



The following discussion and analysis of the operations, results, and financial position of Avino Silver & Gold Mines Ltd. (the "Company" or "Avino") should be read in conjunction with the Company's condensed consolidated interim financial statements for the six months ended June 30, 2016, and the audited consolidated financial statements as at and for the year ended December 31, 2015, and the notes thereto.

This Management's Discussion and Analysis ("MD&A") is dated August 15, 2016, and discloses specified information up to that date. The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise cited, references to dollar amounts are in Canadian dollars. This MD&A contains "forward-looking statements" that are subject to risk factors including those set out in the "Cautionary Statement" at the end of this MD&A. All information contained in this MD&A is current and has been approved by the Company's Board of Directors as of August 15, 2016 unless otherwise indicated. Throughout this report we refer to "Avino", the "Company", "we", "us", "our" or "its". All these terms are used in respect of Avino Silver & Gold Mines Ltd. ***We recommend that readers consult the "Cautionary Statement" on the last page of this report.*** Additional information relating to the Company is available on the Company's website at [www.avino.com](http://www.avino.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Business Description**

Founded in 1968, the Company is engaged in the production and sale of silver, gold, and copper bulk concentrate and the acquisition, exploration and evaluation, of mineral properties. The Company holds mineral claims and leases in Durango, Mexico, and in British Columbia and Yukon, Canada. Avino is a reporting issuer in British Columbia and Alberta and a foreign issuer with the Securities and Exchange Commission in the United States. The Company's shares trade on the TSX Venture Exchange, Tier 1, under the symbol "ASM", on the NYSE MKT under the symbol "ASM", and on the Berlin and Frankfurt Stock Exchanges under the symbol "GV6".



**Overall Performance and Highlights**

HIGHLIGHTS	Second Quarter 2016	Second Quarter 2015	Change
<b>Operating</b>			
Tonnes Milled	131,612	135,767	-3%
Silver Ounces Produced	380,620	451,505	-16%
Gold Ounces Produced	1,509	1,891	-20%
Copper Pounds Produced	1,054,935	1,256,164	-16%
Silver Equivalent Ounces <sup>1</sup> Produced	629,780	819,299	-23%
<b>Concentrate Sales and Cash Costs</b>			
Silver Equivalent Ounces Sold <sup>2</sup>	626,837	345,300	82%
Cash Cost per Silver Equivalent Ounce <sup>2,3</sup>	\$ 12.75	\$ 8.67	47%
US\$ Cash Cost per Silver Equivalent Ounce <sup>2,3</sup>	US\$ 9.89	US\$ 7.05	40%
All-in Sustaining Cost per Silver Equivalent Ounce <sup>2,3</sup>	\$ 14.51	\$ 11.72	24%
US\$ All-in Sustaining Cost per Silver Equivalent Ounce <sup>2,3</sup>	US\$ \$11.27	US\$ 9.53	18%
Average Realized Silver Price per Ounce (\$US)	US\$ 16.99	US\$ 16.10	6%
Average Realized Gold Price per Ounce (\$US)	US\$ 1,262	US\$ 1,179	7%
Average Realized Copper Price per Tonne (\$US)	US\$ 4,706	-	-%
<b>Financial</b>			
Revenues	\$ 11,918,749	\$ 5,908,883	102%
Mine Operating Income	\$ 3,218,632	\$ 2,372,903	36%
Net Income (Loss)	\$ (450,087)	\$ 361,655	-224%
Cash	\$ 10,665,086	\$ 3,256,186	228%
Working Capital (Deficiency)	\$ 19,429,748	\$ (964,211)	2,115%
<b>Shareholders</b>			
Earnings (Loss) per Share ("EPS") – Basic	\$ (0.01)	\$ 0.01	- 100%
Cash Flow per Share <sup>3</sup>	\$ 0.05	\$ 0.02	150%

1. Metal production is expressed in terms of silver equivalent ounces, (oz Ag Eq), the formula for which depends on the copper, gold and silver metal prices used in each period and hence are only indicative.

2. "Silver equivalent ounces sold" for the purposes of cash costs and all-in sustaining costs consists of the sum of silver ounces, gold ounces and copper tonnes sold multiplied by the ratio of the average spot gold and copper prices to the average spot silver price for the corresponding period.

3. The Company reports non-IFRS measures which include cash cost per silver equivalent ounce, all-in sustaining cash cost per ounce, and cash flow per share. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and the calculation methods may differ from methods used by other companies with similar reported measures.

On June 6, 2016, the Company declared commercial production at the Avino ("ET") Mine effective April 1, 2016. Commercial production was declared following an advancement and test period of 19 months. On April 1, 2016, underground mining commenced on upper level 11.5 using the long-hole retreat sub-level caving method. The advancement and test period established that mineral recoveries were at, or above, levels necessary for expected positive cash flows and profitability, which among other critical factors, were significant in making the production decision. As of April 1, 2016, the Company's consolidated statement of operations will reflect the revenues and related production costs from the Avino Mine; this activity was reflected within exploration and evaluation assets on the Company's consolidated statement of financial position prior to the commencement of commercial production. The costs associated with development mining at the Avino Mine are considerably higher and as a result there is an impact on the Company's consolidated gross margin. The Company intends to utilize the production method of mining in the future and expects production costs at the Avino Mine to decrease significantly.

During the six months ended June 30, 2016, the Company produced 2,062 tonnes of bulk silver/gold concentrate from its San Gonzalo Mine and 4,934 tonnes of copper concentrate from its Avino Mine, and recognized revenues of \$7,251,612 on the sale of 1,745 tonnes of bulk San Gonzalo silver/gold concentrate and \$7,419,086 on the sale of 2,663 tonnes of Avino Mine silver/gold/copper concentrate for a gross profit



of \$4,993,817. Metal prices for revenues recognized during the six months ended June 30, 2016 averaged US\$16.58 per ounce of silver, US\$1,259 per ounce of gold and US\$4,706 per tonne of copper.

Cash cost per silver equivalent ("AgEq") ounce for the quarter ended June 30, 2016 was \$12.75, while all-in sustaining cash cost per AgEq ounce was \$14.51.

The Company's cash at June 30, 2016 totaled \$10,665,086 compared to \$7,475,134 at December 31, 2015. Working capital totaled \$19,429,748 at June 30, 2016, compared to \$6,003,557 at December 31, 2015.

In July 2015, the Company entered into a term facility with Samsung C&T U.K. Limited ("Samsung"); which was later amended in June 2016. Pursuant to the agreement, in August 2015 Avino commenced selling concentrates produced from the Avino Mine on an exclusive basis to Samsung for a period of 38 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 equal monthly instalments starting in June 2016. Avino made an initial payment of US\$666,666 in June 2016, and will repay the balance with interest in 14 equal monthly instalments commencing in June 2017 and ending in July 2018. The facility is secured by the common shares of the Company's wholly-owned subsidiary Bralorne Gold Mines Ltd.

