ANNUAL REPORT 2012

AVINO SILVER - GOLD MINES LTD

AVINO

Avino Silver and Gold Mines is a growth-oriented, Vancouver-based mining and exploration firm with silver properties in Mexico and Canada. The company enters its 45th year of operation with its San Gonzalo Mine (part of the Avino Mine property) near Durango, Mexico in commercial production. Avino is also working to re-open the property's main Avino Mine by 2014, where between 1974 and 2001 16M ounces of silver, 96,000 ounces of gold and 24M pounds of copper were produced. The company is also exploring options to re-process a large tailings resource left from past mining; the resource was the subject of a preliminary economic assessment in 2012.

Exploration remains a key part of the company's growth strategy. Drilling to expand resources is planned on other areas of the large Avino property.

Since its inception in 1968, Avino has managed to survive multiple periods of global economic upheaval by nursing our balance sheet and conducting a lean operation both in Mexico and Canada; in 2013 that model continues to set us apart.

MILESTONES

April 2011 San Gonzalo Bulk Sample Program Completed with favourable results

August 2011 Common shares of Avino Silver & Gold Mines Ltd. begin trading on the NYSE-MKT

February 2012 New 20-year royalty agreement signed granting mining rights to the ET Zone, opening door for major expansion and a return to production

July 2012 Completed independent technical report including resource estimate and PEA on the oxide tailings resource

October 2012 Declared full commercial production at the San Gonzalo Mine

December 2012 Entered into $5 million Credit Facility with Caterpillar

April 2013 Initiated operations on Circuit 2 at the Avino processing facility

June 2013 Released new resource estimate on San Gonzalo and Avino Mines

OBJECTIVES

Maintaining profitable mining operations at San Gonzalo by decreasing operating costs and improving efficiency

Increasing mill throughput at the Avino processing facility

Developing the Avino Mine for commercial production targeting commencement in 2014

Continuing to review and develop plans to process the oxide tailings resource

Continuing to explore regional targets on the property and considering acquisition opportunities

TO OUR SHAREHOLDERS

We had a year full of milestones at Avino culminating in our biggest step yet toward reaching our ultimate goal. In the fourth quarter we began commercial production at the San Gonzalo Mine. This development represents 7 years of planning, determination and hard work.

In the New Year, we completed a new resource estimate on the Avino Property that has substantially increased the resource at San Gonzalo and provided the first ever estimate on the main Avino Mine. The Avino property has a 500 hundred year mining history; with this new resource estimate and our improving exploration capabilities, we are poised to continue that legacy into the foreseeable future. The board, our teams in Mexico and Canada, and I are all committed to reaching our goal of growing the Company into a mid-tier silver producer in the next few years.

Since its inception in 1968, Avino has managed to survive multiple periods of global economic upheaval by nursing our balance sheet and conducting a lean operation both in Mexico and Canada; in 2013 that model continues to set us apart. We successfully brought the operation into commercial production without incurring any debt, resulting in positive cash flow in each quarter since commercial production began. Rarely does a resource company post earnings per share in the initial quarters of commercial production; we have managed to do just that. We have a great operation and an excellent share structure, one of the best among our peer group.

HIGHLIGHTS OF THE YEAR

San Gonzalo Mine

On October 1 we made the decision to transition into commercial production after determining that we had sufficient high-grade mill feed stockpiled on the surface and readily available in the underground to support ongoing operations. Our objective for San Gonzalo moving forward is to maintain profitable mining operations by decreasing operating costs and improving efficiency as well as to expand the known resource base. So far in 2013, we are on pace to produce between 700,000 and 800,000 ounces of silver equivalent and we expect output to increase as we move deeper in the mine where drilling and metallurgical test work have indicated that grades and recoveries will improve.

Avino Mine

We signed a new 20-year agreement in February 2012 granting mining rights to the Avino Mine which will allow us to move ahead with our plan of recommencing production in 2014 once de-watering of the mine and mill re-configuration is complete.

When we shut the Avino Mine down in 2001 we were still breaking even with a silver price of $4 an ounce. The Mine produced more than 1.7 million ounces of silver equivalent annually in its final 3 full years of production. When production resumes we will be producing from the same vein at the same rate. With guidance from our new resource estimate we're confident that the mine will have the ability to operate for many more years to come.

from left to right:
Alvaro Solis, William Bowker, Malcolm Davidson, David Wolfin, Charles Daley, Dorothy Chin

Tailings Resource

The tailings resource left from our previous operation was the focus of a preliminary economic assessment in 2012. The study focused on the oxide tailings that were created during the 70's and 80's when the Avino vein was mined through an open pit. Avino is planning to construct a heap leach operation to re-process the tailings by 2016.

Mill Circuit 2

In late 2012 Avino decided to refurbish an existing 250 tpd circuit to boost the mills output capacity. The circuit was paid for entirely using cash flow from San Gonzalo and was commissioned in April 2013. It's currently being used to process old stock piles from the Avino vein that were left on the surface during our previous operation. Once these piles are depleted, the circuit could be used to increase production at the San Gonzalo and Avino Mines.

Exploration

The Avino property remains significantly underexplored despite its long history which affords us the potential for new discoveries and growth in the resource base. To gain a better understanding of the property's potential, we purchased Gemcom 3D modeling software. We have begun to modernize all the existing raw data including thousands of soil samples, satellite imagery, IP geophysics, drill logs and the new resource estimate. The resulting 3D model will give us the best information possible to determine drill targets and to plan significant exploration programs; essentially, helping Avino grow the resource base at a significant cost reduction.

What do investors have to look forward to in 2013/14?

Going forward, we are focused on refurbishing the mill's 1,000 tpd Circuit 3 and dewatering the Avino Mine to prepare for commercial production in 2014. We have our CAPEX in order and have locked in a credit facility with Caterpillar for the purchase of mining equipment.

We are also planning on further exploration at the San Gonzalo Mine which is open at depth and is located near several vein systems including the Los Angeles and Angelica Veins. It is possible that one day these veins could potentially be accessed underground through the existing San Gonzalo Mine workings.

We have a hard-working team in Mexico and Canada who over the last couple of years have successfully put all the pieces of this operation together. I'm proud to be a part of this team as we continue to work toward growing Avino to be a significant producer in the coming years.

ON BEHALF OF THE BOARD OF DIRECTORS

David Wolfin
President and CEO

RESOURCES

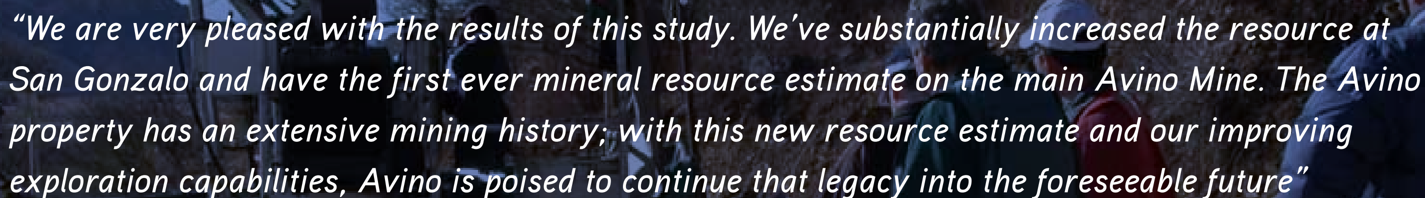
In June 2013, Avino announced the results from resource estimates from the San Gonzalo and Avino Mine system. Below is a summary of current mineral resources at the San Gonzalo and Avino Mines as well as the oxide tailings resource (as reported in the July 2012 Technical Report on the Avino Property) grouped into the measured, indicated and inferred categories. The effective dates of the resource estimates are June 10, 2013 for San Gonzalo and Avino Mines, while the effective date for the Oxide Tailings is July 24, 2012, but it is still considered current.

Resource Category	Deposit	Cut-off Ag Eq*	Tonnes	Contained Metal				Grade			
				Ag_Eq (oz)	Ag (oz)	Au (oz)	Cu (t)	Ag_Eq (g/t)	Ag (g/t)	Au (g/t)	Cu (%)
Measured	San Gonzalo System	150	71,416	914,791	759,801	3,288	N/A	398	331	1.432	N/A
Total Measured - All Deposits			71,416	914,791	759,801	3,288	N/A				
Indicated	Avino System	100	4,253,968	23,838,629	10,835,338	72,207	30,914	174.3	79.2	0.528	0.727
Indicated	San Gonzalo System	150	222,407	2,763,069	2,043,514	15,263	N/A	386	286	2.134	N/A
Total Indicated - All Deposits			4,476,375	26,601,698	12,878,852	87,470	30,914				
TOTAL MEASURED & INDICATED – ALL DEPOSITS			**4,547,791**	**27,516,489**	**13,638,653**	**90,758**	**30,914**				
Inferred	Avino System	100	3,220,896	16,262,944	7,068,831	75,858	17,719	157	68.3	0.733	0.55
Inferred	San Gonzalo System	150	1,085,276	10,494,843	8,158,834	49,549	N/A	300.8	233.8	1.42	N/A
Inferred	Oxide Tailings	50*	2,340,000	N/A	6,660,000	39,530	N/A	N/A	91.3	0.54	N/A
TOTAL INFERRED - ALL DEPOSITS			**6,646,172**	**26,757,787**	**21,887,665**	**164,937**	**17,719**				

**Ag Eq not calculated for the oxide tailings resource; cut-off in g/t Ag.*

Mineral resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues. The quantity and grade of reported Inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these Inferred resources as an Indicated or Measured mineral resource and it is uncertain if further exploration will result in upgrading them to the Indicated or Measured mineral resource category.

