EXCELLON

Excellon Resources Inc.

Condensed Interim Consolidated Financial Statements

September 30, 2017
in thousands of U.S. dollars
(unaudited)

Excellon Resources Inc.

Condensed Interim Consolidated Statements of Financial Position

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

	Notes	September 30, 2017 $	December 31, 2016 $
Assets			
Current assets			
Cash and cash equivalents		2,176	5,409
Marketable securities	*3*	-	1,521
Trade receivables		1,564	738
VAT receivables	*4*	3,009	2,614
Income taxes receivable	*16*	1,133	1,120
Inventories	*5*	2,346	2,151
Other current assets		1,087	1,071
		11,315	14,624
Non-current assets			
Property, plant and equipment	*6*	22,604	17,267
Mineral rights	*7*	3,161	3,119
Deferred income tax assets	*16*	10,183	9,789
Total assets		47,263	44,799
Liabilities			
Current liabilities			
Trade payables	*8*	5,125	4,514
VAT payables	*4*	1,319	1,556
		6,444	6,070
Non-current liabilities			
Convertible Debt	*9*	3,372	2,958
Embedded Derivative Liability	*9*	12,725	10,068
Purchase Warrants	*9*	2,327	1,673
Provisions	*10*	1,829	1,455
Total liabilities		26,697	22,224
Equity			
Share capital	*11*	89,232	88,807
Contributed surplus		15,495	14,719
Accumulated other comprehensive loss		(12,010)	(16,044)
Deficit		(72,151)	(64,907)
Total equity		20,566	22,575
Total liabilities and equity		47,263	44,799

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 Loss and Comprehensive loss

For the three and nine months ended September 30, 2017 and 2016

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

		Three months ended		Nine months ended	
		Sept 30, 2017	**Sept 30, 2016**	**Sept 30, 2017**	**Sept 30, 2016**
	Notes	**$**	**$**	**$**	**$**
Revenues	*13*	7,102	4,009	14,085	13,640
Production Costs		(4,160)	(3,577)	(12,182)	(10,287)
Depletion and amortization		(1,426)	(525)	(2,554)	(1,739)
Cost of Sales	*14a*	(5,586)	(4,102)	(14,736)	(12,026)
Gross profit (loss)		1,516	(93)	(651)	1,614
Administrative expenses		(671)	(605)	(2,063)	(1,637)
Share based payments	*11*	(157)	(302)	(866)	(500)
Depletion and amortization		(64)	(37)	(140)	(126)
General and administrative expenses	*14b*	(892)	(944)	(3,069)	(2,263)
Exploration		(382)	(228)	(1,564)	(536)
Other income (expense)	*14c*	(88)	440	2,255	141
Reversal of Impairment on asset sold		-	-	-	156
Finance cost	*15*	(5,974)	(6,100)	(3,082)	(13,655)
Loss before income tax		(5,820)	(6,925)	(6,111)	(14,543)
Income tax recovery (expense)	*16*	(87)	(87)	(1,133)	527
Net loss		(5,907)	(7,012)	(7,244)	(14,016)
Other comprehensive income					
Foreign currency translation differences		(562)	(758)	4,034	(2,505)
Total other comprehensive income (loss)		(562)	(758)	4,034	(2,505)
Total comprehensive loss		(6,469)	(7,770)	(3,210)	(16,521)
Loss per share					
Basic		$ (0.08)	$ (0.10)	$ (0.10)	$ (0.20)
Diluted		$ (0.08)	$ (0.09)	$ (0.10)	$ (0.18)
Weighted average number of shares					
Basic		76,404,244	71,070,336	76,233,596	71,070,336
Diluted		82,562,262	77,283,913	82,036,892	77,283,913

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 months and nine months ended September 30, 2017 and 2016