### **Discussion of Operations**

The Company's production, exploration, and evaluation activities during the six months ended June 30, 2016 have been conducted on its Avino Property and its Bralorne Mine property.

The Company holds a 99.67% effective interest in Compañía Minera Mexicana de Avino, S.A. de C.V. ("Avino Mexico"), a Mexican corporation which owns the Avino Property. The Avino Property covers approximately 1,104 contiguous hectares, and is located approximately 80 km north-east of the city of Durango. The Avino Property is equipped with milling facilities that presently process all output from the San Gonzalo and Avino Mines located on the property.

The Company also holds a 100% interest in the Bralorne Mine property through its ownership of Bralorne Gold Mines Ltd. The Bralorne Mine property consists of a comprehensive package of mineral claims, land parcels, and equipment and infrastructure assembled during historic mining operations in the Bridge River mining camp of southwest British Columbia.

### **Consolidated Second Quarter 2016 Production Highlights**

Comparative production results from the second quarter of 2016 and the second quarter of 2015 are presented below:

	<b>Q2 2016</b>	<b>Q2 2015</b>	<b>% Change</b>
Total Silver Produced (oz) <i>calculated</i>	380,620	451,505	-16%
Total Gold Produced (oz) <i>calculated</i>	1,509	1,891	-20%
Total Copper Produced (Lbs) <i>calculated</i>	1,054,935	1,256,164	-16%
Total Silver Eq. Produced (oz) <i>calculated*</i>	629,780	819,299	-23%

\* Metal production is expressed in terms of silver equivalent ounces, (oz Ag Eq), the formula for which depends on the copper, gold and silver metal prices used in each period and hence are only indicative.



**Avino Mine Second Quarter 2016 Production Highlights**

Comparative figures for the second quarter of 2016 and the second quarter of 2015 for the Avino Mine are as follows; production figures for the second quarter of 2016 include production from Mill Circuit 3 as well as Mill Circuit 2 during June:

	<b>Q2 2016</b>	<b>Q2 2015</b>	<b>Quarterly Change %</b>	<b>2016 YTD Totals</b>
Tonnes Mined	101,400	94,323	8%	200,599
Underground Advancement (m)	1,242	1,161	7%	2,385
Mill Availability (%)	87	97	-10%	92
Total Mill Feed (dry tonnes)	97,666	102,416	-5%	217,181
Feed Grade Silver (g/t)	64	63	2%	66
Feed Grade Gold (g/t)	0.26	0.30	-12%	0.26
Feed Grade Copper (%)	0.55	0.63	-14%	0.56
Recovery Silver (%)	85	85	0%	86
Recovery Gold (%)	60	73	-19%	64
Recovery Copper (%)	90	88	2%	89
Copper Concentrate (dry tonnes)	2,222	2,319	-4%	4,934
Copper Concentrate Grade Silver (kg/t)	2.36	2.34	1%	2.49
Copper Concentrate Grade Gold (g/t)	6.90	9.65	-29%	7.43
Copper Concentrate Grade Copper (%)	21.54	24.57	-12%	22.12
Total Silver Produced (kg)	5,250	5,436	-3%	12,287
Total Gold Produced (g)	15,317	22,365	-32%	36,671
Total Copper Produced (Kg)	478,511	569,787	-16%	1,091,276
Total Silver Produced (oz) <i>calculated</i>	168,787	174,779	-3%	395,051
Total Gold Produced (oz) <i>calculated</i>	492	719	-32%	1,179
Total Copper Produced (Lbs) <i>calculated</i>	1,054,935	1,256,164	-16%	2,405,849
Total Silver Equivalent Produced (oz) <i>calculated*</i>	341,521	458,324	-25%	815,726

\* Metal production is expressed in terms of silver equivalent ounces, (oz Ag Eq), the formula for which depends on the copper, gold and silver metal prices used in each period and hence are only indicative.

**Avino Mine Second Quarter 2016 Highlights**

- Mill availability was 10% lower due to required maintenance on the Mill Circuit 3 ball mill
- Lower copper and gold feed grades of 14% and 12% respectively were a result of variability in the resource block; the lower feed grades caused a decrease in the concentrate grades of 12% and 29% for gold and copper respectively, as well as a 19% decrease for the recovery of gold
- As a result of the above, copper, gold and silver production decreased by 16%, 32% and 3% respectively compared to the corresponding quarter in 2015, resulting in a 25% decrease in silver equivalent production

*Under National Instrument 43-101, the Company is required to disclose that it has not based its production decisions on NI 43-101-compliant reserve estimates, preliminary economic assessments, or feasibility studies, and historically projects without such reports have increased uncertainty and risk of economic viability. The Company's decision to place a mine into operation at levels intended by management, expand a mine, make other production-related decisions, or otherwise carry out mining and processing operations is largely based on internal non-public Company data, and on reports based on exploration and mining work by the*



*Company and by geologists and engineers engaged by the Company. The results of this work are evident in the Company's discovery of the San Gonzalo and Avino Mine resources, and in the Company's record of mineral production and financial returns since operations at levels intended by management commenced at the San Gonzalo Mine in 2012. This approach is being applied for the Avino Mine project, for which similar risks and uncertainties have been identified.*

### San Gonzalo Mine Second Quarter 2016 Production Highlights

Comparative figures for the second quarter of 2016 and the second quarter of 2015 for the San Gonzalo Mine are as follows; production figures for the second quarter of 2016 include production from Mill Circuit 1 as well as Mill Circuit 2 during April and May.

	Q2 2016	Q2 2015	Quarterly Change %	2016 YTD Totals
Tonnes Mined	24,813	27,780	-11%	49,215
Underground Advancement (m)	1,098	1,105	-1%	2,282
Mill Availability (%)	94	97	-3%	95
Total Mill Feed (dry tonnes)	33,946	33,351	2%	54,548
Feed Grade Silver (g/t)	237	312	-24%	269
Feed Grade Gold (g/t)	1.310	1.498	-13%	1.56
Recovery Silver (%)	82	83	-1%	83
Recovery Gold (%)	71	73	-3%	74
Bulk Concentrate (dry tonnes)	1,261.78	1,298	-3%	2,062
Bulk Concentrate Grade Silver (kg/t)	5.187	6.630	-22%	5.834
Bulk Concentrate Grade Gold (g/t)	20.97	28.08	-25%	23.31
Total Silver Produced (kg)	6,589	8,607	-23%	12,147
Total Gold Produced (g)	31,645	36,458	-13%	63,389
Total Silver Produced (oz) <i>calculated</i>	211,833	276,726	-23%	390,535
Total Gold Produced (oz) <i>calculated</i>	1,017	1,172	-13%	2,038
Total Silver Equivalent Produced (oz) <i>calculated*</i>	288,259	360,975	-20%	529,986

