Excellon Resources Inc.

Condensed Interim Consolidated Financial Statements

June 30, 2018
in thousands of U.S. dollars
(unaudited)

Excellon Resources Inc.

Condensed Interim Consolidated Statements of Financial Position

(unadited) (in thousands of U.S. dollars)

	Notes	June 30, 2018 $	December 31, 2017 $
Assets			
Current assets			
Cash and cash equivalents		15,675	12,265
Trade receivables		1,463	2,375
VAT receivables	*3*	2,224	3,624
Income taxes recoverable	*15*	769	856
Inventories	*4*	1,931	1,314
Other current assets		984	996
		23,046	21,430
Non-current assets			
Property, plant and equipment	*5*	21,198	21,185
Mineral rights	*6*	2,760	3,016
Deferred income tax assets	*18*	11,814	11,677
Total assets		58,818	57,308
Liabilities			
Current liabilities			
Trade payables	*7*	5,395	5,447
VAT payables	*3*	1,484	2,155
Current portion of lease obligations	*8*	339	-
		7,218	7,602
Non-current liabilities			
Lease obligations	*8*	354	-
Purchase warrants	*9*	1,291	2,023
Provisions	*10*	2,078	2,012
Total liabilities		10,941	11,637
Equity			
Share capital	*11*	106,332	103,625
Contributed surplus		27,215	26,980
Accumulated other comprehensive loss		(15,104)	(14,336)
Deficit		(70,566)	(70,598)
Total equity		47,877	45,671
Total liabilities and equity		58,818	57,308

Commitments (note 12)

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

Approved by the Board	**Director**	**Director**
	"Daniella Dimitrov"	*"Alan R. McFarland"*

Excellon Resources Inc.

Condensed Interim Consolidated Statements of income (loss) and Comprehensive Income (loss)

For the three and six months ended June 30, 2018 and 2017

(unaudited) (in thousands of U.S. dollars, except per share data)

		Three months ended		Six months ended	
		June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	Notes	$	$	$	$
Revenues	*13*	9,877	3,570	15,788	6,983
Production costs		(5,173)	(3,997)	(9,132)	(8,022)
Depletion and amortization		(854)	(582)	(2,136)	(1,128)
Cost of Sales	*14a*	(6,027)	(4,579)	(11,268)	(9,150)
Gross profit (loss)		3,850	(1,009)	4,520	(2,167)
Administrative expenses		(839)	(667)	(1,587)	(1,392)
Share based payments	*11*	(593)	(140)	(1,215)	(709)
Depletion and amortization		(50)	(35)	(103)	(76)
General and administrative expenses	*14b*	(1,482)	(842)	(2,905)	(2,177)
Exploration		(1,053)	(618)	(1,761)	(1,182)
Other income (cost)	*14c*	(497)	630	(415)	2,343
Finance income (cost)	*15*	(409)	1,629	615	2,892
Income (loss) before income taxes		409	(210)	54	(291)
Income tax recovery (expense)	*16*	845	(292)	(22)	(1,046)
Net income (loss)		1,254	(502)	32	(1,337)
Other comprehensive income (loss)					
Foreign currency translation differences		(3,267)	1,604	(768)	4,596
Total other comprehensive income (loss)		(3,267)	1,604	(768)	4,596
Total comprehensive income (loss)		(2,013)	1,102	(736)	3,259

Earnings (loss) per share				
Basic	$ 0.01	$ (0.01)	$ 0.00	$ (0.02)
Diluted	$ 0.01	$ (0.01)	$ 0.00	$ (0.02)
Weighted average number of shares				
Basic	98,303,430	76,188,253	96,634,218	76,146,854
Diluted	102,336,463	81,990,835	101,486,351	81,881,471

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

Excellon Resources Inc.

Condensed Interim Consolidated Statements of Cash Flow

For the three and six months ended June 30, 2018 and 2017

(unaudited) (in thousands of U.S. dollars)

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	$	$	$	$
Cash flow provided by (used in)				
Operating activities				
Net income (loss) for the period	1,254	(502)	32	(1,337)
Repayment of rehabilitation work performed	(30)	-	(30)	-
Adjustments for non-cash items:				
Depletion and amortization	904	617	2,239	1,204
Deferred income taxes	(896)	238	(146)	891
Share-based compensation	593	140	1,215	709
Post-employment benefits	24	31	47	102
Rehabilitation provision - accretion	33	12	67	24
Lease obligations - accretion	5	-	5	-
Unrealized gain on currency hedges	488	-	(59)	-
Convertible debentures - accretion	-	131	-	239
Unrealized gain on warrants liability	(122)	(253)	(646)	(314)
Unrealized gain on embedded derivative liability	-	(1,480)	-	(2,501)
Unrealized gain on marketable securities	-	1,520	-	-
Realized gain on marketable securities	-	(1,751)	-	(1,751)
Operating cash flows before changes in working capital	2,253	(1,297)	2,724	(2,734)
Changes in items of working capital:				
Trade receivables	1,208	(608)	912	(955)
VAT receivable	1,504	(387)	1,532	(946)
Income taxes recoverable	116	(30)	87	(77)
Inventories	1	(91)	(617)	(67)
Other current assets	(98)	398	12	158
Trade payables	655	(273)	7	1,097
VAT payable	(643)	23	(671)	(84)
Net cash from (used in) operating activities	4,996	(2,265)	3,986	(3,608)
Investing activities				
Proceeds from sale of marketable securities	-	3,272	-	3,272
Purchase of property, plant and equipment	(830)	(1,479)	(1,427)	(4,324)
Net cash from (used in) investing activities	(830)	1,793	(1,427)	(1,052)
Financing activities				
Proceeds from options exercised	44	78	46	85
Proceeds from warrants exercised	1,681	-	1,681	-
Repayment of lease obligations	(263)	-	(263)	-
Net cash from financing activities	1,462	78	1,464	85
Effect of exchange rate changes on cash and cash equivalents	(825)	283	(613)	635
Increase (decrease) in cash and cash equivalents	4,803	(111)	3,410	(3,940)
Cash and cash equivalents - Beginning of the period	10,872	1,580	12,265	5,409
Cash and cash equivalents - End of the period	15,675	1,469	15,675	1,469
Interest	5	17	14	39
Cash paid for income taxes	32	36	73	71

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

Excellon Resources Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the three and six months ended June 30, 2018 and 2017

(in thousands of U.S. dollars, except per share data)

