AVINO SILVER & GOLD MINES LTD.

Consolidated Financial Statements

For the years ended December 31, 2012, 2011 and 2010

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Avino Silver & Gold Mines Ltd. (the "Company") are the responsibility of the Company's management. The consolidated 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 judgment 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 management fulfills its responsibilities. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements as at December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 have been audited by Manning Elliott LLP, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

"David Wolfin"

David Wolfin
President & CEO
April 30, 2013

"Malcolm Davidson"

Malcolm Davidson
Chief Financial Officer
April 30, 2013

MANNING ELLIOTT
CHARTERED ACCOUNTANTS
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
Avino Silver & Gold Mines Ltd.

We have audited the accompanying consolidated financial statements of Avino Silver & Gold Mines Ltd. which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the years ended December 31, 2012, 2011 and 2010, and the related notes comprising a summary of significant accounting policies and other explanatory information.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. The Company is not required to have, nor were we engaged to perform, an audit of the Company's internal control over financial reporting; accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Avino Silver & Gold Mines Ltd. as at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years ended December 31, 2012, 2011 and 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 30, 2013

AVINO SILVER & GOLD MINES LTD.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	December 31, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents		$ 4,035,985	$ 5,282,464
Interest receivable		1,070	53,643
Sales taxes recoverable	**5**	196,178	228,820
Amounts receivable		254,695	876,946
Prepaid expenses and other assets		126,285	86,265
Inventory	**8**	2,225,840	-
		6,840,053	6,528,138
Exploration and Evaluation Assets	**6**	12,828,202	16,274,354
Plant, Equipment and Mining Properties	**10**	6,308,480	3,023,969
Investment in Related Companies	**11**	194,373	304,394
Investment in Other Companies	**12**	15,000	-
Reclamation Bonds		5,500	5,500
		$ 26,191,608	$ 26,136,355
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 1,145,747	$ 600,977
Amounts due to related parties	**17**	174,714	203,763
Current portion of finance lease obligations	**18**	156,220	-
		1,476,681	804,740
Finance Lease Obligations	**18**	78,732	-
Reclamation Provision	**13**	323,140	292,000
Deferred Tax Liability	**24**	2,365,677	2,105,356
Total liabilities		4,244,230	3,202,096
EQUITY			
Share Capital	**14**	42,088,103	41,720,083
Equity Reserves		9,749,674	9,898,186
Treasury Shares (14,180 Shares, at cost)		(101,869)	(101,869)
Accumulated Other Comprehensive Loss		(330,211)	(262,400)
Accumulated Deficit		(29,458,319)	(28,319,741)
Total Equity		21,947,378	22,934,259
		$ 26,191,608	$ 26,136,355

Subsequent Events – Note 25

Approved by the Board of Directors on April 30, 2013:

/s/ Gary Robertson Director *__/s/ David Wolfin__* Director

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

AVINO SILVER & GOLD MINES LTD.
For the years ended December 31, 2012, 2011 and 2010
Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

	Note	2012	2011	2010
Revenue from Mining Operations	**16**	$ 2,255,376	$ -	$ -
Cost of Sales	**16**	1,434,569	-	-
Mine Operating Income		820,807	-	-
General and Administrative Expenses				
Depreciation		6,193	803	3,834
Investor relations		247,044	294,882	99,450
Management fees		150,000	296,260	96,000
Office and miscellaneous		531,043	199,721	162,945
Professional fees		205,578	189,459	127,711
Regulatory and compliance fees		75,738	121,591	26,028
Salaries and benefits		561,398	276,866	165,417
Sales tax write-down (provision recovery)		(47,409)	-	42,478
Share-based payments	**15**	18,408	2,529,620	341,748
Travel and promotion		181,753	133,445	45,032
		1,929,746	4,042,647	1,110,643
Loss before other items and income tax		(1,108,939)	(4,042,647)	(1,110,643)
Other Items				
Foreign exchange gain		116,562	68,404	19,951
Interest income		21,760	78,857	14,206
Other income		23,464	10,499	-
Mineral property option income	**7**	54,317	-	-
Unrealized gain (loss) on investments in related companies	**12**	(110,021)	(212,966)	313,323
Loss before income tax		(1,002,857)	(4,097,853)	(763,163)
Deferred income tax expense		(260,321)	(86,498)	(27,677)
Net Loss		(1,263,178)	(4,184,351)	(790,840)
Other Comprehensive Income (Loss)				
Foreign currency translation differences for foreign operations		(67,811)	82,689	(345,089)
Comprehensive Loss		$ (1,330,989)	$ (4,101,662)	$ (1,135,929)
Loss per Share - Basic and Diluted		$ (0.05)	$ (0.16)	$ (0.04)
Weighted Average Number of Shares Outstanding		27,072,053	26,795,632	20,059,008

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

AVINO SILVER & GOLD MINES LTD.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2012, 2011 and 2010
(Expressed in Canadian dollars)

	Note	Number of Common Shares	Share Capital Amount	Equity Reserves	Treasury Shares	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Equity
Balance, January 1, 2010		20,584,727	$ 33,173,022	$ 7,349,978	$ (101,869)	$ -	$ (23,940,230)	$ 16,480,901
Common shares issued for cash:								
Private placement	**14**	5,100,000	5,107,614	3,202,468	-	-	-	8,310,082
Share issuance costs		-	(435,387)	-	-	-	-	(435,387)
Exercise of stock options	**14**	472,500	354,375	-	-	-	-	354,375
Share-based payments	**15**	-	-	341,748	-	-	-	341,748
Fair value of stock options exercised		-	993,675	(993,675)	-	-	-	-
Options and warrants cancelled or expired		-	-	(391,681)	-	-	391,681	-
Net loss for the year		-	-	-	-	-	(790,840)	(790,840)
Cumulative translation adjustments		-	-	-	-	(345,089)	-	(345,089)
Balance, December 31, 2010		**26,157,227**	**$ 39,193,299**	**$ 9,508,838**	**$ (101,869)**	**$ (345,089)**	**$ (24,339,389)**	**$ 23,915,790**
Common shares issued for cash:								
Exercise of stock options	**14**	753,000	592,050	-	-	-	-	592,050
Share issuance costs		-	(1,539)	-	-	-	-	(1,539)
Fair value of stock options exercised		-	1,936,273	(1,936,273)	-	-	-	-
Share-based payments	**15**	-	-	2,529,620	-	-	-	2,529,620
Options and warrants cancelled or expired		-	-	(203,999)	-	-	203,999	-
Net loss for the year		-	-	-	-	-	(4,184,351)	(4,184,351)
Cumulative translation adjustments		-	-	-	-	82,689	-	82,689
Balance, December 31, 2011		**26,910,227**	**$ 41,720,083**	**$ 9,898,186**	**$ (101,869)**	**$ (262,400)**	**$ (28,319,741)**	**$ 22,934,259**
Common shares issued for cash:								
Exercise of stock options		82,000	75,600	-	-	-	-	75,600
Share issuance costs		-	-	-	-	-	-	-
Shares issued for leased claim payment	**6(a)(iv)**	135,189	250,100	-	-	-		250,100
Fair value of stock options exercised		-	42,320	(42,320)	-	-	-	-
Share-based payments	**15**	-	-	18,408	-	-	-	18,408
Options and warrants cancelled or expired		-	-	(124,600)	-	-	124,600	-
Net loss for the year		-	-	-	-	-	(1,263,178)	(1,263,178)
Cumulative translation adjustments		-	-	-	-	(67,811)	-	(67,811)
Balance, December 31, 2012		**27,127,416**	**$ 42,088,103**	**$ 9,749,674**	**$ (101,869)**	**$ (330,211)**	**$ (29,458,319)**	**$ 21,947,378**