To calculate the above silver equivalent grades, Avino has assumed a price of silver of US $20 per oz., a price of copper of US $3.66 per lb. with a recovery rate of 85% for copper, and a price of gold of US $1,507 per oz., with 75% recovery rate for gold at the Avino Mine and 70% recovery rate for gold at the San Gonzalo Mine.



"We are very pleased with the results of this study. We've substantially increased the resource at San Gonzalo and have the first ever mineral resource estimate on the main Avino Mine. The Avino property has an extensive mining history; with this new resource estimate and our improving exploration capabilities, Avino is poised to continue that legacy into the foreseeable future"

David Wolfin, President, CEO and director of Avino Silver and Gold

San Gonzalo Mine System

Based on data from surface diamond drill programs between 2007 and 2011 (64 holes and 14,624 metres of drilling) and underground development sampling data from levels 1, 2, 3 and 4. Modeling of this data also shows the presence of mineralization for the nearby Angelica vein and its resource estimate has been added to those of the San Gonzalo vein. The base case scenario used in the estimation assumes a silver price of $US20 which translates into a cut-off grade of 150 g/t silver equivalent at San Gonzalo. The current silver price analysis using US$24.50 per ounce establishes a cut-off grade of 120 g/t for silver equivalent. Since commercial production began in October 2012, Avino has been using a cut-off grade of 120 g/t for silver equivalent.

Avino Mine System

The Avino Mine estimate was based on data from surface diamond drill programs between 2006 and 2012 (34 holes and 11,523 metres of drilling). Historic mining information was also provided to assist with the modeling of the deposit for the mined out open pit and underground areas as well as to project the shape of the deposit below the 12th level. The 3D wire frame model shows the presence of another mineralization zone called the "Hanging Wall Breccia" or "Cross Cutting Vein". Its resource estimate has been included in the Avino Mine system.

Oxide Tailings Resource

The assay values for this estimate are based on 28 drill holes, which were completed on the tailings by CMMA in 1990, and include 407.75 m of drilling and 383 assays of both gold and silver. The entire resource is classified as an inferred mineral resource, based on the historical nature of the drilling (prior to the institution of NI 43-101 and associated quality assurance/ quality control (QA/QC) requirements). Verification samples collected by Tetra Tech confirmed the presence of gold and silver mineralization at grades similar to those obtained in the original tailings drilling campaign and confirmed that the mine's lab assays are not materially different from those of external labs.

Qualified Person(s)

The Avino and San Gonzalo mineral resource estimates were prepared by Robert Morrison, Ph.D., P.Geo., while the oxide tailings resource was prepared by Mike O'Brien, M.Sc., P.Geo. Dr. Morrison and Mr. O'Brien are both employees of Tetra Tech, and independent of the Company, as defined by Section 1.5 of NI 43-101.

Avino's projects are under the supervision of Chris Sampson, P.Eng, BSc, ARSM Avino Consultant and Mr. Jasman Yee, P.Eng, Avino director, who are both qualified persons within the context of National Instrument 43-101. Both have reviewed and approved the technical data in this news release

SAN GONZALO MINE

The San Gonzalo mine lays beneath the shallow workings of a colonial-period Mine, approximately 2 km from Avino's processing plant. The first hint of the area's potential surfaced during the 2007/08 drill program. Core intercepts showed silver assays greater than 1,000 g/t, with some reaching as high as 5,265 g/t.

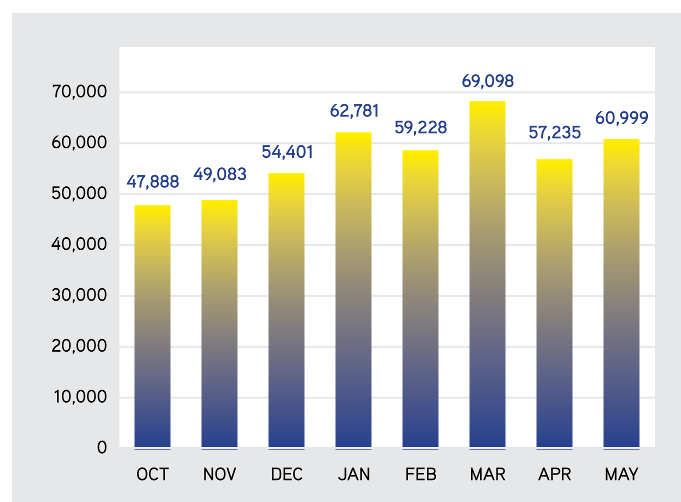
Following the 2008 drill program, independently verified preliminary metallurgical testing on material from what is now level 5 of the mine indicated strong gold recoveries of 90% and silver recoveries of 93%. The results prompted Avino to conduct a 10,000 tonne bulk sampling program to confirm grades and recoveries, and assess the zone's economics. Based on the encouraging results of the bulk sample program completed in June 2011 a positive production decision was made.

Avino declared full commercial production at San Gonzalo on October 1, 2012 at rate of 250 tpd marking a significant milestone for the company, reflecting 7 years of planning, determination and hard work.

Select figures from the first two quarters of production are reported below:

	Q4 2012	Q1 2013	% Change
Total Mill Feed (dry tonnes)	19,539	19,723	0.9
Average Daily Throughput (tpd)	222	229	3.1
Days of Operation	88	86	(2.3)
Feed Grade Silver (g/t)	259	309	19.3
Feed Grade Gold (g/t)	1.04	1.29	24.0
Recovery Silver (%)	79	81	2.5
Recovery Gold (%)	70	70	0
Total Silver Produced (oz) *calculated*	128,607	159,582	24.1
Total Gold Produced (oz) *calculated*	455	574	26.2
Total Silver Equivalent Produced (oz)	151,372	191,107	26.2

Cash cost per silver equivalent ounce for the San Gonzalo Mine were $14.22 during the fourth quarter and $14.74 during Q1 2013. Avino is working to decrease operating costs and improve efficiency.



In 2012, underground development at San Gonzalo totaled 2,558 metres with level 5 nearly reached and stope development on level 4 underway by year-end. Drifting on level 4 produced the highest grades Avino has sampled at San Gonzalo in 6 years of exploration. Assays included 14,768 g/t AG over 0.4 metres and 1,380 g/t over 2.22 metres.

Given the impressive 2007 assay and metallurgical test results that came from drill core samples intercepted at levels 4 and 5, Avino expects grades and recoveries to improve as material is processed from the lower levels. Avino is continuing to ramp-up mine and mill operations to meet optimized levels targeting between 700,000 and 800,000 ounces of silver equivalent for the full calendar year of 2013.

In the fourth quarter of 2012, Avino began commercial production at the San Gonzalo Mine. This development represents several years of planning, determination and hard work.

San Gonzalo Mine portal

Ore shoot at San Gonzalo

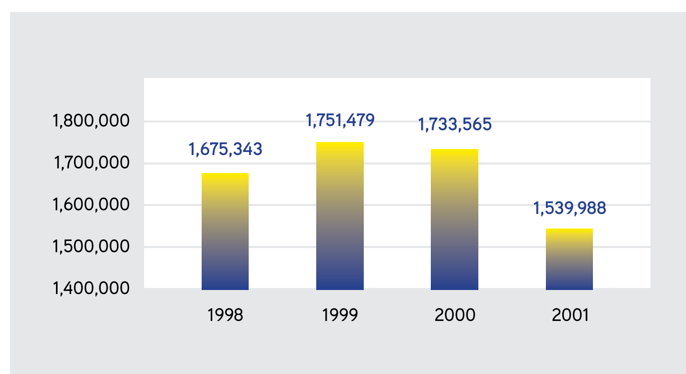
San Gonzalo stockpile & waste rock pile

AVINO MINE

In February 2012, Avino signed a new 20-year royalty agreement granting mining rights to the ET Zone and a new lease on life for the past-producing Avino Mine. Described by 16th century Spaniards as "a mountain of silver," the Avino Mine was reportedly a source of considerable wealth to Spain for hundreds of years. Between 1974 and 2001, under Avino Silver & Gold Mines, the mine produced more than 16 million ounces of silver, 96,000 ounces of gold and 24 million pounds of copper through both open pit and underground mining. In 2001, low metals prices and the closure of a key smelter forced Avino to halt mining operations.

The Company expects to bring the mine back into production in 2014. Prior to the mine's closure, annual production from 1998 to 2000 averaged 933,240 ounces of silver, 7,537 ounces of gold and 9,305,347 pounds of copper. Once operations recommence in 2014, Avino will use its existing 1,000 tpd circuit to process material and expects similar output levels to those obtained prior to closure in 2001.