	Share capital $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Total equity $
Balance - January 1, 2017	88,807	14,719	(16,044)	(64,907)	22,575
Net income (loss) for the period	-	-	-	(1,337)	(1,337)
Total other comprehensive income (loss)	-	-	4,596	-	4,596
Total comprehensive income (loss)	-	-	4,596	(1,337)	3,259
Employee share options:					
Value of services recognized	48	117	-	-	165
Proceeds on issuing shares	85	-	-	-	85
Deferred and restricted share units					
Reclassed from provisions (note 9)	-	-	-	-	-
Value of units recognized	24	520	-	-	544
Convertible Debentures	-	-	-	-	-
Conversion of Debentures into shares	30	-	-	-	30
Interest payable settled with shares	98	-	-	-	98
Balance - June 30, 2017	89,092	15,356	(11,448)	(66,244)	26,756
Balance - January 1, 2018	103,625	26,980	(14,336)	(70,598)	45,671
Net income (loss) for the period	-	-	-	32	32
Total other comprehensive income (loss)	-	-	(768)	-	(768)
Total comprehensive income (loss)	-	-	(768)	32	(736)
Employee share options:					
Value of services recognized	29	147	-	-	176
Proceeds on issuing shares	46	-	-	-	46
Deferred and restricted share units					
Value of units recognized	303	736	-	-	1,039
Warrants					
Proceeds on issuing shares	2,329	(648)	-	-	1,681
Balance - June 30, 2018	106,332	27,215	(15,104)	(70,566)	47,877

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

1. GENERAL INFORMATION

Excellon (the Company or Excellon) a primary silver mining and exploration company listed on the Toronto Stock Exchange trading under the symbol EXN. The Company is focused on optimizing the Platosa Mine's cost and production profile, discovering further high-grade silver and carbonate replacement deposit ("CRD") mineralization on its 20,947-hectare Platosa Property located in northeastern Durango, Mexico and epithermal silver mineralization on its 14,000 hectare Miguel Auza Property on the northern Fresnillo silver trend in Zacatecas and capitalizing on the opportunity in current market conditions to acquire undervalued projects in the Americas.

Excellon is domiciled in Canada and incorporated under the laws of the province of Ontario. The address of its registered office is 20 Victoria Street, Suite 900, Toronto, Ontario, M5C 2N8, Canada.

2. BASIS OF PRESENTATION

a. *Statement of compliance*

These unaudited condensed interim consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the Chartered Professional Accountants of Canada including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017.

The accounting policies and the application adopted are consistent with those disclosed in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2017 except for the adoption of new and amended standards set out below.

Areas of critical accounting estimates and judgments that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements are disclosed in Note 4 of the Company's consolidated financial statements as at and for the year ended December 31, 2017.

All financial information presented in United States dollars has been rounded to the nearest thousand unless otherwise stated.

These condensed interim consolidated financial statements were approved by the Board of Directors for issue on July 27, 2018.

b. *Accounting standards issued but not yet applied*

IFRS 16, Leases ("IFRS 16") was issued on January 13, 2016. The new standard brings most leases onto the balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

The Company plans to adopt this IFRS accounting standard when this standard becomes effective, if applicable.

c. *Impact of changes in accounting standards effective January 1, 2018:*
IFRS 9 – Financial Instruments

The Company has adopted IFRS 9 on a modified retrospective basis in accordance with the transitional provisions of IFRS 9. As such, comparative figures have not been restated.

Financial Assets

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instruments' contractual cash flow characteristics and the business models under which they are held. Under the IFRS 9 model for classification of financial assets, the Company has classified and measured its financial assets as described below:

- Cash and cash equivalents, forward currency sales contracts, and non-trade receivables are classified as financial assets at fair value through profit or loss and measured at fair value during their quotational period until the final settlement price is determined. Previously under IAS 39 these amounts were classified as loans and receivables.

- Trade receivables are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as loans and receivables.

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company's financial assets on the transition date.

Financial Liabilities

For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and since the Company does not have any financial liabilities designated at fair value through profit or loss, except forward currency sales contracts, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

Expected Credit Loss Impairment Model

IFRS 9 introduces a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company's financial statements.

The following accounting policy update from the financial assets and liabilities policy disclosed at year end in note 3 has been made:

Financial assets

Routine purchases and sales of financial assets are recognized on trade date, the date on which the Company commits to purchase or sell the asset. At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the classification of financial assets determined at initial recognition. Classification of financial assets depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Company classifies and provides for financial assets as follows:

- Financial assets at fair value through profit or loss include principally the Company's cash and cash equivalents, as well as foreign currency forward sales contracts. A financial asset is classified in this category if it does not meet the criteria for amortized cost of fair value through other comprehensive income, or is a derivative instrument not designated for hedging. Gains and losses arising from changes in fair value are presented in the consolidated statements of profit and comprehensive profit in the period in which they arise.

- Financial assets at fair value through other comprehensive income are financial assets that are held in a business model with an objective that is achieved by both collecting contractual cash flows and selling financial assets, and where the assets' cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains/(losses). Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- Financial assets at amortized cost are financial assets with the objective to hold assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This includes the entities trade, and non-trade receivables. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses.

At each balance sheet date, the Company assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. When sold or impaired, any accumulated fair value adjustments previously recognized are included in profit or loss.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

- Derivative financial instruments
  The Company may hold derivative financial instruments to hedge its risk exposure to fluctuations in commodity prices, including the Company's final product, consumables and other currencies compared to the USD. Derivative financial instruments are measured at fair value at each reporting period.

- *Non-hedged derivative financial instruments*
  All derivative instruments not designated in a hedge relationship that qualifies for hedge accounting are classified as financial instruments at fair value through profit or loss. Changes in fair value of non-hedged derivative financial instruments are included in net income or loss as non-hedged derivative gains or losses.

- *Financial liabilities*
  Transaction costs associated with financial instruments, carried at fair value through profit or loss, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability. The amortization of debt issue costs is calculated using the effective interest method.

IFRS 15 – Revenue from Contracts with Customers

The company has adopted IFRS 15 on a modified retrospective basis in accordance with the transitional provisions of IFRS 15.