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

AVINO SILVER & GOLD MINES LTD.
For the years ended December 31, 2012, 2011 and 2010
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Note	2012	2011	2010
Cash Provided By (Used In):				
Operating Activities				
Net loss		$ (1,263,178)	$ (4,184,351)	$ (790,840)
Adjustments for non-cash items:				
Depreciation, depletion, and accretion	**10**	194,453	803	3,834
Share-based payments	**15**	18,408	2,529,620	341,748
Unrealized loss (gain) on investments	**12**	110,021	212,966	(313,323)
Sales tax write-down (provision recovery)		(46,640)	-	42,478
Mineral property option income		(15,000)	-	-
Deferred income tax expense	**24**	260,321	86,499	27,677
		(741,615)	(1,354,463)	(688,426)
Net change in non-cash working capital	**19**	(718,112)	60,462	(76,289)
		(1,459,727)	(1,294,001)	(764,715)
Financing Activities				
Shares issued for cash, net of issuance costs	**14**	75,600	590,511	8,229,069
Finance lease payments		(42,969)	-	-
		32,631	590,511	8,229,069
Investing Activities				
Recovery of exploration costs from concentrate proceeds		3,490,581	3,114,552	1,014,270
Exploration and evaluation expenditures		(2,387,771)	(4,590,331)	(1,839,096)
Additions to plant, equipment and mining properties		(946,286)	(1,483,453)	(324,360)
		156,524	(2,959,232)	(1,149,186)
Change in cash and cash equivalents		(1,270,572)	(3,662,722)	6,315,168
Effect of exchange rate changes on cash and cash equivalents		24,093	(106,662)	(93,413)
Cash and Cash Equivalents, Beginning		5,282,464	9,051,848	2,830,093
Cash and Cash Equivalents, Ending		$ 4,035,985	$ 5,282,464	$ 9,051,848

Supplementary cash flow information (Note 19)

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

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 and gold, and the exploration, development, and acquisition 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-V, NYSE Mkt and the Frankfurt Stock Exchange.

The Company owns interests in mineral properties located in Durango, Mexico, British Columbia and the Yukon, Canada. The Company is in the business of producing silver, gold and copper, and the exploration of mineral properties. On October 1, 2012 the Company commenced production of silver and gold at its San Gonzalo mine in the state of Durango, Mexico.

2. BASIS OF PRESENTATION

Statement of Compliance

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

Basis of Presentation

These consolidated 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 consolidated 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 consolidated financial statements as if the policies have always been in effect.

Foreign Currency Translation

a) Functional currencies

The functional and presentation currency of the Company is the Canadian dollar. The functional currency of the Company’s subsidiaries is the U.S. dollar which is determined to be the currency of the primary economic environment in which the subsidiaries operate.

b) Foreign currency transactions

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

c) Foreign operations

Subsidiaries that have functional currencies other than Canadian dollars translate their statement of operations items to Canadian dollars at the average rate during the year. Assets and liabilities are translated at exchange rates prevailing at the end of each reporting period. Exchange rate variations resulting from the retranslation at closing rate of the net investment in such subsidiaries, together with differences between their statement of operations items translated at actual and average rates, are recognized in the accumulated other comprehensive income/loss.

2. BASIS OF PRESENTATION (continued)

Significant Accounting Judgements and Estimates

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates under different assumptions and conditions.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

a) ***Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs***

Management has determined that exploratory drilling, evaluation, development and related costs incurred which were capitalized have future economic benefits and are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, scoping studies, accessible facilities, existing permits and life of mine plans.

b) ***Stockpile and concentrate inventory valuations***

Concentrate and stockpile ore are valued at the lower of the average costs or net realizable value. The assumptions used in the valuation of ore stockpile and concentrate include estimates of silver and gold contained in the ore stockpile and finished goods assumptions of the amount of silver and gold that is expected to be recovered from them. If these estimates or assumptions prove to be inaccurate, the Company could be required to write down the recorded value of its ore stockpile and finished would increase the Company's expenses and reduce working capital.

c) ***Estimated reclamation provisions***

The Company's provision for decommissioning liabilities represents management's best estimate of the present value of the future cash outflows required to settle estimated reclamation and closure costs at the end of mine's life. The provision reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows, and the applicable risk free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company.

Changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related mining properties. Adjustments to the carrying amounts of related mining properties can result in a change to future depletion expense.

d) ***Valuation of share based payments***

The Company uses the Black Scholes Option Pricing Model for valuation of share based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

2. BASIS OF PRESENTATION (continued)

Significant Accounting Judgements and Estimates (continued)

e) *Commencement of commercial production and production levels intended by management*

Prior to reaching commercial 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, including production capacity, recoveries and number of uninterrupted production days, in determining when a mining property has reached the commercial production levels intended by management. The results of operations of the Company during the periods presented in these consolidated financial statements have been impacted by management's determination that the San Gonzalo Mine commenced production on October 1, 2012.

f) *Impairment of plant and equipment, mining properties and exploration and evaluation assets*

Management considers both external and internal sources of information in assessing whether there are any indications that the Company's plant and equipment, mining properties and exploration and evaluation assets are impaired. External sources of information management considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its plant, equipment and mining interests. Internal sources of information management consider include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

In determining the recoverable amounts of the Company's plant, equipment, and mining properties, management makes estimates of the discounted future pre tax cash flows expected to be derived from the Company's mining properties, and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future non expansionary capital expenditures, reductions in the amount of recoverable resources, and exploration potential, and/or adverse current economics can result in a write down of the carrying amounts of the Company's plant, equipment and mining properties.

g) *Depreciation rate for plant and equipment and depletion rate for mining properties*

Depreciation and depletion expenses are allocated based on assumed asset lives. Should the asset life, depletion rates or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statements of loss.

h) *Recognition and measurement of deferred tax assets and liabilities*

Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets/liabilities.