*\* Metal production is expressed in terms of silver equivalent ounces, (oz Ag Eq), the formula for which depends on the copper, gold and silver metal prices used in each period and hence are only indicative.*

### San Gonzalo Second Quarter 2016 Highlights

- Feed grades for silver and gold decreased by 24% and 13% respectively due to lower grade material from the San Gonzalo stockpile being processed using Mill Circuit 2. Accordingly, the silver and gold grades in the concentrate also decreased by 22% and 25% respectively resulting in a 23% decrease for the production of silver and a 13% decrease for the production of gold or a 20% decrease in the production of silver equivalent ounces
- Mill availability decreased by 3% over the same period last year due to routine planned maintenance on Mill Circuit 1

*Under National Instrument 43-101, the Company is required to disclose that it has not based its production decisions on NI 43-101-compliant reserve estimates, preliminary economic assessments, or feasibility studies, and historically projects without such reports have increased uncertainty and risk of economic viability. The Company's decision to place a mine into operation at levels intended by management, expand a mine, make other production-related decisions, or otherwise carry out mining and processing operations is largely based on internal non-public Company data, and on reports based on exploration and mining work by the Company and by geologists and engineers engaged by the Company. The results of this work are evident in the Company's discovery of the San Gonzalo and Avino Mine resources, and in the Company's record of mineral production and financial returns since operations at levels intended by management commenced at the San Gonzalo Mine in 2012. This approach is being applied for the Avino Mine project, for which similar risks and uncertainties have been identified.*



### **Bralorne Mine**

The Bralorne Mine, located approximately 240 km north of Vancouver, British Columbia, is in the exploration and evaluation stage.

During the second quarter of 2016, the Company continued to develop a strategic operating plan for profitable production at Bralorne. The mine plan includes changing the mining method to long hole mining, which is considered safer and less labour intensive than previous trial methods employed and is expected to support production levels of up to 300 tpd. New mining equipment is being acquired to replace older equipment and to further mechanize for long hole mining. The first work to be carried out underground will be to test the long hole mining method. Engineering is in progress to expand the mill from 100 tpd to 300 tpd. Engineering is also being carried out to upgrade the surface infrastructure for a 300 tpd operation. Expansion work for the mill and infrastructure is expected to start in the latter part of 2016.

The tailings impoundment for the Tailings Storage Facility ("TSF") was raised in October 2015, and additional buttress work is currently being carried out on the impoundment, with completion scheduled for the third quarter of 2016. The Interim Mine Closure Plan ("IMCP") and review process is also expected to be completed by the third quarter of 2016. The work on the TSF, the IMCP and the strategic operating plan is contributing to the Company's goal of obtaining the permits to resume processing and mining activities from British Columbia's Ministry of Energy & Mines and Ministry of Environment.

In February 2016, Bralorne, in conjunction with North Island College, the B.C. government and First Nations completed an educational cohort to provide basic mining training for members of the St'at'imc First Nation in Lillooet. Bralorne provided support and access to the mine site for hands-on training. The Company is maintaining open lines of communication with First Nations communities, and management continues its efforts to build meaningful positive relationships with its stakeholders.

### **BRX Claims**

The Company entered into an agreement with Great Thunder Gold Corp. ("GTG") dated July 8, 2016, for the acquisition of a 100% interest in the BRX Property. The BRX Property consists of nine mineral claims covering approximately 2,114 hectares in the Lillooet Mining Division of British Columbia. Under the terms of the agreement, the Company will pay \$65,000 and issue 10,000 common shares to GTG, and will pay GTG a 1% net smelter returns royalty to a maximum of \$250,000 on the sale of ore or other products from the BRX Property. The BRX Property also has a pre-existing 2½% net smelter returns royalty payable to Levon Resources Ltd.

### **Quality Assurance/Quality Control**

At the Avino property, mill assays are performed at the on-site lab. Check samples are sent to Inspectorate Labs in Reno, Nevada for verification. All concentrate shipments are assayed by independent third party labs including AHK, LSI, Alex Stewart and SGS.

### **Qualified Person(s)**

Avino's Mexican projects are under the supervision of Mr. Chris Sampson, P.Eng, BSc, Avino consultant, and Mr. Jasman Yee, P.Eng, Avino director; Avino's Bralorne Mine project is under the supervision of Fred Sveinson, B.A., BSc, P.Eng, Avino Senior Mining Advisor. These individuals are qualified persons ("QP") within the context of National Instrument 43-101. The respective QP's have reviewed and approved all the applicable technical data in this MD&A.





## **Objectives**

Avino's mission is to create shareholder value through profitable organic growth at the Avino Property and the strategic acquisition and advancement of mineral exploration and mining properties. We are committed to expanding our operations and managing all business activities in an environmentally responsible and cost-effective manner while contributing to the well-being of the communities in which we operate.

The Company remains focused on the following key objectives:

1. Maintain and improve profitable mining operations while managing operating costs and achieving efficiencies;
2. Advance the Bralorne project towards profitable production;
3. Explore regional targets on the Avino Property followed by other properties in our portfolio;
4. Assess the potential for processing the oxide tailings resource from previous milling operations (PEA issued in 2012); and
5. Identify and evaluate potential projects for acquisition.

## **Avino Mine Concentrate Sales**

Since re-opening the Avino Mine in the second half of 2014, the Company has extracted and processed mineralized material from the Mine on a continuous basis as it advanced the project from the exploration and evaluation stage to the production stage. During 2015 and the first two quarters of 2016, the Company also arranged for sales of the mineralized material to further advance the project, and this material is processed into concentrate at Mill Circuits 2 and 3. The Company's financial statements cite a number of factors which generally outline the advancement of a project from the exploration and evaluation stage to the production stage, including an assessment of a project's technical feasibility and commercial viability.

The Company commenced commercial production at the Avino Mine on April 1, 2016. In the periods before the commencement of commercial production, 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. In the condensed consolidated interim statement of financial position for the six months ended June 30, 2016, the Company recorded mine and camp costs of \$4,502,020 and reduced its exploration and evaluation costs by \$5,994,516 for sales of Avino Mine concentrate, prior to the commencement of commercial production on April 1, 2016.

## **Non – IFRS Measures**

### **Cash cost per ounce, all-in sustaining cash cost per ounce, and cash flow per share**

Cash cost per ounce, all-in sustaining cash cost per ounce, and cash flow per share are measures developed by mining companies in an effort to provide a comparable standard. However, there can be no assurance that our reporting of these non-IFRS measures is similar to that reported by other mining companies. Total cash cost per ounce, all-in sustaining cash cost per ounce, and cash flow per share are measures used by the Company to manage and evaluate operating performance of the Company's mining operations, and are widely reported in the silver and gold mining industry as benchmarks for performance, but do not have standardized meanings prescribed by IFRS, and are disclosed in addition to IFRS measures.