IFRS 15 requires that revenue from contracts with customers be recognized upon the transfer of control over goods or services to the customer. The recognition of revenue upon transfer of control to the customer is consistent with the recognition of revenue under the criteria in our revenue recognition policy as set out in Note 3 of the 2017 consolidated financial statements, as the condition is generally satisfied when title transfers to the customer. The Company has concluded that there are no significant differences between the point of risks and rewards transfer for its concentrate sales under IAS 18 and the point of transfer of control under IFRS 15. As such, no adjustment has been recorded to the opening deficit balance at January 1, 2018.

The following accounting policy update from the revenue policy disclosed at year end in note 3 has been made:

Company policy requires all production to be sold under contract. Revenue is only recognized on individual shipments when all the following conditions have been satisfied:

- Contracts with customers have been identified
- Performance obligations in the contract have been identified
- Transaction price is determined
- Transaction price is allocated to the performance obligations in the contract
- Performance obligation in the contract is satisfied

Satisfaction of these conditions depends on the terms of trade with individual customers. Generally, control over goods are considered to have transferred to the customer upon delivery.

Certain products are sold on a 'provisional pricing' basis where the sale price received by the group is subject to a final adjustment at the end of a period that may be up to 90 days after delivery to the customer. The final sale price is based on the market price on the quotational date in the contract of sale. Sales are initially recognized when the revenue recognition criteria have been satisfied, using market prices at that date. At each reporting date the provisionally priced shipment is marked to market based on the forward selling price for the quotational point specified in the contract until that point is reached. Revenue is only recognized on this basis where the forward selling price can be reliably measured.

Many of the Company's sales are subject to an adjustment based on inspection of the shipment by the

customer. In such cases, revenue is recognized based on the group's best estimate of the grade at the time of shipment, and any subsequent adjustments are recorded against revenue when advised.

3. VAT RECEIVABLES

VAT (value added tax) receivables consist of the total VAT credits recoverable by each of the Company's Mexican subsidiaries. In Mexico, VAT credits can only be applied to VAT payable specific to each entity and are non-transferable. The Company's VAT payable position is reflected separately on the condensed consolidated statement of financial position.

4. INVENTORIES

	June 30, 2018 $	December 31, 2017 $
Ore	240	86
Concentrate	225	42
Production spares	1,466	1,186
	1,931	1,314

5. PROPERTY, PLANT AND EQUIPMENT

	Mining properties $	Mining equipment $	Processing equipment $	Assets under construction $	Total $
At January 1, 2017					
Cost	20,434	9,346	4,910	5,131	39,821
Accumulated amortization	(13,162)	(5,581)	(3,811)	-	(22,554)
	7,272	3,765	1,099	5,131	17,267
Year ended December 31, 2017					
Opening net book value	7,272	3,765	1,099	5,131	17,267
Additions (1) (2)	1,477	713	-	4,645	6,835
Reclassification	5,041	3,962	519	(9,522)	-
Amortization	(2,160)	(1,273)	(285)	-	(3,718)
Exchange differences	183	45	41	532	801
Closing net book value	11,813	7,212	1,374	786	21,185
At December 31, 2017					
Cost	27,778	14,269	5,605	786	48,438
Accumulated amortization	(15,965)	(7,057)	(4,231)	-	(27,253)
	11,813	7,212	1,374	786	21,185
Period ended June 30, 2018					
Opening net book value	11,813	7,212	1,374	786	21,185
Additions (3)	294	1,108	78	766	2,246
Amortization	(986)	(964)	(150)	-	(2,100)
Exchange differences	(56)	(53)	(5)	(19)	(133)
Closing net book value	11,065	7,303	1,297	1,533	21,198
At June 30, 2018					
Cost	27,600	15,172	5,645	1,533	49,950
Accumulated amortization	(16,535)	(7,869)	(4,348)	-	(28,752)
	11,065	7,303	1,297	1,533	21,198

(1) In early July 2017, the Company completed an optimization plan (the “Optimization Plan”) at the Platosa mine of which $3,527 was incurred in 2017. Accordingly, all related capital expenditures of the Optimization Plan to date were reclassified from assets under construction to their respective asset class for amortization beginning in July.

In November 2017, the Company commenced the second phase of the Optimization Plan (“Optimization Plan Phase 2”) of which $532 was incurred and recorded as assets under construction during the three months ended December 31, 2017.

(2) In late December 2017, the Company completed the construction of the first stage of the second tailings management facility at the Miguel Auza mill for $519. Accordingly, all related capital expenditures were reclassified from assets under construction to processing equipment.

(3) During the six months ended June 30, 2018, capital expenditures of $766 related to the Optimization Plan Phase 2 were incurred and recorded in assets under construction.

6. MINERAL RIGHTS

	Platosa (Mexico) $	Beschefer (Canada) $	Total $
At January 1, 2017			
Cost	3,564	1,490	5,054
Accumulated amortization	(1,935)	-	(1,935)
	1,629	1,490	3,119
Year ended December 31, 2017			
Opening net book value	1,629	1,490	3,119
Amortization	(308)	-	(308)
Exchange differences	101	104	205
Closing net book value	1,422	1,594	3,016
At December 31, 2017			
Cost	3,775	1,594	5,369
Accumulated amortization	(2,353)	-	(2,353)
	1,422	1,594	3,016
Period ended June 30, 2018			
Opening net book value	1,422	1,594	3,016
Amortization	(162)	-	(139)
Exchange differences	(42)	(75)	(117)
Closing net book value	1,218	1,519	2,760
At June 30, 2018			
Cost	3,669	1,519	5,188
Accumulated amortization	(2,451)	-	(2,428)
	1,218	1,519	2,760

7. TRADE PAYABLES

The Company's trade payables comprise of accounts payable and accruals as at June 30, 2018. Accounts payable accounted for $3,293 of the $5,395 balance (as at December 31, 2017 – $3,090 of the $5,447 balance), of which $540 related to electricity, $449 related to exploration drilling and $194 related to Optimization Plan Phase 2 (as at December 31, 2017 – $413 related to electricity, $202 related to exploration drilling and $165 related to Optimization Plan Phase 2). Accruals of $2,154 (as at December 31, 2017 – $2,357) relate to operating costs, accounting, legal, statutory payroll withholding taxes and forward foreign exchange contracts that are marked to market.

The mark to market on forward foreign exchange contracts resulted in an unrealized loss adjustment of $488 recorded in finance cost during the three months ended June 30, 2018 and a corresponding increase in accruals resulting in a net liability balance of $115 in accruals (as at December 31, 2017 – $174 liability balance in accruals).