2. BASIS OF PRESENTATION (continued)

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its Mexican subsidiaries.

	Ownership Interest	Jurisdiction	Nature of Operations
Oniva Silver and Gold Mines S.A., ("Oniva Silver")	100%	Mexico	Mexican operations administration
Promotora Avino, S.A. De C.V. ("Promotora")	79.09%	Mexico	Holding Company
Compania Minera Mexicana de Avino, S.A. de C.V. ("Avino Mexico")	96.60% direct 2.68% indirect (Promotora) 99.28% effective	Mexico	Mining and Exploration

Inter-company balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

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 receivable 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. Financial instruments comprise cash and cash equivalents, marketable securities and accounts payable. At initial recognition management has classified financial assets and liabilities as follows:

The Company has classified its cash and cash equivalents, interest receivable, and investments in related and other companies as FVTPL. Amounts receivable are classified as loans and receivables. Accounts payable and amounts due to related parties are classified as other liabilities.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

3. SIGNIFICANT ACCOUNTING POLICIES

Exploration and evaluation assets

The Company capitalizes all costs relating to the acquisition, exploration and evaluation of mineral claims and recognizes any proceeds received as a reduction of the cost of the related claims. The Company's capitalized exploration and evaluation are classified as intangibles assets. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. When commercial production commences, these costs will be subject to depletion. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral claim is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm out of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

Incidental revenues and operating costs are included in exploration and evaluation costs prior to commercial production.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditures are not expected to be recovered, it is written down and charged to operations.

Plant, equipment and mining properties

Once the work completed supports a commercial production decision by management all expenditures incurred to that date for the mine are reclassified to mining properties. Expenditures capitalized to mining properties include all costs related to exploration, evaluation and development, direct overhead costs and the initial estimate of the reclamation provision. Prior to being reclassified to mining properties, exploration and development costs are assessed for impairment. Subsequent to the commencement of commercial production, further development expenditures incurred with respect to a mining property are capitalized, when it is probable that additional future economic benefits will flow to the Company. Otherwise, such expenditures are classified as a cost of production.

Plant and equipment are recorded at historical cost less accumulated depreciation and any accumulated impairment losses. Historical costs include expenditures that are directly attributable to bringing the asset to a location and condition necessary to operate in a manner intended by management. Such costs are accumulated as construction in progress until the asset is available for use, at which point the asset is classified as plant, equipment and mining properties.

After the start of commercial production mining properties are depleted using the straight-line method over the estimated remaining life of the mine. The Company estimates the remaining life of its producing mineral properties on an annual basis using a combination of quantitative and qualitative factors including historical results, mineral resource estimates, and management's intent to operate the property.

The Company does not have sufficient reserve information to form a basis for the application of the units-of-production method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant, equipment and mining properties (continued)

Accumulated mill, machinery, plant facilities, and certain equipment are depreciated using the straight-line method over their estimated useful lives, not to exceed the life of the mine for any assets that are inseparable from the mine. When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (or components) of plant and equipment.

Plant and equipment are depreciated at the following annual rates:

Office equipment, furniture and fixtures	20% declining balance
Computer equipment	30% declining balance
Mine machinery and transportation equipment	20% declining balance
Mill machinery and processing equipment	20 years straight line
Buildings and constructions	20 years straight line

Impairment

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Leases

Leases in which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Assets held under finance leases are recognized at the lower of the fair value and present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. The corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining liability. Finance charges are charged as a finance expense to profit and loss, unless they are attributable to qualifying assets, in which case they are capitalized.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time patter in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Material extracted from the Company's mine is classified as either ore or waste. Ore represents material that, at the time of extraction, the Company expects to process into a saleable form and sell at a profit. Raw materials are comprised of ore stockpiles. Ore is accumulated in stockpiles that are subsequently processed into bulk silver/gold concentrate in a saleable form. The Company has bulk silver/gold concentrate inventory which is in saleable form which has not yet been sold. Mine operating supplies represent commodity consumables and other raw materials used in the production process, as well as spare parts and other maintenance supplies that are not classified as capital items.

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs incurred, based on a normal production capacity, in bringing each product to its present location and condition. Cost of inventories comprises direct labor, materials and contractor expenses, depletion and depreciation on mining properties, plant, and equipment; and an allocation of mine site overhead costs. As ore is removed for processing, costs are removed based on the average cost per tonne in the stockpile. Stockpile ore tonnages are verified by periodic surveys.

The Company records provisions to reduce inventory to net realizable value to reflect changes in economic factors that impact inventory value and to reflect present intentions for the use of slow moving and obsolete supplies inventory. Net realizable value is determined with reference to relevant market prices less applicable variable selling expenses. Provisions recorded also reflect an estimate of the remaining costs of completion to bring the inventory into its saleable form. Provisions are also recorded if necessary to reduce mine operating supplies to net realizable value, which is generally calculated by reference to its salvage or scrap value, when it is determined that the supplies are obsolete. Provisions are reversed to reflect subsequent recoveries in net realizable value where the inventory is still on hand.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales tax or duty.

Revenue from the sale of concentrate is recognized upon delivery when persuasive evidence of a sale agreement exists, the risks of ownership are transferred to the customer, collection is reasonably assured, and price is readily determinable. Revenue is based on quoted market prices during the quotation period published in the metal bulletin less treatment, refining and smelting charges, and penalties.

Metals contained in bulk concentrate sold to third parties are provisionally invoiced and the price is not settled until a predetermined contractual future date, typically one to three months after delivery to the customer, based on the market price of metals at that time. The Company enters into contracts which provide a provisional payment on delivery based upon provisional assays, and quoted metal prices. Revenues are recorded when title passes from the Company to the buyer based on the spot price on date of delivery, and subsequently adjusted to market price based on date of the final settlement.

Prior to commercial production concentrate sales incidental to the exploration of mineral properties were recorded net of production costs as a reduction of capitalized exploration and evaluation costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

a) Common shares
Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

b) Repurchase of share capital (treasury shares)
When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained deficit.

