TOREX GOLD RESOURCES INC.

Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015

(Expressed in thousands of U.S. dollars)

Management's Responsibility for Financial Reporting

The accompanying audited consolidated statements of financial position as of December 31, 2016 and 2015 and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the years ended December 31, 2016 and 2015 of Torex Gold Resources Inc. (the "Company") were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Management acknowledges responsibility for the preparation and presentation of the audited annual consolidated financial statements, including responsibility for significant judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management maintains accounting systems and internal controls to produce reliable consolidated financial statements and provide reasonable assurance that assets are properly safeguarded.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board of Directors carries out this responsibility through its Audit Committee. The Audit Committee meets periodically with management and the Company's independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to recommending the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by KPMG LLP, Chartered Professional Accountants, on behalf of the shareholders. Their report follows.

"Fred Stanford"
Fred Stanford (signed)
President and Chief Executive Officer

"Jeff Swinoga"
Jeff Swinoga (signed)
Chief Financial Officer

February 22, 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Torex Gold Resources Inc.

We have audited the accompanying consolidated financial statements of Torex Gold Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Torex Gold Resources Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
February 22, 2017
Toronto, Canada

TOREX GOLD RESOURCES INC.

Consolidated Statements of Financial Position

Thousands of U.S. dollars		**December 31, 2016**		December 31, 2015
Assets				
Current Assets:				
Cash and cash equivalents	**$**	**104,019**	$	46,055
Derivative contracts (Note 11)		**8,586**		17,384
Value added tax receivable (Note 8)		**21,945**		29,753
Inventory (Note 5)		**53,380**		10,597
Prepaid expenses and other current assets		**9,018**		3,263
		196,948		107,052
Restricted cash (Note 6)		**23,428**		44,591
Value added tax receivable (Note 8)		**39,932**		21,580
Derivative contracts (Note 11)		**-**		17,023
Other non-current assets		**5,189**		-
Property, plant and equipment (Note 7)		**940,892**		930,818
Total Assets	**$**	**1,206,389**	$	1,121,064
Liabilities and Shareholders' Equity				
Current Liabilities:				
Accounts payable and accrued liabilities	**$**	**50,545**	$	42,389
Income taxes payable		**10,695**		949
Debt (Note 9)		**5,535**		1,778
Derivative contracts (Note 11)		**5,650**		5,270
		72,425		50,386
Derivative contracts (Note 11)		**4,535**		304
Debt (Note 9)		**401,165**		368,683
Decommissioning liabilities (Note 12)		**10,203**		9,441
Deferred tax liabilities		**34,165**		22,114
		522,493		450,928
Shareholders' Equity:				
Share capital (Note 14)		**962,883**		942,141
Contributed surplus		**25,408**		35,548
Other reserves		**(62,470)**		(62,470)
Deficit		**(241,925)**		(245,083)
		683,896		670,136
Total Liabilities and Shareholders' Equity	**$**	**1,206,389**	$	1,121,064

Commitments (Note 23)

Approved on behalf of the Board of Directors:

"Fred Stanford"
Fred Stanford (signed)
Director

"Andrew Adams"
Andrew Adams (signed)
Director

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

Consolidated Statements of Operations and Comprehensive Income (Loss)

Thousands of U.S. dollars, except per share amounts	Year Ended **December 31, 2016**	December 31, 2015
Revenue		
Metal sales	**$ 312,505**	$ -
Cost of sales		
Production costs	**125,030**	-
Royalties	**9,289**	-
Depreciation and amortization	**58,291**	-
Earnings from mine operations	**$ 119,895**	$ -
General and administrative (Note 19)	**15,381**	12,246
Exploration and evaluation (Note 20)	**3,708**	9,672
	$ 19,089	$ 21,918
Other expenses (income):		
Derivative costs, net (Note 11)	**40,854**	(16,008)
Finance costs (income), net (Note 10)	**20,574**	(507)
Foreign exchange loss	**13,623**	13,698
	$ 75,051	$ (2,817)
Income (loss) before income tax expense	**25,755**	(19,101)
Current income tax expense	**10,546**	649
Deferred income tax expense	**12,051**	4,824
Net income (loss)	**$ 3,158**	$ (24,574)
Comprehensive income (loss)	**$ 3,158**	$ (24,574)
Earnings (loss) per share (Note 16)		
Basic	**$ 0.04**	$ (0.31)
Diluted	**$ 0.04**	$ (0.31)

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

Consolidated Statements of Changes in Shareholders' Equity

Thousands of U.S. dollars, except number of common shares	**Number of Common Shares** (Note 14)	**Common Shares**	**Contributed Surplus**	**Other Reserves**	**Deficit**	**Total Shareholders' Equity**
Balance, January 1, 2015	78,507,182	$ 941,589	$ 34,177	$ (62,470)	$ (220,509)	$ 692,787
Exercise of stock options	37,500	552	(183)	-	-	369
Amortization of stock options	-	-	1,399	-	-	1,399
Amortization of restricted share units	-	-	155	-	-	155
Net loss for the year	-	-	-	-	(24,574)	(24,574)
Balance, December 31, 2015	**78,544,682**	**$ 942,141**	**$ 35,548**	**$ (62,470)**	**$ (245,083)**	**$ 670,136**

Thousands of U.S. dollars, except number of common shares	**Number of Common Shares** (Note 14)	**Common Shares**	**Contributed Surplus**	**Other Reserves**	**Deficit**	**Total Shareholders' Equity**
Balance, January 1, 2016	**78,544,682**	**$ 942,141**	**$ 35,548**	**$ (62,470)**	**$ (245,083)**	**$ 670,136**
Exercise of stock options	831,885	16,884	(11,042)	-	-	**5,842**
Settlement of restricted share units	278,999	3,858	(3,858)	-	-	**-**
Amortization of stock options	-	-	1,037	-	-	**1,037**
Amortization of restricted share units	-	-	3,024	-	-	**3,024**
Amortization of performance share units	-	-	699	-	-	**699**
Net income for the year	-	-	-	-	3,158	**3,158**
Balance, December 31, 2016	**79,655,566**	**$ 962,883**	**$ 25,408**	**$ (62,470)**	**$ (241,925)**	**$ 683,896**

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

Consolidated Statements of Cash Flows

Thousands of U.S. dollars		Year Ended December 31, 2016		December 31, 2015
Operating activities:				
Net Income (loss) for the year	**$**	**3,158**	$	(24,574)
Adjustments for:				
Share-based compensation		**4,760**		2,771
Depreciation and amortization		**60,770**		1,184
Unrealized loss (gain) on derivative contracts		**30,432**		(25,469)
Foreign exchange loss		**10,065**		12,985
Financing costs		**19,060**		861
Deferred income taxes		**12,051**		4,824
Income taxes paid		**(1,070)**		-
Cash generated from (used in) operating activities before changes in non-cash working capital balances	**$**	**139,226**	$	(27,418)
Changes in non-cash working capital balances:				
Value added tax receivable		**(23,293)**		-
Inventory		**6,130**		(10,430)
Prepaid expenses and other current assets		**(5,755)**		(1,321)
Accounts payable and accrued liabilities		**40,263**		5,558
Income taxes payable		**10,816**		(717)
Net cash generated from (used in) operating activities	**$**	**167,387**	$	(34,328)
Investing activities:				
Additions to property, plant and equipment		**(137,824)**		(316,581)
Proceeds from pre-production sales		**38,707**		-
Borrowing costs capitalized to property, plant and equipment		**(5,588)**		(14,145)
Working capital for property, plant and equipment		**(28,398)**		23,860
Value added tax receivable		**(19,097)**		(47,194)
Value added tax refunds received		**22,420**		34,674
Restricted cash		**20,285**		(29,591)
Net cash used in investing activities	**$**	**(109,495)**	$	(348,977)
Financing activities:				
Proceeds from loan facility		**-**		329,062
Proceeds from equipment loan		**-**		7,113
Proceeds from value added tax loan		**24,308**		-
Repayment of debt		**(6,526)**		-
Deferred finance charges		**(928)**		(1,875)
Working capital for finance charges		**(1,875)**		1,875
Financing costs relating to loan facility		**-**		(861)
Interest paid		**(19,060)**		-
Exercise of stock options		**5,823**		369
Net cash generated from financing activities	**$**	**1,742**	$	335,683
Effect of foreign exchange rate changes on cash and cash equivalents		**(1,670)**		(5,690)
Net increase (decrease) in cash and cash equivalents during the year	**$**	**57,964**	$	(53,312)
Cash and cash equivalents, beginning of the year	**$**	**46,055**	$	99,367
Cash and cash equivalents, end of the year	**$**	**104,019**	$	46,055

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

Note 1. Corporation Information

Torex Gold Resources Inc. (the "Company" or "Torex") is a growth-oriented, Canadian-based resource company engaged in the exploration, development and operation of its 100% owned Morelos Gold Property, located 180 kilometers southwest of Mexico City. Within this property, Torex has two assets: The El Limón Guajes mine (the "ELG Mine"), which is in the production stage effective April 1, 2016, and the Media Luna Project, which was in the exploration and evaluation phase during 2016.