8. LEASE OBLIGATIONS

Finance Leases	Lease end date	Interest Rate (%)	Monthly Installments ($)	As at June 30, 2018 ($)
Sandvik Customer Finance LLC	May 5, 2021	10.00%	15	475
KFMX, S.A. de C.V.	May 1, 2020	0.00%	3	74
Minero Diesel de Mexico, S.A. de C.V.	June 1, 2019	3.56%	13	143
Lease loan principal outstanding				693
Current portion - due within one year				(354)
Long term portion - due beyond one year				339

Future minimum lease payments are as follows:

	($)
2018	201
2019	293
2020	190
2021	82
	766
Less interest	(73)
Lease loan principal outstanding	693

All leases entered are fixed interest rates leases and security is provided by the piece of the equipment being leased. The lease interest rate from KFMX, S.A. de C.V. is 0% due to the amount and nature of the equipment being leased.

Total interest expense on the lease obligation for the three months ending June 30, 2018 was $5.

9. PURCHASE WARRANTS

A - Convertible Debentures and Purchase Warrants

During Q4 2015, the Company completed a $4,766 (CAD$6,600) financing through the private placement of secured convertible debentures of the Company (the "Debentures") valued at $4,040 (CAD$5,610) and the sale of a net smelter return royalty (the "NSR") on the Platosa Project valued at $726 (CAD$990), collectively the "Debenture Financing".

The Debentures had a term of four years and were convertible into common shares ("Common Shares") of the Company prior to maturity at a conversion price of CAD$0.50 per Common Share. The Debentures bore interest payable at the Company's option in (a) cash semi-annually at an annual rate of 3.75% or (b) in Common Shares at an annual rate of 5% based on the 10-day volume-weighted average price ("VWAP") of the Common Shares prior to the payment date.

On November 27, 2017, the Company exercised its right to accelerate the conversion of all outstanding Debentures pursuant to the acceleration provisions therein. Accordingly, on December 28, 2017, the Company issued 9,695,000 Common Shares upon conversion of the outstanding CAD$4,848 principal amount of Debentures. During the year ended December 31, 2017, the Company issued a total of 10,605,000 Common Shares for conversion of CAD$5,303 principal amount of Debentures and paid interest of $197 (CAD $256) on the Debentures through the issuance of 164,896 Common Shares.

The Company also issued a total of 2,002,772 Common Share purchase warrants ("$0.50 Warrants") to the purchasers of the Debentures in connection with the financing. Each $0.50 Warrant is exercisable at a price of CAD$0.50 for a period of four years from the date of issuance until November 27, 2019.

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Debentures were considered to contain an embedded derivative relating to the conversion option. The conversion option was valued upon initial recognition at fair value using an option pricing model and was separated from the debt component of the Debentures. The debt component of the Debentures was measured upon initial recognition, based on the present value of the cash flows associated with the Debentures. Subsequent to initial recognition, the embedded derivative component was re-measured at fair value at each reporting date while the debt component was accreted to the face value of the Debentures using the effective interest rate through periodic charges to finance expense over the term of the Debentures. Accretion for the three months ended June 30, 2017 was $70 and recorded in finance cost. Accretion for the six months ended June 30, 2017 was $141.

As the Debentures were settled in December 2017, there are no fair value adjustments related to the Debentures in the three and six months ended June 30, 2018. Prior to conversion of the Debentures in December 2017, a fair value adjustment gain for the embedded derivative relating to the conversion option for the three months ended June 30, 2017 was $1,480 and was recorded in finance cost. Fair value adjustment gain for the derivative for the six months ended June 30, 2017 was $2,501.

Also in accordance with IAS 39, Financial Instruments: Recognition and Measurement, the $0.50 Warrants were detached from the convertible Debentures host contract and recognized as a separate financial liability. The $0.50 Warrants were fair valued using the Black-Scholes Model upon initial recognition based on the $0.50 Warrants terms. The fair value adjustment gain of the $0.50 Warrants for the three months ended June 30, 2018 was $122 which was recorded in finance cost (three months ended June 30, 2017 – fair value adjustment gain of $253). The fair value adjustment of the $0.50 Warrants for the six months ended June 30, 2018 was $646 (six months ended June 30, 2017 – fair value adjustment gain of $314).

During the three months ended June 30, 2018, nil $0.50 Warrants were exercised (three months ended June 30, 2017

– nil). During the six months ended June 30, 2018, nil $0.50 Warrants were exercised (six months ended June 30, 2017 – nil). As at June 30, 2018, 1,851,046 $0.50 Warrants were outstanding.

The fair value of the $0.50 Warrants is summarized as follows:

	January 1, 2018	Exercises	Fair value adjustments	Exchange adjustments	June 30, 2018
	$	$	$	$	$
Convertible Debentures breakdown					
$0.50 Purchase Warrants	2,023	-	(646)	(86)	1,291
Total	**2,023**	**-**	**(646)**	**(86)**	**1,291**

The above remaining components have been classified as non-current liabilities on the condensed interim consolidated statement of financial position.

B - Net Smelter Return Royalty ("NSR")
The NSR applies to the Platosa Project and bears a rate of either (a) 1.25% in respect of manto or mineralization other than skarn mineralization or (b) 0.50% in respect of skarn or "Source" mineralization. Payments are made in cash semi-annually. The NSR proceeds of $726 were amortized into income in 2015.

NSR royalty expensed for the three months ended June 30, 2018 was $107 (three months ended June 30, 2017 – $44) and was recorded in cost of sales. NSR royalty expensed for the six months ended June 30, 2018 was $180 (six months ended June 30, 2017 – $86).

10. PROVISIONS

	Post-retirement benefits (1)	Rehabilitation provision (2)	Total
	$	$	$
Year ended December 31, 2017			
Opening balance	426	1,029	1,455
Change in estimate	78	365	443
Accretion for the year	-	50	50
Exchange differences	17	47	64
Closing Balance	521	1,491	2,012
Period ended June 30, 2018			
Opening balance	521	1,491	2,012
Rehabilitaton work performed	-	(30)	(30)
Change in estimate	47	-	47
Accretion for the period	-	67	67
Exchange differences	(6)	(12)	(18)
Closing Balance	562	1,516	2,078

(1) Post-retirement benefits: The Company provides post-retirement benefits supplements as well as leaving indemnities to employees at the Mexican operations. Under Mexican Labour Law, the Company provides

statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months wages plus 20 days wages for each year of service payable upon involuntary termination without just cause. Key financial assumptions used in the above estimate include an annual discount rate of 7.4% (December 31, 2017 – 7.4%) based on the yield curve from short and long term Mexican government bonds, annual salary and minimum wage increase rate of 3.75% (December 31, 2017 – 3.75%) and the life of mine of approximately five years.

