



# **AVINO SILVER & GOLD MINES LTD.**

**Condensed Consolidated Interim Financial Statements**

**For the three months ended March 31, 2016 and 2015**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

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

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

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

The condensed consolidated interim financial statements as at March 31, 2016 and for the periods ended March 31, 2016 and 2015 have not been audited by the Company's independent auditors.

*"David Wolfin"*

David Wolfin  
President & CEO  
May 16, 2016

*"Malcolm Davidson"*

Malcolm Davidson, CPA, CA  
Chief Financial Officer  
May 16, 2016

**AVINO SILVER & GOLD MINES LTD.**

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

	Note	March 31, 2016 (unaudited)	December 31, 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 6,022,283	\$ 7,475,134
Amounts receivable		2,909,804	3,730,317
Taxes recoverable	3	3,305,499	3,053,035
Prepaid expenses and other assets		1,177,874	1,177,053
Inventory	4	5,756,061	4,612,234
		19,171,521	20,047,773
Exploration and Evaluation Assets	5	41,926,559	41,376,974
Plant, Equipment and Mining Properties	7	24,408,879	25,733,033
Reclamation Bonds		145,500	145,500
Investments	8	30,652	38,712
		\$ 85,683,111	\$ 87,341,992
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 4,360,627	\$ 4,178,571
Amounts due to related parties	10(b)	215,665	217,822
Current portion of term facility	9	8,657,991	6,458,660
Current portion of equipment loans	11	244,145	222,192
Current portion of finance lease obligations	12	1,811,519	1,815,747
Taxes payable		114,890	1,151,224
		15,404,837	14,044,216
Term Facility	9	4,329,012	7,381,340
Equipment Loans	11	646,481	731,918
Finance Lease Obligations	12	1,947,695	2,305,534
Reclamation Provision	13	5,942,052	6,047,369
Deferred Income Tax Liabilities		5,614,340	4,892,916
<b>Total liabilities</b>		33,884,417	35,403,293
<b>EQUITY</b>			
Share Capital	14	64,013,785	62,262,954
Equity Reserves		9,121,469	9,531,512
Treasury Shares (14,180 shares, at cost)		(101,869)	(101,869)
Accumulated Other Comprehensive Income		4,025,745	5,652,534
Accumulated Deficit		(25,260,436)	(25,406,432)
<b>Total Equity</b>		51,798,694	51,938,699
		\$ 85,683,111	\$ 87,341,992

Commitments – Note 17

Subsequent Events – Note 20

Approved by the Board of Directors on May 16, 2016:

Gary Robertson Director

David Wolfin Director

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

**AVINO SILVER & GOLD MINES LTD.**

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

For the three months ended March 31, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

		<b>2016</b>	<b>2015</b>
<b>Revenue from Mining Operations</b>	<b>15</b>	\$ 2,751,949	\$ 4,285,541
<b>Cost of Sales</b>	<b>15</b>	976,764	2,197,685
<b>Mine Operating Income</b>		1,775,185	2,087,856
General and administrative expenses	<b>16</b>	882,744	927,540
Share-based payments		-	8,386
<b>Operating Earnings</b>		892,441	1,151,930
<b>Other Items</b>			
Foreign exchange gain		100,059	59,993
Interest and other income		36,727	27,279
Interest expense		(39,413)	(33,187)
Accretion of reclamation provision		(33,554)	(33,878)
Unrealized gain (loss) on investments	<b>8</b>	(8,061)	26,046
Fair value adjustment on warrant liabilities		-	(35,089)
<b>Net Income Before Income Taxes</b>		948,199	1,163,094
<b>Income Taxes</b>			
Current income tax recovery (expense)		4,644	(250,971)
Deferred income tax expense		(894,797)	(535,836)
		(890,153)	(786,807)
<b>Net Income</b>		58,046	376,287
<b>Other Comprehensive Income (Loss)</b>			
Items that may be reclassified subsequently to income or loss			
Currency translation differences of foreign operations		(1,626,789)	1,891,707
<b>Comprehensive Income (Loss)</b>		\$ (1,568,743)	\$ 2,267,994
<b>Earnings per Share</b>			
Basic	<b>14</b>	\$0.00	\$0.01
Diluted	<b>14</b>	\$0.00	\$0.01
<b>Weighted Average Number of Common Shares Outstanding</b>			
Basic	<b>14</b>	37,752,975	35,502,545
Diluted	<b>14</b>	37,893,805	36,316,952

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

**AVINO SILVER & GOLD MINES LTD.**

Condensed Consolidated Interim Statements of Changes in Equity

For the three months ended March 31, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