Silver equivalent ounces

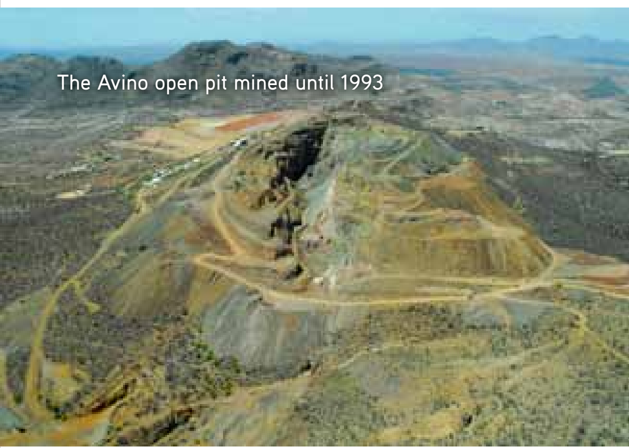


In February 2012, Avino initiated an exploration program to define a current mineral resource estimate below level 12. The 2012 drill program totaled 3,263 metres through 9 holes and results were consistent with those from drilling conducted between 2006 and 2008, demonstrating the thickness and consistency of the vein.

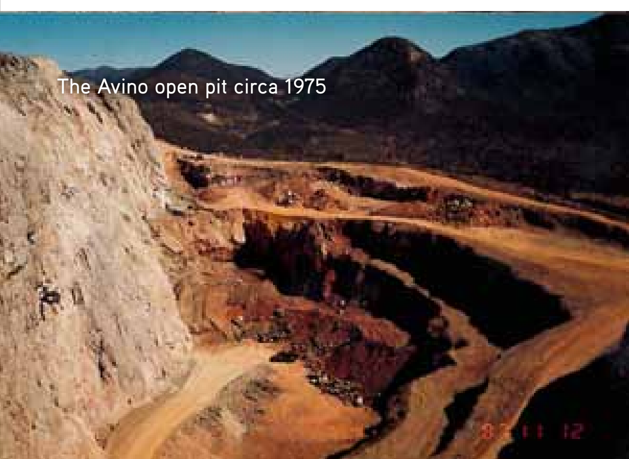
Part of the work aimed at re-opening the Avino Mine includes dewatering the existing underground workings. In 2012, Avino completed construction of a water treatment plant and water testing results indicate the discharge meets agricultural guideline limits. Water pumped from the underground workings will be treated at the plant and then discharged to a reservoir on the property to be used for milling as well as for irrigation of local farms. As of May the water level has receded to level 8 of the mine and is expected to reach the bottom of the flooded area (Level 11) in Q4 2013. To resume underground development of the Avino Mine, personnel are reviewing the underground workings above the water level to identify potential mining areas for mill feed.

In December 2012, Avino entered into a $5 million credit facility with Caterpillar to finance the purchase of mining equipment to be used in the Avino Mine.

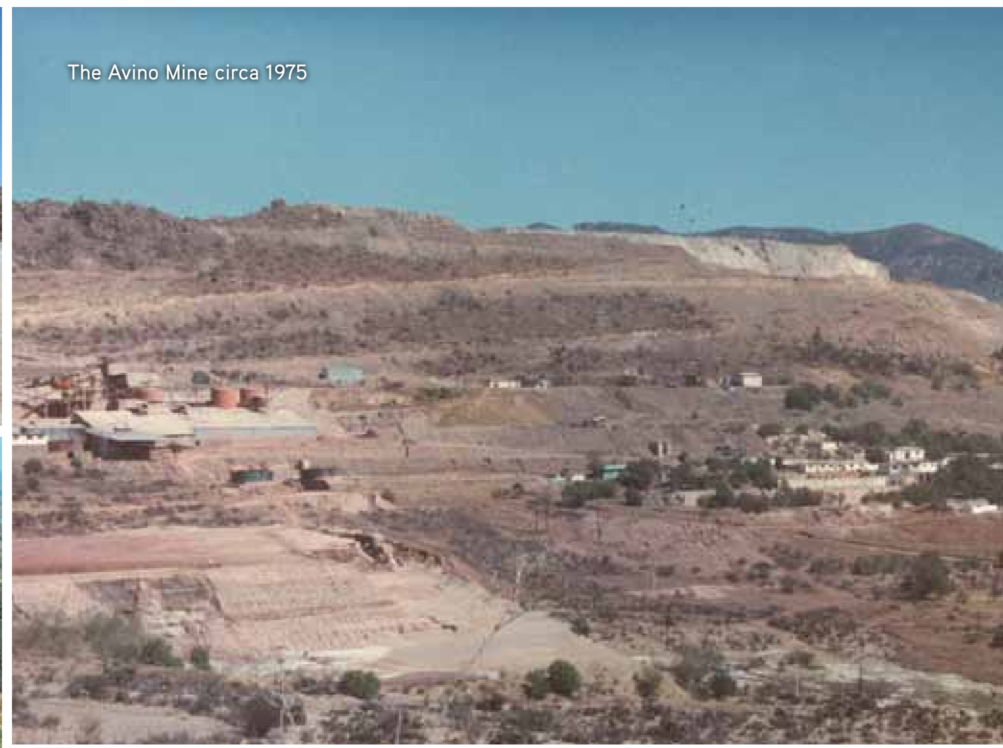
Avino's mining fleet



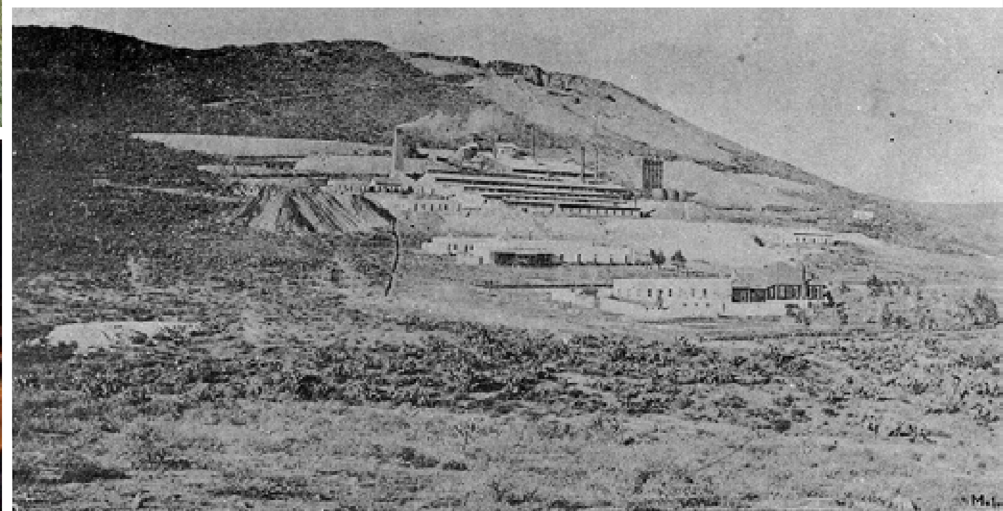
The Avino open pit mined until 1993



The Avino open pit circa 1975



The Avino Mine circa 1975



Vista de la famosa Mina Avino—El Tajo mas largo cortado en el mundo—Estado de Durango.
View of the famous Avino—Largest Open Cut in the World—State of Durango.

TAILINGS RESOURCE

The Tailings Resource at Avino includes both oxide and sulphide tailings which were generated over the course of the mine's twenty-seven years of production prior to the 2001 closure. The recoveries during that time were relatively poor. Today's advances in heap leach technology may allow the Company to extract from the tailings gold and silver previously un-recovered by flotation.

In July 2012 Avino filed an independent technical report on the oxide tailings which included a resource estimate and a preliminary economic assessment (PEA). The oxide tailings resource is estimated to have a 2.34 Mt inferred mineral resource at a grade of 91.3 g/t silver and 0.54 g/t gold, with a 50 g/t silver cut-off. The PEA outlined a 1,370 tpd cyanide heap leach operation with approximately 0.5 Mt of oxide tailings processed annually. The PEA used two metal price scenarios, gold and silver values were calculated at US$1,256/oz Au and US$20.38/oz Ag (Base Case); US$1,622/oz Au and US$28.36/oz Ag (Spot Price Case).

Mineral resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues. The quantity and grade of reported Inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these Inferred resources as an Indicated or Measured mineral resource and it is uncertain if further exploration will result in upgrading them to the Indicated or Measured mineral resource category.

