle a holder to exercise voting rights or any other rights attaching to ownership or control of the common shares, until the RSU vests and the RSU participant receives common shares.

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15. SHARE CAPITAL AND SHARE-BASED PAYMENT (continued)

(d) Restricted Share Units (continued):

On September 2, 2016, 790,000 RSUs were granted, vesting one-third annually from the date of the grant until fully vested at the end of the three-year term. The weighted average fair value at the measurement date was \$2.95, based on the TSX-V market price of the Company's shares on the date the RSUs were granted. At September 30, 2016, 80,560 RSUs are available for issuance under the plan.

During the nine months ended September 30, 2016, the Company charged \$114,108 (September 30, 2015 - \$Nil) to operations as share-based payments and capitalized \$4,575 (December 31, 2015 - \$Nil) to exploration and evaluation assets for the fair value of RSUs. The fair value of RSUs is recognized over the vesting period with reference to vesting conditions and the estimated RSUs expected to vest.

(e) Earnings (loss) per share:

The calculations for earnings (loss) per share and diluted earnings (loss) per share for the three and nine months ended September 30, 2016 and 2015 are as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|--------------|------------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income (loss) for the period | \$ 1,166,699 | \$ (625,193) | \$ 774,658 | \$ 126,749 |
| Basic weighted average number of shares outstanding | 41,220,102 | 36,453,755 | 40,974,524 | 36,037,472 |
| Effect of dilutive share options | 996,378 | 347,035 | 601,493 | 563,381 |
| Diluted weighted average number of shares outstanding | 42,216,480 | 36,800,790 | 41,576,017 | 36,600,853 |
| Basic earnings (loss) per share | \$ 0.03 | \$ (0.02) | \$ 0.02 | \$ 0.00 |
| Diluted earnings (loss) per share | \$ 0.03 | \$ (0.02) | \$ 0.02 | \$ 0.00 |

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16. REVENUE AND COST OF SALES

Revenue and the related cost of sales reflect the sale of silver, gold and copper concentrate from the Avino Mine upon commencement of commercial production effective April 1, 2016 (six months to September 30, 2016), the sale of silver and gold concentrate from the San Gonzalo mine during the nine months ended September 30, 2016, and the sale of silver and gold concentrate from the San Gonzalo mine and the historic Avino stockpiles for the nine months ended September 30, 2015.

Cost of sales consists of changes in inventories, direct costs including personnel costs, mine site costs, energy costs (principally diesel fuel and electricity), maintenance and repair costs, operating supplies, external services, third party transport fees, depreciation and depletion, and other expenses for the periods. Direct costs include the costs of extracting co-products. Cost of sales is based on the weighted average cost of contained or recoverable ounces sold for the periods and consists of the following:

| | Three months ended September 30, | | Nine months ended September 30, | |
|----------------------------|-------------------------------------|---------------------|------------------------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Direct costs | \$ 6,596,179 | \$ 2,481,004 | \$15,463,627 | \$ 7,651,160 |
| Depreciation and depletion | 659,093 | 358,742 | 1,468,526 | 922,251 |
| | <u>\$ 7,255,272</u> | <u>\$ 2,839,746</u> | <u>\$16,932,153</u> | <u>\$ 8,573,411</u> |

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses on the condensed consolidated interim statements of operations consist of the following:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------|-------------------------------------|---------------------|------------------------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Salaries and benefits | \$ 425,561 | \$ 347,166 | \$ 1,133,265 | \$ 1,076,070 |
| Management and consulting fees | 681,073 | 304,556 | 1,047,747 | 623,220 |
| Office and miscellaneous | 252,856 | 181,317 | 551,478 | 492,313 |
| Professional fees | 95,390 | 121,151 | 284,260 | 436,963 |
| Investor relations | 121,581 | 60,471 | 250,733 | 175,239 |
| Regulatory and compliance fees | 122,510 | 33,131 | 231,250 | 42,855 |
| Directors fees | 71,500 | 26,250 | 161,000 | 66,250 |
| Travel and promotion | 51,380 | 46,227 | 149,519 | 210,872 |
| Depreciation | 3,846 | 9,740 | 11,726 | 28,264 |
| | <u>\$ 1,825,697</u> | <u>\$ 1,130,009</u> | <u>\$ 3,820,978</u> | <u>\$ 3,152,046</u> |

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18. COMMITMENTS

The Company has a cost sharing agreement to reimburse Oniva for a percentage of its overhead expenses, to reimburse 100% of its out-of-pocket expenses incurred on behalf of the Company, and to pay a percentage fee based on Oniva's total overhead and corporate expenses. The agreement may be terminated with one-month notice by either party. Transactions and balances with Oniva are disclosed in Note 9.