The Company is a corporation governed by the Business Corporations Act (Ontario). The Company's shares are listed on the Toronto Stock Exchange under the symbol TXG. Its registered address is 130 King Street, Suite 740, Toronto, Ontario, Canada, M5X 2A2.

The consolidated financial statements of the Company as at and for the years ended December 31, 2016 and 2015 include the accounts of the Company and its subsidiaries (herein after referred to as "consolidated financial statements").

Note 2. Basis of Preparation

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and have been prepared using the historical cost convention, as modified by revaluation of certain financial instruments, which are measured in accordance with the policy described in note 3(G). Accounting policies are consistently applied to all years presented, unless otherwise stated. These consolidated financial statements were approved for issuance by the Board of Directors on February 22, 2017.

(b) Basis of Consolidation

These consolidated financial statements are comprised of the financial statements of Torex and the accounts of the Company's wholly owned subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intragroup assets, liabilities, equity, revenue, expenses and cash flows relating to transactions between entities of the group have been eliminated on consolidation. The Company's significant subsidiaries are as follows:

- 2290456 Ontario Inc. ("2290456")
- TGRXM, S.A. de C.V. ("TGRXM")
- Minera Media Luna, S.A. de C.V. ("MML")
- TGRXM2010, S.A. de C.V. ("TGRXM2010")

Note 3. Significant Accounting Policies

Effective April 1, 2016, upon reaching the production stage at the ELG Mine, the Company transitioned from accounting for certain costs as a development stage company to accounting for certain costs as an operating company. This involved financial reporting changes including the following:

- Capitalized ELG Mine construction costs were transferred from construction in progress to the relevant asset categories including mineral property, and property and equipment, inventory, and other assets;
- Capitalized costs included within mineral property, and property and equipment began to be depreciated consistent with the Company's established accounting policies;
- Capitalization of pre-production stage revenues, borrowing costs, and operating costs ceased; and
- Mine operating results are recorded in the Consolidated Statements of Operations and Comprehensive Income (Loss) since April 1, 2016.

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

A. Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value, as explained in note 3(G).

B. Foreign Currency

Functional and presentation currency

The consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company and its significant subsidiaries effective November 1, 2014.

Transactions in foreign currencies are translated into the entities' functional currencies at the exchange rates at the date of the transactions. Monetary assets and liabilities of the Company's operations denominated in a currency other than the U.S. dollar are translated using exchange rates prevailing at the dates of the Consolidated Statements of Financial Position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates on the dates of the initial transactions or valuation where items are remeasured. Revenue and expense items are translated at the exchange rates in effect at the date of the underlying transaction, except for depletion and depreciation related to non-monetary assets, which are translated at historical exchange rates. Exchange rate differences are recognized in the Consolidated Statements of Operations in the period in which they arise. The impact of foreign exchange on deferred income taxes is recognized in the income tax expense (recovery).

Other reserves in the Consolidated Statements of Financial Position represent exchange rate differences, which arose from translating the functional currency amounts due to the change of the Company's functional currency as of November 1, 2014.

C. Mineral Property Acquisition and Development Costs and Exploration and Evaluation Expenditures

Mineral property acquisition costs are capitalized as mineral property, which is included in property, plant and equipment in the Consolidated Statements of Financial Position.

Exploration costs include costs directly related to exploration and evaluation activities in the area of interest. Exploration and evaluation expenditures are expensed in the Consolidated Statements of Operations and Comprehensive Income (Loss) until the determination of the technical feasibility and commercial viability of a project. To determine whether technical feasibility and commercial viability of extracting a mineral resource exists, the Company considers various factors. Once the above determination has been completed, subsequent exploration and development expenses are capitalized in mineral properties. Expenditures, including engineering to design the size and scope of the project, environmental assessment and permitting, and surface rights acquisitions are capitalized in mineral properties.

The development stage ends and the production stage begins when the mine is in the condition necessary for it to be capable of operating in the manner intended by management. To assess when the mine is substantially complete and ready for its intended use, certain of the criteria considered include the following:

- Substantial completion of the construction activities;
- The level of capital expenditures in relation to the project budget;
- Producing saleable material;
- Completion of a reasonable period of testing of the plant and equipment in the mine and/or mill;
- Achieving a certain level of recoveries from the ore mined and processed; and
- Reaching a certain level of production and sustaining ongoing production.

Upon reaching the production stage, costs are transferred from construction in progress into the appropriate asset classes including mineral property, and plant and equipment, inventory, and other assets, and depreciation commences.

Once in the production stage, gold sales are recognized as revenue and production costs as a component of mine operating costs. Development expenditures incurred during the production stage to provide access to ore reserves in future periods, expand existing capacity, or generally provide future economic benefits, will continue to be capitalized under the Company's accounting policy for development costs, mineral property, and plant and equipment.

D. Property, Plant and Equipment

Property, Plant and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of property, plant and equipment, less their residual value (if any), is depreciated over the estimated useful life of the asset on a straight line basis or, on a unit-of-production basis over the remaining life of the mine if shorter:

Machinery and equipment	7 to 10 years
Vehicles	4 years
Computer and software	3 years
Office equipment and furniture	5 years
Leasehold improvements	Term of lease

Amortization of equipment used for development activities is included in construction in progress until the project enters the production stage.

Where components of an item of property and equipment have different useful lives or for which different depreciation rates would be appropriate, they are accounted for as separate items of property and equipment.

An item of property and equipment is derecognized upon disposal or replacement. Any gain or loss arising on recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Consolidated Statements of Operations and Comprehensive Income (Loss) when the asset is derecognized.

Capitalized interest

Interest costs for qualifying assets are capitalized. Qualifying assets are assets that require a significant amount of time to prepare for their intended use, including projects that are in the development or construction stages. Capitalized interest costs are considered an element of the cost of the qualifying asset. Capitalization ceases when the asset is available for use in the manner intended by management or if active development is suspended or ceases. Where the funds used to finance a qualifying asset form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to the relevant borrowings during the year. Where funds borrowed are directly attributable to a qualifying asset, the amount capitalized represents the borrowing costs specific to the qualifying asset. Borrowing costs capitalized to property, plant and equipment are presented as part of investing activities in the Consolidated Statements of Cash Flows.

Capitalized stripping costs

In open pit mining operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of removing overburden and waste materials is referred to as stripping. Prior to the commencement of the production phase, stripping costs are capitalized as part of mineral properties.

Stripping costs incurred in the production stage are included in the cost of inventory produced during the year unless the costs are expected to provide a future economic benefit to an identifiable component of the ore body. The amount of waste capitalized is calculated by multiplying the stripping tonnes to be capitalized during the period by the current mining cost per tonne. Capitalized stripping costs are amortized using the unit-of-production method over the estimated proven and probable reserves to which they relate.