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

	Three months ended		Nine months ended	
	Sept 30, 2017	Sept 30, 2016	Sept 30, 2017	Sept 30, 2016
	$	$	$	$
Cash flow provided by (used in)				
Operating activities				
Net loss for the period	(5,907)	(7,012)	(7,244)	(14,016)
Adjustments for:				
Depletion and amortization	1,490	562	2,694	1,865
Deferred income tax	-	57	891	(608)
Share-based compensation	157	(16)	866	182
Post-employment benefits	31	24	133	72
Rehabilitation provision - accretion	14	8	38	25
Writedown of property, plant and equipment	-	-	-	185
Impairment (reversal) of assets held for sale	-	-	-	(156)
Convertible debentures - accretion	122	73	361	227
Unrealized loss (gain) on warrants liability	877	928	563	1,999
Unrealized loss (gain) on embedded derivative liability	4,680	5,049	2,179	11,254
Unrealized loss (gain) on marketable securities	-	(560)	-	(1,173)
Realized gain on marketable securities	-	-	(1,751)	-
Operating cash flows before changes in working capital	1,464	(887)	(1,270)	(144)
Changes in items of working capital:				
Trade receivables	129	656	(826)	(1,042)
VAT receivable	551	(66)	(395)	(140)
Income taxes receivable	64	51	(13)	323
Inventories	(128)	43	(195)	(242)
Other current assets	(174)	(159)	(16)	(291)
Trade payables	(486)	80	611	178
VAT payable	(153)	(203)	(237)	105
Net cash from (used in) operating activities	1,267	(485)	(2,341)	(1,253)
Investing activities				
Proceeds from sale of marketable securities	-	-	3,272	-
Purchase of property, plant and equipment	(945)	(2,887)	(5,269)	(5,237)
Net cash used in investing activities	(945)	(2,887)	(1,997)	(5,237)
Financing activities				
Proceeds on issuance of shares from private placement	-	-	-	2,294
Proceeds on issuance of shares from bought deal	-	10,692	-	10,692
Proceeds from options exercised	28	-	113	40
Proceeds from warrants exercised	-	-	-	6
Net cash provided by financing activities	28	10,692	113	13,032
Effect of exchange rate changes on cash and cash equivalents	357	(15)	992	290
Increase (decrease) in cash and cash equivalents	707	7,305	(3,233)	6,832
Cash and cash equivalents - Beginning of the period	1,469	3,033	5,409	3,506
Cash and cash equivalents - End of the period	2,176	10,338	2,176	10,338
Interest	18	42	57	150
Cash paid for income tax	41	38	112	91

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 nine months ended September 30, 2017 and 2016

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

	Share capital $	Contributed surplus $	Accumulated other comprehensive loss $	Deficit $	Total equity $
Balance - January 1, 2016	77,362	12,159	(12,284)	(50,836)	26,401
Net loss for the period	-	-	-	(14,016)	(14,016)
Total other comprehensive income (loss)	-	-	(2,505)	-	(2,505)
Total comprehensive income (loss)	-	-	(2,505)	(14,016)	(16,521)
Employee share options:					
Value of services recognized	24	25	-	-	49
Proceeds on issuing shares	40	-	-	-	40
Deferred and Restricted share units					
Value of units recognized	-	132	-	-	132
Warrants					
Value of warrants issued in Private Placement	-	454	-	-	454
Value of warrants issued in Bought Deal		1,669	-	-	1,669
Proceeds on issuing shares	6	-	-	-	6
Value of share issued in Private Placement	1,840	-	-	-	1,840
Value of share issued in Bought Deal	9,023				9,023
Conversion of Convertible Debentures	33	-	-	-	33
Balance - September 30, 2016	88,328	14,439	(14,789)	(64,852)	23,126
Balance - January 1, 2017	88,807	14,719	(16,044)	(64,907)	22,575
Net loss for the period	-	-	-	(7,244)	(7,244)
Total other comprehensive income (loss)	-	-	4,034	-	4,034
Total comprehensive income (loss)	-	-	4,034	(7,244)	(3,210)
Employee share options:					
Value of services recognized	66	144	-	-	210
Proceeds on issuing shares	113	-	-	-	113
Deferred and Restricted share units					
Value of units recognized	24	632	-	-	656
Convertible Debentures					
Conversion of Debentures into shares	124	-	-	-	124
Interest payable settled with shares	98	-	-	-	98
Balance - September 30, 2017	89,232	15,495	(12,010)	(72,151)	20,566

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

1. GENERAL INFORMATION

Excellon Resources Inc. and its subsidiaries (together the Company or Excellon) are involved in the exploration, development and extraction of high-grade silver-lead-zinc metals in Mexico.

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, 2016.

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, 2016. The Company also adopted the following accounting policy for property plant and equipment as it relates to assets under construction.

Assets under construction are capitalized as construction in-progress until the asset is available for use. The cost of construction-in-progress comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Construction-in-progress amounts related to development projects are included in the carrying amount of the development project. Construction-in-progress is not depreciated. Depreciation commences once the asset is complete and available for use.

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, 2016.

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 November 1, 2017.

b. Accounting standards issued but not yet applied

IFRS 9, Financial instruments ("IFRS 9") was issued by the IASB in November 2009 and will replace IAS 39, "Financial instruments: recognition and measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

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

IFRS 15, Revenue from contracts with Customers ("IFRS 15") was issued by the IASB in May 2014. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on January 1, 2018. The Company is currently evaluating the impact this standard is expected to have on its consolidated financial statements.

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 these IFRS accounting standards when these standards become effective, if applicable.