	Note	Number of Common Shares	Share Capital Amount	Equity Reserves	Treasury Shares	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Equity
<b>Balance, December 31, 2014</b>		<b>35,374,813</b>	<b>\$ 58,606,898</b>	<b>\$ 10,797,709</b>	<b>\$ (101,869)</b>	<b>\$ 1,672,009</b>	<b>\$ (25,924,356)</b>	<b>\$ 45,050,391</b>
Common shares issued for cash:								
Brokered public offerings	14	18,788	36,291	-	-	-	-	36,291
Less share issuance costs	14	-	(1,210)	-	-	-	-	(1,210)
Exercise of stock options	14	151,000	144,570	-	-	-	-	144,570
Carrying value of stock options exercised		-	206,523	(206,523)	-	-	-	-
Share-based payments		-	-	8,386	-	-	-	8,386
Net income for the period		-	-	-	-	-	376,287	376,287
Currency translation differences of foreign operations		-	-	-	-	1,891,707	-	1,891,707
<b>Balance, March 31, 2015</b>		<b>35,544,601</b>	<b>\$ 58,993,072</b>	<b>\$ 10,599,572</b>	<b>\$ (101,869)</b>	<b>\$ 3,563,716</b>	<b>\$ (25,548,069)</b>	<b>\$ 47,506,422</b>
<b>Balance, December 31, 2015</b>		<b>37,298,009</b>	<b>\$ 62,262,954</b>	<b>\$ 9,531,512</b>	<b>\$ (101,869)</b>	<b>\$ 5,652,534</b>	<b>\$ (25,406,432)</b>	<b>\$ 51,938,699</b>
Common shares issued for cash:								
Brokered public offerings	14	1,009,398	1,353,096	-	-	-	-	1,353,096
Less share issuance costs	14	-	(113,058)	-	-	-	-	(113,058)
Exercise of stock options	14	185,000	188,700	-	-	-	-	188,700
Carrying value of stock options exercised		-	322,093	(322,093)	-	-	-	-
Stock options cancelled or expired		-	-	(87,950)	-	-	87,950	-
Net income for the period		-	-	-	-	-	58,046	58,046
Currency translation differences of foreign operations		-	-	-	-	(1,626,789)	-	(1,626,789)
<b>Balance, March 31, 2016</b>		<b>38,492,407</b>	<b>\$ 64,013,785</b>	<b>\$ 9,121,469</b>	<b>\$ (101,869)</b>	<b>\$ 4,025,745</b>	<b>\$ (25,260,436)</b>	<b>\$ 51,798,694</b>

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

**AVINO SILVER & GOLD MINES LTD.**

Condensed Consolidated Interim Statements of Cash Flows

For the three months ended March 31, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

	Note	2016	2015
Cash Provided By (Used In):			
<b>Operating Activities</b>			
Net income		\$ 58,046	\$ 376,287
Adjustments for non-cash items:			
Deferred income tax expense		894,797	535,836
Depreciation and depletion		103,175	30,199
Accretion of reclamation provision		33,554	33,878
Unrealized loss (gain) on investments		8,061	(26,046)
Foreign exchange (gain) loss		(887,648)	124,452
Fair value adjustment on warrant liability		-	35,089
Share-based payments		-	8,386
		209,985	1,118,081
Net change in non-cash working capital items	<b>18</b>	(1,240,982)	148,433
		(1,030,997)	1,266,514
<b>Financing Activities</b>			
Shares and units issued for cash, net of issuance costs		1,428,738	179,650
Finance lease payments		(469,803)	(341,582)
Equipment loan payments		(42,058)	-
		916,877	(161,932)
<b>Investing Activities</b>			
Recovery of exploration costs from concentrate proceeds		5,577,221	1,042,117
Exploration and evaluation expenditures		(6,377,511)	(5,803,929)
Additions to plant, equipment and mining properties		(434,219)	(750,054)
Net change in non-cash working capital – concentrate prepayment		-	5,066,400
		(1,234,509)	(445,466)
<b>Change in cash</b>		(1,348,629)	659,116
<b>Effect of exchange rate changes on cash</b>		(104,222)	(14,251)
<b>Cash, Beginning</b>		7,475,134	4,249,794
<b>Cash, Ending</b>		\$ 6,022,283	\$ 4,894,659

Supplementary Cash Flow Information (Note 18)

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

## **AVINO SILVER & GOLD MINES LTD.**

Notes to the condensed consolidated interim financial statements

For the three months ended March 31, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

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### **1. NATURE OF OPERATIONS**

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

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

The Company owns interests in mineral properties located in Durango, Mexico as well as in British Columbia and the Yukon, Canada. On October 1, 2012, the Company commenced production of silver and gold at levels intended by management at its San Gonzalo mine in the state of Durango, Mexico.

### **2. BASIS OF PRESENTATION**

#### **Statement of Compliance**

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

#### **Basis of Presentation**

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

#### **Significant Accounting Judgments and Estimates**

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

The critical judgments and estimates applied in the preparation of the Company’s unaudited condensed consolidated interim financial statements for the three months ended March 31, 2016 are consistent with those applied and disclosed in note 2 to the Company’s audited consolidated financial statements for the year ended December 31, 2015.