E. Leasing Arrangements

Leases that transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Minimum lease payments are apportioned between the interest element and the reduction of the lease obligation so as to achieve a constant rate of interest of the remaining balance of the obligation. An asset acquired under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

All other leases are classified as operating leases. Operating lease payments are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

F. Impairment

The carrying amount of the Company's non-financial assets (which include mineral property, and plant and equipment) are reviewed for impairment at each reporting date for events or changes in circumstances that indicate that the carrying amount may not be recoverable. If any such indication exists, an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use, which for a mine is often the present value of the future cash flows expected to be derived from an asset using a discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units, or "CGUs"). For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

At each reporting date, previous impairments of assets would be reviewed for indications that the previously recognized impairment may have decreased or no longer exists. If such an indication exists, part or all of the impairment may be reversed. The amount of such reversal is limited to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment loss previously been recognized.

G. Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is recorded in the Consolidated Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the Consolidated Statements of Operations and Comprehensive Income (Loss). Gains and losses arising from changes in fair value are presented in the Consolidated Statements of Operations and Comprehensive Income (Loss) in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the dates of the Consolidated Statements of Financial Position, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within 12 months.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, restricted cash, trade receivables and value added tax receivables, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade and income tax payables and debt. Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, financing fees and a discount to reduce the liability to fair value, and are subsequently measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Financial assets

The Company's financial assets include cash and cash equivalents and amounts receivable, including long-term receivables and derivative contracts.

Cash and cash equivalents

Cash and cash equivalents include cash and other highly liquid investments, such as term deposits with major financial institutions, which have a term to maturity of three months or less at the time of acquisition and are readily convertible to specified amounts of cash. The Company classifies cash equivalents as financial assets at fair value through profit or loss and accounts for them at fair value, with fair value adjustments charged to profit or loss.

Financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities, income taxes payable, derivative contracts and debt. These represent obligations to pay for goods or services that have been acquired in the ordinary course of business. These obligations are classified as current liabilities except for payments due more than 12 months after the end of the reporting period, which are classified as non-current liabilities. Debt is recognized at amortized cost using the effective interest method.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statements of Financial Position only if there is an enforceable legal right to offset the recognized amounts and the intention is to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative instruments and hedge accounting derivative instruments

The Company may enter into derivative instruments to mitigate economic exposures to commodity price and currency exchange rate fluctuations. Unless the derivative instruments qualify for hedge accounting, and management undertakes appropriate steps to designate them as such, they are designated as fair value through profit or loss and recorded at fair value with realized gains or losses arising from changes in the fair value recorded in the Consolidated Statements of Operations and Comprehensive Income (Loss) in the period they occur. Fair values for derivative instruments classified as fair value through profit or loss are determined using valuation techniques. The valuations use assumptions based on prevailing market conditions on the reporting date. Pursuant to the project finance facility described in note 9, the Company entered into gold contracts and currency swap agreements in 2014.

Embedded derivatives identified in non-derivative instrument contracts are recognized separately unless closely related to the host contract. All derivative instruments, including certain embedded derivatives that are separated from their host contracts, are recorded on the Consolidated Statements of Financial Position at fair value and mark-to-market adjustments on these instruments are included in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Derivative instruments are classified as current or non-current assets or liabilities, depending on their maturity dates.

Derivative instruments are classified as either hedges of the fair value of recognized assets or liabilities or of firm commitments ("fair value hedges"), hedges of highly probable forecast transactions ("cash flow hedges") or non-hedge derivatives. Derivatives designated as either a fair value or cash flow hedge that are expected to be highly effective in achieving offsetting changes in fair value or cash flows are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. Derivative assets and derivative liabilities are shown separately in the Consolidated Statements of Financial Position unless there is a legal right to offset and intent to settle on a net basis.

Derivative instruments that do not qualify as either fair value or cash flow hedges are recorded at their fair value at the dates of the Consolidated Statements of Financial Position, with changes in fair value recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss).

H. Inventory

Inventory classifications include stockpiled ore, in-circuit inventory, finished goods inventory and materials and supplies. The value of all production inventory includes direct production costs and attributable overhead and depreciation incurred to bring the materials to their current point in the processing cycle. All inventory is valued at the lower of cost and net realizable value, with net realizable value determined with reference to market prices, less estimated future production costs (including royalties) to convert inventory into saleable form.

(i) Stockpiled ore represents unprocessed ore that has been mined and is available for future processing. Stockpiled ore is measured by estimating the number of tonnes added to or removed from the stockpile, the number of contained ounces and the estimated gold recovery percentage. Stockpile ore tonnages are verified by period surveys. Stockpiled ore value is based on the costs incurred (including applicable overhead, depreciation, and applicable depletion) in bringing the ore to the stockpile. Costs are added to the stockpiled ore based on current mining costs per tonne and are removed at the average cost per tonne of ore in the stockpile.

(ii) In-circuit inventory represents material that is currently being treated in the processing plant to extract the contained gold and to transform it to a saleable form. The in-circuit gold is valued at the average of the beginning inventory and the costs of material fed into the processing stream plus in-circuit conversion costs including applicable overhead, and depreciation related to the processing facilities.

(iii) Finished goods inventory is saleable gold in the form of doré bars that have been poured and gold bullion. Included in the costs are the direct costs of mining and processing operations as well as overheads and depreciation.

(iv) Materials and supplies inventory consists mostly of equipment parts and other consumables required in the mining and ore processing activities. Materials and supplies inventory is valued at the lower of weighted average cost and net realizable value.

I. Share Capital

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

J. Share-based Payments

The Company has three share-based compensation plans: the Stock Option Plan (the “SOP Plan”), the Restricted Share Unit Plan (the “RSU Plan”), and the Employee Share Unit Plan (the “ESU Plan”). The Company measures share - based awards based on the fair value of the options or units on the date of grant. Cash-settled awards are subsequently re-measured at each reporting date.

Stock Option Plan

The fair value of options granted under the Stock Option Plan is measured at grant date using generally accepted valuation techniques, taking into account the terms and conditions upon which the options are granted. The fair value of the awards is adjusted by the estimated number of options that are expected to vest as a result of non-market conditions, and is expensed over the vesting period using a graded vesting method of amortization with a corresponding increase in contributed surplus. Any consideration paid by the option holder on the exercise of stock options is credited to share capital, together with the related share-based compensation originally recorded in contributed surplus. Under the Stock Option Plan, a participant may elect a cashless exercise and have the Company satisfy the payment of the in-the-money amount by issuing common shares.

Employee Share Unit Plan

The Company has an employee share unit plan (the “ESU Plan”) to provide employee performance share units (“EPSUs”) and Employee Restricted Share Units (“ERSUs”) to participants in the plan as a form of remuneration. Subject to adjustment in accordance with the ESU Plan, an EPSU represents the right to receive a common share of the Company at vesting, or at the election of the participant and subject to the consent of the Company, the cash equivalent of a common share less applicable withholdings. The number of EPSUs that will ultimately vest is determined by multiplying the number of EPSUs granted to the participant by an adjustment factor, which ranges from 0 to 2.0. Therefore, the number of EPSUs that will vest and be issued may be higher or lower than the number of EPSUs originally granted to a participant. The adjustment factor is based on the Company’s total shareholder return relative to a selected group of comparable companies over the term of the applicable EPSU performance period. Under the terms of the ESU plan, the Board of Directors is authorized to determine the adjustment factor.

The fair value and vesting terms for EPSUs granted are specific to each individual grant as determined and approved by the Board of Directors. The fair value of the EPSUs is expensed over the vesting period specific to the grant.

Restricted Share Unit Plan

The Company has a restricted share unit plan to provide common shares to participants in the plan as a form of remuneration.

Each RSU has the same value as one common share at the date of grant based on the prior day’s closing price. The vesting terms for RSUs granted are specific to each individual grant as determined by the Board of Directors. The fair value of the RSUs is expensed over the vesting period specific to the grant.