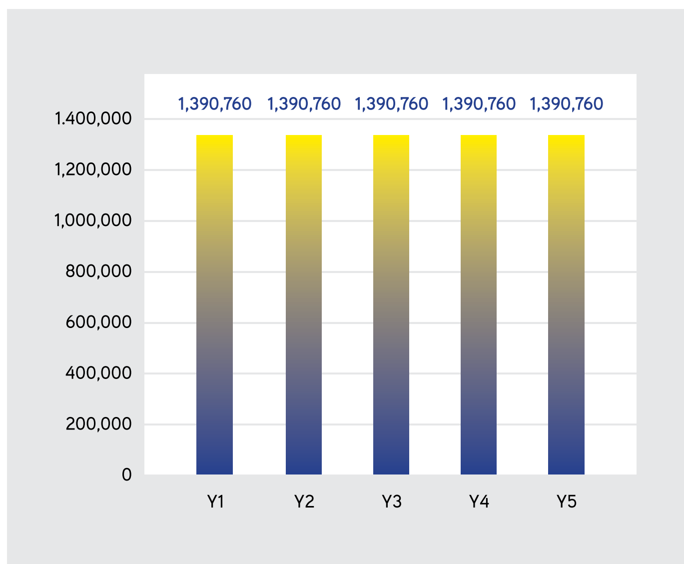
**This preliminary economic assessment (PEA) is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Furthermore, there is no certainty that the PEA will be realized. *Data disclosed in July 25th, 2012 technical report by Tetra Tech: A Technical Report on the Avino Property. Michael O'Brian, M.Sc.,Pr.Sci.Nat, FGSSA, FAusIIM, FSAIIM,Hassan Ghaffari, P.Eng., JacquesOuellet, P.Eng., Ph.D., Monica Danon-Schaffer, Ph.D, P.Eng., Sabry Abdel Hafex, Ph.D., P.Eng and Wayne Stoyko, P.Eng., are the Qualified Persons, as defined under National Instrument 43-101, who supervised and are responsible for the Techncial Report on the Avino Property)*

Description	Value
Total Tonnes to Mill ('000)	2,340
Annual Tonnes to Mill ('000)	500
Mine Life (Years)	5
Average Grades	
Gold (g/t)	0.54
Silver (g/t)	91.30
Total Production	
Gold ('000 oz)	31
Silver ('000 oz)	4,814

Description	Value
Average Annual Production	
Gold ('000 oz)	6.58
Silver ('000 oz)	1,028.55

Avino's tailings resource

	Base Case	Spot Prices Case
Gold Value (USS)	$1,256.00	$1,622.20
Silver Value (US$)	$20.38	$28.36
IRR	54.4 %	92%
Payback period	1.6 years	1.1
NPV (US$'000) 8% discount rate	$38,647	$74,186



Sulphide Tailings

The sulphide tailings are a considered a target for further exploration and results are disclosed as a range of tonnes and grades in the table below. The potential quantity and grade of the sulphide tailings is conceptual in nature and there has been insufficient exploration to define a mineral resource. It is uncertain if further exploration (e.g. drilling and sampling) will result in the target (i.e. sulphide tailings) being delineated as a mineral resource.

	Tonnes (t)	Silver (g/t)	Gold (g/t)	Silver (oz)	Gold (oz)
Lower Range	2,800,000	40.0	0.3	3,600,000	27,000
Upper Range	3,200,000	100.0	0.6	10,300,000	61,700

PROCESSING FACILITY

Avino has been processing historical ET stockpiles at the mill since May of 2011. In March 2012 the mill began operating around the clock seven days per week. In the first three quarters of 2012, the mill produced 102,078 ounces of silver equivalent from the historical ET stockpiles. The stockpiles provided the Company an opportunity to generate cash flow while tuning the mill and continuing underground advancement and mining at San Gonzalo.

In the final quarter, Avino began processing feed material from the San Gonzalo Mine at a rate of 250 tpd for a total of 151,373 ounces of silver equivalent produced. Production for 2012 totaled 253,451 ounces of silver equivalent, an increase of 42% over 2011. In the first quarter of 2013, production from San Gonzalo totaled 191,107 ounces of silver equivalent, a 26.2% increase over the previous quarter.

During the fourth quarter of 2012, Avino made the decision to expand the primary crushing circuit to operate at a rate of 1,500 tpd and feed three separate recovery circuits. Circuit 1 will continue to process high-grade mill feed from the new San Gonzalo Mine at a rate of 250 tpd.

Circuit 2 came online in April of 2013. Initially, the new 250 tdp circuit will process the remaining historical Avino surface stockpiles which are enough to feed materials for approximately seven months; the circuit will then be available to process additional mill feed from the San Gonzalo and Avino Mines. Output is expected to be similar to that produced in the third quarter of 2012 by Circuit 1 using the same stock piles. Circuit 3 has a throughput capacity of 1,000 tpd and will begin processing new material from the main Avino Mine in 2014.

2012 Production from Historic Above Ground Avino Mine Stockpiles

Quarter	Source of Mill Feed	Feed Material Processed (tonnes)	Concentrate Produced (tonnes)	Ag oz Produced	Au oz Produced	Ag Eq oz Produced*
Q1	Historic ET Stockpiles	14,600	176	17,875	220	28,875
Q2	Historic ET Stockpiles	16,900	134	14,129	180	23,129
Q3	Historic ET Stockpiles	20,015	323	31,024	381	50,074
Total	Historic ET Stockpiles	51,515	633	63,028	781	102,078***

In quarters 1 through 3 the Company produced and sold all of the bulk concentrate generated from processing old ET stockpiles. During the first 3 quarters of 2012, the Company was considered an exploration stage company, therefore the proceeds from the sale of this concentrate was charged as a reduction of mineral properties and exploration costs.

SILVER

When it comes to wealth preservation, silver provides investors with a cost-effective alternative to gold. Robust silver investment demand in 2012 led to an average price level of $31.15 per ounce, the second highest level on record behind 2011. Industrial demand still drives nearly half of total silver demand, but investment demand for the white metal continues to grow accounting for nearly a quarter of total demand in 2012.

Globally, silver investor demand rose to a total of 252.7 million troy ounces representing approximately $8 billion on a net basis. Investment demand for silver coins and small bars across major markets continues to post significant growth reaching 92.7 Moz in 2012, the third highest tally ever recorded.

Physical silver investment products including coins, bars and exchange-traded funds are expected to underpin investment demand in 2013. Strong buying of silver coins and bars already this year has analysts projecting physical demand could overtake the record level of 3,679.5 tonnes reached in 2011. (Source: Thomson Reuters GFMS World Silver Survey 2013)

The Aztec calendar stone was carved in 1479 and was dedicated to the sun god. It was a massive carving, 3 feet thick, almost 12 feet across, and weighing almost 23 tonnes. The original was carved from basalt - solidified lava, being from an area where volcanos were common. But then it was lost, buried under the central square of Mexico City for over 300 years.

In 1790, renovations began on the central square of Mexico City. On December 17th, the massive carving was unearthed, renewing interest in Mexico's ancient cultures. Since that time it has become a recognizable symbol for the Aztec Empire which began to fall to Spanish Conquistadors around the same time the Avino Mine was discovered in 1558.

In early 2013, Avino began minting and selling it's own 1 oz silver rounds. The coin features the Aztec sundial and can be purchased directly from the company.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2012

The following discussion and analysis of the operations, results and financial position of Avino Silver & Gold Mines Ltd. (the "Company" or "Avino") should be read in conjunction with the Company's audited consolidated financial statements as at December 31, 2012 and 2011 and years ended December 31, 2012, 2011, 2010 and the notes thereto.

This Management Discussion and Analysis ("MD&A") is dated April 30, 2013 and discloses specified information up to that date. Avino is classified as a "venture issuer" for the purposes of National Instrument 51-102. The Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise cited, references to dollar amounts are Canadian dollars.

Throughout this report we refer to "Avino", the "Company", "we", "us", "our" or "its". All these terms are used in respect of Avino Silver & Gold Mines Ltd. We recommend that readers consult the "Cautionary Statement" on the last page of this report. Additional information relating to the Company is available on SEDAR at www.sedar.com and the Company's website at www.avino.com.

BUSINESS DESCRIPTION

Founded in 1968, the Company is engaged in the production and sale of silver and gold, and the exploration, development, and acquisition of mineral properties. The Company holds mineral claims in Durango, Mexico as well as the Yukon Territory and the province of British Columbia in Canada. Avino is a reporting issuer in British Columbia and Alberta, a foreign issuer with the Securities & Exchange Commission and trades on the TSX Venture Exchange, Tier 2 status under the symbol "ASM", on the NYSE MKT under the symbol "ASM", and on the Berlin & Frankfurt Stock Exchanges under the symbol "GV6".

OVERALL PERFORMANCE AND 2012 HIGHLIGHTS

On October 1, 2012, Avino achieved commercial production at the San Gonzalo mine and located on the Avino property in the Durango State of Mexico. The revenues and related costs of production are reflected in the consolidated financial statements for these first three months of commercial production.

During the fourth quarter the San Gonzalo mine produced 561 tonnes of bulk silver/gold concentrate recognizing revenues of $2,255,376 on the sale of 368 tonnes of concentrate bulk silver/gold for a gross profit of $820,807. Metal prices for revenues recognized in that period, weighted by dollar of revenue recognized averaged US$31.54 per ounce of silver, US$1,680 per ounce of silver. Avino is very pleased with its first quarter of commercial production results and will continue to optimize mining and milling operations during the coming year.

Prior to commencing commercial production at San Gonzalo on October 1, 2012, Avino's processing facility was used to treat process historic stockpiles remaining from the previous operation prior to 2001. In accordance with Company's accounting policy, the proceeds from concentrate sales for the first nine months of 2012 was recorded as a reduction of exploration and evaluation costs. During the first nine months this activity produced 633 tonnes of concentrate generating proceeds of US $3,490,581.