Share-based payment transactions

The Company's share option plan allows employees and consultants to acquire common shares of the Company. All options granted are measured at fair value and are recognized in expenses as share-based payments with a corresponding increase in equity reserves. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value of employee options is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. Share options granted to non-employees or consultants are measured at the fair value of goods or services received. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

The Company records the present value of estimated costs of legal and constructive obligations required to restore mining properties in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and restoration, reclamation and re-vegetation of affected areas.

Reclamation provision

The fair value of the liability for a rehabilitation provision is recorded when it is incurred. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mineral property. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability, which is accreted over time through periodic charges to income or loss. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Income taxes

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized as equity.

Deferred tax is provided using the statement of financial position asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for accounting periods beginning on January 1, 2013, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IFRS 10 – Consolidated Financial Statements
IFRS 10 establishes the principles for the presentation and preparation of financial statements when an entity controls one or more other entities. IFRS 10 changed the definition of control such that the same criteria are applied to all entities to determine control. IFRS 10 supersedes all of the guidance in IAS 27 Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities.

New accounting standards effective January 1, 2013

IFRS 11 – Joint Arrangements
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions.

IFRS 12 – Disclosure of interests in Other Entities
IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

IFRS 13 – Fair Value Measurement
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value that is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

IAS 27 – Separate Financial Statements
As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

IAS 28 – Investments in Associates and Joint Ventures
As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provided the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.

IAS 1 – Presentation of Financial Statements
In June 2011, the IASB issued an amendment to IAS 1, which requires entities to separately present items in other comprehensive income based on whether or not they may be recycled to profit or loss in future periods.

IFRIC 20 – Production Stripping Costs
In October 2011, the IASB issued IFRIC 20 Stripping Costs, which requires the capitalization and depreciation of stripping costs in the production phase if an entity can demonstrate that it is probable future economic benefits will be realized, the costs can be reliably measured and the entity can demonstrate that it is probable future economic benefits will be realized, the costs can be reliably measured and the entity can identify the component of the ore body for which access has been improved.

IAS 32 – Financial Instruments: Presentation
In December 2011, the IASB issued an amendment to clarify the meaning of the offsetting criterion and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. Earlier application is permitted when applied with corresponding amendment to IFRS 7.

The following standard will be effective for annual periods beginning on or after January 1, 2015:

IFRS 9 – Financial Instruments
In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.

Management does not expect that the adoption of these standards and interpretations will have a significant effect on the consolidated financial statements of the Company other than additional disclosures.

(Expressed in Canadian dollars)

5. SALES TAXES RECOVERABLE

The Company's sales tax recoverable consists of the Mexican I.V.A. a Value-Added Tax ("VAT") and the Canadian Harmonized Sales Tax ("HST") recoverable.

	2012	2011
VAT recoverable	$ 167,340	$ 252,621
Write-down provision	-	(46,640)
VAT net carrying amount	167,340	205,981
HST recoverable	28,838	22,839
Sales tax recoverable	$ 196,178	$ 228,820

The Company records the VAT net of a write-down provision, reflecting an estimate of the amount of VAT recoverable based on past collection history and the length of time amounts are outstanding.

6. 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, 2011	$ 14,892,336	$ 3	$ 2,504	$ 14,894,843
Costs incurred during 2011:				
Assays	89,147	-	-	89,147
Assessment and taxes	30,759	-	-	30,759
Drilling and exploration	3,248,382	-	-	3,248,382
Geological	460,565	-	2,640	463,205
Sale of concentrate	(3,114,552)	-	-	(3,114,552)
Depreciation of plant and equipment	232,821	-	-	232,821
Reclamation provision	292,000	-	-	292,000
Effect of movement in exchange rates	137,749	-	-	137,749
Balance, December 31, 2011	$ 16,269,207	$ 3	$ 5,144	$ 16,274,354
Costs incurred during 2012:				
Assays	49,685	-	-	49,685
Rights extension (Note 6(a)(iv))	250,100	-	-	250,100
Assessment and taxes	86,870	-	-	86,870
Drilling and exploration	2,124,503	-	-	2,124,503
Geological	131,856	-	-	131,856
Sale of concentrate	(3,490,581)	-	-	(3,490,581)
Depreciation of plant and equipment	204,334	-	-	204,334
Effect of movement in exchange rates	(136,511)	-	-	(136,511)
Transfer to mining properties	(2,661,265)	-	-	(2,661,265)
Property option revenue (Note 7(b))	-	-	(5,143)	(5,143)
Balance, December 31, 2012	$ 12,828,198	$ 3	$ 1	$ 12,828,202

6. 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 under leased concessions 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 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 commenced commercial production on October 1, 2102 and on that date accumulated exploration and evaluation costs for the San Gonzalo mine were transferred to mining properties (see Note 10).

(ii) Gomez Palacio property

The Gomez Palacio property is located near the town of Gomez Palacio, Durango, Mexico. There are nine exploration concessions covering 2,549 hectares.

(iii) Santiago Papas Quiero property

The Santiago Papas Quiero property is located near the village of Papas Quiero, Durango, Mexico. There are four exploration concessions covering 2,552.6 hectares and one exploitation concession covering 602.9 hectares.

(iv) Unification Las Platosa properties

The Unification Las Platosa properties are situated with the Avino 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".

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 grant of these rights, the Company has paid to Minerales $250,100, by the issuance of 135,189 common shares of the Company. The Company will have until February 2014 to develop the mining facilities.

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

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.

(Expressed in Canadian dollars)

6. EXPLORATION AND EVALUATION ASSETS (continued)

(b) British Columbia, Canada

The Company's mineral claims in British Columbia encompass the following three properties:

(i) Aumax property

The Company owns a 100% interest in a Crown granted mineral claim, located in the Lillooet Mining Division of British Columbia, Canada.

(ii) Minto property

The Company has a 100% interest in a Crown granted mineral claim situated in the Lillooet Mining Division of British Columbia.

(iii) Olympic-Kelvin property

The Company has a 100% interest in six Crown granted mineral claims located in the Lillooet Mining Division of British Columbia.

(c) Yukon, Canada

The Company owns 100% interest in 14 quartz leases located in the Mayo Mining Division of the Yukon, Canada which are collectively comprise the Eagle property. During January, 2012, the Company entered into an option agreement on the Eagle property, refer to Note 7(b).