**AVINO SILVER & GOLD MINES LTD.**

Notes to the condensed consolidated interim financial statements

For the three months ended March 31, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

**2. BASIS OF PRESENTATION** (continued)**Basis of Consolidation**

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

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

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

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

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

**Financial Instruments**

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

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



## **AVINO SILVER & GOLD MINES LTD.**

Notes to the condensed consolidated interim financial statements

For the three months ended March 31, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

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### **2. BASIS OF PRESENTATION** (continued)

#### **Financial Instruments** (continued)

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

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

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

- (i) Financial liabilities classified as other financial liabilities are initially recognized at fair value less transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.
- (ii) Financial liabilities classified as fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss. Fair value changes on financial liabilities classified as fair value through profit or loss are recognized in net income (loss). At March 31, 2016, the Company classified share purchase warrants with an exercise price in U.S. dollars (see Note 14) as financial liabilities at fair value through profit or loss. As these warrants are exercised, the fair value of the recorded derivative liability on date of exercise is included in share capital along with the proceeds from the exercise. If these warrants expire, the related decrease in the derivative liability is recognized in net income (loss).

#### **Recent Accounting Pronouncements**

The following accounting standards were issued but not yet effective as of March 31, 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.

**AVINO SILVER & GOLD MINES LTD.**

Notes to the condensed consolidated interim financial statements

For the three months ended March 31, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

**2. RECENT ACCOUNTING PRONOUNCEMENTS** (continued)***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.

**3. TAXES RECOVERABLE**

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

	March 31, 2016	December 31, 2015
VAT recoverable	\$ 1,988,027	\$ 1,641,023
Income taxes recoverable	1,245,534	1,240,685
GST/HST recoverable	71,938	171,327
	\$ 3,305,499	\$ 3,053,035

**AVINO SILVER & GOLD MINES LTD.**

Notes to the condensed consolidated interim financial statements

For the three months ended March 31, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

**4. INVENTORY**

		March 31, 2016		December 31, 2015
Process material stockpiles	\$	3,887,431	\$	3,369,961
Concentrate inventory		826,754		221,437
Materials and supplies		1,041,876		1,020,836
	\$	5,756,061	\$	4,612,234

The amount of inventory recognized as an expense for the three months ended March 31, 2016 totalled \$976,764 (March 31, 2015 – \$2,197,685), and includes production costs and depreciation and depletion directly attributable to the inventory production process.

**5. EXPLORATION AND EVALUATION ASSETS**

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

		Durango, Mexico		British Columbia, Canada		Yukon, Canada		Total
Balance, January 1, 2015	\$	19,281,859	\$	10,627,360	\$	1	\$	29,909,220
Costs incurred during 2015:								
Mine and camp costs		20,171,792		5,233,511		-		25,405,303
Provision for reclamation		-		3,860,437		-		3,860,437
Effect of movements in exchange rates		1,560,711		-		-		1,560,711
Depreciation of plant and equipment		1,002,747		153,575		-		1,156,322
Drilling and exploration		81,545		700,920		-		782,465
Interest and financing costs		240,338		259,659		-		499,997
Geological and related services		119,262		133,331		-		252,593
Assessments and taxes		137,586		41,909		-		179,495
Assays		-		45,727		-		45,727
Sale of concentrate		(21,501,272)		(774,024)		-		(22,275,296)
Balance, December 31, 2015	\$	21,094,568	\$	20,282,405	\$	1	\$	41,376,974
Costs incurred during 2016:								
Mine and camp costs		4,507,392		1,379,079		-		5,886,471
Depreciation of plant and equipment		272,960		71,642		-		344,602
Interest and other costs		83,240		104,847		-		188,087
Drilling and exploration		157,856		18,687		-		176,543
Geological and related services		15,733		54,782		-		70,515
Assessments and taxes		54,178		1,721		-		55,899
Effect of movements in exchange rates		(595,311)		-		-		(595,311)
Sale of concentrate		(5,577,221)		-		-		(5,577,221)
Balance, March 31, 2016	\$	20,013,395	\$	21,913,163	\$	1	\$	41,926,559

## **AVINO SILVER & GOLD MINES LTD.**

Notes to the condensed consolidated interim financial statements

For the three months ended March 31, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

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### **5. EXPLORATION AND EVALUATION ASSETS (continued)**

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

(a) Durango, Mexico

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

(i) Avino mine area property

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

(ii) Gomez Palacio property

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

(iii) Santiago Papasquiario property

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

(iv) Unification La Platosa properties

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

In February 2012, the Company's wholly-owned Mexican subsidiary entered into a new agreement with Minerale de Avino, S.A. de C.V. ("Minerales") whereby Minerale 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 granting of these rights, the Company issued 135,189 common shares with a fair value of \$250,100.