Cash cost per equivalent silver ounce for the first quarter of commercial production was $14.22. The Company is pleased with the cash cost per equivalent silver ounce for the first quarter of commercial production as it continues to focus on improving operating efficiencies and cost reduction at San Gonzalo. Also the Company has been selling concentrate on a month to month basis and is in the process of reviewing long-term sale agreements to secure preferable terms and more favorable net smelter returns.

The Corporation's cash and cash equivalents at December 31, 2012 totaled $4,035,985 compared to $5,282,464 at December 31, 2011, while working capital totaled $5,363,372 compared to $5,723,398 for the same dates respectively.

DISCUSSION OF OPERATIONS

The Company's production, exploration, and development activities during the year ended December 31, 2012 have been conducted on its Avino property. The Company holds a 99.28% effective interest in Compañía Minera Mexicana de Avino, S.A. de C.V. ("Avino Mexico"), a Mexican corporation which owns the Avino Property. The Avino Property covers approximately 1,409 hectares and is located approximately 74 km north-east of the city of Durango. The Avino property hosts a processing facility and continues to focus on production at it San Gonzalo mine. The Company also continues to develop its plans to re-open the Avino Mine and process the tailings resource.

San Gonzalo Mine

As announced in the news release dated October 24, 2012 entitled "Avino Operational Update & Q3 Production Report", the company declared the commencement of production as of October 1, 2012 at its San Gonzalo mine. Results from the first six months of commercial operations are reported in the table below:

	Oct 2012	Nov 2012	Dec 2012	Jan 2013	Feb 2013	Mar 2013
Total Mill Feed (dry tonnes)	6,647	6,528	6,364	6,392	6,418	6,913
Average Daily Throughput (TPD)	214	218	235	228	229	230
Days of Operation	31	30	27	28	28	30
Feed Grade Silver (g/t)	233	256	287	315	306	307
Feed Grade Gold (g/t)	0.93	0.99	1.19	1.27	1.19	1.40
Bulk Concentrate (dry tonnes)	180	177	181	197	166	206
Bulk Concentrate Grade Silver (kg/t)	7.04	7.37	7.90	8.32	9.43	8.52
Bulk Concentrate Grade Gold (g/t)	25.0	25.4	28.6	29.1	30.4	34.5
Recovery Silver (%)	82	78	78	81	80	83
Recovery Gold (%)	72	69	68	70	66	73
Mill Availability (%)	97.2	98.1	87.9	91.1	99.0	96.7
Total Silver Produced (kg)	1,265	1,302	1,433	1,638	1,565	1,757
Total Gold Produced (g)	4,489	4,487	5,185	5,722	5,036	7,117
Total Silver Produced (oz) calculated	40,671	41,870	46,066	52,779	50,315	56,488
Total Gold Produced (oz) calculated	144	144	167	184	162	228
Total Silver Equivalent Produced (oz)	47,888	49,083	54,401	62,781	59,228	69,098

Comparative figures from Q4 2012 and Q1 2013 are as follows:

	Q4 2012	Q1 2013	% Change
Total Mill Feed (dry tonnes)	19,539	19,723	0.9
Average Daily Throughput (TPD)	222	229*	3.1
Days of Operation	88	86	(2.30)
Feed Grade Silver (g/t)	259	309*	19.3
Feed Grade Gold (g/t)	1.04	1.29*	24.0
Bulk Concentrate (dry tonnes)	538	568	5.6
Bulk Concentrate Grade Silver (kg/t)	7.44	8.72*	17
Bulk Concentrate Grade Gold (g/t)	26.33	31.4*	19.3
Recovery Silver (%)	79	81*	2.5
Recovery Gold (%)	70	70*	0
Mill Availability (%)	94.4	95.5*	1.2
Total Silver Produced (kg)	4,000	4,960	24.1
Total Gold Produced (g)	14,161	17,875	26.2
Total Silver Produced (oz) calculated	128,607	159,582	24.1
Total Gold Produced (oz) calculated	455	574	26.2
Total Silver Equivalent Produced (oz)	151,372	191,107	26.2

Silver equivalent for Q1 2013 were calculated using a 55:1 ratio for silver to gold. For Q4 2012, a 50:1 ratio was used in the calculation. (The ratio was changed to reflect more current gold and silver prices.) Mill production figures have not been reconciled and are subject to adjustment with concentrate sales. Year-to-date and calculated figures may not add up due to rounding.

The San Gonzalo mine is located approximately 2 km from the original Avino mine and beneath the shallow workings of an old mine from the colonial period. It constitutes a strongly developed vein system over 25 m across, trending 300 to 325 degrees; dip 80 NE to 77 SW. The original underground workings extend over an area approximately 150 m along strike and 136 m in depth.

In 2007-08 Avino conducted a 42-hole, 9,204 metre drill program to explore the San Gonzalo deposit. Drilling produced many core intercepts with silver assays greater than 1,000 g/t, some reaching as high as 5,265 g/t. The results from the drill program were input into a resource calculation in 2009.

Following the 2009 resource estimate, independently verified preliminary metallurgical testing on a composite sample of San Gonzalo material was completed at SGS Minerals Services in Durango, Mexico. The results indicated the silver and gold minerals from the San Gonzalo vein at lower levels would respond favorably to flotation with gold recoveries of 89 to 90% and silver recoveries of 92 to 93%.

Based on these results, Avino conducted a 10,000 tonne bulk sampling program to assess the economics of the zone and confirm mineral grades obtained through diamond drilling. The first decline was driven by our mining contractor starting in December 2009. The bulk sample program was completed during the first quarter of 2011 and a contract for the sale of concentrate was completed in June 2011 (for complete details see news release dated July 11, 2011). Following the bulk sample underground development continued through the remainder of 2011.

Following the completion of the bulk sample which was comprised of material from levels 1 and 2, mine advancement at San Gonzalo has been ongoing. In 2012, the remaining material from the stopes on level 2 was mined and brought to the surface. During 2012, level 3 was the main focus of mining activities with two stopes having been developed and partially extracted by the end of the year. By the end of July, a decline from level 3 to level 4 had been completed and work on the ramp to level 5 had commenced. Subsequent drifting on level 4 produced samples that assayed as high as 14,768 g/t Ag over 0.4 metres or 1,380 g/t over 2.22 metres (See Avino's Q3 MD&A for details). These assay results represented the highest grade Avino has sampled at San Gonzalo in 6 years of exploration. By year-end, level 5 had been reached and stope development on level 4 was underway. Underground advancement for 2012 totaled 2,558 metres consisting of ramp advancement, cross cuts, drifts and raises.

Avino Mine

In February 2012, a new long-term royalty agreement was signed to grant Avino mining rights to the main Avino vein. Mining activities were suspended on the Avino vein in 2001 due to low metals prices and the closure of a key smelter. Avino plans to re-open the old Avino mine once de-watering and all necessary modifications to the processing plant have been completed. When operations resume, Avino will use an existing 1,000 TPD circuit to process the material. Between 1998 and 2000, leading up to the mines closure, annual output averaged 933,240 ounces of silver, 7,537 ounces of gold and 9,305,347 pounds of copper. When the mine re-opens in 2014, Avino expects to process similar material at a similar rate as it did prior to closure in 2001.

Shortly after signing the new royalty agreement, the Company initiated an exploration program to further define remaining resources. The 2012 drill program, which totaled 3,263 metres through 9 holes was intended to form the basis for a current mineral resource estimate below level 12 to be included in a forthcoming NI 43-101 compliant resource report. The results were consistent with results from drilling conducted between 2006 and 2008 and demonstrated the thickness and consistency of the vein. Full results from the drill program can be viewed in Avino's third quarter MD&A on Avino's website or on SEDAR.

To resume underground development of the Avino mine, the existing underground workings must first be dewatered. During the year, construction of a water treatment plant and water testing was completed. At the time of this report, the water level had receded down to level 8 of the mine. Mexican authorities have granted permission to the Company to de-water the mine without requiring a formal permit. Avino is required to submit quarterly reports logging the chemical content of the water being pumped from the underground workings. Once the water is treated it will be discharged to the El Caricol dam on the property and used for milling as well as for irrigation of local farms. Dewatering is expected to reach the bottom of the flooded area (level 11) within 6 to 8 months with operations expected to resume in Q1 2014.

A review of the underground workings by mine personnel above the water level is also taking place to identify potential mining areas for mill feed; this represents part of the exploration program aimed at reopening the historic Avino mine.

Tailings Resource

Preliminary Economic Assessment – Oxide Tailings Resource

Avino's tailings resource was created during the Company's previous 27 year operating run when recoveries were relatively poor. The tailings include both oxide and sulphide tailings, with each requiring separate treatment methods. Since the closure of the mine in 2001, advances in heap leach technology could potentially enable Avino to extract the gold and silver that had previously been un-recovered by floatation.

In July 2012, the Company filed an independent updated technical report on the Avino property focused on the oxide tailings resource. The report, titled "Technical Report on the Avino Property" outlined a 1,370 TPD cyanide heap leach operation using two metal price scenarios. Details of the preliminary economic assessment are outlined below, full details can be found in Avino's news release dated August 30, 2012 or in the full report on the company's web site and on SEDAR.