3. MARKETABLE SECURITIES

During Q2 2016, the Company completed the sale of the DeSantis Property to Osisko Mining Inc. ("Osisko") for 837,000 ($843) common shares of Osisko net of commission fees. These securities were classified as a held for trading financial instrument. In April 2017, the Company sold the 837,000 Osisko common shares for net proceeds of $3,272 (CAD$4,398) and recorded a realized gain of $1,751 into income for the nine months ended September 30, 2017.

4. VAT RECEIVABLES

VAT (value added tax) receivables comprises 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 balance sheet.

5. INVENTORIES

	September 30, 2017 $	**December 31, 2016 $**
Ore	157	54
Concentrate	184	465
Production spares	2,005	1,632
	2,346	2,151

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

6. PROPERTY, PLANT AND EQUIPMENT

	Mining properties $	Mining equipment $	Processing equipment $	Assets under construction $	Total $
At January 1, 2016					
Cost	21,604	9,607	6,068	813	38,092
Accumulated amortization	(13,103)	(6,048)	(4,442)	-	(23,593)
	8,501	3,559	1,626	813	14,499
Year ended December 31, 2016					
Opening net book value	8,501	3,559	1,626	813	14,499
Additions	1,283	1,779	114	5,017	8,193
Disposals	29	(179)	-	-	(150)
Amortization	(1,220)	(713)	(396)	-	(2,329)
Exchange differences	(1,321)	(681)	(245)	(699)	(2,946)
Closing net book value	7,272	3,765	1,099	5,131	17,267
At December 31, 2016					
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
Period ended September 30, 2017					
Opening net book value	7,272	3,765	1,099	5,131	17,267
Additions (1)	989	253	-	4,027	5,269
Reclassification (1)	5,048	3,967	-	(9,015)	-
Amortization	(1,441)	(817)	(216)	-	(2,474)
Exchange differences	1,149	650	141	602	2,542
Closing net book value	13,017	7,818	1,024	745	22,604
At September 30, 2017					
Cost	29,072	14,952	5,541	745	50,310
Accumulated amortization	(16,055)	(7,134)	(4,517)	-	(27,706)
	13,017	7,818	1,024	745	22,604

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

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

7. MINERAL RIGHTS

	Platosa (Mexico) $	Beschefer (Canada) $	Total $
At January 1, 2016			
Cost	3,847	1,440	5,287
Accumulated amortization	(1,849)	-	(1,849)
	1,998	1,440	3,438
Year ended December 31, 2016			
Opening net book value	1,998	1,440	3,438
Amortization	(283)	-	(283)
Exchange differences	(86)	50	(36)
Closing net book value	1,629	1,490	3,119
At December 31, 2016			
Cost	3,564	1,490	5,054
Accumulated amortization	(1,935)	-	(1,935)
	1,629	1,490	3,119
Period ended September 30, 2017			
Opening net book value	1,629	1,490	3,119
Amortization	(220)	-	(220)
Exchange differences	149	113	262
Closing net book value	1,558	1,603	3,161
At September 30, 2017			
Cost	3,935	1,603	5,538
Accumulated amortization	(2,377)	-	(2,377)
	1,558	1,603	3,161

8. TRADE PAYABLES

The Company's trade payables comprise accounts payable and accruals as at September 30, 2017. Accounts payable account for $3,181 of the balance, of which $561 relate to the acquisition of mining equipment, $459 relate to electricity, $183 relate to exploration drilling and $150 relate to the now completed Optimization Plan. Accruals of $1,944 relate to operating costs, accounting, legal and statutory payroll withholding taxes.

9. DEBT

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".

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

The net proceeds from the Debenture Financing were budgeted for the Optimization Plan at the Platosa Mine and for general corporate purposes.

	At inception date $	Fair value adjustments $	December 31, 2015 $
A - Proceeds from Convertible Debentures			
Gross proceeds	4,040	356	4,396
Less transaction costs	(277)	-	(277)
Net proceeds	3,763	356	4,119
B - Proceeds from NSR Royalty			
Gross proceeds	726	-	726
Less transaction costs	-	-	-
Net proceeds	726	-	726
Total gross proceeds	4,766	356	5,122
Total transaction costs	(277)	-	(277)
Total net proceeds	**4,489**	**356**	**4,845**

A - Convertible Debentures

The Debentures have a term of four years and are 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 bear interest at an annual rate of 3.75%, payable in cash semi-annually. Interest on the Debentures may alternatively be paid in Common Shares at the Company's option based on (i) the 10-day volume-weighted average price ("VWAP") of the Common Shares prior to the payment date and (ii) an effective rate of interest of 5% for the applicable period.

The repayments of principal and interest are summarized as follows:

	Within 1 year $	2-5 years (1) $	Total $
Convertible Debentures (principal & interest)	142	3,968	4,110

(1) Assumes that the Debentures are not converted to Common Shares prior to Maturity.