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

## **AVINO SILVER & GOLD MINES LTD.**

Notes to the condensed consolidated interim financial statements

For the three months ended March 31, 2016 and 2015

(Expressed in Canadian dollars) (unaudited)

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### **5. EXPLORATION AND EVALUATION ASSETS (continued)**

(a) Durango, Mexico (continued)

(iv) Unification La Platosa properties (continued)

The Company continues to assess its development activities at the ET zone with reference to guidance for development of mineral projects and eventual production from those projects should expected development activities prove successful. The Company's annual audited consolidated financial statements cite a number of factors requiring management judgment that are considered in the decision of whether a mineral project is in the condition necessary for it to be capable of operating in the manner intended by management, including factors which support both technical feasibility and commercial viability of a project. In the periods before management determines technical feasibility and commercial viability have been achieved, the Company records in its consolidated statement of financial position the costs of extracting and processing mineralized material from the ET zone as exploration and evaluation costs, and records a reduction to the carrying value of those costs for any proceeds from sales of ET zone concentrate. During the three months ended March 31, 2016, the Company reduced its exploration and evaluation costs in the condensed consolidated interim statement of financial position by \$5,577,221 (US\$4,540,935) for sales of 2,603 tonnes of ET zone copper/silver/gold concentrate.

(b) British Columbia, Canada

(i) Bralorne Mine

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

(ii) Minto and Olympic-Kelvin properties

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

(c) Yukon, Canada

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

### **6. NON-CONTROLLING INTEREST**

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

**AVINO SILVER & GOLD MINES LTD.**

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**7. PLANT, EQUIPMENT AND MINING PROPERTIES**

	Mining properties	Office equipment, furniture, and fixtures	Computer equipment	Mine machinery and transportation equipment	Mill machinery and processing equipment	Buildings	Total
	\$	\$	\$	\$	\$	\$	\$
<b>COST</b>							
Balance at January 1, 2015	4,518,129	65,519	223,051	8,474,154	7,074,760	1,584,932	21,940,545
Additions	799,208	14,972	47,701	4,088,146	1,817,862	154,394	6,922,283
Effect of movements in exchange rates	810,601	11,755	40,018	1,520,355	1,269,289	284,354	3,936,372
Balance at December 31, 2015	6,127,938	92,246	310,770	14,082,655	10,161,911	2,023,680	32,799,200
Additions	48,051	3,198	12,209	514,973	42,613	125,541	746,585
Effect of movements in exchange rates	(339,744)	(5,114)	(17,230)	(756,787)	(563,395)	(112,197)	(1,794,467)
<b>Balance at March 31, 2016</b>	<b>5,836,245</b>	<b>90,330</b>	<b>305,749</b>	<b>13,840,841</b>	<b>9,641,129</b>	<b>2,037,024</b>	<b>31,751,318</b>
<b>ACCUMULATED DEPLETION AND DEPRECIATION</b>							
Balance at January 1, 2015	773,099	22,362	68,704	1,999,069	444,089	459,709	3,767,032
Additions	708,020	11,299	41,839	1,464,662	331,726	65,741	2,623,287
Effect of movements in exchange rates	138,703	4,012	12,326	358,656	79,674	82,477	675,848
Balance at December 31, 2015	1,619,822	37,673	122,869	3,822,387	855,489	607,927	7,066,167
Additions	221,818	2,806	8,729	339,567	74,766	20,348	668,034
Effect of movements in exchange rates	(89,806)	(2,089)	(6,812)	(47,430)	(211,920)	(33,705)	(391,762)
<b>Balance at March 31, 2016</b>	<b>1,751,834</b>	<b>38,390</b>	<b>124,786</b>	<b>4,114,524</b>	<b>718,335</b>	<b>594,570</b>	<b>7,342,439</b>
<b>NET BOOK VALUE</b>							
<b>At March 31, 2016</b>	<b>4,084,411</b>	<b>51,940</b>	<b>180,963</b>	<b>9,726,317</b>	<b>8,922,794</b>	<b>1,442,454</b>	<b>24,408,879</b>
At December 31, 2015	4,508,116	54,573	187,901	10,260,268	9,306,422	1,415,753	25,733,033

Buildings includes \$308,236 as at March 31, 2016 (December 31, 2015 - \$526,033), on which no depreciation was charged in the periods then ended.

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**8. INVESTMENTS**

The Company classifies its investments as long-term investments designated at fair value through profit and loss, except for investments in shares of private companies which are measured at cost as they do not have a quoted price in an active market and their fair value cannot be reliably measured.