Metal Production

Total Tonnes to Mill	2,340,000
Annual Tonnes to Mill	500,000
Mine Life	5 years
Average Silver Grade (g/t)	91.30 g/t
Average Gold Grade (g/t)	0.54 g/t
Total Silver Production (oz)	4,814,000
Total Gold Production (oz)	31,000
Average Annual Silver Production (oz)	1,028,860
Average Annual Gold Production (oz)	6,580

Economics

	Base Case	Spot Price Case
Gold Value (US$)	$1,256	$1,622
Silver Value (US$)	$20.38	$28.36
IRR	54.4%	92%
Payback period	1.6 years	1.1 years
NPV (US$'000) 8% discount rate	**$38,647**	**$74,186**

A preliminary economic assessment should not be considered a prefeasibility or feasibility study, as the economics and technical viability of the Project have not been demonstrated at this time. The above preliminary economic assessment is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to apply economic considerations that would allow for categorization as mineral reserves. Furthermore, there is no certainty that the preliminary economic assessment will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Data disclosed in July 25th, 2012 technical report by Tetra Tech: A Technical Report on the Avino Property. Michael O'Brian, M.Sc., Pr.Sci.Nat, FGSSA, FAusIIM, FSAIIM, Hassan Ghaffari, P.Eng., Jacques Ouellet, P.Eng., Ph.D., Monica Danon-Schaffer, Ph.D, P.Eng., Sabry Abdel Hafex, Ph.D., P.Eng and Wayne Stoyko, P.Eng., are the Qualified Persons, as defined under National Instrument 43-101, who supervised and are responsible for the Technical Report on the Avino Property.

Historic Stockpiles

During the first three quarters of 2012, Avino processed material left from past mining of the main Avino vein. The concentrate produced from processing this material was sold for proceeds of US $3.4 million. The historic stockpiles had been left on the surface in various locations across the property making delivery for processing easy and cost efficient. The stockpiles provided Avino an opportunity to generate cash flow while tuning the mill and continuing underground advancement at San Gonzalo.

During this period, the Company's activities were considered to be in the exploration stage, therefore the proceeds from the sale of this concentrate were recorded as a reduction of exploration and evaluation costs; all concentrate produced during the period was sold. Quarterly output results from this project are as follows:

Quarter	Source of Mill Feed	Feed Material Processed (tonnes)	Concentrate Produced (tonnes)	Ag oz Produced (calculated)	Au oz Produced (calculated)	Ag Eq oz Produced* (calculated)
Q1	Historic Stockpiles	14,600	176	17,875	220	28,875
Q2	Historic Stockpiles	16,900	134	14,129	180	23,129
Q3	Historic Stockpiles	20,015	323	31,024	381	50,074
Total	Historic Stockpiles	51,515	633	63,028	781	102,078

Processing Plant

During Q4, the decision was made to expand the primary crushing circuit to operate at up to 1,500 tonnes per day ("TPD") and feed three separate recovery circuits:

Circuit #	Throughput (TPD)	Source of Mill feed	Online Date
1	250	San Gonzalo Mine ("SG")	Now Online
2	250	Avino Surface Stockpiles, SG, ET	Now Online
3	1,000	Avino Mine	2014

A new 250 TPD circuit ("Circuit 2") was commissioned during 2013 which will initially be used to process remaining historic aboveground stockpiles left from past mining of the main Avino Vein. The Company expects the stockpiles will provide enough mill feed for approximately seven months of operations. During Q3 2012, Circuit 1 (250 TPD) produced 50,074 ounces of silver equivalent (calculated) from the same stock piles, Avino expects output will be similar from Circuit 2 once it's activated in Q2 of 2013. After the historic stockpiles have been depleted, the new circuit will have the ability to process additional mill feed from the San Gonzalo Mine and later the Avino Mine once it is further developed.

Circuit 1 will continue to process high-grade mill feed from the San Gonzalo Mine. Production numbers are reported monthly and are summarized to date in the news release dated February 12, 2013.

Circuit 3 is scheduled to begin processing new material from the main Avino Mine in 2014.

FINANCING

In January 2013, the Company finalized a credit facility with Caterpillar Finance for up to US $5 million. The financing will help Avino advance its current operations at San Gonzalo and to reopen the historic Avino Mine (for more information please see the news release dated December 20, 2012). With the credit facility in place, the Company has acquired several key pieces of mining equipment including: a new Caterpillar 420F Backhoe loader, Caterpillar R1600 Scoop tram and an Oldenburg underground rock drill.

PROPERTY OPTION AGREEMENTS

During the year, Avino entered into two separate option agreements. Avino optioned its Laberinto property in Durango, Mexico to Endeavour Silver Corp. (See news release dated July 31, 2012) and its Eagle property located in the prolific Keno Hill Mining district in the Yukon Territory, Canada to Benz Capital Corp. (see news release dated November, 2012) Avino believes that both properties are of merit and hold significant potential.

OUTLOOK

Avino is uniquely situated among the many emerging producers in Mexico. Through its majority ownership in the Avino Mine, recovery plant and surrounding property holdings, Avino provides its shareholders with an opportunity to profit from the strong metal markets. Avino remains committed to maintaining profitable mining operations and is excited to build the Company into a significant producer of precious and base metals. The Company holds itself accountable and maintains a high standard in corporate citizenship. Avino maintains strong relationships with the surrounding communities by continuing to provide long-term economic and social benefits.

With prices for silver and gold remaining at historically high levels, the Company is working aggressively to capitalize on this trend by increasing production as quickly as possible.

Management remains focused on the following key objectives:

1. Maintain profitable mining operations at San Gonzalo while decreasing operating costs and improving efficiency;
2. Increase mill throughput using the new circuit ("Circuit 2") that went online in April 2013. See news release dated April 29, 2013;
3. Develop the Avino mine for commercial production commencing in 2014;
4. Continue to review and develop plans to process the oxide tailings resource from previous milling operations (PEA issued in 2012);
5. Continue to explore regional targets on the property and consider acquisition opportunities.

NON – IFRS MEASURES

Cash cost per ounce and total production costs per tonne

Cash cost per ounce and total production costs per are measures developed by mining companies in an effort to provide a comparable standard; however, there can be no assurance that our reporting of these non-IFRS measures are similar to that reported by other mining companies. Total cash cost per ounce and total production cost per tonne are measures used by the Company to manage and evaluate operating performance of the Company's mining operations, and widely reported in the silver and gold mining industry as a benchmark for performance, but does not have a standardized meaning and is disclosed in addition to IFRS measures.

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

To facilitate a better understanding of this measure as calculated by the Company, a detailed reconciliation between the cash cost per silver ounce and the Company's cost of sales as reported in the Company's Consolidated Statements of Comprehensive Loss is provided.

Reconciliation of Cash Cost of Sales per Silver Equivalent Ounce

		Year ended Dec 31, 2012	Notes 1
Cost of sales (as reported) – CAD	$	1,246,309	2
Silver ounces sold		72,522	1
Gold ounces sold		274	1
Ag:Au ratio		55.1:1	3
Silver equivalent ounces sold		87,616	
Cash Cost per Silver Ounce - CAD	**$**	**14.22**	
Mining Cost per Ounce	$	10.30	
Milling Cost per Ounce	$	1.91	
Indirect Cost per Ounce	$	2.02	
Total Production Cost per Tonne	**$**	**94.60**	
Tonnes Produced		13,175	1
Mining Cost per Tonne	$	68.47	
Milling Cost per Tonne	$	12.70	
Indirect Cost per Tonne	$	13.42	

1. *The figures in the table represent the total costs and production for the year ended December 31, 2012 however the San Gonzalo mine was commissioned for commercial production on October 1, 2012.The first quarter of commercial production reflects sales from October 2012 and November 2012, production from December 2012 was included in the balance of inventory as at December 31, 2012 in accordance with the Company's revenue recognition policy.*

2. *Cost of sales represents cash costs of production before depletion, depreciation, and accretion. See note 16 to consolidated financial statements.*

3. *Silver equivalent ounces consist of the number of ounces of silver production plus the number of ounces of gold production multiplied by the ratio of the spot gold price to the spot silver price using the average rates in effect during the sale contract settlement periods.*

REVIEW OF FINANCIAL RESULTS

SELECTED ANNUAL INFORMATION

The following financial data is derived from the Company's financial statements for the three most recently completed financial years:

	December 31, 2012	December 31, 2011	December 31, 2010
Total revenues	$ 2,255,376	$	$
Cost of sales	1,434,569	-	-
Depletion, depreciation and accretion	188,260	-	-
Mine operating income	820,807	-	-
General and administrative expense	1,929,746	4,042,647	1,110,643
Net loss	(1,263,178)	(4,184,351)	(790,840)
Loss per share	(0.05)	(0.16)	(0.04)
Total assets	26,191,608	26,136,355	26,578,517
Total liabilities	4,244,230	3,202,096	2,662,727
Working capital	5,363,372	5,723,398	8,794,406

On October 1, 2012 the Company commenced commercial production at its San Gonzolo Mine. The December 31, 2012 consolidated financial statements reflect the revenues and related cost of sales for the production produced and sold for October and November 2012 only. December 2012 production is included in the balance of inventory at December 31, 2012 in accordance with the Company's revenue recognition policy. Prior to achieving commercial production, the

Company received proceeds of $3,490,581 from the sale of bulk concentrate produced from the historic Avino mine stockpiles. Proceeds from these sales were charged as reduction to exploration and evaluation assets.