On or after November 27, 2017, the second anniversary of the date of issue and prior to maturity, the Company may accelerate the conversion of the Debentures as follows: (i) 50% of the principal amount, provided that the 20-day VWAP of the Common Shares is CAD$1.10; and (ii) the remaining 50% principal amount provided that the 20-day VWAP of the Common Shares is CAD$1.40.

On May 27, 2017 or the "Put Date", Debenture holders had the option to request repayment in cash of the outstanding principal amount of the Debentures plus accrued interest by providing the Company with two months prior written notice (the "Notice Date") and a one month period for repayment following the Put Date. As of the Notice Date, no requests were made by Debenture holders for early repayment and, consequently, no early repayment was required.

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

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 are 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 is re-measured at fair value at each reporting date while the debt component is 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 September 30, 2017 was $82. Accretion for the nine months ended September 30, 2017 was $223.

Fair value adjustment loss for the embedded derivative relating to the conversion option for the three months ended September 30, 2017 was $2,179, which was recorded in finance cost. Fair value adjustment loss for the embedded derivative for the nine months ended September 30, 2017 was $4,680.

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 loss of the $0.50 Warrants for the three months ended September 30, 2017 was $877 which was recorded in finance cost. The fair value adjustment loss of the $0.50 Warrants for the nine months ended September 30, 2017 was $563.

During the nine months ended September 30, 2017, the Company paid interest of $98 on the Debentures in Common Shares issuing 94,661 Common Shares.

During the three months ended September 30, 2017, $94 (CAD$115) principal amount of Debentures were converted into 230,000 Common Shares. During the nine months ended September 30, 2017, $124 (CAD$155) principal amount of Debentures were converted into 310,000 Common Shares.

As at September 30, 2017, CAD$5,147 principal amount of Debentures were outstanding.

During the three months ended September 30, 2017, nil $0.50 Warrants were exercised. During the nine months ended September 30, 2017, nil $0.50 Warrants were exercised. As at September 30, 2017, there were 1,851,046 $0.50 Warrants outstanding.

The components of the Debentures are summarized as follows:

	January 1, 2017	Accretion	Interest payments	Conversions	Fair value adjustments	Exchange adjustments	Sept 30, 2017
	$	$	$	$	$	$	$
Convertible Debentures breakdown							
Convertible Debt	2,958	361	(98)	(83)	-	234	3,372
Embedded Derivative Liability	10,068	-	-	(41)	2,179	519	12,725
$0.50 Purchase Warrants	1,673	-	-	-	563	91	2,327
Total	**14,699**	**361**	**(98)**	**(124)**	**2,742**	**844**	**18,424**

The above components have been classified as non-current liabilities on the balance sheet.

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

B - Net Smelter Return Royalty

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 September 30, 2017 was $83 (three months ended September 30, 2016 – $45). NSR royalty expensed for the nine months ended September 30, 2017 was $169 (nine months ended September 30, 2016 – $152). NSR royalty expenses have been recorded in cost of sales.

10. PROVISIONS

	Post-retirement benefits (1) $	Rehabilitation provision (2) $	Total $
Year ended December 31, 2016			
Opening balance	512	1,255	1,767
Change in estimate	-	(245)	(245)
Accretion for the year	-	33	33
Exchange differences	(86)	(14)	(100)
Closing Balance	426	1,029	1,455
Period ended September 30, 2017			
Opening balance	426	1,029	1,455
Change in estimate	133	-	133
Accretion for the period	-	38	38
Exchange differences	62	141	203
Closing Balance	621	1,208	1,829

(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 6.8% (December 31, 2016 – 6.8%) 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, 2016 – 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 4.5% (December 31, 2016 – 4.5%) 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 $1,453 of which $924 relates to the Platosa mine, and $529 relates to the Miguel Auza mill property. The present value of the total discounted obligation is $1,208 of which $768 relates to the Platosa mine and $440 relates to the Miguel Auza mill property.

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

11. SHARE CAPITAL

	Number of shares (000's)	$
Year ended December 31, 2016		
Opening balance	55,025	77,362
Shares issued on exercise of stock options	113	82
Shares issued on exercise of warrants	632	268
Shares issued on conversion of Debentures	615	232
Shares issued from Unit Financing (1)	6,667	1,840
Shares issued from Bought Deal (2)	13,250	9,023
Shares returned to treasury (3)	(323)	-
Balance at December 31, 2016	75,979	88,807
Period ended September 30, 2017		
Opening balance	75,979	88,807
Shares issued on exercise of stock options	173	179
Shares issued on conversion of Debentures	310	124
Shares issued on exercise of RSUs and DSUs	8	24
Shares issued to settle interest payable on Debentures	95	98
Balance at September 30, 2017	76,565	89,232

(1) On April 4, 2016, the Company completed a non-brokered equity private placement (the “Unit Financing”) in the Company for gross proceeds of CAD$3,000 through the issuance of 6,666,667 units (each a “Unit”) at a price of $0.45 per Unit. Each Unit comprised one Common Share and one half warrant of the Company (“$0.65 Warrant”), with each whole $0.65 Warrant entitling the holder to purchase one additional Common Share at a price of CAD$0.65 per share for a period of 24 months from the closing date.