K. Revenue Recognition

Revenue includes sales of refined gold and silver. Revenue is recognized when the significant risks and rewards of ownership have passed to the buyer; it is probable that economic benefits associated with the transaction will flow to the Company; the sales price can be measured reliably; the Company has no significant continuing involvement; and the costs incurred or to be incurred in respect of the transaction can be measured reliably. For the Company, these factors generally occur when the bullion is sold to the customer on the trade date for spot sales and on the settlement date for gold delivered under gold commodity contracts. Changes in the fair value of outstanding gold commodity contracts are recognized in income or loss.

L. Income Taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

(i) Current income tax

Current income tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred income tax

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating in investment in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences if it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

M. Earnings (Loss) per Share

Basic earnings (loss) per share is calculated by dividing the earnings (loss) for the year by the weighted average number of common shares issued and outstanding during the year. Diluted earnings (loss) per share amounts are calculated using the treasury stock method whereby proceeds deemed to be received on the exercise of options and warrants in the per share calculation are assumed to be used to repurchase common shares at the average market price during the year. The effect of potential issuances of shares under options and warrants would be anti-dilutive, and has not been considered.

N. Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. These provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax risk free rate. The increase in the provision due to passage of time is recognized as interest expense.

On recognition of a provision for decommissioning liabilities, an addition is made to the asset category the provision relates to and charged against profit on a unit-of-production basis.

O. Accounting Pronouncements

Recent accounting pronouncements issued but not yet effective:

(a) IFRS 9 – *Financial Instruments*

IFRS 9 *Financial Instruments* ("IFRS 9") was issued by the IASB in July 2014 and will replace *IAS 39, Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 utilizes 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. IFRS 9 also introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(b) IFRS 15 – *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") was issued by the IASB in May 2014, and will replace IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control-based approach to recognize revenue, which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(c) IFRS 16 – *Leases*

IFRS 16 *Leases*, issued in January 2016, replaces IAS 17, *Leases*. IFRS 16 results in most leases being reported on the balance sheet for lessees, eliminating the distinction between a finance lease and an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for companies that also adopt IFRS 15. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

(d) *Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2)

On June 30, 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Note 4. Significant Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Judgments, estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ materially from these estimates.

The areas that require management to make significant judgments, estimates and assumptions in applying the Company's accounting policies in determining carrying values include, but are not limited to:

Presentation and functional currency

The Company's presentation currency is the U.S. dollar and the functional currency of the Company and each of its significant subsidiaries is the U.S. dollar, as it was assessed by management as being the primary currency of the economic environment in which the Company and its significant subsidiaries operate.

Production stage

Significant judgment is required to determine when an asset is able to operate at expected levels and requires an assessment of both qualitative and quantitative factors. The Company uses several criteria to determine when an asset is able to operate at expected levels. These are complex and depend on each development property's plan and its economic, political and environmental conditions. The criteria that can be included is presented in note 3 to the consolidated financial statements.

Mineral reserves and resources

The Company estimates its mineral reserves and resources based on information compiled by qualified persons as defined in accordance with National Instrument 43-101, *Standards of Disclosure for Mineral Projects* requirements. The estimation of mineral reserves and resources requires judgment to interpret available geological data, select an appropriate mining method and establish an extraction schedule. It also requires assumptions about future commodity prices, exchange rates, production costs and recovery rates. There are numerous uncertainties inherent in estimating mineral reserves and resources and assumptions that are valid at the time of estimation and may change significantly when new information becomes available. New geological data as well as changes in the above assumptions may change the economic status of reserves and may, ultimately, result in the reserves being revised.

Changes in the proven and probable mineral reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of property, plant and equipment, inventory valuation, the calculation of depreciation and depletion expense, the capitalization of production phase stripping costs, decommissioning liabilities and recognition of deferred tax amounts.

In May 2016, the Company completed a Life of Mine (“LOM”) plan update for the ELG Mine. The updated LOM affected the calculation of depreciation and depletion expense, inventory valuation, the capitalization of production phase stripping costs and decommissioning liabilities.

Inventory of ore stockpiled, in-circuit and finished goods

The determination of the carrying values of inventory, the average cost of finished goods sold, the net realizable value and the allocation of costs to inventory involve the use of estimates. There is significant judgment used in estimating future costs, future production levels, contained gold ounces, quantities of gold-in-circuit and ore stockpiled, gold recovery levels and market prices. There can be no assurance that actual results will not differ significantly from estimates used in the determination of the carrying values of inventory, which can also materially affect the amounts recognized in cost of sales in the Consolidated Statements of Operations and Comprehensive Income (Loss). Significant judgment is required to determine the value of ore stockpiled, in-circuit inventory and finished goods transferred from construction in progress to inventory on April 1, 2016 upon declaring commercial production at the ELG Mine.

Taxes

The Company is subject to income tax in several jurisdictions. Significant judgment is required in determining the provision for income taxes, due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the ultimate tax determination is different from the amounts that were initially recorded, such differences can materially impact the current and deferred tax amounts recognized in the Consolidated Statements of Financial Position and the Consolidated Statements of Operations and Comprehensive Income (Loss).

Deferred income taxes

The Company has historical tax losses that may be carried forward to reduce tax payments in future years. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred tax assets. The Company recognizes the deferred tax benefit related to historical losses or other deferred income to the extent there is sufficient evidence to support that recovery is probable. Changes in estimates can materially affect deferred tax balances and the related expenses and recoveries in the Consolidated Statements of Operations and Comprehensive Income (Loss). The Company has not recorded a deferred tax asset as at December 31, 2016.

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

Value added tax receivable

The Company is exposed to liquidity and credit risk with respect to its VAT receivable if the Mexican tax authorities are unable or unwilling to make payments in a timely manner in accordance with the Company's monthly filings. Timing of collection on VAT receivables is uncertain as VAT refund procedures require a significant amount of information and follow-up. The Company assesses the recoverability of the amounts receivable at each reporting date. Changes in these estimates can materially affect the amount recognized as value added tax receivable and could result in an increase in other expenses recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss). As at December 31, 2016, the Company determined the full balance to be recoverable.

Impairment of assets

The carrying value of property, plant and equipment is reviewed at each reporting period to determine whether there is any indication of impairment. If indicators of impairment are identified an impairment test is conducted. If the results indicate that the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss). The assessment of the recoverability of an asset's carrying value requires judgment about future production and sales volumes, future commodity prices, recoverable mineral reserves, discount rates, foreign exchange rates, and future operating and capital costs. Changes in estimates could materially impact the carrying value of property, plant and equipment, and result in an impairment loss to be recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss). There were no indicators identified as at December 31, 2016.

Decommissioning liabilities

A decommissioning liability is recognized by the Company when a legal or constructive obligation to incur restoration, rehabilitation and environmental costs arises as a result of environmental disturbances caused by the exploration, development or ongoing production of a mineral property. In the first quarter of 2015, the Company recognized a decommissioning liability relating to the ELG Mine for the first time. Significant judgment is involved in determining whether a constructive obligation has occurred. Decommissioning liabilities are measured at the present value of the expected expenditures required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The effect of any changes to the decommissioning liability, including changes to the underlying estimates and changes in market interest rates used to discount the obligation, is added to or deducted from the cost of the related assets. Changes in these factors can materially impact the decommissioning liability and related assets recognized in the Consolidated Statements of Financial Position.

Note 5. Inventory

		December 31, 2016		December 31, 2015
Ore stockpiled	**$**	**18,931**	$	-
In-circuit		**12,354**		-
Finished goods		**4,094**		-
Materials and supplies		**18,001**		10,597
	$	**53,380**	$	10,597

The amount of depreciation included in inventory as at December 31, 2016 is $15,075 (December 31, 2015 - nil).

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

The Company transferred $36,901 of ore stockpiled, in-circuit inventory and finished goods from construction in progress to inventory on April 1, 2016 upon declaring commercial production at the ELG Mine. The amount of depreciation included in the opening inventory transferred upon the ELG Mine entering the production stage is $3,064.