The acquisition of control of Avino Mexico in July 2006 resulted in a deferred income tax liability which is currently measured at $2,365,677. The deferred income tax liability and the deferred income tax expense are due to the difference in carrying amounts and tax bases of the Mexican mineral properties, mine plant, and equipment, which were acquired in the purchase of Avino Mexico.

RESULTS OF OPERATIONS

SUMMARY OF QUARTERLY RESULTS

Period ended	2012 Dec 31 Q4	2012 Sep 30 Q3	2012 Jun 30 Q2	2012 Mar 31 Q1
Earnings / Loss for the period	$ 173,660	$ (829,315)	$ (395,556)	$ (211,967)
Earnings / Loss per Share	0.01	(0.03)	(0.01)	(0.01)
Total Assets	$26,191,608	$25,674,380	$25,825,567	$26,055,529

Period ended	2011 Dec 31 Q4	2011 Sept 30 Q3	2011 Jun 30 Q2	2011 Mar 31 Q1
Earnings / Loss for the period	$ (651,720)	$ (1,555,067)	$ (362,957)	$ (1,975,799)
Earnings / Loss per Share	(0.03)	(0.06)	(0.01)	(0.07)
Total Assets	26,136,355	25,823,810	26,225,357	26,554,565

Quarterly results often fluctuate with changes in revenues, cost of sales, exploration expenses and operating expenses and non-cash items such as share-based payments and deferred income tax expenses. In Q4 2012 the Company began commercial production at the San Gonzalo mine which contributed $820,807 to earnings for the quarter.

For the year ended December 31, 2012 compared with the year ended December 31, 2011.

	2012	2011	Notes
Revenue	$ 2,255,376	$ -	1
Cost of sales	1,434,569	-	2
Mine operating income	**820,807**	-	
General and Administrative Expenses			
Depreciation	6,193	803	3
Investor relations	247,044	294,882	
Management fees	150,000	296,260	4
Office and miscellaneous	531,043	199,721	5
Professional fees	205,578	189,459	
Regulatory and compliance fees	75,738	121,591	6
Salaries and benefits	561,398	276,866	7
Sales tax (recovery) write-down	(47,409)	-	8
Share-based payments	18,408	2,529,620	9
Travel and promotion	181,753	133,445	
	1,929,746	4,042,647	
Loss before other items and income tax	(1,108,939)	(4,042,647)	
Other Items			
Interest income	21,760	78,857	10
Other revenue	23,464	10,499	
Mineral property option income	54,317	-	11
Unrealized gain (loss) on investments in related companies	(110,021)	(212,966)	
Foreign exchange gain	116,562	68,404	
LOSS BEFORE INCOME TAX	(1,002,857)	(4,097,853)	
Deferred income tax expense	(260,321)	(86,498)	
NET LOSS	(1,263,178)	(4,184,351)	12
Loss per Share - Basic and Diluted	$ (0.05)	$ (0.16)	12

1. *Revenues for the year were $2,255,376. The Company's San Gonzalo mine commenced commercial production on October 1, 2012. Total revenues include production sales for October 2012 and November 2012 only. December 2012 production was shipped and sold in January 2013 and accounted for in accordance with Company's revenue recognition policy. Revenues relate to the sale of silver and gold bulk concentrate produced from San Gonzalo mine. There were no revenues for the comparable year. Proceeds from the sale of concentrate during the exploration stage were recorded as a reduction in exploration and evaluation assets.*

2. *Total costs of production for the year were $1,434,569. Production costs include costs for mining, milling, overhead, depreciation of plant and equipment, depletion, and accretion expense. All costs of production relate to the production of silver and gold bulk concentrate produced from the San Gonzalo mine.*

3. *Depreciation expense was $6,193 for the year ended December 31, 2012 compared to $803 for the comparable year, an increase of $5,390. The Company purchased a number of new non production assets during the year which resulted in a higher depreciation charge in 2012.*

4. *Management fees for the year ended December 31, 2012 were $150,000, a decrease of $146,260 from the comparable year. Management fees were higher in 2011 due to a bonus of $150,000 paid to the CEO. There were no bonuses paid 2012.*

5. *Office and miscellaneous expenses were $531,043 for the year ended December 31, 2012 compared to $199,721 for the year ended December 31, 2011, an increase of $331,322. The increase relates to higher office costs and rent at the Company's head office. There was also an increase in administration activities at the Company's Mexican subsidiaries due to the transition to commercial production of the San Gonzalo mine. Office and miscellaneous costs include costs incurred at the Company's head office in Canada, Durango Mexico office and mine site office.*

6. *Regulatory and compliance fees were $75,738 during the year ending December 31, 2012 compared to $121,591 in the comparable year. The decrease of $45,853 is a result of a one time listing fee paid to NYSE MKT in the comparable year.*

7. *Salaries and benefits for the year ended December 31, 2012 were $561,398, an increase of $284,532 compared to the year ended December 31, 2011. The Company has continued to build its professional team to meet the growth and expansion at the Company's operations in Mexico. There have also been increases in the costs of salaries and benefits paid to current employees.*

8. *During the year the Company recorded a $47,409 provision recovery relating to uncollectible VAT. The Company has consistently achieved a high rate of collection of VAT. Consequently management has concluded that is appropriate to reverse prior years provisions for uncollectible amounts.*

9. *Share-based payments for the year ended December 31, 2012 were $18,408 compared to $2,529,620 for the year ended December 31, 2011, a decrease of $2,511,212, due to less options granted in 2012.*

10. *Interest income was $21,760 compared to $78,857 in the prior year. A decrease of $57,097. The Company maintained higher cash balances in guaranteed investments certificates in prior years.*

11. *During the year the Company entered into two separate option agreements with Endeavor Silver and Avaron Mining Corp. The details of these options agreements are summarized in note 7 of the consolidated financial statements. The total option revenue earned related to these two options agreements was $54,317.*

12. *As a result of the foregoing, net loss for the year ended December 31, 2012 was $1,263,178, a decrease of $2,921,173 compared to the year ended December 31, 2011. The decrease in loss has decreased the loss per share from $0.16 to $0.05.*

For the quarter ended December 31, 2012 compared with the ended December 31, 2011.

	2012	2011	Notes
Revenue	$ 2,255,376	$ -	1
Cost of sales	1,434,569	-	2
Mine operating income	**820,807**	-	
General and Administrative Expenses			
Depreciation	5,549	(138,646)	3
General exploration	(24,315)	(15,599)	
Investor relations	65,557	70,648	
Management fees	37,500	37,120	
Office and miscellaneous	241,862	123,759	4
Professional fees	141,453	132,760	
Regulatory and compliance fees	13,995	11,193	
Salaries and benefits	405,983	47,445	5
Sales tax (recovery) write-down	(47,409)	-	
Share-based payments	1	49,142	6
Travel and promotion	48,976	44,893	
	889,152	362,715	
Operating loss	(68,345)	(362,715)	
Other Income			
Interest income	(11,785)	(59,156)	
Other revenue	16,432	-	
Unrealized gain (loss) on investments in related companies	(7,872)	20,209	7
Foreign exchange gain	505,552	(163,560)	
EARNINGS (LOSS) BEFORE INCOME TAX	433,982	(565,222)	
Deferred income tax expense	(260,321)	(86,498)	
NET EARNINGS FOR THE PERIOD	173,660	(651,720)	8
Earnings (Loss) per Share - Basic and Diluted	$ 0.01	$ (0.02)	8

1. *Revenues for the three months ended December 31, 2012 were $2,255,376. The Company transitioned the San Gonzalo mine to commercial production on October 1, 2012. Total revenues include production sales for October 2012 and November 2012 only. December 2012 production was shipped and sold in January 2013 and accounted for in accordance with Company's revenue recognition policy. Revenues relate to the sale of silver and gold bulk concentrate produced from San Gonzalo mine. There were no revenues for the comparable three month period ended December 31, 2011. Proceeds from the sale of concentrate during the exploration stage were charged as a reduction in exploration and evaluation assets.*

2. *Total costs of production for the three months ended December 31, 2012 were $1,434,569 Production costs include costs for mining, milling, overhead, depreciation of plant and equipment, depletion, and accretion expense. All costs of production relate to the production of silver and gold bulk concentrate produced from the San Gonzalo mine.*

3. *Depreciation expense was $5,549 for the three months ended December 31, 2012 compared to ($138,646) for the comparable period, an increase of $144,195. The increase is the result of a fiscal 2011 adjustment which reclassified depreciation to mineral properties exploration costs. The proposed reclassification is consistent with Company's accounting policy for property, plant and equipment.*

4. *Office and miscellaneous expenses were $241,862 for the three months ended December 31, 2012 compared to $123,759 for the three months ended December 31, 2011, an increase of $118,103. The increase relates to higher office costs and rent at the Company's head office and an increase in administration activities at the Company's Mexican subsidiaries due to the transition to commercial production of the San Gonzalo mine. Office and miscellaneous costs include costs incurred at the Company's head office in Canada, Durango Mexico office and mine site office.*