The Company and its subsidiaries have various operating lease agreements for their office premises, use of land, and equipment. Commitments in respect of these lease agreements and other contracts are as follows:

| | September 30, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| Not later than one year | \$ 3,145,624 | \$ 209,063 |
| Later than one year and not later than five years | 740,990 | 749,242 |
| Later than five years | 29,980 | 43,951 |
| | <u>\$ 3,916,594</u> | <u>\$ 1,002,256</u> |

Office lease payments recognized as an expense during the nine months ended September 30, 2016, totalled \$76,505 (2015 - \$206,370).

19. SUPPLEMENTARY CASH FLOW INFORMATION

| | September 30, 2016 | September 30, 2015 |
|---|---|---|
| Net change in non-cash working capital items: | | |
| Amounts due to related parties | \$ 37,941 | \$ (1,645) |
| Amounts receivable | (1,176,197) | (2,391,837) |
| Taxes recoverable | (1,152,630) | (945,488) |
| Inventory | (253,499) | (128,626) |
| Accounts payable and accrued liabilities | (232,485) | 547,488 |
| Taxes payable | (187,928) | (878,069) |
| Prepaid expenses and other assets | (33,544) | (107,793) |
| | <u>\$ (2,998,442)</u> | <u>\$ (3,905,970)</u> |
| | | |
| | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
| Interest paid | \$ 441,045 | \$ 107,588 |
| Taxes paid | \$ 3,641,589 | \$ 4,079,086 |

20. FINANCIAL INSTRUMENTS

The fair values of the Company's cash, amounts receivable, amounts due to related parties, and accounts payable approximate their carrying values because of the short-term nature of these instruments. The fair values of investments are based on quoted market prices. The carrying amounts of the Company's term facility, equipment loans, and finance lease obligations are a reasonable approximation of their fair values based on current market rates for similar financial instruments.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, and market risk.

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20. FINANCIAL INSTRUMENTS (continued)**(a) Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company has exposure to credit risk through its cash and amounts receivable.

The Company manages credit risk, in respect of cash, by maintaining the majority of cash at highly rated financial institutions.

The Company is exposed to a significant concentration of credit risk with respect to its trade accounts receivable balance because all of its concentrate sales are with two counterparties. However, the Company has not recorded any allowance against its trade receivables because to-date all balances owed have been settled in full when due (typically within 60 days of submission) and because of the nature of the counterparties.

The Company's maximum exposure to credit risk at the end of any period is equal to the carrying amount of these financial assets as recorded in the consolidated statement of financial position. At September 30, 2016, no amounts were held as collateral.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows required by its operating, investing and financing activities. The Company had cash at September 30, 2016, in the amount of \$14,908,063 (December 31, 2015 - \$7,475,134) in order to meet short-term business requirements. At September 30, 2016, the Company had current liabilities of \$11,989,200 (December 31, 2015 - \$14,044,216). Accounts payable have contractual maturities of approximately 30 to 90 days, or are due on demand and are subject to normal trade terms. The current portions of the term facility, the equipment loans, and the finance lease obligations are due within 12 months of the condensed consolidated interim statement of financial position date. Amounts due to related parties are without stated terms of interest or repayment.

The maturity profiles of the Company's contractual obligations and commitments as at September 30, 2016, are summarized as follows:

| | Total | Less Than 1 Year | 1-5 years | More Than 5 Years |
|---|----------------------|-----------------------------|----------------------|------------------------------|
| Accounts payable and accrued liabilities | \$ 3,946,086 | \$ 3,946,086 | \$ - | \$ - |
| Taxes payable | 963,296 | 963,296 | - | - |
| Due to related parties | 277,763 | 277,763 | - | - |
| Minimum rental, lease and contract payments | 3,916,594 | 3,145,624 | 740,990 | 29,980 |
| Term facility | 12,242,534 | 3,497,867 | 8,744,667 | - |
| Equipment loans | 3,358,615 | 1,414,548 | 1,944,067 | - |
| Finance lease obligations | 3,352,434 | 1,864,047 | 1,488,387 | - |
| Total | \$ 28,057,322 | \$ 15,109,231 | \$ 12,918,111 | \$ 29,980 |

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20. FINANCIAL INSTRUMENTS (continued)**(c) Market Risk**

Market risk consists of interest rate risk, foreign currency risk and price risk. These are discussed further below.