Note 6. Restricted Cash

Pursuant to the Loan Facility (note 9), the Company maintains restricted cash of $23,428 (December 31, 2015 - $44,591) consisting of committed funds of $13,749 (December 31, 2015 - $13,706) on deposit held for potential obligations in the event of an unplanned temporary closure of the ELG Mine, and restricted cash of $9,679 for accrued tax and royalty liabilities (December 31, 2015 - nil).

On March 30, 2015, an amendment to the Loan Facility was completed and, as part of this amendment, the Company was required to place $30,855 into reserve funds for potential project cost overruns (the “Sponsor Reserve Account”). In the year ended December 31, 2016, $6,000 was used to fund ELG Mine expenditures and the remaining $24,855 in the Sponsor Reserve Account was released from restricted cash.

Note 7. Property, Plant and Equipment

	Mexico			Canada	**Total**
	Mineral Property	Property & Equipment	Construction in Progress	Equipment	
Cost					
As at January 1, 2015	**$ 198,614**	**$ 4,624**	**$ 388,451**	**$ 1,197**	**$ 592,886**
Additions	-	1,009	340,272	308	341,589
Disposals	-	-	-	(111)	(111)
As at December 31, 2015	**198,614**	**5,633**	**728,723**	**1,394**	**934,364**
Additions	**24,154**	**64,949**	**46,191**	**36**	**135,330**
Transfer on commercial production	**1,832**	**728,621**	**(774,914)**	**-**	**(44,461)**
As at December 31, 2016	**$ 224,600**	**$ 799,203**	**$ -**	**$ 1,430**	**$ 1,025,233**
Accumulated depreciation					
As at January 1, 2015	**$ -**	**$ 1,886**	**$ -**	**$ 812**	**$ 2,698**
Depreciation	-	585	-	328	913
Disposals	-	-	-	(65)	(65)
As at December 31, 2015	**$ -**	**$ 2,471**	**$ -**	**$ 1,075**	**$ 3,546**
Depreciation	**15,492**	**65,161**	**-**	**142**	**80,795**
As at December 31, 2016	**$ 15,492**	**$ 67,632**	**$ -**	**$ 1,217**	**$ 84,341**
Net book value					
As at December 31, 2015	$ 198,614	$ 3,162	$ 728,723	$ 319	$ 930,818
As at December 31, 2016	**$ 209,108**	**$ 731,571**	**$ -**	**$ 213**	**$ 940,892**

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

Effective April 1, 2016, the Company entered the production stage at the ELG Mine. The Company transferred the following amounts from construction in progress: $36,901 to inventory, $7,560 to prepaid expenses, $1,832 to mineral property and $728,621 to property and equipment.

As at December 31, 2016, property and equipment includes, net of depreciation, $21,460 in capitalized borrowing costs and $9,179 (December 31, 2015 - $9,172) related to the decommissioning liability for the ELG Mine (note 12), and is net of $35,687 of pre-production sales. These property and equipment amounts were previously included in construction in progress. Mineral property includes $25,986 of capitalized deferred stripping costs, which includes $9,861 of depreciation of property and equipment. A further $563 of depreciation is included in additions to property and equipment during the year ended December 31, 2016.

Note 8. Value Added Tax Receivable

Value Added Tax (“VAT”) or “Impuesto al Valor Agregado” (“IVA”) receivables are generated on the purchase of supplies and services and are refundable from the Mexican government. As at December 31, 2016, the amount of VAT due from the Mexican tax authorities is $61,877 (or 1,279 million Mexican pesos) (December 31, 2015 - $51,333 or 883 million Mexican pesos), of which $21,945 is expected to be collected within the next year and is presented as a current asset, with the remaining $39,932 presented as a non-current asset. In the year ended December 31, 2016, the Company received $22,561 (excluding interest of $352) (or 416 million Mexican pesos excluding interest of 7 million Mexican pesos) for VAT claims for 2015 and 2016. Each reporting period, VAT receivables are reviewed for collectability. Any allowance is based on the determination that the Mexican government may not allow the complete refund of these taxes. A full recovery is expected by the Company.

Note 9. Debt

		December 31, 2016		December 31, 2015
Debt:				
Loan Facility	**$**	**365,714**	$	363,348
Equipment Loan		**5,411**		7,113
VAT Loan		**17,466**		-
Finance Lease		**18,109**		-
Total debt, net of deferred finance charges	**$**	**406,700**	$	370,461
Less: current portion, net of deferred finance charges		**5,535**		1,778
Long-term portion, net of deferred finance charges	**$**	**401,165**	$	368,683

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

Contractual undiscounted debt repayments

		December 31, 2016
2017		**5,535**
2018		**69,968**
2019		**59,442**
2020		**99,257**
2021		**116,286**
2022		**66,375**
Total debt	**$**	**416,863**
Less: unamortized deferred finance charges		**10,163**
Total debt, net of deferred financing charges	**$**	**406,700**
Less: current portion, net of deferred finance charges		**5,535**
Long-term debt, net of deferred financing charges	**$**	**401,165**

Loan Facility

On August 11, 2014, the Company, through its subsidiary MML, signed a credit agreement with BMO Harris Bank N.A., BNP Paribas, Commonwealth Bank of Australia, ING Bank N.V., Société Générale, (collectively referred to as "Mandated Lead Arrangers") and The Bank of Nova Scotia and other definitive documentation with respect to its previously announced syndicated senior secured $375,000 project finance facility (the "Loan Facility") that has a maturity date of June 30, 2022. The Credit Agreement was subsequently amended on March 30, 2015. Included in the amendment was the deferral of the starting date for the Loan Facility's scheduled repayments, as well as amendments to the amounts of scheduled repayments. The Loan Facility is comprised of two separate facilities, a project finance facility of $300,000 (the "PFF") and a cost overrun facility of $75,000 (the "COF"). Advances under the PFF bear interest at a rate of LIBOR + 4.25% to 4.75% and advances under the COF bear interest at the same rate plus 1% until project completion. The Loan Facility is supported by secured guarantees from the Company and each of its material subsidiaries.

The Loan Facility has been fully drawn with an amount outstanding of $375,000 as at December 31, 2016. The loan is carried at amortized cost on the Consolidated Statements of Financial Position. The Company incurred $12,923 in finance charges relating to upfront costs and closure fees for the Loan Facility. These finance charges have been deferred, are presented net of the Loan Facility, and are amortized over the term of the loan using the effective interest method. During the year ended December 31, 2016, the amortization expense relating to the deferred finance charges totaled $2,366, using an effective interest rate ranging between 0.374% and 0.785%, resulting in unamortized deferred finance charges of $9,286 as at December 31, 2016 (December 31, 2015 - $11,652).

The deferred financing charges included a fee of $1,875 which was paid in September 2016 pursuant to the amended Credit Agreement.

Equipment Loan

On December 23, 2015, the Company executed a $7,556 four year loan agreement with BNP Paribas (the "Equipment Loan"). The Equipment Loan, secured by certain mining vehicles that are owned by the Company, is due to mature on December 31, 2019, is repayable in quarterly instalments starting March 31, 2016, and bears interest at a rate of LIBOR + 3.75%. The loan is carried at amortized cost on the Consolidated Statements of Financial Position. The loan obligation was recorded net of finance charges totaling $443 which are being amortized over the term of the Credit Agreement, using an effective interest rate of 2.875%. During the 12 months ended December 31, 2016, the amortization expense relating to the deferred financing charges totaled $186, resulting in unamortized deferred finance charges of $256 as at December 31, 2016. In 2016, the Company repaid $1.9 million.

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

Finance Lease

On December 31, 2015, the Company executed a finance lease agreement for up to $17,440 with Parilease SAS (the "Finance Lease Arrangement") to finance certain mining equipment. Advances under the Finance Lease Arrangement bear interest at a rate of LIBOR + 4.0%, and are repayable in quarterly instalments over five years. On December 26, 2016, the Company signed an amendment to the finance lease agreement that included an increase of $6,275 in available funds bringing the total funds available to $23,715.