A finder’s fee of CAD$60 was paid in respect of the Unit Financing.

The net proceeds of CAD$2,940 were allocated proportionally between the fair values of the Common Shares and the $0.65 Warrants issued in the Unit Financing.

(2) On July 26, 2016, the Company completed a bought deal public offering (the “Bought Deal”) of 13,250,000 units (“Public Units”) at a price of CAD$1.15 per Public Unit for gross proceeds of CAD$15,238 (the “Offering”). Each Public Unit comprised one Common Share and one half-warrant (“$1.75 Warrant”) with each whole warrant entitling the holder to acquire a Common Share at a price of CAD$1.75 for a period of 24 months from the closing date.

A broker’s fee of CAD$914 was paid in respect of the Bought Deal.

The net proceeds after transaction costs of CAD$13,953 were allocated proportionally between the fair values of the Common Shares and the $1.75 Warrants issued in the Bought Deal.

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

(3) During Q2 2016, the Company returned 322,887 Common Shares to treasury relating to the purchase of Destorbelle Mines Limited ("Destorbelle") in 2004. Under the terms of that transaction, each shareholder of Destorbelle was entitled to receive 3.25 Common Shares (pre-consolidation; 0.65 Common Shares post-consolidation) and $0.60 cash for each Destorbelle share. The Common Shares returned to treasury represent the entitlement of unexchanged Destorbelle shares as of 2016. The Company may issue Common Shares to any holders of unexchanged Destorbelle shares from time-to-time upon deposit of Destorbelle shares for exchange. As at September 30, 2017, 322,887 Common Shares remain potentially issuable upon exchange of Destorbelle shares.

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 may have a maximum term is five years. Options may be granted by the board of directors at any time with varying vesting conditions.

Disclosure of share 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, 2016	$ 1.80	2,544,000
Granted	$ 1.62	140,000
Exercised	$ 0.58	(113,335)
Expired	$ 4.40	(40,000)
Forfeited	$ 1.68	(100,000)
Cancelled (1)	$ 3.08	(929,000)
Outstanding at December 31, 2016	$ 1.03	1,501,665
Exercisable at December 31, 2016	$ 1.08	1,171,679

Outstanding at January 1, 2017	$ 1.03	1,501,665
Granted	$ 1.75	320,000
Exercised	$ 0.85	(173,333)
Forfeited	$ 1.75	(25,000)
Outstanding at September 30, 2017	$ 1.18	1,623,332
Exercisable at September 30, 2017	$ 1.10	1,291,670

(1) The Company cancelled 929,000 Options, all of which were fully vested and had no financial impact upon cancellation.

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

Options outstanding and exercisable were 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	128,333	3.25	78,340	$ 0.31
$0.50 to $0.99	379,999	2.52	379,999	$ 0.57
$1.14 to $1.49	550,000	1.26	550,000	$ 1.17
$1.50 to $1.99	465,000	4.15	183,331	$ 1.74
$2.00 to $2.50	100,000	0.07	100,000	$ 2.10
	1,623,332	2.47	1,291,670	$ 1.10

Inputs for measurement of grant date fair values

The grant date fair value 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:

	Nine months ended Sept 30, 2017	Sept 30, 2016
Fair value at grant date	$1.12	$1.09
Share price at grant date	$1.75	$1.72
Exercise price	$1.75	$1.72
Risk free interest rate	1.02%	0.62%
Expected life of options in years	5.00	5.00
Expected volatility	80.45%	79.89%
Expected dividend yield	0.00%	0.00%
Estimated forfeiture rate	2.29%	5.04%

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 is comprised of the following costs:

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

	Three months ended		Nine months ended	
	Sept 30, 2017 $ (CAD)	Sept 30, 2016 $ (CAD)	Sept 30, 2017 $ (CAD)	Sept 30, 2016 $ (CAD)
Share options granted in 2014	-	-	-	4
Share options granted in 2015	1	11	14	47
Share options granted in 2016	15	11	49	11
Share options granted in 2017	41	-	214	-
	57	22	277	62

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 volume weighted average price ("Market Price") 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 Market Price of Common Shares. The expense is recorded in the consolidated statement of loss and comprehensive loss 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, 2016	1,621,409
Granted	349,227
Outstanding at December 31, 2016	1,970,636
Granted	374,884
Settled	(70,000)
Outstanding at September 30, 2017	2,275,520

During the three months ended September 30, 2017, the Company granted 30,111 DSUs (three months ended September 30, 2016 – 24,814 DSUs) with a market value of CAD$61 (three months ended September 30, 2016 - CAD$47) at the date of grant to non-executive directors as compensation in lieu of cash director fees.