Management of the Company believes that the Company's ability to control the cash cost per silver equivalent ounce is one of its key performance drivers impacting both the Company's financial condition and results of operations. Achieving a low silver equivalent production cost base allows the Company to remain profitable from mining operations even during times of low commodity prices, and provides more flexibility in responding to changing market conditions. In addition, a profitable operation results in the generation of positive cash flows, which then improves the Company's financial condition.



The Company has adopted the reporting of “all-in sustaining cash cost per silver equivalent ounce”. This measure has no standardized meaning throughout the industry. However, it is intended to provide additional information. Avino presents all-in sustaining cash cost because it believes that it more fully defines the total current cost associated with producing a silver equivalent ounce. Further, the Company believes that this measure allows investors of the Company to better understand its cost of producing silver equivalent ounces, and better assess the Company’s ability to generate cash flow from operations. Although the measure seeks to reflect the full cost per silver equivalent ounce of production from current operations, it does not include capital expenditures attributable to mine expansions, exploration and evaluation costs attributable to growth projects, income tax payments, and financing costs. In addition, the calculation of all-in sustaining cash costs does not include depreciation and depletion expense as it does not reflect the impact of expenditures incurred in prior periods. The Company’s calculation of all-in sustaining cash costs includes sustaining capital expenditures of \$nil for the six months ended June 30, 2016, as substantially all of the mining equipment used at the San Gonzalo and Avino Mines has been newly purchased or refurbished. The Company has planned for sustaining capital expenditures in future years in accordance with mine operating plans and expected equipment utilization levels. Although this measure is not representative of all of the Company’s cash expenditures, management believes that it is a useful measure in allowing it to analyze the efficiency of its mining operations.

The Company also presents cash flow per share as it believes it assists investors and other stakeholders in evaluating the Company’s overall performance and its ability to generate cash flow from current operations.

To facilitate a better understanding of these measures as calculated by the Company, detailed reconciliations between the non-IFRS measures and the Company’s consolidated financial statements are provided below. The measures presented are intended to provide additional information, and should not be considered in isolation nor should they be considered substitutes for IFRS measures. Calculated figures may not add up due to rounding.

**Cash Cost and All-in Sustaining Cash Cost per Silver Equivalent Ounce**

The following tables provide a reconciliation of cost of sales from the consolidated financial statements to cash cost and all-in sustaining cash cost per silver equivalent ounce sold. In each table, “silver equivalent ounces sold” consists of the sum of silver ounces, gold ounces and copper tonnes sold multiplied by the ratio of the average spot gold and copper prices for the corresponding period.

**San Gonzalo (expressed in Canadian dollars)**

	2016		2015				
	Q2	Q1	Year	Q4	Q3	Q2	Q1
Cost of sales	\$2,975,861	\$976,764	\$10,819,386	\$2,388,284	\$2,697,437	\$3,535,980	\$2,197,685
Depreciation and depletion	(358,957)	(99,008)	(1,317,073)	(401,168)	(352,396)	(542,504)	(21,005)
Cash production cost	2,616,904	877,756	9,502,313	1,987,116	2,345,041	2,993,476	2,176,680
Silver equivalent ounces sold	209,955	155,507	1,122,232	241,114	282,624	345,300	253,194
Cash cost per silver equivalent ounce	\$ 12.46	\$ 5.64	\$ 8.47	\$ 8.24	\$ 8.30	\$ 8.67	\$ 8.60
General and administrative expenses	371,392	878,577	4,175,862	1,073,913	1,090,088	1,051,942	959,919
Share-based payments	-	-	(40,012)	-	(31,664)	38	(8,386)
Cash operating cost	2,988,296	1,756,333	13,638,163	3,061,029	3,403,465	4,045,456	3,128,213
All-in sustaining cash cost per silver equivalent ounce	\$ 14.23	\$ 11.29	\$ 12.15	\$ 12.70	\$ 12.04	\$ 11.72	\$ 12.36





During the second quarter of 2016, the cash cost and all-in sustaining cost per silver equivalent ounce at San Gonzalo was higher than the preceding quarters, primarily due to lower silver equivalent ounces sold.

**Avino Mine (expressed in Canadian dollars)**

	2016		2015				
	Q2	Q1	Year	Q4	Q3	Q2	Q1
Cost of sales	\$ 5,724,256	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation and depletion	(351,466)	-	-	-	-	-	-
Cash production cost	5,372,790	-	-	-	-	-	-
Silver equivalent ounces sold	416,882	-	-	-	-	-	-
Cash cost per silver equivalent ounce	\$ 12.89	-	-	-	-	-	-
General and administrative expenses	737,432	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-
Cash operating cost	6,110,222	-	-	-	-	-	-
All-in sustaining cash cost per silver equivalent ounce	\$ 14.66	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

During the second quarter of 2016, the Company commenced commercial production at the Avino Mine.

**Historical Stockpiles (expressed in Canadian dollars)**

	2016		2015				
	Q2	Q1	Year	Q4	Q3	Q2	Q1
Cost of sales	\$ -	\$ -	\$ 142,308	\$ -	\$ 142,308	\$ -	\$ -
Depreciation and depletion	-	-	(6,345)	-	(6,345)	-	-
Cash production cost	-	-	135,963	-	135,963	-	-
Silver equivalent ounces sold	-	-	17,797	-	17,797	-	-
Cash cost per silver equivalent ounce	-	-	\$ 7.64	-	\$ 7.64	-	-
General and administrative expenses	-	-	62,653	-	62,653	-	-
Share-based payments	-	-	(808)	-	(808)	-	-
Cash operating cost	-	-	197,808	-	197,808	-	-
All-in sustaining cash cost per silver equivalent ounce	\$ -	\$ -	\$ 11.11	\$ -	\$ 11.11	\$ -	\$ -

During the second quarter of 2016, the Company did not sell material from the historic stockpiles, as Mill Circuit 2 was used to process San Gonzalo stockpile and Avino Mine material.