The weighted average effective interest on the finance leases is 4.59%. The future minimum annual payments, interest and balance of obligations are as follows:

		December 31, 2016		December 31, 2015
No later than 1 year	**$**	**4,489**	$	-
Later than 1 year but no later than 5 years		**15,870**		-
Later than 5 years		**-**		-
Total minimum lease payments	**$**	**20,359**	$	-
Future finance charges on finance leases		**(2,250)**		-
Present value of finance lease liabilities	**$**	**18,109**	$	-

The present value of the finance lease liabilities is as follows:

		December 31, 2016		December 31, 2015
No later than 1 year	**$**	**4,489**	$	-
Later than 1 year but no later than 5 years		**13,620**		-
Later than 5 years		**-**		-
Present value of finance lease liabilities	**$**	**18,109**	$	-

As at December 31, 2016, the Company has utilized $19,019 of the amount available, has made principal repayments of $582 and has incurred deferred financing charges of $536.

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

VAT Loan

On June 3, 2016, the Company executed a line of credit agreement with Banco Nacional de Comercio Exterior for an amount equivalent to 84.2% of 95% of the Company's outstanding VAT filings, up to 800 million Mexican pesos (approximately $39 million as at December 31, 2016) (the "VAT Loan"). The VAT Loan is secured by the Company's VAT receivable amounts, and advances under the facility bear interest equal to the 91-day Interbank Equilibrium Interest (TIIE) Rate as published by the Bank of Mexico + 2.99%. Interest payments are due quarterly and a final payment of all principal and any accrued interest is due 24 months following the date of the first advance. Upon signing the agreement, the Company paid 0.5% of the total amount committed and will pay 0.5% of each advance.

The Company drew down its first advance on June 24, 2016, in the amount of 450.5 million Mexican pesos (approximately $24.3 million at the time of the advance) and has made principal repayments of $4.0 million as at December 31, 2016. The loan is carried at amortized cost, net of deferred finance charges of $293, and totaled $17.4 million as at December 31, 2016.

In late November 2016 an amendment to the credit agreement was granted to the Company extending the availability period of the remaining funds to March 31, 2017.

Note 10. Finance Costs (Income)

The following table shows net finance costs (income) for the years ended December 31, 2016 and 2015:

	Year Ended	
	December 31, 2016	December 31, 2015
Interest and financing fees	**$ 21,128**	$ 861
Interest income	**(865)**	(1,639)
Accretion of decommissioning liabilities	**311**	271
	$ 20,574	$ (507)

Note 11. Derivative Contracts

Currency and gold commodity contracts

In connection with the Loan Facility, the Company entered into commitments to deliver 204,360 ounces of gold over an 18-month period commencing in January 2016 to the Mandated Lead Arrangers, at an average flat forward gold price of $1,241 per ounce. The gold hedges provide gold price protection for the Company's debt obligations.

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

The table below provides a summary of the gold contracts outstanding as at December 31, 2016:

Gold Contracts

Gold Ounces	Contract Price per Ounce	Notional Amount by Term to Maturity: Within 1 Year	Notional Amount by Term to Maturity: Within 1 to 2 years	Total	Fair Value as at December 31, 2016
20,052	$ 1,245	$ 126,658	$ -	$ 126,658	$ 8,586
60,154	$ 1,240				
21,901	$ 1,238				
102,107					

The Company has also executed, as required by the Loan Facility, foreign exchange currency contracts, which cover 75% of the Company's non-U.S. dollar denominated capital expenditures for the ELG Mine from November 2014 to the second quarter of 2017, as well as for 75%, 50% and 25% annually of the Company's estimated non-U.S. dollar denominated operating expenditures for the ELG Mine from May 2016 to December 2018. The contracts are secured on an equal basis with the Loan Facility and documented in the form of International Swaps and Derivatives Association ("ISDA") Agreements.

The table below provides a summary of the currency contracts outstanding as at December 31, 2016:

Currency Contracts

Notional Amount (MXN thousands)	Contract Price (MXN)	Notional Amount by Term to Maturity (MXN thousands): Within 1 Year	Notional Amount by Term to Maturity (MXN thousands): Within 2 to 3 years	Total	Fair Value as at December 31, 2016
7,600	13.80	779,000	504,000	1,283,000	$ (10,185)
3,800	13.81				
3,800	13.82				
3,800	13.83				
203,000	18.54				
609,000	18.55				
203,000	18.69				
249,000	19.18				
1,283,000					

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

The following table shows the classification of the fair value of the gold and currency contracts in the Consolidated Statements of Financial Position as at December 31, 2016 and 2015:

	Classification	**Fair Value as at December 31, 2016**	Fair Value as at December 31, 2015
Gold contracts	Current assets	**$ 8,586**	$ 17,384
Gold contracts	Long-term assets	**-**	17,023
Total derivative assets		**$ 8,586**	$ 34,407
Currency contracts	Current liabilities	**$ (5,650)**	$ (5,270)
Currency contracts	Long-term liabilities	**(4,535)**	(304)
Total derivative liabilities		**$ (10,185)**	$ (5,574)

Derivatives arising from the currency swaps and gold contracts are intended to manage the Company's risk management objectives associated with changing market values, but they do not meet the strict hedge effectiveness criteria designated in a hedge accounting relationship. Accordingly, these derivatives have been classified as "non-hedge derivatives". Changes in the fair value of the gold and foreign exchange currency contracts are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss).

The following table shows the (gains) losses on derivative contracts for the years ended December 31, 2016 and 2015:

	Year Ended	
	December 31, 2016	December 31, 2015
Unrealized loss (gain) on gold contracts	**$ 25,821**	$ (23,036)
Unrealized loss (gain) on currency contracts	**4,611**	(2,456)
Realized loss (gain) on gold contracts	**2,096**	(1,011)
Realized loss on currency contracts	**8,326**	10,495
	$ 40,854	$ (16,008)

Note 12. Decommissioning Liabilities

The Company has recognized a decommissioning liability relating to its ELG Mine, and has determined that no significant decommissioning liabilities exist in connection with the exploration activities at its Media Luna Project.

Assumptions have been made, based on the current economic environment, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend on future market prices for the necessary decommissioning work required, which will reflect market conditions at the relevant time.

The Company has calculated the estimated fair value of the decommissioning liability as at December 31, 2016 using a pre-tax discount rate of 4.33% (December 31, 2015 - 3.31%) based on inflation-adjusted Mexican bond yields, with expenditures expected to be incurred between 2017 and 2030. The estimated total future undiscounted cash flows to settle the decommissioning liability as at December 31, 2016 is $15,506 (December 31, 2015 - $14,235). The total decommissioning liability for the ELG Mine as at December 31, 2016 is $10,502 (December 31, 2015 - $9,441). As the liability is a monetary liability denominated in Mexican pesos, it is translated at the spot exchange rate at each reporting date. Foreign exchange differences arising from the revaluation of the decommissioning liability are capitalized as part of property, plant and equipment (note 7).