(2) Rehabilitation provision: Key financial assumptions used in the above estimate include an annual discount rate of 8.7% (December 31, 2017 – 8.7%) based on the current risk-free borrowing rate, Mexican inflation rate and the life of mine of five years. The total undiscounted amount of estimated cash flows required to settle the Company's obligations is $2,435 of which $1,173 relates to the Platosa mine, and $1,262 relates to the Miguel Auza mill property. The present value of the total discounted obligation is $1,638 of which $789 relates to the Platosa mine and $849 relates to the Miguel Auza mill property.

11. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of common shares.

	Number of shares (000's)	$
Year ended December 31, 2017		
Opening balance	75,979	88,807
Shares issued on exercise of stock options	178	187
Shares issued on exercise of warrants	56	78
Shares issued on conversion of Debentures	10,605	4,158
Shares issued from bought deal (1)	7,394	9,878
Shares issued on exercise of RSUs and DSUs	496	320
Shares issued to settle interest payable on Debentures	165	197
Balance at December 31, 2017	94,873	103,625
Period ended June 30, 2018		
Opening balance	94,873	103,625
Shares issued on exercise of stock options	58	76
Shares issued on exercise of warrants (2)	3,333	2,329
Shares issued on exercise of RSUs and DSUs	319	302
Balance at June 30, 2018	98,583	106,332

(1) On November 9, 2017, the Company completed a public equity financing (the "2017 Bought Deal") of 7,393,750 units ("2017 Public Units") at a price of CAD$2.00 per Public Unit for gross proceeds of CAD$14,788 (the "2017 Offering"). Each 2017 Public Unit comprised one Common Share and one half-warrant ("$2.80 Warrant") with each whole warrant entitling the holder to acquire a Common Share at a price of CAD$2.80 for a period ending December 31, 2018.

A broker's fee of CAD$887 was paid in respect of the 2017 Bought Deal.

The net proceeds after transaction costs of CAD$13,547 were allocated proportionally between the fair values of the Common Shares and the $2.80 Warrants issued in the 2017 Bought Deal.

(2) On April 2, 2018, 3,333,333 CAD$0.65 Warrants were exercised for proceeds of CAD$2,167.

STOCK OPTION PLAN (EQUITY-SETTLED)

The Company has a stock option plan that entitles directors, officers, employees and consultants to purchase Common Shares. Under the program, the Company may grant options to purchase Common Shares ("Options") for up to 10% of the Common Shares issued and outstanding. The exercise price of each Option may not be less than the market price of the Common Shares on the date of grant and each Option has a maximum term of five years. Options may be granted by the board of directors at any time with varying vesting conditions.

Disclosure of stock option program

The number and weighted average exercise prices of Options are as follows:

	Weighted Average Exercise Price (CAD)	Options Outstanding
Outstanding at January 1, 2017	$ 1.03	1,501,665
Granted	$ 1.73	420,000
Exercised	$ 0.86	(178,333)
Expired	$ 2.10	(100,000)
Forfeited	$ 1.75	(150,000)
Outstanding at December 31, 2017	$ 1.16	1,493,332
Exercisable at December 31, 2017	$ 1.03	1,199,998
Outstanding at January 1, 2018	$ 1.16	1,493,332
Granted	$ 1.61	290,000
Exercised	$ 1.02	(58,333)
Outstanding at June 30, 2018	$ 1.24	1,724,999
Exercisable at June 30, 2018	$ 1.12	1,328,329

Options outstanding and exercisable are as follows:

CAD	Stock Options Outstanding	Weighted Average Remaining Contractual Life (years)	Stock Options Exercisable	Weighted Average Exercise Price (CAD)
$0.00 to $0.49	120,000	2.51	120,000	$ 0.31
$0.50 to $0.99	329,999	1.77	329,999	$ 0.57
$1.14 to $1.49	445,000	0.52	445,000	$ 1.18
$1.50 to $1.99	830,000	3.98	433,330	$ 1.70
	1,724,999	2.56	1,328,329	$ 1.12

Inputs for measurement of grant date fair values

The grant date fair values of the Options were measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the Options were the following:

	Six months ended	
	June 30, 2018	June 30, 2017
Fair value at grant date	$1.02	$1.12
Share price at grant date	$1.61	$1.75
Exercise price	$1.61	$1.75
Risk free interest rate	1.94%	1.02%
Expected life of options in years	5.00	5.00
Expected volatility	78.03%	80.45%
Expected dividend yield	0.00%	0.00%
Estimated forfeiture rate	2.25%	2.29%

Share-based compensation expense

Compensation expense is recognized over the vesting period of the grant with the corresponding equity impact recorded in contributed surplus. Share-based compensation expense comprises the following costs:

	Three months ended		Six months ended	
	June 30, 2017 $ (CAD)	June 30, 2016 $ (CAD)	June 30, 2017 $ (CAD)	June 30, 2016 $ (CAD)
Share options granted in 2015	-	3	-	13
Share options granted in 2016	6	17	11	34
Share options granted in 2017	25	39	69	174
Share options granted in 2018	44	-	146	-
	75	59	226	221

DEFERRED SHARE UNITS ("DSU")

The Company has implemented a DSU plan, primarily in respect of director compensation, whereby DSUs granted may be paid in cash or in awards of Common Shares either from treasury or from market purchases based on the five-day VWAP of the Common Shares on settlement dates elected by the holder between the retirement date and December 15th of the calendar year subsequent to the year of the holder's retirement. All grants under the plan are fully vested upon credit to an eligible holder's account. The value of the cash payout is determined by multiplying the number of DSUs vested at the payout date by the VWAP of the Common Shares. The expense is recorded in the condensed interim consolidated statement of loss and comprehensive income in share based payments and credited to equity under contributed surplus as the payment in cash or Common Shares is at the option of the Company.

Disclosure of DSU program

DSUs outstanding are as follows:

	DSUs Outstanding
Outstanding at January 1, 2017	1,970,636
Granted	497,809
Settled	(400,573)
Outstanding at December 31, 2017	2,067,872
Granted	313,885
Settled	(218,671)
Outstanding at June 30, 2018	2,163,086

During the three months ended June 30, 2018, the Company granted nil DSUs (three months ended June 30, 2017 – 36,062 DSUs with market value of CAD$51 at date of grant) to non-executive directors as compensation in lieu of cash for director fees and other compensation.