Investments are summarized as follows:

	Cost	Accumulated Unrealized Gains (Losses)	Fair Value March 31, 2016	Fair Value December 31, 2015
(a) Avaron Mining Corp.	\$ 40,000	\$ (40,000)	\$ -	\$ -
(b) Benz Mining Corp.	14,500	(13,500)	1,000	2,000
(c) Levon Resources Ltd.	803	9,081	9,884	12,708
(c) SciVac Therapeutics Inc.	3,433	16,335	19,768	24,004
(d) Oniva International Services Corp.	1	(1)	-	-
	\$ 58,737	\$ (28,085)	\$ 30,652	\$ 38,712

During the three months ended March 31, 2016, the Company recorded an unrealized loss of \$8,061 (March 31, 2015 – unrealized gain of \$26,046) on its investments, representing the change in fair value during the period.

*(a) Avaron Mining Corp. (“Avaron”)*

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

*(b) Benz Mining Corp. (“Benz”)*

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

*(c) Levon Resources Ltd. (“Levon”) and SciVac Therapeutics Inc. (“SciVac”)*

The Company’s investment in Levon consists of 70,600 common shares with a quoted market value of \$9,884 as at March 31, 2016 (December 31, 2015 – 70,600 common shares with a quoted market value of \$12,708.)

As at March 31, 2016, the Company’s investment in SciVac consists of 141,200 common shares with a quoted market value of \$19,768 (December 31, 2015 – 141,200 common shares with a quoted market value of \$24,004). During the year ended December 31, 2015, Levon completed a transaction with SciVac resulting in the exchange of 1/2 of a common share of Levon for each previous Levon common share held, and the issuance of one new SciVac common share for each previous Levon common share held.

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

Prior to December 2015, the Company held a 1/5 indirect beneficial ownership interest in Oniva International Services Corp. ("Oniva"), with four other companies holding equal 1/5 indirect beneficial ownership interests. David Wolfen and Malcolm Davidson, the Company's CEO and CFO, serve as directors of Oniva, and certain of the Company's directors and officers also serve in those capacities in the four other companies. The companies' interests in Oniva were held in trust by David Wolfen until November 2015, when the beneficial ownership interests were dissolved, and legal and beneficial ownership was then solely held by Mr. Wolfen. See Note 10(c) for a description of transactions with Oniva and Note 17 for disclosure of the Company's commitments with Oniva.

**9. TERM FACILITY**

In July 2015, the Company entered into a term facility with Samsung C&T U.K. Limited ("Samsung"). Pursuant to the agreement, in August 2015 Avino commenced selling concentrates produced from the Avino Mine on an exclusive basis to Samsung, which will continue for a period of 24 months, and Samsung made a payment of US\$10,000,000 in respect of the facility. Samsung pays for the concentrates at the prevailing metal prices for their silver, copper, and gold content at or about the time of delivery, less treatment, refining, shipping and insurance charges. Interest is charged on the facility at a rate of U.S. dollar LIBOR (3 month) plus 4.75%, and the facility will be repaid in 15 consecutive equal monthly instalments starting in June 2016. The facility is secured by the common shares of the Company's wholly-owned subsidiary Bralorne Gold Mines Ltd.

**10. RELATED PARTY TRANSACTIONS AND BALANCES**

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

**(a) Key management personnel**

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel for the three months ended March 31, 2016 and 2015 were as follows:

	March 31, 2016	March 31, 2015
Salaries, benefits, and consulting fees	\$ 239,590	\$ 190,505



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**10. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)****(b) Amounts due to/from related parties**

In the normal course of operations the Company transacts with companies related to Avino's directors or officers. All amounts payable and receivable are non-interest bearing, unsecured and due on demand. Advances to Oniva International Services Corp. of \$168,695 (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 March 31, 2016 and December 31, 2015, the following amounts were due to related parties:

	March 31, 2016	December 31, 2015
Oniva International Services Corp.	\$ 169,233	\$ 164,285
Directors	30,232	47,741
Jasman Yee & Associates, Inc.	16,200	5,796
	<u>\$ 215,665</u>	<u>\$ 217,822</u>

**(c) Other related party transactions**

The Company has entered into a cost sharing agreement with Oniva International Services Corp. ("Oniva") for office and administration services. Pursuant to the cost sharing agreement, the Company will reimburse Oniva for the Company's percentage of overhead and corporate expenses and for out-of-pocket expenses incurred on behalf of the Company. The cost sharing agreement may be terminated with one-month notice by either party without penalty. The transactions with Oniva during the three months ended March 31, 2016 and 2015 are summarized below:

	March 31, 2016	March 31, 2015
Salaries and benefits	\$ 112,702	\$ 117,677
Office and miscellaneous	256,936	146,634
Exploration and evaluation assets	85,646	-
	<u>\$ 455,284</u>	<u>\$ 264,311</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 three months ended March 31, 2016, the Company paid \$75,000 (2015 - \$62,500) 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 three months ended March 31, 2016 and 2015, the Company paid \$28,940 and \$18,240 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 three months ended March 31, 2016 and 2015, the Company paid \$7,500 and \$7,500 respectively to WWD.