**Consolidated (expressed in Canadian dollars)**

	2016		2015				
	Q2	Q1	Year	Q4	Q3	Q2	Q1
Cost of sales	\$8,700,117	\$976,764	\$10,961,694	\$2,388,284	\$2,839,745	\$3,535,980	\$2,197,685
Depreciation and depletion	(710,423)	(99,008)	(1,323,418)	(401,168)	(358,741)	(542,504)	(21,005)
Cash production cost	7,989,694	877,756	9,638,276	1,987,116	2,481,004	2,993,476	2,176,680
Silver equivalent ounces sold	626,837	155,507	1,140,029	241,114	300,421	345,300	253,194
Cash cost per silver equivalent ounce	\$ 12.75	\$ 5.64	\$ 8.45	\$ 8.24	\$ 8.26	\$ 8.67	\$ 8.60
General and administrative expenses	1,108,824	878,577	4,238,515	1,073,913	1,152,741	1,051,942	959,919
Share-based payments	-	-	(40,820)	-	(32,472)	38	(8,386)
Cash operating cost	9,098,518	1,756,333	13,835,971	3,061,029	3,601,273	4,045,456	3,128,213
All-in sustaining cash cost per silver equivalent ounce	\$ 14.51	\$ 11.29	\$ 12.14	\$ 12.70	\$ 11.99	\$ 11.72	\$ 12.36

The Company continues to review its expenditures, and is maintaining cost reduction programs in key areas to achieve lower costs. Ongoing cost reduction activities include negotiating more favourable terms with vendors, while maintenance costs are expected to decrease as a result of utilizing newer mining equipment.

**Cash Flow per Share**

Cash flow per share is determined based on operating cash flows before movements in working capital, as illustrated in the consolidated statements of cash flows, divided by the basic and diluted weighted average shares outstanding during the period.

**Six months Ended June 30,**

	2016	2015
Operating cash flows before movements in working capital	\$ 1,924,958	\$ 768,381
Weighted average number of shares outstanding		
Basic	39,199,301	35,798,371
Diluted	39,495,671	36,464,726
<b>Cash Flow per Share – basic and diluted</b>	<b>\$0.05</b>	<b>\$0.02</b>

**Working Capital**

	June 30, 2016	December 31, 2015
Current assets	\$ 27,774,350	\$ 20,047,773
Current liabilities	(8,344,602)	(14,044,216)
<b>Working capital</b>	<b>\$ 19,429,748</b>	<b>\$ 6,003,557</b>



**Results of Operations**

**Summary of Quarterly Results**

Quarter ended	2016 Jun 30 Q2	2016 Mar 31 Q1	2015 Dec 31 Q4	2015 Sep 30 Q3	2015 Jun 30 Q2	2015 Mar 31 Q1	2014 Dec 31 Q4	2014 Sep 30 Q3
Revenue	\$ 11,918,749	\$ 2,751,949	\$ 3,860,109	\$ 5,028,314	\$ 5,908,883	\$ 4,285,541	\$ 3,714,692	\$ 4,704,213
Earnings (Loss) for the quarter	(450,087)	58,046	370,675	(625,193)	361,655	376,287	469,145	787,805
Earnings (Loss) per share - basic	(0.01)	0.00	0.01	(0.02)	0.01	0.01	0.01	0.02
Earnings (Loss) per share - diluted	(0.01)	0.00	0.01	(0.02)	0.01	0.01	0.01	0.02
Total Assets	\$93,911,346	\$85,683,111	\$87,341,992	\$81,567,998	\$74,007,743	\$70,197,816	\$61,416,147	\$53,291,603

- Revenue in the second quarter of 2016 was higher than that of previous quarters as the Company commenced commercial production at the Avino Mine as of April 1, 2016. The Company's consolidated statement of operations will reflect the revenues and related production costs from the Avino Mine going forward; this activity was reflected within exploration and evaluation assets on the Company's consolidated statement of financial position prior to April 1, 2016.
- Earnings for the second quarter of 2016 were lower compared to earnings in most of the preceding quarters primarily due to higher income tax expenses driven by continued profitable operations in Mexico, as well as the fair value adjustment on warrant liabilities.

Quarterly results will fluctuate with changes in revenues, cost of sales, general and administrative expenses, including non-cash items such as share-based payments, and other items including foreign exchange and deferred income taxes.



Three months ended June 30, 2016, compared to the three months ended June 30, 2015:

	2016	2015	Note
<b>Revenue from Mining Operations</b>	\$ 11,918,749	\$ 5,908,883	1
<b>Cost of Sales</b>	8,700,117	3,535,980	2
<b>Mine Operating Income</b>	3,218,632	2,372,903	2
<b>General and administrative expenses</b>	1,112,537	1,094,459	3
Income before other income (expenses)	2,106,095	1,278,444	
<b>Other Income (Expenses)</b>			
Foreign exchange gain	229,514	(196,370)	
Unrealized gain on investments	7,448	3,708	
Interest and other income (expense)	4,277	(4,427)	
Fair value adjustment on warrant liabilities	(670,253)	210,265	4
Accretion of reclamation provision	(116,063)	(33,677)	
Interest expense	(41,476)	(43,514)	
<b>Net Income Before Income Taxes</b>	1,519,542	1,214,429	
<b>Income Taxes</b>			
Current income tax recovery (expense)	(917,075)	(1,927,007)	5
Deferred income tax expense	(1,052,554)	1,074,233	5
	(1,969,629)	(852,774)	
<b>Net Income</b>	(450,087)	361,655	6
<b>Earnings per Share</b>			
Basic	\$(0.01)	\$0.01	6
Diluted	\$(0.01)	\$0.01	6

1. Revenues for the three months ended June 30, 2016 were \$11,918,749 compared to \$5,908,883 for the three months ended June 30, 2015. The increase of \$6,009,866 reflects commencement of commercial production at the Avino Mine effective April 1, 2016.
2. Mine operating income increased as a result of the commencement of commercial production at the Avino Mine effective April 1, 2016. The Company's gross margin on the sale of San Gonzalo concentrates was consistent with previous periods however the current quarter now reflects the mine operating income from the Avino Mine. The current quarter costs for the Avino Mine production are higher than what we anticipate in the future due to the use of development style mining.
3. General and administrative expenses include management, consulting, and director fees, salaries, office expenses, investor relations, travel, and promotion, and share-based payment. For the three months ended June 30, 2016, general and administrative expenses were \$1,112,537 compared to \$1,094,459 for the three months ended June 30, 2015. Although the Company's operations are expanding, Management continues to monitor general and administrative expenses carefully to maintain efficient operations.



4. The fair value adjustment on the Company's warrant liability relates to the issuance of U.S. dollar denominated warrants which are re-valued each reporting period, and the value fluctuates with changes in the US-Canadian dollar exchange rate and in the variables used in the valuation model, such as share price and expected share price volatility.
5. Current income tax expense was \$917,075 for the three months ended June 30, 2016, compared to current income tax expense of \$1,927,007 in the three months ended June 30, 2015. Deferred income tax expense was \$1,052,554 for the three months ended June 30, 2016, compared to deferred tax recovery of \$1,074,233 in the comparative quarter. Deferred income tax fluctuates due to movements in taxable and deductible temporary differences related to the special mining duty in Mexico and to changes in inventory, plant, equipment and mining properties, and exploration and evaluation assets, amongst other factors. The changes in current income taxes and deferred income taxes for the three months ended June 30, 2016 primarily relate to movements in the tax bases and mining profits at the Avino Mine property.
6. As a result of the foregoing, net loss for the three months ended June 30, 2016 was \$(450,087), a decrease of \$811,742 compared to net income of \$361,655 for the three months ended June 30, 2015. The decrease resulted in basic and diluted loss per share of \$(0.01) for the three months ended June 30, 2016, compared to basic and diluted earnings per share of \$0.01 in the comparative quarter.