7. MINERAL PROPERTY OPTION AGREEMENTS

The Company has two option agreements on its mineral properties which are included in exploration and evaluation assets. During fiscal 2012 a total of $54,317 was recognized as mineral property option income for these two option agreements**.**

(a) On July 30, 2012, the Company entered into an option and joint venture agreement with Endeavour Silver Corp. ("Endeavour") (TSX: EDV), whereby Endeavour was granted the option to acquire up to a 75% interest in the Laberinto property, located in the general Avino mine area in Durango State, Mexico and consists of approximately 91.7 hectares. In order to exercise the option, Endeavour must pay a total of US$200,000 to the Company, and incur a total of US$3,000,000 in exploration work as follows:

		Cash		Exploration Expenditures
Upon signing July 30, 2012 (received)	US$	20,000	US$	–
On or before July 30, 2013		30,000		300,000
On or before July 30, 2014		40,000		500,000
On or before July 30, 2015		50,000		1,000,000
On or before July 30, 2016		60,000		1,200,000
	US$	200,000	US$	3,000,000

Upon Endeavour acquiring its 75% interest, a joint venture will be formed, under which if any party does not contribute its proportionate share of costs, its participating interest will be diluted on a pro rata basis according to the contributions of all parties. If any party's participating interest is reduced to 10% or less, then its interest will be automatically converted into a 2.5% net smelter return royalty.

(Expressed in Canadian dollars)

7. MINERAL PROPERTY OPTION AGREEMENTS (continued)

(b) During January 2012, the Company entered into an option agreement with Avaron Mining Corp. ("Avaron") a private Canadian company, whereby Avaron can earn the exclusive right and option to acquire a 100% title and interest in the Company's Eagle Property located in the Yukon Territory.

Avaron can earn a 75% interest by paying a total cash payment of $375,000, issue 800,000 common shares, incurring exploration costs of $100,000 and also drilling 35,000 meters (or incur exploration costs of up to $7,000,000) as follows:

	Cash	Exploration Expenditures	Shares
On or before January 31, 2012 (received)	$ 25,000	$ –	150,000
On or before January 31, 2013	–	100,000	150,000
On or before January 31, 2014	100,000	625,000	–
On or before January 31, 2015	100,000	1,000,000	–
On or before January 31, 2016	50,000	2,000,000	250,000
On or before January 31, 2017	100,000	3,375,000	250,000
	$ 375,000	$ 7,100,000	800,000

After the initial 75% interest is earned Avaron may either elect to form a Joint Venture with the Company, or has the ability to earn the remaining 25% interest by paying a series of annual advance royalties and completing other activities as defined in the option agreement.

Upon signing the agreement, the Company received a $25,000 cash payment. $5,143 of the payment was recorded as a reduction to the carrying value of the Eagle Property resulting in a $1 carrying value of the Eagle Property in exploration and evaluation assets. The remaining cash proceeds of $19,857 were recorded as option revenue along with the $15,000 fair value of the 150,000 common shares of Avaron that were received.

Subsequent to the 2012 year end Avaron's option was assigned to another corporation, refer to Note 25(e).

8. INVENTORY

	2012	2011
Concentrate inventory	$ 631,859	$ -
Ore stock piles	1,384,973	-
Materials and supplies	209,008	-
	$ 2,225,840	$ -

The amount of inventory recognized as an expense for the year ended December 31, 2012 includes production costs and amortization and depletion directly attributable to the inventory production process.

9. NON-CONTROLLING INTEREST

For the years ended December 31, 2012, 2011 and 2010 the Company has an effective 99.28% interest in its subsidiary Avino Mexico and the remaining 0.72% portion represents a non-controlling interest. To date the losses attributable to the non-controlling interest are insignificant and accordingly have not been recognized in the consolidated financial statements.

(Expressed in Canadian dollars)

10. 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 and construction	TOTAL
	$	$	$	$	$	$	$
COST							
Balance at January 1, 2011	-	6,249	26,707	201,180	1,182,177	322,907	1,739,220
Additions	-	7,855	5,174	970,763	499,661	-	1,483,453
Effect of movement in exchange rates	-	76	578	21,274	30,176	5,862	57,966
Balance at December 31, 2011	-	14,180	32,459	1,193,217	1,712,014	328,769	3,280,639
Additions	2,661,265	7,125	57,576	547,663	368,755	-	3,642,384
Effect of movement in exchange rates	19,055	82	643	12,426	14,704	2,343	49,253
Balance at December 31, 2012	2,680,320	21,387	90,678	1,753,306	2,095,473	331,112	6,972,276
ACCUMULATED DEPLETION AND DEPRECIATION							
Balance at January 1, 2011	-	4,600	7,574	4,508	-	-	16,682
Additions	-	1,305	6,594	139,558	71,745	16,364	235,566
Effect of movement in exchange rates	-	7	256	2,582	1,285	292	4,422
Balance at December 31, 2011	-	5,912	14,424	146,648	73,030	16,656	256,670
Additions	93,518	2,149	9,042	235,149	42,529	20,093	402,480
Effect of movement in exchange rates	670	12	167	2,716	820	261	4,646
Balance at December 31, 2012	94,188	8,073	23,633	384,513	116,379	37,010	663,796
NET BOOK VALUE							
At December 31, 2012	**2,586,132**	**13,314**	**67,045**	**1,368,793**	**1,979,094**	**294,102**	**6,308,480**
At December 31, 2011	-	8,268	18,035	1,046,569	1,638,984	312,113	3,023,969

(Expressed in Canadian dollars)

10. PLANT, EQUIPMENT AND MINING PROPERTIES (continued)

The mining properties consist of the San Gonzalo mining concession which covers 12 hectares and is located approximately 2 km from the historic Avino mine site. Depletion began being recorded from October 1, 2012 when the Company commenced commercial production at the San Gonzalo mine.

11. INVESTMENTS IN RELATED COMPANIES

Investments in related companies comprise the following:

	Cost	Accumulated Unrealized Gains (Losses)	Fair Value December 31, 2012	Fair Value December 31, 2011
(a) Bralorne Gold Mines Ltd.	$ 205,848	(71,486)	$ 134,362	$ 150,485
(b) Levon Resources Ltd.	4,236	55,774	60,010	153,908
(c) Oniva International Services Corp.	1	-	1	1
	$ 210,085	(15,712)	$ 194,373	$ 304,394

During the year, the Company recorded a $110,021 unrealized loss (2011 - $212,966 loss, 2010 - $313,323 gain) on investments in related companies, representing the change in fair value during the year.

(a) Bralorne Gold Mines Ltd. ("Bralorne")
The Company's investment in Bralorne consists of 179,149 common shares with a quoted market value of $134,362 as at December 31, 2012 (2011 - $150,485). Bralorne is a public company with common directors.

(b) Levon Resources Ltd. ("Levon")
The Company's investment in Levon consists of 141,200 common shares with a quoted market value of $60,010 as at December 31, 2012 (2011 - $153,908). Levon is a public company with common directors.