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**11. EQUIPMENT LOANS**

The Company has entered into loans for mining equipment maturing in June 2018 and December 2020 with fixed interest rates of 4.35% and 4.75% per annum. The Company's obligations under the loans are secured by the mining equipment. As at March 31, 2016, plant, equipment and mining properties includes a net carrying amount of \$932,029 (December 31, 2015 - \$977,582) for this mining equipment.

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

	March 31, 2016	December 31, 2015
Not later than one year	\$ 263,482	\$ 261,386
Later than one year and not later than five years	652,309	784,595
Less: Future interest charges	(25,165)	(91,871)
Present value of loan payments	890,626	954,110
Less: Current portion	(244,145)	(222,192)
Non-current portion	\$ 646,481	\$ 731,918

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

**12. FINANCE LEASE OBLIGATIONS**

The Company has entered into mining equipment leases expiring between 2016 and 2020 with interest rates ranging from 4.50% to 13.90% per annum. The Company has the option to purchase the mining equipment at the end of the lease term for a nominal amount. The Company's obligations under finance leases are secured by the lessor's title to the leased assets. As at March 31, 2016, plant, equipment and mining properties includes a net carrying amount of \$7,195,786 (December 31, 2015 - \$8,162,189) for this leased mining equipment.

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

	March 31, 2016	December 31, 2015
Not later than one year	\$ 1,909,423	\$ 1,960,844
Later than one year and not later than five years	2,048,375	2,464,106
Less: Future interest charges	(198,584)	(303,669)
Present value of minimum lease payments	3,759,214	4,121,281
Less: Current portion	(1,811,519)	(1,815,747)
Non-current portion	\$ 1,947,695	\$ 2,305,534

The Company has two master credit facilities with equipment suppliers for a total of US\$10,375,400. The facilities are used to acquire equipment necessary for advancing operations at the San Gonzalo Mine and for continuing exploration activity at the Avino Mine and the Bralorne Mine. As of March 31, 2016, the Company had US\$7,156,570 in available credit remaining under these facilities.

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**13. RECLAMATION PROVISION**

Management's estimate of the reclamation provision at March 31, 2016 is \$5,942,052 (December 31, 2015 - \$6,047,369), and the undiscounted value of the obligation is \$6,718,054 (December 31, 2015 - \$6,790,812.)

The present value of the obligation in Mexico was calculated using a risk-free interest rate of 7% (December 31, 2015 – 7%) and an inflation rate of 4.25% (December 31, 2015 – 4.25%). Reclamation activities are estimated to begin in 2019 for San Gonzalo and in 2023 for the Avino Mine.

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

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

	March 31, 2016	December 31, 2015
Balance at beginning of the period	\$ 6,047,369	\$ 2,005,881
New provision recognized for the Bralorne Mine project	-	3,860,437
Unwinding of discount	33,554	136,925
Effect of movements in exchange rates	(138,871)	44,126
Balance at end of the period	\$ 5,942,052	\$ 6,047,369

**14. SHARE CAPITAL, OPTIONS AND WARRANTS**

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

(b) Issued:

- (i) The Company continued to issue shares in an at-the-market offering under a prospectus supplement filed on May 27, 2015 for up to US\$6,000,000. In connection with this offering, during the three months ended March 31, 2016, the Company sold 209,398 common shares at an average price of \$1.40 (US\$1.01) per share for gross proceeds of \$293,096 (US\$212,395.) The Company paid a 3% cash commission on the gross proceeds in the amount of \$8,793 (US\$6,372) and incurred additional accounting, legal, and regulatory costs of \$241.

During the three months ended March 31, 2016, the Company also issued shares in a brokered public offering issued under a separate US\$800,000 prospectus supplement filed on March 10, 2016. In connection with this offering, the Company sold an aggregate of 800,000 common shares at an average price of \$1.33 (US\$1.00) per common share for gross proceeds of \$1,060,000 (US\$800,000). The Company paid a 7% cash commission on the gross proceeds in the amount of \$74,200 (US\$56,000), incurred additional accounting, legal and regulatory costs of \$29,824, and issued 40,000 agent's warrants exercisable at US\$1.00 until March 14, 2019.

- (ii) During the three months ended March 31, 2016, the Company issued 185,000 common shares upon the exercise of stock options for gross proceeds of \$188,700.

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**14. SHARE CAPITAL, OPTIONS AND WARRANTS (continued)**

(b) Issued (continued):

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

(iv) During the year ended December 31, 2015, the Company issued 922,000 common shares upon the exercise of stock options for gross proceeds of \$937,740.

(c) Warrants:

During the three months ended March 31, 2016 and the year ended December 31, 2015, there were no warrants exercised, and there were 40,000 warrants issued during the period ended March 31, 2016.