5. *Salaries and benefits for the three months ended December 31, 2012 were $405,983, an increase of $358,538 compared to the three months ended December 31, 2011. The increase of $358,538 is primarily due to a year-end reclassification adjustment however the Company continues to build its professional team to meet the growth and expansion at the Company's operations in Mexico. There have also been increases in the costs of salaries and benefits paid to current employees.*

6. *Share-based payments for the three months ended December 31, 2012 were $1 compared to $49,142 for the three months ended December 31, 2011, a decrease of $49,141. The decrease is due to a higher number of share-based payments issues to consultants that vested during the quarter ending December 31, 2011. There were an insignificant number of share-based payments that vested during the current quarter.*

7. *Unrealized loss on investments in related companies was $(7,872) for the three months ended December 31, 2012 compared to a gain of $20,209 in the comparative period, an increase of $28,081. The increase in loss reflects the fluctuations in market values of the investments in common shares of related companies.*

8. *As a result of the foregoing, net earnings for the quarter ended December 31, 2012 was $173,660, an increase of $825,380 compared to the quarter ended December 31, 2011. The increase in earnings has decreased the loss per share from $0.02 to earnings per share of $0.01.*

LIQUIDITY AND CAPITAL RESOURCES

The investment in and expenditures for exploration and evaluation assets comprise most of the Company's assets along with a lesser asset amount in regards to the San Gonzalo mine and facilities and equipment. The recoverability of amounts shown for its exploration and evaluation assets and related deferred costs is dependent upon the discovery of economically recoverable reserves and the ability of the Company to obtain the financing necessary to complete development and achieve profitable operations in the future. The outcome of these matters cannot be predicted at this time.

Year Ended	December 31, 2012	December 31, 2011
Cash and cash equivalents	$ 4,035,985	$ 5,282,464
Working Capital	5,363,372	5,723,398
Deficit	29,458,319	28,319,741

CASH FLOW

	December 31, 2012	December 31, 2011
Cash used in operating activities	$ (1,459,727)	$ (1,294,001)
Cash provided by financing activities	32,631	590,511
Cash provided by investing activities	156,524,	(2,959,232)
Decrease in cash and cash equivalents	(1,270,572)	(3,662,722)
Effect of exchange rate changes on cash and cash equivalents	24,093	(106,662)
Cash balance, beginning of the period	5,282,464	9,051,848
Cash balance, end of the year	$ 4,035,985	$ 5,282,464

Operating Activities:

Cash used in operating activities for the year ended December 31, 2012 was $1,459,727 compared to $1,294,001 for the year ended December 31, 2011. The increase in cash used in operating activities is primarily due to the increase in inventory at December 31, 2012. In accordance with the Company's revenue recognition policy, December 2012 production was included in inventory at December 31, 2012. The Company's inventory balance also increased due to the stockpile on hand at December 31, 2012.

Financing Activities:

Cash provided by financing activities was $32,631 compared to $590,511 in the comparable year, a decrease of $557,880. Cash provided by financing activities relates to the issuance of common shares upon the exercising of stock options. During the year ended December 31, 2011, employees, consultants, and directors exercised more stock options compared to the year ended December 31, 2012. Also during the year the Company acquired mining equipment under a finance lease arrangement. Finance lease payments during the year were $42,969.

Investing Activities:

Cash provided by investing activities for year ended December 31, 2012 was $156,524 compared to cash used of $2,959,232 for the year ended December 31, 2011. Cash used in investing activities during the year ended December 31, 2012 includes cash expenditures of $946,286 on the acquisition of equipment and cash expenditures on exploration and evaluation assets of $2,387,771. The cash used for the acquisition of equipment was offset by a recovery of costs for exploration and evaluation activities. During the year the Company sold bulk concentrate prior to commercial production and received proceeds of $3,490,581. During the exploration stage the Company charges proceeds received from bulk concentrates sales to exploration and evaluation assets. Details of additions to exploration and evaluation assets and equipment are summarized in notes 6 and 10 respectively to the audited consolidated financial statements for the year ended December 31, 2012.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

	December 31, 2012	December 31, 2011	December 31, 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. At December 31, 2012 and December 31, 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

(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:

	December 31, 2012	December 31, 2011	December 31, 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

All related party transactions are recorded at the value agreed upon by the Company and the related party. The amounts due from and due to related parties are non-interest bearing, non-secured and with no stated terms of repayment.

FINANCIAL INSTRUMENTS AND RISKS

The fair values of the Company's cash and cash equivalents, amounts receivable, due to related party and accounts payables and accrued liabilities 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.

(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

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.

(c) 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 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	-	-

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. 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

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

Finished goods 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 finished goods 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 reduce the Company's earnings and 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.

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 mining properties 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 and 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, mining properties and exploration and evaluation assets, 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, mining properties and exploration and evaluation assets.

OUTSTANDING SHARE DATA

The Company has an unlimited number of common shares without par value as authorized share capital of which 27,127,416 were outstanding as at December 31, 2012 and 27,433,934 as at April 30, 2013.

The following are details of outstanding share options as at December 31, 2012 and April 30, 2013:

Expiry Date	Exercise Price Per Share	Number of Shares Remaining Subject to Options (Dec 31/12)	Number of Shares Remaining Subject to Options (Apr 30/13)
February 27, 2013	$1.65	10,000	-
February 27, 2013	$0.75	295,000	-
September 22, 2014	$0.75	25,000	10,000
January 14, 2015	$0.81	60,000	60,000
September 10, 2015	$1.05	290,000	282,857
December 9, 2013	$2.00	20,000	10,625
January 18, 2016	$2.30	960,000	955,000
September 30, 2016	$2.00	790,000	780,000
January 16, 2013	$2.00	30,000	-
February 18, 2018	$1.60	-	250,000
Total:		**2,480,000**	**2,348,482**

The following are details of outstanding warrants as at December 31, 2012 and April 30, 2013:

Expiry Date	Exercise Price Per Share	Number of Underlying Shares (Dec 31/12)	Number of Underlying Shares (Apr 30/13)
November 10, 2013	$1.52	2,400,000	2,400,000
December 22, 2013	$2.50	2,700,000	2,700,000
Total:		**5,100,000**	**5,100,000**

The following are details of outstanding compensation warrants as at December 31, 2012 and April 30, 2013:

Expiry Date	Exercise Price Per Share	Number of Underlying Shares (Dec 31/12)	Number of Underlying Shares (Apr 30/13)
December 22, 2013	$2.50	111,000	111,000
Total:		**111,000**	**111,000**

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for evaluating the effectiveness of the Company's disclosure controls and procedures and have concluded, based on our evaluation, that they are effective as at December 31, 2012 to ensure that information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time period specified in those rules and regulations.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by the IASB. The Company assessed the design of the internal controls over financial reporting as at December 31, 2012 and concluded that there are material weaknesses in internal controls over financial reporting, which are as follows:

a) Due to the limited number of staff resources, the Company believes there are instances where a lack of segregation of duties exist to provide effective controls; and

b) Due to the limited number of staff resources, the Company may not have the necessary in-house knowledge to address complex accounting and tax issues that may arise.

The weaknesses and their related risks are not uncommon in a company the size of the Company because of limitations in size and number of staff. The Company believes it has taken steps to mitigate these risks by increasing financial reporting personnel, consulting outside advisors and involving the Audit Committee and Board of Directors in reviews and consultations where necessary. However, these weaknesses in internal controls over financial reporting could result in a more than remote likelihood that a material misstatement would not be prevented or detected. The Company believes that it must take additional steps to further mitigate these risks by consulting outside advisors on a more regular and timely basis and continuing to do periodic on-site inspections of the accounting records in Mexico.

There have been no changes in the Company's internal controls over financial reporting that occurred during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

SUBSEQUENT EVENTS

Subsequent to 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 in 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 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.

APPROVAL

The Board of Directors of the Company has approved the disclosure contained in this MD&A.

Cautionary Statement

This MD&A is based on a review of the Company's operations, financial position and plans for the future based on facts and circumstances as of April 30, 2013. Except for historical information or statements of fact relating to the Company, this document contains "forward-looking statements" within the meaning of applicable Canadian securities regulations. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies we are bound. Forward-looking statements are based on the estimates and opinions of management on the date the statements are made, and we do not undertake any obligation to update forward-looking statements should conditions or our estimates or opinions change. These statements involve known and unknown risks, uncertainties, and other factor that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward-looking statements.

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
President & CEO
April 30, 2013

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.

/s/ "Manning Elliott LLP"

CHARTERED ACCOUNTANTS
Vancouver, British Columbia
April 30, 2013

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(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.

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 valuation

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.

2. BASIS OF PRESENTATION (continued)

Significant Accounting Judgements and Estimates (continued)

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.

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.

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 (Promotors) 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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.

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.

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.

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.

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

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.

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.

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.

(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.

(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

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.

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

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.

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

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.

(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

14. SHARE CAPITAL (continued)

(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.

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:

	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

(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.

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
	$ 22,206	$ 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.

21. FINANCIAL INSTRUMENTS (continued)

(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.

(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

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.

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)

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

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.

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SHARES TRADED

NYSE-MKT: Symbol **ASM**

TSX.V: Symbol **ASM**

Frankfurt-Berlin/Bremen: Symbol **GV6**