Six months ended June 30, 2016, compared to the six months ended June 30, 2015:

	2016	2015	Note
<b>Revenue from Mining Operations</b>	\$ 14,670,698	\$ 10,194,424	1
<b>Cost of Sales</b>	9,676,881	5,733,665	2
<b>Mine Operating Income</b>	4,993,817	4,460,759	2
<b>General and administrative expenses</b>	1,995,281	2,030,385	
Income before other items	2,998,536	2,430,374	
<b>Other Items</b>			
Foreign exchange loss	329,573	(136,377)	
Interest and other income	41,004	22,852	
Fair value adjustment on warrant liability	(670,253)	175,176	3
Accretion of reclamation provision	(149,617)	(67,555)	
Interest expense	(80,889)	(76,701)	
Unrealized gain (loss) on investments	(613)	29,754	
<b>Net Income Before Income Taxes</b>	2,467,741	2,377,523	
<b>Income Taxes</b>			
Current income tax expense	(912,431)	(2,177,978)	4
Deferred income tax recovery (expense)	(1,947,351)	538,397	4
	(2,859,782)	(1,639,581)	
<b>Net Income (Loss)</b>	(392,041)	737,942	5
<b>Earnings per share</b>			
Basic	\$ (0.01)	\$ 0.02	5
Diluted	\$ (0.01)	\$ 0.02	5

1. Revenues for the six months ended June 30, 2016, were \$14,670,698 compared to \$10,194,424 for the six months ended June 30, 2015. The increase of \$4,476,274 reflects commencement of commercial production at the Avino Mine effective April 1, 2016. Prior to April 1, 2016, the revenues, and related costs of production, were capitalized as commercial production had not been declared.
2. Costs of sales reflect the costs of the production for the Avino and San Gonzalo mines. The gross margin on the sale of San Gonzalo concentrates is consistent with prior periods and is approximately 45%. The Company utilizes both production and development methods of mining. The costs associated with development mining are considerably higher and as a result there is an impact on the Company's consolidated gross margin. The Company intends to utilize the production method of mining in the future and expects production costs at the Avino Mine to decrease significantly.
3. The fair value adjustment on the Company's warrant liability relates to the issuance of U.S. dollar denominated warrants which are re-valued each reporting period, and the value fluctuates with changes in the US-Canadian dollar exchange rate and in the variables used in the valuation model, such as share price and expected share price volatility.
4. Current income tax of \$912,431 in the six months ended June 30, 2016 compared to \$2,177,978 in the six months ended June 30, 2015. The change in current income taxes primarily relates to mining activities at the Avino Mine property.

Deferred income tax expense was \$1,947,351 for the six months ended June 30, 2016, compared to a deferred tax recovery of \$538,397 in the comparative period. Deferred income tax fluctuates





due to movements in taxable and deductible temporary differences related to the special mining duty in Mexico and to changes in inventory, plant, equipment and mining properties, and exploration and evaluation assets, amongst other factors.

- As a result of the foregoing, net loss for the six months ended June 30, 2016, was \$(392,041), a decrease of \$1,129,983 compared to net income of \$737,942 for the six months ended June 30, 2015. The decrease in net income has decreased basic and diluted earnings per share from earnings of \$0.02 for the six months ended June 30, 2015, to a loss of \$(0.01) for the six months ended June 30, 2016.

### Liquidity and Capital Resources

The Company's ability to generate sufficient amounts of cash, in both the short term and the long term, to maintain existing capacity and to fund ongoing exploration is dependent upon the discovery of economically recoverable reserves or resources and the ability of the Company to obtain the financing necessary to generate and sustain profitable operations.

Management expects that the Company's ongoing liquidity requirements will be funded from cash generated from current operations and from further financing as required in order to fund ongoing exploration activities and meet its objectives, including ongoing advancement at the Avino Mine. The Company continues to evaluate financing opportunities to advance its projects. The Company's ability to secure adequate financing is in part dependent on overall market conditions, the prices of silver, gold, and copper, and other factors outside the Company's control, and there is no guarantee the Company will be able to secure any or all necessary financing in the future. The Company's recent financing activities are summarized in the table below.

Intended Use of Proceeds	Actual Use of Proceeds
<p>In March 2016, the Company received gross proceeds of US\$800,000 in connection with a brokered public offering issued under a prospectus supplement. The funds will be used to advance the development of the Avino mine and its operations and production, for continued development at the Bralorne mine, and for general working capital.</p> <p>In July 2015, the Company entered into a term facility agreement with Samsung C&amp;T U.K. Limited for US\$10,000,000. The facility will be used for mining equipment, to optimize the advancement of the Company's projects for increased productivity, for improvements to its tailings impoundment facilities, and for general working capital requirements.</p> <p>Since July 2014, the Company has received gross proceeds of US\$ 13,128,396 in connection with a brokered at-the-market offering issued under prospectus supplements. The Company intends to use the proceeds to advance the exploration of the Bralorne Mine property and the Avino property, and for working capital.</p>	<p>As of the date of this MD&amp;A, the Company had used, and was continuing to use, the funds as intended. There has been no impact on the ability of the Company to achieve its business objectives and milestones. In advancing the Avino Mine, and in supporting mining operations in Mexico, the Company incurred exploration expenditures of \$4,941,106 (excluding depreciation of \$270,999 and foreign exchange of \$(644,157), and before proceeds from sale of concentrate), acquired property and equipment of \$1,023,366, and made lease and loan repayments of \$1,210,216 during the six months ended June 30, 2016.</p> <p>In advancing the Bralorne Mine, the Company incurred exploration expenditures of \$2,817,009 (excluding depreciation of \$140,854), acquired property and equipment of \$564,940, and made lease and loan repayments of \$76,482.</p> <p>The Company intends to continue to explore its properties, subject to market conditions and the ability to continue to obtain suitable financing.</p>
<p>In May 2015, the Company entered into a master credit facility with Sandvik Customer Finance LLC for US\$5,000,000. The facility is being used to</p>	<p>As of the date of this MD&amp;A, the Company had used, and was continuing to use, the facility as intended, and there was US\$3,124,930 in available</p>



<b>Intended Use of Proceeds</b>	<b>Actual Use of Proceeds</b>
acquire equipment necessary for continuing exploration activities at the Avino and Bralorne Mines.	credit remaining under the facility. There has been no impact on the ability of the Company to achieve its business objectives and milestones.
In December 2014, the Company's master credit facility with Caterpillar Finance was renewed for US\$5,375,400. The facility is being used to acquire equipment necessary for advancing operations at the San Gonzalo Mine and for continuing exploration activities at the Avino Mine.	As of the date of this MD&A, the Company had used, and was continuing to use, the facility as intended, and there was US\$3,190,079 in available credit remaining under the facility. There has been no impact on the ability of the Company to achieve its business objectives and milestones.