Continuity of warrants during the period is as follows:

	Underlying Shares	Weighted Average Exercise Price
Warrants outstanding and exercisable, December 31, 2015	1,033,059	US\$2.87
Issued	40,000	US\$1.00
Warrants outstanding and exercisable, March 31, 2016	1,073,059	US\$2.80

Warrants outstanding and exercisable as at March 31, 2016 are as follows:

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

As at March 31, 2016, the weighted average remaining contractual life of warrants outstanding was 0.98 years.

The Company's warrants are exercisable in U.S. dollars. As this denomination is different from the Canadian dollar functional currency of the entity issuing the underlying shares, the Company estimates the value of the derivative instrument for these warrants at the end of each reporting period using the Black-Scholes model. This valuation requires the use of highly subjective estimates and assumptions including the expected stock price volatility. The expected volatility used in valuing warrants is based on volatility observed in historical periods. Changes in the underlying assumptions can materially affect the fair value estimates. As at December 31, 2015 and March 31, 2016, the fair value of the derivative instrument represented by the warrants was estimated to be \$Nil.

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**14. SHARE CAPITAL, OPTIONS AND WARRANTS (continued)**

## (d) Stock options:

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

Continuity of stock options for the three months ended March 31, 2016 and the year ended December 31, 2015 is as follows:

	Underlying Shares	Weighted Average Exercise Price
Stock options outstanding and exercisable, December 31, 2014	3,361,500	\$1.39
Granted	50,000	\$1.32
Forfeited	(50,000)	\$1.90
Exercised	(922,000)	\$1.02
Stock options outstanding and exercisable, December 31, 2015	2,439,500	\$1.52
Exercised	(185,000)	\$1.02
Forfeited	(50,000)	\$1.90
Expired	(19,500)	\$1.02
Stock options outstanding and exercisable, March 31, 2016	2,185,000	\$1.55

As at March 31, 2016, the weighted average remaining contractual life of stock options outstanding was 2.32 years.

Details of stock options outstanding and exercisable are as follows:

Expiry Date	Exercise Price	Stock Options Outstanding	
		March 31, 2016	December 31, 2015
January 18, 2016	\$1.02	-	204,500
September 30, 2016	\$1.02	645,000	645,000
February 18, 2018	\$1.60	195,000	195,000
September 9, 2018	\$1.62	360,000	360,000
September 19, 2019	\$1.90	805,000	855,000
December 22, 2019	\$1.90	130,000	130,000
September 29, 2020	\$1.32	50,000	50,000
		2,185,000	2,439,500

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**14. SHARE CAPITAL, OPTIONS AND WARRANTS (continued)**

(e) Earnings per share:

The calculations for earnings per share and diluted earnings per share for the three months ended March 31, 2016 and 2015 are as follows:

	March 31, 2016	March 31, 2015
Net income for the period	\$ 58,046	\$ 376,287
Basic weighted average number of shares outstanding	37,752,975	35,502,545
Effect of dilutive share options	140,830	814,407
Diluted weighted average number of shares outstanding	37,893,805	36,316,952
Basic earnings per share	\$ 0.00	\$ 0.01
Diluted earnings per share	\$ 0.00	\$ 0.01

**15. REVENUE AND COST OF SALES**

Revenue and the related cost of sales reflect the sale of silver and gold concentrate from the San Gonzalo mine during the three months ended March 31, 2016 and from the San Gonzalo mine and the historic Avino stockpiles for the three months ended March 31, 2015.

Cost of sales consists of changes in inventories, direct costs including 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 periods. Direct costs include the costs of extracting co-products. Cost of sales is based on the weighted average cost of contained or recoverable ounces sold for the periods and consists of the following:

	March 31, 2016	March 31, 2015
Direct costs	\$ 877,756	\$ 2,176,680
Depreciation and depletion	99,008	21,005
	\$ 976,764	\$ 2,197,685

**16. GENERAL AND ADMINISTRATIVE EXPENSES**

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

	March 31, 2016	March 31, 2015
Salaries and benefits	\$ 331,651	\$ 335,399
Management and consulting fees	154,749	157,261
Office and miscellaneous	149,912	145,854
Professional fees	80,129	113,125
Investor relations	56,102	56,362
Travel and promotion	41,343	71,773
Directors fees	40,500	20,000
Regulatory and compliance fees	24,191	18,572
Depreciation	4,167	9,194
	\$ 882,744	\$ 927,540

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**17. COMMITMENTS**

The Company has a cost sharing agreement to reimburse Oniva for a percentage of its overhead expenses, to reimburse 100% of its out-of-pocket expenses incurred on behalf of the Company, and to pay a percentage fee based on Oniva's total overhead and corporate expenses. The agreement may be terminated with one-month notice by either party. Transactions and balances with Oniva are disclosed in Note 10.

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:

	March 31, 2016	December 31, 2015
Not later than one year	\$ 678,411	\$ 209,063
Later than one year and not later than five years	746,211	749,242
Later than five years	38,596	43,951
	<u>\$ 1,463,218</u>	<u>\$ 1,002,256</u>

Office lease payments recognized as an expense during the three months ended March 31, 2016 totalled \$55,084 (2015 - \$29,169).