During the six months ended June 30, 2018, the Company granted 313,885 DSUs (six months ended June 30, 2017 – 344,773 DSUs) with market value of CAD$503 (six months ended June 30, 2017 – CAD$587) at the date of grant to non-executive directors as compensation in lieu of cash for director fees and other compensation.

During the three months ended June 30, 2018, there were 218,671 DSUs settled for Common Shares (three months ended June 30, 2017 – nil). During the six months ended June 30, 2018, there were 218,671 DSUs settled for Common Shares (six months ended June 30, 2017 – 70,000 DSUs).

Total share based compensation expensed in the three months ended June 30, 2018 related to vested DSUs was CAD$nil (three months ended June 30, 2017 – CAD$51). Total share based compensation expensed in the six months ended June 30, 2018 related to vested DSUs was CAD$503 (six months ended June 30, 2017 – CAD$587).

As at June 30, 2018, 2,163,086 DSUs were outstanding.

RESTRICTED SHARE UNITS ("RSU")

The Company has implemented an RSU plan whereby officers, employees and consultants may be entitled to either a cash payment or an award of Common Shares from treasury or from market purchases at the end of a term or performance period of up to three years following the date of the grant of applicable RSUs. The value of the payout is determined by multiplying the number of RSUs vested at the payout date by the five day VWAP of the Common Shares prior to a payout date with settlement in either cash or Common Shares. The expense is recorded in the condensed interim consolidated statement of loss and comprehensive income in share based payments and credited to equity under contributed surplus as the payment in cash or Common Shares is at the option of the Company.

Disclosure of RSU program

RSUs outstanding are as follows:

	RSUs Outstanding
Outstanding at December 31, 2016	1,245,000
Granted	939,878
Settled	(100,000)
Forfeited	(69,646)
Outstanding at December 31, 2017	2,015,232
Granted	870,479
Settled	(100,000)
Forfeited	(75,000)
Outstanding at June 30, 2018	2,710,711

During the three months ended June 30, 2018, the Company granted 42,500 RSUs subject to performance vesting conditions (three months ended June 30, 2017 – nil RSUs subject to performance vesting conditions) with a market value of CAD$64 at the date of grant to officers, employees and consultants.

During the six months ended June 30, 2018, the Company granted 704,000 RSUs subject to performance vesting conditions (six months ended June 30, 2017 – 565,750 RSUs subject to performance vesting conditions) with a market value of CAD$1,136 (six months ended June 30, 2017 – CAD$983) at the date of grant to officers, employees and consultants.

During the three months ended June 30, 2018, the Company granted 34,392 RSUs subject to time vesting conditions (three months ended June 30, 2017 – nil RSUs subject to time vesting conditions) with a market value of CAD$51 at the date of grant to officers, employees and consultants.

During the six months ended June 30, 2018, the Company granted 166,479 RSUs subject to time vesting conditions (six months ended June 30, 2017 – 129,250 RSUs subject to time vesting conditions) with a market value of CAD$278 (six months ended June 30, 2017 – CAD$222) at the date of grant to officers, employees and consultants.

During the three months ended June 30, 2018, there were no RSU settlements (three months ended June 30, 2017 – nil).

During the six months ended June 30, 2018, the Company settled 100,000 RSUs subject to time vesting conditions with Common Shares (six months ended June 30, 2017 – settled 10,500 RSUs subject to time vesting conditions with Common Shares and settled 4,500 RSUs subject to time vesting conditions with cash for CAD$8).

In June 2018, the Company increased the probability estimate of successfully achieving certain performance vesting conditions related to previously granted and outstanding RSUs. As a result, the Company recognized an additional CAD$476 in share based compensation expense due to the increased probability of these RSUs vesting.

Total share based compensation expensed in the three months ended June 30, 2018 related to RSUs was CAD$699 (three months ended June 30, 2017 – CAD$77).

Total share based compensation expensed in the six months ended June 30, 2018 related to RSUs was CAD$845 (six months ended June 30, 2017 – CAD$141).

As at June 30, 2018, 2,710,711 RSUs were outstanding.

WARRANTS

<u>*Disclosure of Common Share Purchases Warrants outstanding*</u>

Common share purchase warrants (aggregating $0.50 Warrants, $0.65 Warrants and $1.75 Warrants) outstanding are as follows:

	Weighted Average Exercise Price (CAD)	Warrants Outstanding
Outstanding at January 1, 2017	$ 1.24	11,809,379
Issued (1)	$ 2.80	3,696,875
Exercised (2)	$ 1.75	(56,305)
Outstanding at December 31, 2017	$ 1.61	15,449,949
Exercised (3)	$ 0.65	(3,333,333)
Outstanding at June 30, 2018	$ 1.88	12,116,616

(1) During the year ended December 31, 2017, the Company completed the 2017 Bought Deal and issued 3,696,875 $2.80 Warrants.
(2) During the year ended December 31, 2017, 56,305 $1.75 Warrants were exercised for CAD$99.
(3) On April 2, 2018, 3,333,333 CAD$0.65 Warrants were exercised for proceeds of CAD$2,167.

During the three months ended June 30, 2018, the Company recognized a fair value adjustment gain of $122 on the $0.50 Warrants related to the Debentures, which was recorded in finance cost (three months ended June 30, 2017 – fair value adjustment gain of $253).

During the six months ended June 30, 2018, the Company recognized a fair value adjustment gain of $646 on the $0.50 Warrants (six months ended June 30, 2017 – fair value adjustment gain of $314).

As at June 30, 2018, the following common share purchase warrants were outstanding:

Exercise Price (CAD)	Warrants Outstanding	Weighted Average Remaining Contractual Life (years)	Expiry Date
$ 0.50	1,851,046	1.41	November 27, 2019
$ 1.75	6,568,695	0.07	July 26, 2018
$ 2.80	3,696,875	0.50	December 31, 2018
	12,116,616	0.41	

12. COMMITMENTS

The following table summarizes the Company's significant commitments as of June 30, 2018:

	2018	2019	2020	2021	2022	Total
	$	$	$	$	$	$
Accounts payable and accrued liabilities	5,231	-	-	-	-	5,231
Lease obligations	170	524	-	-	-	693
Capital Expenditures	164	-	-	-	-	164
Mine restoration provision	-	-	-	-	1,546	1,546
Employee future benefits	-	-	-	-	1,099	1,099
Concession holding fees	251	501	509	509	521	2,292
Office leases	100	50	-	-	-	150
	5,915	1,075	509	509	3,166	11,175

Not included above is the NSR as such payments vary period to period based on production results and commodity prices.