Discussion and analysis relating to the Company's liquidity as at June 30, 2016, December 31, 2015, and June 30, 2015 is as follows:

**Statement of Financial Position**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Cash	\$ 10,665,086	\$ 7,475,134
Working capital	19,429,748	6,003,557
Accumulated Deficit	(25,710,523)	(25,406,432)

**Cash Flow**

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Cash generated by (used in) operating activities	\$ (1,063,503)	\$ 734,512
Cash generated by financing activities	7,842,564	780,331
Cash used in investing activities	(3,351,908)	(2,410,734)
Change in cash	3,427,153	(895,891)
Effect of exchange rate changes on cash	(237,201)	(97,971)
Cash and cash equivalents, beginning of period	7,475,134	4,249,794
<b>Cash and cash equivalents, end of period</b>	<b>\$ 10,665,086</b>	<b>\$ 3,256,186</b>

**Operating Activities**

Cash used in operating activities for the six months ended June 30, 2016 was \$1,063,503 compared to cash generated by operating activities of \$734,512 for the six months ended June 30, 2015. Cash generated or used by operating activities can fluctuate with changes in net income, non-cash items, such as foreign exchange and deferred income tax expenses, and working capital.

**Financing Activities**

Cash generated by financing activities was \$7,842,564 for the six months ended June 30, 2016, compared to cash generated by financing activities of \$780,331 for the six months ended June 30, 2015, an increase of \$7,062,233. Cash provided by financing activities for the six months ended June 30, 2016 relates to the issuance of common shares brokered offerings issued under prospectus supplements and the issuance of common shares upon the exercise of stock options. During the six months ended June 30, 2016, the Company issued common shares in brokered offerings generating net cash flows of \$9,628,796 (June 30, 2015 – \$1,310,231), and employees, consultants, and directors exercised stock options generating cash flows of \$361,600 (June 30, 2015 – \$144,570). During the six months ended June 30, 2016, the Company also made finance lease and equipment loan payments totalling \$1,286,698 (June 30, 2015 - \$674,470) and a term facility repayment of \$861,134 (June 30, 2015 – \$Nil).



**Investing Activities**

Cash used in investing activities for the six months ended June 30, 2016 was \$3,351,908 compared to \$2,410,734 for the six months ended June 30, 2015. Cash used in investing activities during the six months ended June 30, 2016 includes cash expenditures of \$1,588,306 (June 30, 2015 - \$1,818,738) on the acquisition of property and equipment. Equipment purchases included new mining, milling/processing, and transportation equipment for the Company's San Gonzalo Mine and exploration and mining equipment for the Avino Mine and Bralorne Mine properties. During the six months ended June 30, 2016, the Company also incurred cash expenditures of \$7,758,118 (June 30, 2015 - \$11,814,836) on exploration and evaluation activities, of which \$4,941,109 related to the exploration and advancement of the Avino Mine and \$2,817,009 related to the exploration of the Bralorne Mine. The cash expenditures on exploration and evaluation activities for the six months ended June 30, 2016 were reduced by concentrate sales of \$5,994,516 (June 30, 2015 - \$4,200,983, and prepayment of \$6,276,302) for the Avino Mine and \$Nil (June 30, 2015 - \$745,555) for the Bralorne Mine.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Transactions with Related Parties**

- (a) The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel for the three and six months ended June 30, 2016 and 2015 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Salaries, benefits, and consulting fees	\$ 254,736	\$ 199,914	\$ 494,326	\$ 385,419

- (b) 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 \$159,251 (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 consolidated statements of financial position. As at June 30, 2016 and December 31, 2015, the following amounts were due to related parties::

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Oniva International Services Corp.	\$ 172,288	\$ 164,285
Directors	36,500	47,741
Jasman Yee & Associates, Inc.	20,789	5,796
	<b>\$ 229,577</b>	<b>\$ 217,822</b>



**(c) Other related party transactions**

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 Wolfin and Malcolm Davidson, the Company's CEO and CFO, respectively, 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 Wolfin until November 2015, when the beneficial ownership interests were dissolved, and legal and beneficial ownership was then solely held by Mr. Wolfin.

The Company has a cost sharing agreement with 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 six months ended June 30, 2016 and 2015 are summarized below:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Office and miscellaneous	\$ 68,352	\$ 204,964	\$ 325,288	\$ 367,855
Salaries and benefits	58,255	112,503	170,957	230,180
Exploration and evaluation assets	65,231	-	150,877	-
	<u>\$ 191,838</u>	<u>\$ 317,467</u>	<u>\$ 647,122</u>	<u>\$ 598,035</u>

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 six months ended June 30, 2016, the Company paid \$152,500 (2015 - \$125,000) 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 six months ended June 30, 2016 and 2015, the Company paid \$63,280 and \$36,960 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 six months ended June 30, 2016 and 2015, the Company paid \$12,500 and \$15,000 respectively to WWD.



### **Financial Instruments and Risks**

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.

#### **(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 June 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 June 30, 2016 in the amount of \$10,665,086 (December 31, 2015 - \$7,475,134) in order to meet short-term business requirements. At June 30, 2016, the Company had current liabilities of \$8,344,602 (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 June 30, 2016 are summarized as follows:

	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-5 years</b>	<b>More Than 5 Years</b>
Accounts payable and accrued liabilities	\$ 8,344,602	\$ 8,344,602	\$ -	\$ -
Taxes payable	519,736	519,736	-	-
Due to related parties	229,577	229,577	-	-
Minimum rental and lease payments	1,479,154	704,701	741,686	32,767
Term facility	12,055,867	861,133	11,194,734	-
Equipment loans	2,460,467	844,661	1,615,806	-
Finance lease obligations	3,676,312	1,931,110	1,745,202	-
<b>Total</b>	<b>\$ 28,765,715</b>	<b>\$ 13,435,520</b>	<b>\$ 15,297,428</b>	<b>\$ 32,767</b>

**(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 term facility, equipment loans, and 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 U.S. dollars:

	<b>June 30, 2016</b>		<b>December 31, 2015</b>	
	<b>MXN</b>	<b>USD</b>	<b>MXN</b>	<b>USD</b>
Cash	\$ 9,844,642	\$ 7,231,116	\$ 3,876,257	\$ 4,647,007
Amounts receivable	-	1,376,892	-	2,624,555
Accounts payable and accrued liabilities	(13,217,259)	(2,917,295)	(12,173,726)	(1,534,765)
Term facility	-	(9,333,333)	-	(10,000,000)
Equipment loans	-	(248,283)	-	(313,052)
Finance lease obligations	(390,589)	(2,172,887)	(155,669)	(2,567,593)
<b>Net exposure</b>	<b>(3,763,206)</b>	<b>(6,063,790)</b>	<b>(8,453,138)</b>	<b>(7,143,848)</b>
<b>Canadian dollar equivalent</b>	<b>\$ (257,143)</b>	<b>\$ (7,832,596)</b>	<b>\$ (680,890)</b>	<b>\$ (9,887,086)</b>





Based on the net Canadian dollar denominated asset and liability exposures as at June 30, 2016, a 10% fluctuation in the Canadian/Mexican and Canadian/US exchange rates would impact the Company's earnings for the six months ended June 30, 2016 by approximately \$780,690 (December 31, 2015 - \$981,899). The Company has not entered into any foreign currency contracts to mitigate this risk.