(c) Oniva International Services Corp. ("Oniva")
The Company owns a 16.67% interest in Oniva, a private company with common management, which provides office and administration services to the Company. The remaining 83.33% is shared equally between five other companies that are related by some common directors and management. See Note 20 for disclosure on the Company's commitment to Oniva.

12. INVESTMENT IN OTHER COMPANIES

In January 2012, the Company acquired 150,000 common shares of Avaron Mining Corp. with an adjusted cost base of $15,000 as part of the option agreement with Avaron described in Note 7 (b). The Company has designated the investment in Avaron as fair value through profit and loss and classifies the common shares of Avaron as a long-term investment.

13. RECLAMATION PROVISION

Management has estimated that the present value of its reclamation provision at December 31, 2012 is $323,140 (December 31, 2011 - $292,000). The present value of the obligation was calculated using a risk-free interest rate of 7% and an inflation rate of 4%. Reclamation activities are estimated to occur over a one-year period beginning in 2018. The undiscounted value of the obligation is $368,709 (2011 - $355,200).

14. SHARE CAPITAL

(a) Authorized: Unlimited common shares without par value

(b) Issued:

(i) On February 22, 2012, the Company issued 135,189 common shares under a new 20 year royalty agreement with Minerales de Avino S.A. de C.V. The fair market value of the common shares on February 22, 2012 was $1.85 per share.

(ii) On December 20, 2010, the Company closed a non-brokered private placement issuing 2,700,000 units at a price of $1.90 per unit for gross proceeds of $5,130,000. Each unit is comprised of one common share and one non-transferrable share purchase warrant. Each share purchase warrant is exercisable for a term for a term of three years into one common share at a price of $2.50 per share until December 22, 2013.

The Company paid a cash commission equal to 5% of the applicable gross proceeds from units sold to such investors ($210,900) and compensation warrants to purchase common shares of the Company equal to 5% of the units sold under the offering (111,000 units).

The fair value of the warrants and compensation warrants have been estimated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.90%, dividend yield of nil, volatility of 84.87%, and an expected life of three years. Of the $5,130,000 total aggregate proceeds raised $3,252,285 was attributed to common shares and the residual amount of $1,877,715 was attributed to the common share purchase warrants, which has been recorded in equity reserve. The fair value of the compensation warrants was valued at $180,082.

(iii) On November 10, 2010, the Company closed a non-brokered private placement issuing 2,400,000 units at a price of $1.25 per unit for gross proceeds of $3,000,000. Each unit is comprised of one common share and one non-transferrable share purchase warrant. Each share purchase warrant is exercisable for a term for a term of three years into one common share at a price of $1.52 per share until November 10, 2013.

The fair value of the warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.94%, dividend yield of nil, volatility of 83.86%, and an expected life of three years. Of the $3,000,000 total aggregate proceeds raised $1,855,329 was attributed to common shares and the residual amount of $1,144,671 was attributed to common share purchase warrants, which has been recorded in contributed surplus.

(Expressed in Canadian dollars)

14. SHARE CAPITAL (continued)

(c) Warrants:

During 2012 and 2011 there were no warrants issued or exercised. Details of share purchase warrants outstanding are:

	Underlying Shares	Weighted Average Exercise Price
Balance, December 31, 2010	5,211,000	$2.05
Balance, December 31, 2011	5,211,000	$2.05
Balance, December 31, 2012	5,211,000	$2.05

Details of share purchase warrants outstanding as of December 31, 2012 and December 31, 2011 are:

	Exercise Price	Warrants Outstanding and Exercisable	
Expiry Date	per Share	2012	2011
November 10, 2013	$1.52	2,400,000	2,400,000
December 22, 2013	$2.50	2,811,000	2,811,000
		5,211,000	5,211,000

(d) Stock options:

The Company has a stock option plan under which it may grant stock options 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 regular employees and persons providing investor-relation or consulting services up to a limit of 5% and 2% respectively of 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-relation or consulting services, which vest over a period of one year. The option price must be greater or equal to the discounted market price on the grant date and the option term cannot exceed five years from the grant date.

	Underlying Shares	Weighted Average Exercise Price
Stock options outstanding and exercisable, December 31, 2010	1,605,000	$0.97
Granted	1,840,000	$2.16
Expired or cancelled	(70,000)	$3.53
Exercised	(753,000)	$0.79
Stock options outstanding and exercisable, December 31, 2011	2,622,000	$1.80
Granted	30,000	$2.00
Expired or cancelled	(90,000)	$2.17
Exercised	(82,000)	$0.92
Stock options outstanding and exercisable, December 31, 2012	2,480,000	$1.81

As at December 31, 2012, the weighted average remaining contractual life of stock options outstanding is 2.78 years.

(Expressed in Canadian dollars)

14. SHARE CAPITAL (continued)

(d) Stock options:

Details of stock options outstanding are:

		Stock Options Outstanding		
Expiry Date	Exercise Price	2012	2011	2010
April 26, 2011	$3.99	-	-	60,000
April 26, 2011	$0.75	-	-	600,000
January 16, 2013	$2.00	30,000	-	-
February 27, 2013	$1.65	10,000	10,000	10,000
February 27, 2013	$0.75	295,000	295,000	340,000
December 9, 2013	$2.00	20,000	20,000	20,000
September 22, 2014	$0.75	25,000	60,000	75,000
January 14, 2015	$0.81	60,000	60,000	75,000
September 10, 2015	$1.05	290,000	337,000	425,000
January 18, 2016	$2.30	960,000	1,010,000	-
September 30, 2016	$2.00	790,000	830,000	-
		2,480,000	2,622,000	1,605,000

15. SHARE-BASED PAYMENTS

During the year ended December 31, 2012, the Company granted stock options to consultants of the Company to purchase up to a total of 30,000 common shares at a weighted average exercise price of $2.00 per share pursuant to the Company’s stock option plan. The options vest on dates ranging from the grant date to January 15, 2013. The options are exercisable on or before January 16, 2013.

During the year ended December 31, 2011, the Company granted stock options to various directors, officers, employees, consultants, and investor relations of the Company to purchase up to a total of 1,840,000 common shares at a weighted average exercise price of $2.16 per share pursuant to the Company’s stock option plan. The options vest on dates ranging from the grant date to September 30, 2012. The options are exercisable on or before September 30, 2016.

During 2010 the Company granted stock options to various directors, officers, employees, consultants, and investor relations of the Company to purchase up to a total of 520,000 common shares at a weighted average exercise price of $1.05 per share pursuant to the Company’s stock option plan. The options vest on dates ranging from the grant date to September 30, 2011. The options are exercisable on or before September 10, 2015.