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

The following table shows the decommissioning liability as at December 31, 2016 and 2015:

	Year Ended	
	December 31, 2016	December 31, 2015
Balance, beginning of the year	**$ 9,441**	$ -
Initial recognition	**-**	8,348
Revisions to expected discounted cash flows	**2,497**	2,069
Accretion expense	**311**	271
Foreign exchange movement	**(1,747)**	(1,247)
Balance, end of the year	**$ 10,502**	$ 9,441
Less: current portion	**299**	-
Long-term portion	**$ 10,203**	$ 9,441

Note 13. Income Taxes

The components of income tax expense for the years ended December 31, 2016 and 2015 are as follows:

	Year Ended	
	December 31, 2016	December 31, 2015
Current income tax expense	**$ 10,546**	$ 649
Deferred income tax expense	**12,051**	4,824
Income tax expense	**$ 22,597**	$ 5,473

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

For the years ended December 31, 2016 and 2015, the Company's effective rate of income tax differs from the statutory rate of 26.5% as follows:

	Year Ended			
		December 31, 2016		December 31, 2015
Income (loss) before income tax expense	**$**	**25,755**	$	(19,101)
Canadian federal and provincial tax rates		**26.5%**		26.5%
Expected income tax expense (recovery)		**6,825**		(5,061)
Tax effect:				
Mexican mining royalty		**9,235**		4,022
Impact of foreign tax rates		**1,688**		(3,292)
Non-deductible expenses		**2,994**		1,359
Impact of foreign exchange		**30,833**		24,280
Change in unrecognized deferred tax assets		**(28,978)**		(15,835)
Income tax expense	**$**	**22,597**	$	5,473

The significant components of recognized deferred income tax assets and liabilities are as follows:

		December 31, 2016		December 31, 2015
Liabilities				
Property, plant and equipment	**$**	**57,960**	$	14,645
Derivative gold contracts		**3,220**		12,871
Accrued withholding tax liability		**4,580**		4,212
Other deferred tax liability		**4,717**		687
Total deferred tax liabilities	**$**	**70,477**	$	32,415
Other deferred tax assets		**(765)**		-
Future deductibility of Mexican mining royalties		**(8,145)**		-
Tax losses		**(27,402)**		(10,301)
Balance, end of the year	**$**	**34,165**	$	22,114

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

Deferred tax assets have not been recognized in respect of the following deductible temporary differences as management does not consider their utilization to be probable in the foreseeable future:

		December 31, 2016		December 31, 2015
Mexican tax losses (expiring 2022 to 2025)	**$**	**-**	$	65,973
Canadian tax losses (expiring 2029 to 2036)		**66,700**		51,675
Pre-production costs capitalized for tax purposes		**-**		23,978
Deductibility of Mexican mining royalty		**-**		17,902
Deductible equity issuance cost and other		**4,618**		15,577
Decommissioning liabilities and other reserves		**12,030**		9,441
Total unrecognized deductible temporary differences	**$**	**83,348**	$	184,546

Note 14. Share Capital

Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

Issued

During the year ended December 31, 2016, 831,885 (year ended December 31, 2015 - 37,500) common shares were issued as a result of 2,001,315 stock option exercises, of which 1,506,295 were exercised under the Company's stock option plan's cashless exercise option.

During the year ended December 31, 2016, 278,999 (year ended December 31, 2015 - nil) common shares were issued to settle vested restricted share units.

Share consolidation

At the meeting of shareholders of the Company on June 9, 2016, the shareholders approved a special resolution for the Company to consolidate its issued and outstanding common shares on a ten-to-one basis. All references in these consolidated financial statements to earnings (loss) per share, weighted average number of common shares outstanding, common shares issued and outstanding, common share options, and restricted share units have been retrospectively restated to reflect the share consolidation.

Note 15. Share-based Payments

The Company has three share-based compensation plans: the Stock Option plan (the "SOP Plan"), the Restricted Share Unit Plan (the "RSU Plan"), and the Employee Share Unit plan (the "ESU Plan"). Under the terms of each plan, the aggregate number of securities that may be issued or outstanding under all share-based compensation arrangements of the Company is limited.

The ESU Plan allows for the issuance of restricted share units ("ERSUs") and performance share units ("EPSUs") to employees of the Company.

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

The following is a summary of the number of common share options ("Options") issued under the SOP Plan, restricted share units ("RSU") issued under the RSU Plan, and ERSUs and EPSUs outstanding as at December 31, 2016 and the amounts of share-based compensation expense recognized for the years ended December 31, 2016 and 2015.

	Number Outstanding	**Year Ended**	
	December 31, 2016	**December 31, 2016**	December 31, 2015
Common share options	**1,189,819**	**$ 1,037**	$ 1,399
RSUs	**118,016**	**2,637**	155
ERSUs	**113,423**	**387**	-
Performance share units	**170,136**	**699**	-
	1,591,394	**$ 4,760**	$ 1,554

Common share options

The SOP Plan authorizes the Board of Directors to grant Options to directors, officers, consultants or employees. The term of any Option grant may not exceed five years.

The SOP Plan also limits the aggregate number of securities that may be granted to a non-executive director in any given year under all share-based compensation arrangements of the Company.

As at December 31, 2016, Options held by directors, officers, employees and consultants are as follows:

	Outstanding			**Exercisable**		
Range (CDN)	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price (CDN)	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price (CDN)
$11.40 - $11.45	216,122	$ 3.57	$ 11.40	123,071	3.57	$ 11.40
$11.46 - $11.65	350,431	2.30	11.50	350,431	2.30	11.50
$11.66 - $16.50	158,218	2.41	14.11	142,883	2.24	14.18
$16.51 - $21.05	82,548	2.22	19.43	79,636	2.14	19.39
$21.06 - $21.70	382,500	0.72	21.70	382,500	0.72	21.70
	1,189,819	**$ 2.03**	**$ 15.66**	**1,078,521**	**1.86**	**$ 16.04**

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

A summary of changes in the number of Options issued by the Company for the years ended December 31, 2016 and 2015 is presented as follows:

	Number of options (Note 14)		Weighted average exercise price (CDN) (Note 14)
Balance, January 1, 2015	**3,070,339**	**$**	**14.40**
Granted	353,040		11.40
Exercised	(37,500)		12.00
Forfeited	(67,200)		15.00
Balance, December 31, 2015	**3,318,679**	**$**	**14.10**
Granted	102,833		15.68
Exercised	(2,001,315)		13.26
Forfeited	(41,329)		12.28
Expired	(189,049)		14.59
Balance, December 31, 2016	**1,189,819**	**$**	**15.66**

The fair value of the Options granted was calculated using a Black-Scholes valuation model. The expected volatility is estimated taking into consideration the historical volatility of the Company's share price. The estimated fair value of Options is amortized using graded vesting, over the period in which the options vest. One-third of the Options granted to officers and employees vest on grant and the remainder vest over two years. For those options that vest on a single date, either on issuance or on the achievement of certain milestones, the fair value of these options is amortized using graded vesting over the anticipated vesting period.

The fair value of Options granted during the year ended December 31, 2016 was CDN$6.53 (year ended December 31, 2015 - CDN$4.84). The following is a summary of the assumptions used in the Black-Scholes valuation model for Options granted during the years ended December 31, 2016 and 2015:

	Year Ended	
	December 31, 2016	December 31, 2015
Risk-free interest rate	**0.63% - 0.80%**	0.58%
Expected price volatility	**53.3% - 54.2%**	55.0%
Expected option life (in years)	**4.00**	4.00
Annual dividend rate	**0%**	0%
Estimated forfeiture rate	**2.35% - 2.55%**	2.35%

The weighted average share price at the date of exercise of options exercised during 12 months ended December 31, 2016 was CDN$25.48.

Restricted share units

Restricted share units comprise both RSUs issued under the RSU Plan and ERSUs granted under the ESU Plan.

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

RSUs and ERSUs are valued based on the closing stock price at the date of grant and are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) over the vesting period.

Under this method, a portion of the fair value of the ERSUs is recognized in each reporting period based on the pro-rated number of days the eligible employees are employed by the Company compared to the vesting period of each grant. Upon settlement, each RSU and ERSU convert into one common share of the Company. ERSUs may be settled by cash payment upon vesting at the discretion of the Company.

Eligible participants under the RSU Plan include directors, officers, contractors and employees. Under the RSU Plan, qualified participants may elect to defer the receipt of all or any part of their entitlement to the RSUs.

A summary of changes in the number of RSUs and ERSUs issued by the Company for the years ended December 31, 2016 and 2015 is presented below:

	Number of RSUs and ERSUs (Note 14)		Weighted average value (CDN) (Note 14)
Balance, January 1, 2015	**182,146**	**$**	**14.90**
Granted	-		-
Settled	-		-
Balance, December 31, 2015	**182,146**	**$**	**14.90**
Granted	329,749		21.75
Settled	(278,999)		16.59
Forfeited	(1,457)		21.45
Balance, December 31, 2016	**231,439**	**$**	**22.59**

Performance share units

Under the ESU Plan, EPSUs may be granted to employees of the Company. An EPSU represents the right to receive a common share of the Company at vesting, or at the discretion of the Company, the cash equivalent of a common share.