*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 June 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 \$180,104 (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. At June 30, 2016, a 10% change in market prices would have an impact on net earnings of approximately \$3,810 (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 June 30, 2016:

	Level 1	Level 2	Level 3
<b>Financial Assets</b>			
Cash	\$ 10,665,086	-	\$ -
Amounts receivable	1,629,905	-	-
Investments	38,100	-	-
<b>Financial Liabilities</b>			
Derivative liabilities	-	-	(670,253)
	<b>\$ 12,333,091</b>	<b>-</b>	<b>\$ (670,253)</b>



### **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 "Transactions with Related Parties".

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 are as follows:

	June 30, 2016	December 31, 2015
Not later than one year	\$ 704,701	\$ 209,063
Later than one year and not later than five years	741,686	749,242
Later than five years	32,767	43,951
	<u>\$ 1,479,154</u>	<u>\$ 1,002,256</u>

Office lease payments recognized as an expense during the six months ended June 30, 2016 totalled \$34,516 (June 30, 2015 - \$29,169.)

In August 2016, the Company entered into a contract for construction of a tailings storage facility in Mexico in the amount of US\$2,216,766.

### **Changes in Accounting Standards**

The following accounting standards were issued but not yet effective as of June 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.

**Outstanding Share Data**

The Company's authorized share capital consists of an unlimited number of common shares without par value.

As at August 15, 2016, the following common shares, warrants, and stock options were outstanding:

	Number of shares	Exercise price	Remaining life (years)
Share capital	44,492,394	-	-
Warrants	1,033,059	US\$2.87	0.53
Warrants	40,000	US\$1.00	2.58
Stock options	2,005,000	\$1.02 - \$1.90	0.13 – 4.13
<b>Fully diluted</b>	<b>47,570,453</b>		

The following are details of outstanding stock options as at June 30, 2016, and August 15, 2016:

Expiry Date	Exercise Price Per Share	Number of Shares Remaining Subject to Options (June 30, 2016)	Number of Shares Remaining Subject to Options (August 15, 2016)
September 30, 2016	\$1.02	555,000	555,000
February 18, 2018	\$1.60	185,000	180,000
September 9, 2018	\$1.62	355,000	345,000
September 19, 2019	\$1.90	800,000	770,000
December 22, 2019	\$1.90	105,000	105,000
September 29, 2020	\$1.32	50,000	50,000
<b>Total:</b>		<b>2,050,000</b>	<b>2,005,000</b>

The following are details of outstanding warrants as at June 30, 2016, and August 15, 2016:

Expiry Date	Exercise Price Per Share	Number of Underlying Shares (June 30, 2016)	Number of Underlying Shares (August 15, 2016)
February 25, 2017	US\$2.87	1,033,059	1,033,059
March 14, 2019	US\$1.00	40,000	40,000
<b>Total:</b>		<b>1,073,059</b>	<b>1,073,059</b>



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### **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

Management is responsible for establishing, maintaining and testing adequate disclosure controls and internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the presentation of financial statements.

Under Canadian securities legislation, non-venture issuers are required to certify the design and evaluation of their disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"). Accordingly, the Company has developed a plan to complete such an evaluation and the evaluation is currently underway. Inherent limitations on the ability of the CEO and CFO to design and implement on a cost-effective basis DC&P and ICFR for the Company may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

The CEO and CFO are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the Company's quarterly and annual certificates.

Based on their knowledge of the Company's ICFR, the CEO and the CFO noted the following material weaknesses in the design of control:

1. **Lack of segregation of duties:** Due to limited staff resources, the Company believes there are instances where a lack of segregation of duties exists, which may limit controls that are otherwise effective; and
2. **Limited in-house technical accounting and tax expertise:** Due to limited staff resources, the Company may not have the necessary in-house knowledge to address complex accounting and tax issues that may arise.

As such, there is a reasonable possibility that the Company's ICFR will fail to prevent or detect a material misstatement in the financial statements on a timely basis. These material weaknesses and related risks are not uncommon for a company the size of Avino because of limitations in resources, including the number of staff. Management considers the remediation of the weaknesses described above to be a priority. To mitigate these risks, the Company has hired additional financial reporting personnel, engaged external technical accounting and tax advisors and experts, increased the frequency of on-site visits to Mexico and Bralorne and inspections of the accounting records of its subsidiaries, and enhanced the involvement of the Audit Committee and Board of Directors in reviews and consultations where necessary. In addition, the Company has engaged a firm of internal controls advisors to assist in the evaluation and remediation of disclosure controls and internal controls over financial reporting.

Our management and the Board of Directors do not expect that our disclosure controls and procedures or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable (not absolute) assurance that the control system's objectives will be met. Further, the design, maintenance and testing of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control gaps and instances of fraud have been detected. These inherent limitations include the reality that judgment in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design, maintenance and testing of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any control system may not succeed in achieving its stated goals under all potential future conditions.



Other than the mitigating steps taken to reduce the risks posed by the material weaknesses as indicated above, there have been no other changes in the Company's DC&P and ICFR that occurred during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's DC&P and/or ICFR.

#### **Cautionary Statement**

This MD&A is based on a review of the Company's operations, financial position and plans for the future based on facts and circumstances as of August 15, 2016. Except for historical information or statements of fact relating to the Company, this document contains "forward-looking statements" within the meaning of applicable Canadian securities regulations. Forward-looking statements in this document include, but are not limited to, those regarding the economic outlook for the mining industry, expectations regarding metals prices, expectations regarding production output, production costs, cash costs and other operating results, expectations regarding growth prospects and the outlook for the Company's operations, and statements regarding the Company's liquidity, capital resources, and capital expenditures. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies we are bound. Forward-looking statements are based on the estimates and opinions of management on the date the statements are made, and we do not undertake any obligation to update forward-looking statements should conditions or our estimates or opinions change, except as required by applicable securities regulations. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.