Interest Rate Risk

Interest rate risk consists of two components:

- (i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (ii) To the extent that changes in prevailing market rates differ from the interest rates on the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

In management's opinion, the Company is not exposed to significant interest rate cash flow risk as the Company's finance lease obligations bear interest at fixed rates.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that the following monetary assets and liabilities are denominated in Mexican pesos and US dollars:

| | September 30, 2016 | | December 31, 2015 | |
|--|--------------------|------------------|--------------------|--------------------|
| | MXN | USD | MXN | USD |
| Cash | \$ 26,586,627 | \$ 9,888,170 | \$ 3,876,257 | \$ 4,647,007 |
| Amounts receivable | - | 3,700,301 | - | 2,624,555 |
| Accounts payable and accrued liabilities | (15,087,215) | (1,484,487) | (12,173,726) | (1,534,765) |
| Term facility | - | (9,333,333) | - | (10,000,000) |
| Equipment loans | - | (1,232,499) | - | (313,052) |
| Finance lease obligations | (592,182) | (1,901,158) | (155,669) | (2,567,593) |
| Net exposure | 10,907,230 | (363,006) | (8,453,138) | (7,143,848) |
| Canadian dollar equivalent | \$ 733,950 | \$ (476,156) | \$ (680,890) | \$(9,887,086) |

Based on the net Canadian dollar denominated asset and liability exposures as at September 30, 2016, a 10% fluctuation in the Canadian/Mexican and Canadian/US exchange rates would impact the Company's earnings (loss) for the nine months ended September 30, 2016, by approximately \$54,954 (December 31, 2015 - \$981,899). The Company has not entered into any foreign currency contracts to mitigate this risk.

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20. FINANCIAL INSTRUMENTS (continued)**(c) Market Risk** (continued)*Price Risk*

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk.

The Company is exposed to price risk with respect to its accounts receivable, as certain trade accounts receivable are recorded based on provisional terms that are subsequently adjusted according to quoted metal prices at the date of final settlement. Quoted metal prices are affected by numerous factors beyond the Company's control and are subject to volatility, and the Company does not employ hedging strategies to limit its exposure to price risk. At September 30, 2016, based on outstanding accounts receivable that were subject to pricing adjustments, a 10% change in metals prices would have an impact on net earnings (loss) of approximately \$521,489 (December 31, 2015 - \$481,448).

The Company is exposed to price risk with respect to its investments as certain of these investments are carried at fair value based on quoted market prices. Changes in market prices result in gains or losses being recognized in net income (loss). At September 30, 2016, a 10% change in market prices would have an impact on net earnings (loss) of approximately \$5,212 (December 31, 2015 - \$3,871).

The Company's profitability and ability to raise capital to fund mineral resource exploration and mining activities is subject to risks associated with fluctuations in mineral prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

(d) Classification of Financial Instruments

IFRS 7 *Financial Instruments: Disclosures* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Company's financial assets and financial liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as at September 30, 2016:

| | Level 1 | Level 2 | Level 3 |
|------------------------------|----------------------|---------------------|---------------------|
| Financial Assets | | | |
| Cash | \$ 14,908,063 | \$ - | \$ - |
| Amounts receivable | - | 4,906,514 | - |
| Investments | 52,120 | - | - |
| Financial Liabilities | | | |
| Warrant liabilities | - | - | (336,072) |
| | \$ 14,960,183 | \$ 4,906,514 | \$ (336,072) |

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21. SUBSEQUENT EVENTS

Share issuances - Subsequent to the nine months ended September 30, 2016, the Company issued 12,100 common shares upon exercise of stock options for proceeds of \$19,560.

Commitments - Subsequent to the nine months ended September 30, 2016, the Company entered into a purchase commitment of \$298,900 for exploration equipment to be used at the Bralorne Mine. The Company intends to finance the purchase under its existing credit facilities described in Note 12.