During the nine months ended September 30, 2017, the Company granted 374,884 DSUs (nine months ended September 30, 2016 – 228,994 DSUs) with a market value of CAD$648 (nine months ended September 30, 2016 – CAD$212) at the date of grant to non-executive directors and employees as compensation in lieu of cash director fees and other compensation.

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

During the three months ended September 30, 2017, there were nil DSUs settled for Common Shares (three months ended September 30, 2016 – nil). During the nine months ended September 30, 2017, there were 70,000 DSUs settled for Common Shares (nine months ended September 30, 2016 – nil).

Total share based compensation expensed in the three months ended September 30, 2017 related to vested DSUs was CAD$61 (three months ended September 30, 2016 – CAD$47). Total share based compensation expensed in the nine months ended September 30, 2017 related to vested DSUs was CAD$648 (nine months ended September 30, 2016 – CAD$212).

As at September 30, 2017, 2,275,520 DSUs were outstanding.

RESTRICTED SHARE UNITS ("RSU")

The Company has implemented a 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 Market Price of the Common Shares prior to a payout date with settlement in either cash or Common Shares. The expense is recorded in the consolidated statement of loss and comprehensive loss 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 January 1, 2016	1,049,911
Granted	410,000
Settled	(214,911)
Outstanding at December 31, 2016	1,245,000
Granted	770,000
Settled	(15,000)
Forfeited	(69,646)
Outstanding at September 30, 2017	1,930,354

During the three months ended September 30, 2017, the Company granted 50,000 RSUs subject to performance vesting conditions (three months ended September 30, 2016 – 170,000 subject to performance vesting conditions) with market value of CAD$72 (three months ended September 30, 2016 – CAD$285) at the date of grant to officers, employees and consultants.

During the nine months ended September 30, 2017, the Company granted 615,750 RSUs subject to performance vesting conditions (nine months ended September 30, 2016 – 230,000 subject to performance vesting conditions) with market value of CAD$1,055 (nine months ended September 30, 2016 – CAD$308) at the date of grant to officers, employees and consultants.

During the three months ended September 30, 2017, the Company granted 25,000 RSUs subject to time vesting conditions (three months ended September 30, 2016 – 180,000 RSUs subject to time vesting conditions) with market value of CAD$36 (three months ended September 30, 2016 – CAD$332) at the date of grant to officers, employees and consultants.

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

During the nine months ended September 30, 2017, the Company granted 154,250 RSUs subject to time vesting conditions (nine months ended September 30, 2016 – 180,000 RSUs subject to time vesting conditions) with a market value of CAD$258 (nine months ended September 30, 2016 – CAD$332) at the date of grant to officers, employees and consultants.

During the three months ended September 30, 2017, there were no RSUs settlements (three months ended September 30, 2016 – 214,911 RSUs subject to non-performance vesting conditions settled in cash for CAD$417).

During the nine months ended September 30, 2017, the Company settled 10,500 RSUs with Common Shares and settled 4,500 RSUs with cash for CAD$8 (nine months ended September 30, 2016 – 214,911 RSUs subject to non-performance vesting conditions settled in cash for CAD$417).

Total share based compensation expensed in the three months ended September 30, 2017 related to RSUs was CAD$77 (three months ended September 30, 2016 – CAD$104).

Total share based compensation expensed in the nine months ended September 30, 2017 related to RSUs was CAD$218 (nine months ended September 30, 2016 – CAD$160).

As at September 30, 2017, 1,930,354 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, 2016	$ 0.50	2,482,772
Granted (1)	$ 1.38	9,958,333
Exercised (2)	$ 0.50	(631,726)
Outstanding at December 31, 2016	$ 1.24	11,809,379
Outstanding at September 30, 2017	$ 1.24	11,809,379

(1) During the year ended December 31,2016, the Company completed the following transactions:
   A. the Unit Financing and issued 3,333,333 $0.65 Warrants.
   B. the Bought Deal and issued 6,625,000 $1.75 Warrants.

(2) During the year ended December 31, 2016, 631,726 $0.50 Warrants were exercised for CAD$316.

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

During the three months ended September 30, 2017, the Company recognized a fair value adjustment loss of $877 on the $0.50 Warrants related to the Debentures, which was recorded in finance cost (three months ended September 30, 2016 – $928 loss).

During the nine months ended September 30, 2017, the Company recognized a fair value adjustment loss of $563 on the $0.50 Warrants (nine months ended September 30, 2016 – $1,999 loss).