The Company recorded total amount of share-based payment expense in the amount of $18,408 (2011 - $2,529,620, 2010 - $341,748).

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 re-priced and granted to officers, directors, consultants, and employees was calculated using the Black-Scholes model with following weighted average assumptions and resulting grant date fair value:

(Expressed in Canadian dollars)

15. SHARE-BASED PAYMENTS (continued)

	2012	2011	2010
Weighted average assumptions:			
Risk-free interest rate	1.06%	2.05%	2.08%
Expected dividend yield	0	0	0
Expected option life (years)	0.42	4.99	4.83
Expected stock price volatility	50.89%	76.17%	74.95%
Weighted average fair value at grant date	$0.13	$1.38	$0.67

16. REVENUE AND COST OF SALES

Revenue and the related cost of sales reflect the sale of silver and gold concentrate produced at the San Gonzalo mine from the commencement of commercial production on October 1, 2012 to December 31, 2012.

Cost of sales consists of changes in inventories, direct mining costs which include personnel costs, general and administrative costs, energy costs (principally diesel fuel and electricity), maintenance and repair costs, operating supplies, external services, third party smelting, refining and transport fees; and depreciation related to sales and other expenses for the period. Cost of sales is based on the weighted average cost of contained or recoverable ounces sold for the period. Direct costs include the costs of extracting co-products.

	2012	2011	2010
Direct mining cost	$ 1,246,309	-	-
Depreciation, depletion, and accretion	188,260	-	-
	$ 1,434,569	-	-

17. 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) Management transactions

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel for the years ended December 31, 2012, 2011 and 2010 and are as follows:

	2012	2011	2010
Salaries and benefits	$ 243,011	$ 362,173	$ 149,542
Share-based payments	-	2,009,400	186,200
	$ 243,011	$ 2,371,573	$ 335,742

(b) In the normal course of operations the Company transacts with companies related to Avino's directors or officers. All amounts payable are non-interest bearing and due on demand. As at December 31, 2012 and 2011 the following amounts are due to related parties:

	December 31, 2012	December 31, 2011
Directors	$ 24,469	$ 19,625
Oniva International Services Corp.	147,845	179,338
Sampson Engineering Inc.	2,400	4,800
	$ 174,714	$ 203,763

(Expressed in Canadian dollars)

17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Other related party transactions

The Company has a cost sharing agreement to reimburse Oniva International Services Corp. ("Oniva") as described in Note 20. The transactions with Oniva during the year are summarized below:

	2012	2011	2010
Salaries and benefits	$ 179,555	$ 151,941	$ 108,086
Office and miscellaneous	276,201	240,810	60,441
	$ 455,756	$ 392,751	$ 168,527

18. FINANCE LEASE OBLIGATIONS

The Company has entered into mining equipment leases expiring between 2013 and 2014 with interest rates ranging from 1.75% to 2.5% 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 obligation under finance leases are secured by the lessor's title to the leased assets. The fair value of the finance lease liabilities approximates their carrying amount. Plant and equipment includes a $338,825 net carrying amount for this leased mining equipment.

	2012
Not later than one year	$ 156,478
Later than one year and not later than five years	78,863
Less: Future finance charges	(389)
Present value of minimum lease payments	234,952
Less: Current portion	(156,220)
Non-current portion	$ 78,732

19. SUPPLEMENTARY CASH FLOW INFORMATION

	2012	2011	2010
Net change in non-cash working capital items:			
Interest receivable	$ 52,573	$ (49,501)	$ (3,996)
Amounts receivable	622,251	-	-
Sales taxes recoverable	79,282	4,868	(187,089)
Prepaid expenses	(40,020)	(55,775)	19,310
Inventories	(2,225,840)	-	-
Accounts payable and accrued liabilities	822,691	126,372	90,912
Due to related parties	(29,049)	34,498	4,574
	$ (718,112)	$ 60,462	$ (76,289)

	2012	2011	2010
Interest paid	$ 1,471	$ -	$ -
Taxes paid	$ -	$ -	$ -

20. 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 the total overhead and corporate expenses.

(Expressed in Canadian dollars)

20. COMMITMENTS (continued)

The agreement may be terminated with one-month notice by either party. Transactions and balances with Oniva are disclosed in Note 17.

The Company and its subsidiary have various lease agreements for their office premises, use of land, drilling and equipment.

The Company has commitments in respect of these lease agreements as follows:

	December 31, 2012	December 31, 2011
Not later than one year	$ 248,512	$ 243,301
Later than one year and no later than five years	597,188	824,910
Later than 5 years	76,506	84,046
	$ 922,206	$ 1,152,257

21. FINANCIAL INSTRUMENTS

The fair values of the Company's cash and cash equivalents, amounts receivable, due to related party and accounts payables approximate their carrying values because of the short-term nature of these instruments. The investments in related companies are based on quoted market prices.

The Company's financial instruments are exposed to certain financial risks, 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's cash is exposed to credit risk. The Company is not exposed to significant credit risk on amounts receivable.

The Company manages credit risk, in respect of cash, by maintaining the majority of cash at high credit rated Canadian financial institutions. However, as at December 31, 2012 cash and cash equivalents substantially exceed the amounts covered under federal deposit insurance

Concentration of credit risk exists with respect to the Company's cash as the majority of the amounts are held with a single Canadian financial institution.

(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 operations and anticipated investing and financing activities. The Company has cash at December 31, 2012 in the amount of $4,035,985 (2011 - $5,282,464) in order to meet short-term business requirements. At December 31, 2012, the Company had current liabilities of $1,476,681 (2011 - $804,740). Accounts payable have contractual maturities of approximately 30-90 days or are due on demand and are subject to normal trade terms. Amounts due to related parties are without stated terms of interest or repayment.

21. FINANCIAL INSTRUMENTS (continued)

(c) Market Risk

Market risk consists of interest rate risk, foreign currency risk and other 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 rate in 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 risk as the Company has no significant interest-bearing debt as of December 31, 2012 and 2011.

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 monetary assets and liabilities are denominated in foreign currency with respect to the following assets and liabilities, as a portion of these amounts are denominated in Mexican Pesos and US dollars as follows:

	December 31, 2012		December 31, 2011	
	MXN	USD	MXN	USD
Cash and cash equivalents	$ 3,586,471	$ 1,312,607	$ 935,096	$ 496,186
Sales taxes recoverable	2,180,706	-	2,789,015	-
Amounts receivable	3,096,083	210,076	-	862,287
Accounts payable and accrued liabilities	(2,775,290)	(408,437)	(6,214,511)	-
Amounts due to related parties	-	-	-	-
Finance lease obligations	-	(236,157)		
Net exposure	6,087,970	878,089	(2,490,400)	1,358,473
Canadian dollar equivalent	$ 467,178	$ 873,611	$ (183,877)	$ 1,381,567

(Expressed in Canadian dollars)

21. FINANCIAL INSTRUMENTS (continued)

(c) Market Risk (continued)

Foreign Currency Risk (continued)

Based on the net Canadian dollar denominated asset and liability exposures as at December 31, 2012, a 10% fluctuation in the Canadian/Mexican and Canadian/US exchange rates will impact the Company's earnings by approximately $134,078 (2011 - $119,769).