**18. SUPPLEMENTARY CASH FLOW INFORMATION**

	March 31, 2016	March 31, 2015
Net change in non-cash working capital items:		
Amounts receivable	\$ 820,514	\$ 242,947
Accounts payable and accrued liabilities	182,056	1,254,024
Taxes payable	(1,036,334)	(854,520)
Inventory	(951,776)	(421,350)
Taxes recoverable	(252,464)	206,039
Amounts due to related parties	(2,157)	(16,921)
Prepaid expenses and other assets	(821)	(261,786)
	<u>\$ (1,240,982)</u>	<u>\$ 148,433</u>
	March 31, 2016	March 31, 2015
Interest paid	\$ 222,462	\$ 121,966
Taxes paid	\$ 925,258	\$ 1,642,480

**19. FINANCIAL INSTRUMENTS**

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

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

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

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

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

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

The Company's maximum exposure to credit risk at the end of any period is equal to the carrying amount of these financial assets as recorded in the consolidated statement of financial position. At March 31, 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 March 31, 2016 in the amount of \$6,022,283 (December 31, 2015 - \$7,475,134) in order to meet short-term business requirements. At March 31, 2016, the Company had current liabilities of \$15,404,837 (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 December 31, 2015 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	\$ 4,360,627	\$ 4,360,627	\$ -	\$ -
Taxes payable	114,890	114,890	-	-
Due to related parties	215,665	215,665	-	-
Minimum rental and lease payments	1,463,218	678,411	746,211	38,596
Term facility	12,987,003	8,657,991	4,329,012	-
Equipment loans	890,626	244,145	646,481	-
Finance lease obligations	3,759,214	1,811,519	1,947,695	-
<b>Total</b>	<b>\$ 23,791,243</b>	<b>\$ 16,083,248</b>	<b>\$ 7,669,399</b>	<b>\$ 38,596</b>



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

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

*Interest Rate Risk*

Interest rate risk consists of two components:

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

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

*Foreign Currency Risk*

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

	March 31, 2016		December 31, 2015	
	MXN	USD	MXN	USD
Cash	\$ 10,391,569	\$ 2,758,750	\$ 3,876,257	\$ 4,647,007
Amounts receivable	-	2,458,016	-	2,624,555
Accounts payable and accrued liabilities	(14,648,321)	(4,498,474)	(12,173,726)	(1,534,765)
Term facility	-	(10,000,000)	-	(10,000,000)
Equipment loans	-	(280,668)	-	(313,052)
Finance lease obligations	(100,229)	(2,383,197)	(155,669)	(2,567,593)
<b>Net exposure</b>	<b>(4,356,981)</b>	<b>(11,945,573)</b>	<b>(8,453,138)</b>	<b>(7,143,848)</b>
Canadian dollar equivalent	\$ (325,359)	\$ (15,513,715)	\$ (680,890)	\$ (9,887,086)

Based on the net Canadian dollar denominated asset and liability exposures as at March 31, 2016, a 10% fluctuation in the Canadian/Mexican and Canadian/US exchange rates would impact the Company's earnings for the three months ended March 31, 2016 by approximately \$1,551,372 (December 31, 2015 - \$981,899). The Company has not entered into any foreign currency contracts to mitigate this risk.

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**19. FINANCIAL INSTRUMENTS (continued)****(c) Market 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 March 31, 2016, based on outstanding accounts receivable that were subject to pricing adjustments, a 10% change in the market price of silver would have an impact on net earnings of approximately \$35,072 (December 31, 2015 - \$350,725), and a 10% change in the market price of gold would have an impact on net earnings of approximately \$12,072 (December 31, 2015 - \$130,723).

The Company is exposed to price risk with respect to its investments as certain of these investments are carried at fair value based on quoted market prices. Changes in market prices result in gains or losses being recognized in net income (loss). At March 31, 2016, a 10% change in market prices would have an impact on net earnings of approximately \$3,065 (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 March 31, 2016:

	Level 1	Level 2	Level 3
<b>Financial Assets</b>			
Cash	\$ 6,022,283	\$ -	\$ -
Accounts receivable	2,909,804	-	-
Investments	30,652	-	-
<b>Financial Liabilities</b>			
Derivative liabilities	-	-	-
	\$ 8,962,739	\$ -	\$ -

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**20. SUBSEQUENT EVENTS**

**Share issuances** - Subsequent to the three months ended March 31, 2016, the Company issued 2,002,669 common shares under the prospectus supplement at-the-market offering described in Note 14(b)(i) for net proceeds of \$3,245,914 (US\$2,547,245).

**Equipment financing** - Subsequent to the three months ended March 31, 2016, the Company entered into a lease for mining equipment in the amount of US\$169,775 at an interest rate of 2% for 24 months.