As at September 30, 2017, 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	2.16	November 27, 2019
$ 0.65	3,333,333	0.51	April 4, 2018
$ 1.75	6,625,000	0.82	July 26, 2018
	11,809,379	0.94	

12. COMMITMENTS

The following table summarizes the Company's significant commitments as of September 30, 2017:

	2017	2018	2019	2020	2021	Total
	$	$	$	$	$	$
Accounts payable and accrued liabilities	5,125	-	-	-	-	5,125
Capital Expenditure	257	-	-	-	-	257
Mine restoration provision	-	-	-	-	1,453	1,453
Employee future benefits	-	-	-	-	1,462	1,462
Concession holding fees	266	541	547	556	556	2,466
Office leases	50	202	50	-	-	303
	5,698	743	598	556	3,471	11,066

Not included above is an NSR royalty payable semi-annually on the Platosa Property of (a) 1.25% in respect of manto mineralization other than skarn mineralization or (b) 0.5% in respect of skarn or "Source" mineralization. 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 $1,342 is included in the trade receivables as at September 30, 2017 (as at September 30, 2016 – $1,352).

During the three months ended September 30, 2017, the Company recognized negative adjustment to revenues of $24 primarily related to the reversal of the mark-to-market taken at June 30, 2017 as receivables were ultimately settled at lower values during the quarter (three months ended September 30, 2016 – positive adjustment of $346).

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

During the nine months ended September 30, 2017, the Company recognized negative adjustments to revenues of $17 primarily related to the reversal of the mark-to-market taken at the end of 2016 as receivables were ultimately settled at lower values in 2017 (nine months ended September 30, 2016 – positive adjustment of $265).

As at September 30, 2017, provisionally priced sales totalled $4,192 which are expected to settle at final prices during the fourth quarter of 2017. A 10% increase or decrease in the prices of silver, lead and zinc will result in a corresponding increase or decrease in revenues of $419 during the fourth quarter of 2017.

14. EXPENSE BY NATURE

(a) Cost of sales comprises the following:

	Three months ended		Nine months ended	
	Sept 30, 2017	Sept 30, 2016	Sept 30, 2017	Sept 30, 2016
	$	$	$	$
Direct mining and milling costs (1)	4,305	3,527	12,005	10,276
Changes in inventories	(145)	50	177	11
Depletion, depreciation and amortization	1,426	525	2,554	1,739
Cost of sales	5,586	4,102	14,736	12,026

(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.

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

	Three months ended		Nine months ended	
	Sept 30, 2017	Sept 30, 2016	Sept 30, 2017	Sept 30, 2016
	$	$	$	$
Office and overhead costs	375	328	1,206	901
Salaries and wages	296	277	857	736
Share based compensation	157	302	866	500
Depletion and amortization	64	37	140	126
General and administrative expenses	892	944	3,069	2,263

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

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

	Three months ended		Nine months ended	
	Sept 30, 2017	Sept 30, 2016	Sept 30, 2017	Sept 30, 2016
	$	$	$	$
Unrealized gain on marketable securities	-	(560)	-	(1,173)
Realized gain on marketable securities sold	-	-	(1,751)	-
Foreign exchange loss (gain)	88	120	(504)	1,032
Other expense (income)	88	(440)	(2,255)	(141)

15. FINANCE COST

Finance cost comprises the following:

	Three months ended		Nine months ended	
	Sept 30, 2017	Sept 30, 2016	Sept 30, 2017	Sept 30, 2016
	$	$	$	$
Interest Expense	63	42	204	150
Rehabilitation provision - accretion	14	8	38	25
Convertible debentures - accretion	82	73	223	227
Loss on change in fair value of purchase warrants	877	928	563	1,999
Loss on change in fair value of embedded derivative liability	4,680	5,049	2,179	11,254
Unrealized loss (gain) on currency hedges	258	-	(125)	-
Finance Cost	5,974	6,100	3,082	13,655

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 September 30, 2017, the Company incurred legal fees of $9 (three months ended September 30, 2016 – $13). During the nine months ended September 30, 2017, the Company incurred legal fees of $36 (nine months ended September 30, 2016 – $41). As at September 30, 2017, the Company had an outstanding payable balance of $10 (September 30, 2016 – $7).

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 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:

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

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 September 30, 2017, the Company recorded $4,192 (three months ended September 30, 2016 – $1,527) in revenues from provisionally priced sales on the statement of loss and comprehensive (loss), which are subject to adjustment pending final settlement in the fourth quarter of 2017. As at September 30, 2017, the Company has recorded embedded derivatives in the amount of $1,342 in trade receivables (as at September 30, 2016 – $1,352).