The Company has not entered into any foreign currency contracts to mitigate this risk

Other Price Risk

Other 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 other price risk with respect to its investment in related parties as they are carried at fair value based on quoted market prices.

The Company's ability to raise capital to fund mineral resource exploration is subject to risks associated with fluctuations in mineral resource 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 input 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 measured at fair value on a recurring basis by level within the fair value hierarchy as at December 31, 2012:

	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 4,035,985	-	-
Investments in related parties	194,373	-	-
Other investments	15,000		
	$ 4,245,358	-	-

22. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its properties and to maintain flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or adjust the amount of cash and cash equivalents. Management reviews the capital structure on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian dollars)

23. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition, exploration and development of mineral properties.

The Company has non-current assets in the following geographic locations:

	2012	2011
Canada	$ 214,873	$ 319,334
Mexico	19,136,682	19,288,883
	$ 19,351,555	$ 19,608,217

24. INCOME TAXES

The components of the income tax provision including, the statutory tax rate, effective tax rate and the effect of the unrecognized deferred tax assets are as follows:

	2012	2011
Statutory rate	25%	26.5%
Income taxes recovered at the Canadian statutory rate	$ 315,794	$ 1,116,093
Less permanent differences:		
Share-based payments	(4,602)	(670,349)
Effect of difference in Mexican tax rates	(12,523)	9,933
Other non-tax deductible expenses	(94,214)	(1,902)
Effect of difference between functional and tax reporting currency	155,354	(328,855)
Change in enacted rates	(68,807)	(21,016)
Change in unrecognized benefit of tax losses	(282,604)	(273,033)
Benefit (liability) of tax attributes recognized and other items	(268,719)	82,631
Income tax expense recognized in the year	$ (260,321)	$ (86,498)

(Expressed in Canadian dollars)

24. INCOME TAXES (continued)

The approximate tax effects of each type of temporary difference that gives rise to potential deferred income tax assets are as follows:

	2012	2011
Expected tax recovery rate	25%	25%
Non-capital tax losses carried forward	$1,855,370	$ 1,558,068
Capital losses carried forward	184,026	184,026
Canadian exploration expenses, Canadian development expenses and foreign exploration, and development expenses in excess of book value of Canadian mineral properties	467,953	485,737
Share issuance costs	25,531	38,296
Tax basis of investments in related companies in excess of book value	30,964	15,337
Undeducted capital cost allowance in excess of book value of Canadian equipment	52,602	52,378
Deferred income tax assets	2,616,446	2,333,842
Unrecognized deferred tax assets	(2,616,446)	(2,333,842)
Net tax assets	$ –	$ –

The potential benefit of Canadian net operating tax loss carry-forwards and other Canadian deferred income tax assets has not been recognized in the financial statements since the Company cannot be assured that it is more likely than not that such benefit will be utilized in future years.

The deferred income tax liability presented in these consolidated financial statements is due to the difference in the carrying amounts and tax bases of the Mexican mineral properties, mine plant and equipment, which were acquired in the purchase of Avino Mexico. The carrying values of the Mexican mineral properties, mine plant and equipment includes an estimated fair value adjustment recorded upon the July 17, 2006 acquisition of control of Avino Mexico that was based on a share exchange, while the tax bases of these assets are historical undeducted tax amounts that were nil on acquisition. The deferred tax liability is attributable to assets in the tax jurisdiction of Mexico and is presented net of Mexican tax losses carried forward. The approximate tax effects of each type of temporary difference that gives rise to deferred income tax liabilities are as follows:

	2012	2011
Mexican statutory rate	29%	28%
Book value of mineral properties in excess of tax bases	$ 4,240,462	$ 3,818,183
Book value of plant and equipment in excess of tax bases	394,475	408,219
Less: Mexican tax losses carried forward	(2,269,260)	(2,121,046)
Deferred income tax liability	$ 2,365,677	$ 2,105,356

24. INCOME TAXES (continued)

The Company has capital losses of $1,472,210 carried forward and $7,421,481 in non-capital tax losses carried forward available to reduce future Canadian taxable income. The capital losses can be carried forward indefinitely unless used. Additionally, the Company has $7,825,035 (denominated in MXN$101,939,408) in tax losses which are available to reduce future Mexican taxable income. The Company's Canadian non-capital tax losses and Mexican tax losses, if unused, expire as follows:

Year of Expiry	Canada	Mexico
2014	$ 568,450	$ –
2018	–	3,205,719
2019	–	1,096,028
2020	–	1,054,855
2021	–	854,217
2025	799,044	1,614,216
2026	646,331	–
2027	643,498	–
2028	774,118	–
2029	727,183	–
2030	804,957	–
2031	1,268,691	–
2032	1,189,209	–
	$ 7,421,481	$ 7,825,035

25. SUBSEQUENT EVENTS

Events occurring after December 31, 2012:

(a) 306,518 options were exercised for gross proceeds of $63,750.

(b) 75,000 options expired unexercised.

(c) 250,000 options were granted to directors, officers, and employees with a weighted average price of $1.60 and expire in 5 years from the grant date.

(d) The Company entered into a credit facility with Caterpillar Finance permitting the purchase up to US $5,000,000 of mining and related equipment. The credit facility bears interest at rates ranging from 0% to 4.95% per annum. Equipment leased under the credit facility has terms of 18 months to 60 months. These terms are dependent on the Company's requirements and equipment acquired. The Company has acquired three pieces of mining equipment under the credit facility totaling US$1,457,458. This equipment is use for current mining operations.

(e) On April 10, 2013 the TSX-V approved to the terms of an option purchase and assignment agreement permitting Benz Capital Corp. to acquire all of Avaron's interest in an option agreement between Avaron (see Note 7(b)) and Avino pursuant to which Avaron has the option to acquire from Avino up to an undivided 100% interest in the Eagle Property.

As consideration for the option assignment, Benz has issued 50,000 Common Shares and Avaron has issued 250,000 common shares to Avino as required under the terms of the Option Agreement.