13. REVENUES

Under the terms of the Company's concentrate sales contracts, lead–silver and zinc-silver concentrates are sold on a provisional pricing basis whereby sales are recognized at prevailing metal prices when the revenue recognition criteria have been met, namely when title, and risks and rewards of ownership have transferred to the customer. Revenue is recorded net of treatment and refining charges. Final pricing of each delivery is not determined until one or two months post-delivery. The price recorded at the time of sale may differ from the actual final price received from the customer due to changes in market prices for metals. The price volatility is considered an embedded derivative in accounts receivable. The embedded derivative is recorded at fair value by mark-to-market adjustments at each reporting period until settlement occurs, with the changes in fair value recorded to revenues. An amount of $1,209 is included in the trade receivables as at June 30, 2018 (as at June 30, 2017 – $1,026).

During the three months ended June 30, 2018, the Company recognized positive adjustment to revenues of $392 primarily related to the reversal of the mark-to-market taken at the end of March 31, 2018 as receivables were ultimately settled at higher values in the quarter (three months ended June 30, 2017 – positive adjustment of $225).

During the six months ended June 30, 2018, the Company recognized positive adjustment to revenues of $3 primarily related to the reversal of the mark-to-market taken at the end of 2017 as receivables were ultimately settled at higher values in 2018 (six months ended June 30, 2017 – negative adjustment of $17).

As at June 30, 2018, provisionally priced sales totalled $7,674 which are expected to settle at final prices during the third quarter of 2018. A 10% increase or decrease in the prices of silver, lead and zinc will result in a corresponding increase or decrease in revenues of $767 during the third quarter of 2018.

14. EXPENSE BY NATURE

(a) Cost of sales consist of the following:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	$	$	$	$
Direct mining and milling costs (1)	5,144	4,079	9,491	7,700
Changes in inventories (2)	29	(82)	(359)	322
Depletion, depreciation and amortization	854	582	2,136	1,128
Cost of sales	6,027	4,579	11,268	9,150

(1) Direct mining and milling costs include personnel, general and administrative, fuel and electricity, maintenance and repair costs as well as operating supplies, external services, third party smelting, refining and transport fees.

(2) Changes in inventories reflect the net cost of ore and concentrate (i) sold during the current period but produced in a previous period (an addition to direct mining and milling costs) or (ii) produced but not sold in the current period (a deduction from direct mining and milling costs).

(b) General and administrative expenses consist of the following:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	$	$	$	$
Office and overhead costs	554	399	1,005	831
Salaries and wages	285	268	582	561
Share based compensation	593	140	1,215	709
Depletion and amortization	50	35	103	76
General and administrative expenses	1,482	842	2,905	2,177

Refer to Note 11 above for further discussion of the increase in share based compensation associated with the increased probability of certain performance metrics associated with outstanding RSUs being achieved.

(c) Other expense (income) consists of the following:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	$	$	$	$
Unrealized loss on marketable securities	-	1,520	-	-
Realized gain on marketable securities sold	-	(1,753)	-	(1,753)
Foreign exchange loss (gain)	294	(397)	212	(590)
Provisions	203	-	203	-
Other expense (income)	497	(630)	415	(2,343)

15. FINANCE COST (INCOME)

Finance cost (income) comprises the following:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	$	$	$	$
Interest expense	10	80	23	141
Rehabilitation provision - accretion	33	12	67	24
Convertible debentures - accretion	-	70	-	141
Gain on change in fair value of purchase warrants	(122)	(253)	(646)	(314)
Gain on change in fair value of embedded derivative liability	-	(1,480)	-	(2,501)
Unrealized loss (gain) on currency hedges	488	(58)	(59)	(383)
Finance cost (income)	409	(1,629)	(615)	(2,892)

16. INCOME TAX

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

17. RELATED PARTIES

The corporate secretary of the Company is a partner in a firm that provides legal services to the Company. During the three months ended June 30, 2018, the Company incurred legal services of $4 (three months ended June 30, 2017 – $17). During the six months ended June 30, 2018, the Company incurred legal services of $13 (six months ended June 30, 2017 – $27). As at June 30, 2018, the Company had an outstanding payable balance of $4 (June 30, 2017 – $24).

18. FINANCIAL INSTRUMENTS

Fair Values of non-derivative financial instruments

All financial assets and financial liabilities, other than derivatives, are initially recognized at the fair value of consideration paid or received, net of transaction costs as appropriate, and are subsequently carried at fair value or amortized cost. The carrying values of cash and cash equivalents, trade receivables and other liabilities approximate their fair value. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

Embedded derivatives

Revenues from the sale of metals produced since the commencement of commercial production are based on provisional prices at the time of shipment. Variations between the price recorded at the time of sale and the actual final price received from the customer are caused by changes in market prices for metals sold and result in an embedded derivative in accounts receivable. The embedded derivative is recorded at fair value each reporting period until settlement occurs, with the changes in fair value recorded to revenues.

For the three months ended June 30, 2018 the Company recorded $7,674 (three months ended June 30, 2017 – $2,887) in revenues from provisionally priced sales on the condensed interim consolidated statement of income (loss)

and comprehensive income (loss), which are subject to adjustment pending final settlement in the third quarter of 2018. As at June 30, 2018, the Company has recorded embedded derivatives in the amount of $1,209 in trade receivables (as at June 30, 2017 – $1,026).

Fair Value Hierarchy

The Company values financial instruments carried at fair value using quoted market prices, where available. The three levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data

The financial liabilities are presented by class in the following table at their carrying values, which generally approximate to the fair values due to their short period to maturity:

	Fair value hierarchy	June 30, 2018 $	Dec 31, 2017 $
Financial assets			
Fair value through profit and loss			
Trade receivables	Level 2	1,463	2,375
		1,463	2,375
Financial liabilities			
Fair value through profit and loss			
Forward foreign exchange contracts (1)	Level 2	203	(383)
Purchase Warrants	Level 3	1,291	2,023
		1,848	1,640

(1) Forward foreign exchange contracts are recorded in Trade Payables.