Fair Value of derivative financial instruments

The following is a summary of the amortized cost and fair value of the Company's Debentures and outstanding common share purchase warrants as at September 30, 2017:

	Amortized Cost	Fair Value
	$	**$**
Financial liabilities		
Convertible Debt	3,372	4,055
	3,372	4,055

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:

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

	Fair value hierarchy	Sept 30, 2017 $	Dec 31, 2016 $
Financial assets			
Fair value through profit and loss			
Marketable securities	Level 1	-	1,521
Trade receivables	Level 2	1,564	738
		1,564	2,259
Financial liabilities			
Fair value through profit and loss			
Embedded Derivative Liability	Level 3	12,725	10,068
Purchase Warrants	Level 3	2,327	1,673
		15,052	11,741

There were no transfers between levels 1, 2 or 3 during the three months ended September 30, 2017.

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 and MK Metal Trading Mexico, S.A. de C.V. ("MK Metals"). 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 September 30, 2017, forward contracts for the purchase of MXN 66,000, in exchange for USD$3,500 at an average rate of 18.89 MXN/USD, at various maturity dates until March 13, 2018, were outstanding. The fair value of these outstanding foreign currency forward contracts resulted in an unrealized gain of $125 at September 30, 2017, recorded in finance cost. For the three months ended September 30, 2017, the Company realized foreign exchange gains of $269 within profit or loss from contracts maturing during the quarter. For the nine months ended September 30, 2017, the Company realized exchange gains of $583 within profit or loss from contracts maturing during 2017. 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 September 30, 2017, a weakening of the USD against the MXN and CAD functional currencies by 1% with all other variables held constant, would increase/(decrease) net loss and equity by approximately $16.

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 September 30, 2017, 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.

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

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 nine months ended September 30, 2017 (nine months ended September 30, 2016 – $16). The Company estimates that a 10% increase/decrease in commodity prices in 2017 with all other variables held constant would have resulted in an increase/decrease in net loss of approximately $1,562.

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	
	Sept 30, 2017 $	Dec 31, 2016 $	Sept 30, 2017 $	Dec 31, 2016 $	Sept 30, 2017 $	Dec 31, 2016 $
Property, plant and equipment	22,604	17,267	-	-	22,604	17,267
Capital expenditures	(5,269)	(8,193)	-	-	(5,269)	(8,193)
Mineral rights	1,558	1,679	1,603	1,440	3,161	3,119
Total assets	44,432	36,825	2,831	7,974	47,263	44,799

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

	Three months ended		Nine months ended	
	Sept 30, 2017	Sept 30, 2016	Sept 30, 2017	Sept 30, 2016
	$	$	$	$
MEXICO				
Revenue	7,102	4,009	14,085	13,640
Cost of sales	(5,586)	(4,102)	(14,736)	(12,026)
Exploration	(382)	(226)	(1,564)	(531)
Other expenses	(537)	(45)	66	(1,070)
Finance income (cost)	(32)	(8)	(95)	(25)
Income tax recovery (expense)	(87)	(87)	(1,133)	527
Net income (loss)	478	(459)	(3,377)	515
CANADA				
Corporate administrative expenses	(892)	(944)	(3,069)	(2,263)
Exploration	-	(2)	-	(5)
Other expenses	449	485	2,189	1,211
Impairment of mineral rights	-	-	-	156
Finance income (cost)	(5,942)	(6,092)	(2,987)	(13,630)
Net income (loss)	(6,385)	(6,553)	(3,867)	(14,531)
Net loss	**(5,907)**	**(7,012)**	**(7,244)**	**(14,016)**

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the presentation adopted in the current period. Specifically, VAT receivable and VAT payable balances were previously recorded net of each other and classified in the trade receivables balance. These balances have now been reclassified on the balance sheet under VAT receivables and VAT payables at their gross amount as the balances cannot be settled net of each other.

22. SUBSEQUENT EVENTS

On October 19, 2017, the Company announced a bought deal public offering of 5,000,000 units (“Units”) at a price of CAD$2.00 per Unit for gross proceeds of CAD$10,000 (the “Offering”). Each Unit comprises one Common Share and one half-warrant with each whole warrant entitling the holder to acquire a Common Share at a price of CAD$2.80 at any time on or prior to December 31, 2018. On October 20, 2017, the Company announced that it had increased the Offering from 5,000,000 Units to 6,625,000 Units for gross proceeds of CAD$13,250. The Company intends to use the net proceeds of the Offering to fund exploration at the Company’s Platosa Project in Durango, Mexico and Miguel Auza Project in Zacatecas, Mexico and for general corporate purposes. The Offering is scheduled to close on or before November 9, 2017 and is subject to certain conditions including, but not limited to, receipt of all regulatory approvals, including the approval of the Toronto Stock Exchange and the applicable securities regulatory authorities.