There were no transfers between levels 1, 2 or 3 during the three months ended June 30, 2018.

Risk management policies and hedging activities

The Company is sensitive to changes in commodity prices, foreign exchange and interest rates. The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company addresses its price-related exposures through the use of options, futures, forwards and derivative contracts described below under currency risk.

Economic dependence

The Company has offtake agreements with two customers, Trafigura Mexico, S.A. de C.V. ("Trafigura"), a subsidiary within the Trafigura group of companies and MK Metal Trading Mexico, S.A. de C.V. ("MK Metals"), a subsidiary within the Ocean Partners group of companies. The Company believes that because of the availability of alternative processing and commercialization options for its concentrate, it would suffer no material adverse effect if it lost the services of Trafigura or MK Metals.

Credit risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Management believes the credit risk on cash and cash equivalents is very low since the Company's cash and cash equivalents balance are held at large international financial institutions with strong credit ratings.

The Company is exposed to credit risk from its customers, Trafigura and MK Metals. Accounts receivable are subject to normal industry credit risks and are considered low.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions. Accounts payable excluding accrued liabilities are due within 90 days or less.

Currency risk

The Mexican peso (MXN) and the Canadian dollar (CAD) are the functional currencies of the Company and as a result, currency exposures arise from transactions and balance in currencies other than the functional currencies. The Company's potential currency exposures comprise:

- translational exposure in respect of non-functional currency monetary items
- transactional exposure in respect of non-functional currency expenditure and revenues;
- commodity price risk; and
- interest rate risk.

A significant portion of the Company's capital expenditures, operating costs, exploration, and administrative expenditures are incurred in Mexican pesos ("MXN"), while revenues from the sale of concentrates are denominated in US dollars ("USD"). The fluctuation of the USD in relation to the MXN, consequently, impacts the reported financial performance of the Company. To manage the Company's exposure to changes in the USD/MXN exchange rate, the Company entered into forward contracts to purchase MXN in exchange for USD at various rates and maturity dates.

As at June 30, 2018, forward contracts for the purchase of MXN 187,000, in exchange for USD$9,500 at an average rate of 19.68 MXN/USD, at various maturity dates until May 2019, were outstanding. The fair value of these outstanding foreign currency forward contracts resulted in an unrealized loss position of $116 as at June 30, 2018. Accordingly, for the three months ended June 30, 2018, the Company recorded an unrealized loss of $488 (three months ended June 30, 2017 - $58 unrealized gain) in finance income. For the six months ended June 30, 2018, the Company recorded an unrealized gain of $59 (six months ended June 30, 2017 - $383 unrealized loss).

For the three months ended June 30, 2018, the Company realized foreign exchange losses of $22 within profit or loss from contracts maturing during 2018. For the six months ended June 30, 2018, the Company realized exchange gains of $3. These realized gains were recorded in cost of sales to reflect the realized operating cost of production.

Translational exposure in respect of non-functional currency monetary items

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation are periodically revalued to the functional currency equivalents as at that date, and the associated unrealized gain or loss is taken to the income statement to reflect this risk.

The principal non-functional currency to which the Company is exposed is the United States dollar (USD). Based on the Company's net financial assets and liabilities in USD as at June 30, 2018, a weakening of the USD against the MXN and CAD functional currencies by 1% with all other variables held constant, would increase/(decrease) net income and equity by approximately $84.

Transactional exposure in respect of non-functional currency expenditure and revenues

Certain operating and capital expenditures are incurred by some operations in currencies other than their functional currency. To a lesser extent, certain sales revenue is earned in currencies other than the functional currency of operations, and certain exchange control restrictions may require that funds be maintained in currencies other than the functional currency of the operation.

At June 30, 2018, the Company has entered into forward exchange contracts to manage short-term foreign currency cash flows relating to operating activities.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices of silver, lead and zinc.

The Company is particularly exposed to the risk of movements in the price of silver. Declining market prices for silver could have a material effect on the Company's profitability, and the Company does not hedge its exposure to silver. The London Silver Spot price average, in USD per ounce, was $17 in the six months ended June 30, 2018 (six months ended June 30, 2017 – $17). The Company estimates that a 10% increase/decrease in commodity prices in 2018 with all other variables held constant would have resulted in an increase/decrease in net income of approximately $1,624.

Interest rate risk

Cash and cash equivalents earn interest at floating rates dependent upon market conditions.

19. CAPITAL MANAGEMENT

The Company's objectives of capital management are intended to safeguard the entity's ability to continue as a going concern and to continue the exploration and extraction of ore from its mining properties.

The capital of the Company consists of the items included in shareholders' equity. Risk and capital management are monitored by the board of directors. The Company manages the capital structure and makes adjustments depending on economic conditions. Funds have been primarily secured through issuances of equity capital. The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term deposits, all held with major financial institutions. Significant risks are monitored and actions are taken, when necessary, according to the Company's approved policies.

20. SEGMENT REPORTING

	MEXICO		CANADA		TOTAL	
	June 30, 2018 $	Dec 31, 2017 $	June 30, 2018 $	Dec 31, 2017 $	June 30, 2018 $	Dec 31, 2017 $
Property, plant and equipment	21,198	21,185	-	-	21,198	21,185
Capital expenditures	(1,427)	(6,835)	-	-	(1,427)	(6,835)
Mineral rights	1,241	1,422	1,519	1,594	2,760	3,016
Total assets	43,767	44,591	15,051	12,717	58,818	57,308

	Three months ended		Six months ended	
	June 30, 2018 $	June 30, 2017 $	June 30, 2018 $	June 30, 2017 $
MEXICO				
Revenue	9,877	3,570	15,788	6,983
Cost of sales	(6,027)	(4,579)	(11,268)	(9,150)
Exploration	(1,170)	(618)	(1,878)	(1,182)
Other income (expenses)	(454)	411	(464)	603
Finance income (cost)	(38)	(29)	(81)	(63)
Income tax recovery (expense)	845	(292)	(22)	(1,046)
Net income (loss)	3,033	(1,537)	2,075	(3,855)
CANADA				
Corporate administrative expenses	(1,482)	(842)	(2,905)	(2,177)
Other income (expenses)	(43)	219	49	1,740
Finance income (cost)	(371)	1,658	696	2,955
Net income (loss)	(1,779)	1,035	(2,043)	2,518
Net Income (loss)	**1,254**	**(502)**	**32**	**(1,337)**