The number of EPSUs that will ultimately vest is determined by multiplying the number of EPSUs granted to the participant by an adjustment factor, which ranges from 0 to 2.0. Therefore, the number of EPSUs that will vest and be issued may be higher or lower than the number of EPSUs originally granted to a participant. The adjustment factor is based on the Company's total shareholder return relative to a group of comparable companies over the term of the applicable EPSU performance period. Under the terms of the ESU Plan, the Board of Directors is authorized to determine the adjustment factor.

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

A summary of changes in the number of EPSUs issued by the Company for the years ended December 31, 2016 and 2015 is presented below:

	Number of PSUs	Weighted average value (CDN)
Balance, January 1, 2015	**-**	**$ -**
Granted	-	-
Settled	-	-
Balance, December 31, 2015	-	**$ -**
Granted	170,473	34.18
Settled	-	-
Forfeited	(337)	34.18
Balance, December 31, 2016	**170,136**	**$ 34.18**

The fair value of the EPSUs granted was calculated using a Monte Carlo simulated option pricing model. The Monte Carlo simulated option pricing model requires the use of subjective assumptions including expected share price volatility, risk-free interest rate, and estimated forfeiture rate. Historical data is considered in setting the assumptions. The estimated fair value of EPSUs is amortized on a straight-line basis over the related performance period. Under this method, a portion of the fair value of the EPSUs is recognized at each reporting period based on the pro-rated number of months the eligible employees are employed by the Company compared to the vesting period of each grant.

The EPSUs granted during the year ended December 31, 2016 vest on December 31, 2018 and had an estimated unit fair value at the grant date of CDN $34.18 (US$26.17 at the date of grant).

The following is a summary of the assumptions used in the Monte Carlo simulated option pricing model for EPSUs granted during the year ended December 31, 2016:

	Year Ended December 31, 2016
Risk-free interest rate	**0.504%**
Expected price volatility	**56%**
Expected life of units	**2.4**
Annual dividends	**0%**
Estimated forfeiture rate	**0%**

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

Note 16. Earnings (Loss) per Share

Earnings (loss) per share has been calculated using the weighted average number of common shares outstanding for the years ended December 31, 2016 and 2015 as follows:

	Year Ended			
		December 31, 2016		December 31, 2015
Net income (loss) for the year	**$**	**3,158**	$	(24,574)
Basic weighted average shares outstanding (Note 14)		**79,096,487**		78,538,465
Weighted average shares dilution adjustments:				
Share options		**579,833**		-
Restricted share units		**127,971**		-
Performance share units		**-**		-
Diluted weighted average shares outstanding		**79,804,291**		78,538,465
Earnings (loss) per share (Note 14)				
Basic	**$**	**0.04**	$	(0.31)
Diluted	**$**	**0.04**	$	(0.31)

For the year ended December 31, 2016, the diluted weighted average number of common shares outstanding used in the calculation of diluted earnings per share excludes 32,448 share options, 165,920 restricted share units and 170,136 performance share units as their exercise or settlement would be anti-dilutive in the earnings per share calculation.

For the year ended December 31, 2015, the diluted weighted average common shares outstanding used in the calculation of diluted net loss per share excludes outstanding share options and restricted share units as their exercise would be anti-dilutive in the net loss per share calculation.

Note 17. Financial Instruments and Risk Management

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities, derivative contracts and debt. Cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities, and debt are recorded at amortized cost on the Consolidated Statements of Financial Position. Other than the debt, the fair values of these financial instruments approximate their carrying values due to their short-term maturity. The derivative contracts are recorded at fair value and revalued through income at the end of each reporting period.

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

The carrying values and fair values of the Company's financial instruments as at December 31, 2016 and 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	**$ 104,019**	**$ 104,019**	$ 46,055	$ 46,055
Derivative contracts	**8,586**	**8,586**	34,407	34,407
Restricted cash	**23,428**	**23,428**	44,591	44,591
	$ 136,033	**$ 136,033**	$ 125,053	$ 125,053
Financial liabilities				
Accounts payable and accrued liabilities	**$ 50,545**	**$ 50,545**	$ 42,389	$ 42,389
Derivative contracts	**10,185**	**10,185**	5,574	5,574
Debt	**406,700**	**416,863**	370,461	382,556
	$ 467,430	**$ 477,593**	$ 418,424	$ 430,519

The Company's financial risk exposures and the impact on the Company's financial instruments are summarized below:

(a) Credit risk:

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. All of the Company's cash and cash equivalents, VAT receivable, restricted cash, and derivative assets are held with reputable financial institutions or government agencies and, as such, the Company does not consider its credit risk to be significant as at December 31, 2016.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Company had cash balances of $104,019 (excluding restricted cash of $23,428) (December 31, 2015 - cash balance of $46,055, excluding restricted cash of $44,591). The Company maintains its cash in fully liquid business accounts.

During the year ended December 31, 2016, the Company drew down a total of $19,019 from its Finance Lease Arrangement (note 9) to finance certain mining equipment. As at December 31, 2016, the amounts outstanding under the Loan Facility, Equipment Loan, Finance Lease Arrangement, and VAT Loan totalled $375,000, $5,667, $18,437 and $17,759, respectively.

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

Cash flows that are expected to fund the operation of the ELG Mine and settle current liabilities are dependent on, among other things, proceeds from gold sales. The Company is exposed to liquidity risk and credit risk with respect to its VAT receivables if the Mexican tax authorities are unable or unwilling to make payments in a timely manner in accordance with the Company's monthly filings. In order to mitigate this risk, during the second quarter of 2016, the Company entered into the VAT Loan. Timing of collection on VAT receivables is uncertain as VAT refund procedures require a significant amount of information and follow-up. As at December 31, 2016, the Company expects to recover $21,945 over the next 12 months and a further $39,932 thereafter. Significant delays in the collection of VAT receivables may affect the Company's ability to repay the VAT Loan when it becomes due in June 2018. The Company's approach to managing liquidity risk with respect to its VAT receivables is to file its refund requests on a timely basis, monitor actual and projected collections of its VAT receivables, and cooperate with the Mexican tax authorities in providing information as required. Although the Company expects a full recovery, there remains a risk on the timing of collection of the Company's VAT receivables, which may affect the Company's liquidity and ability to repay the VAT Loan.

The following tables detail the Company's expected remaining contractual cash flow requirements for its financial liabilities on repayment or maturity periods. The amounts presented are based on the contractual undiscounted cash flows, and may not agree with the carrying amounts on the Consolidated Statements of Financial Position.

				December 31, 2016
	Up to 1 year	1-5 years	Over 5 years	**Total**
Accounts payable and accrued liabilities	$ 50,545	$ -	$ -	**$ 50,545**
Derivative contracts (Note 11)	5,650	4,535	-	**10,185**
Debt (Note 9)	5,535	411,328	-	**416,863**
	$ 61,730	**$ 415,863**	**$ -**	**$ 477,593**

				December 31, 2015
	Up to 1 year	1-5 years	Over 5 years	Total
Accounts payable and accrued liabilities	$ 42,389	$ -	$ -	$ 42,389
Derivative contracts (Note 11)	5,270	304	-	5,574
Debt (Note 9)	1,889	200,780	179,887	382,556
	$ 49,548	**$ 201,084**	**$ 179,887**	**$ 430,519**

(c) Market risk:

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(i) Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument or its fair value will fluctuate because of changes in market interest rates. Amounts outstanding under the PFF bear interest at a rate of LIBOR + 4.25% to 4.75% and advances under the COF bear interest at the same rate + 1% until project completion, while amounts outstanding under the Equipment Loan bear interest at a rate of LIBOR + 3.75%. The Company has not entered into any agreements to hedge against unfavorable changes in interest rates.

The Company deposits cash in fully liquid bank business accounts. As such, the Company does not consider its interest rate risk exposure to be significant as at December 31, 2016 with respect to its cash and cash equivalent positions.

(ii) Foreign currency risk:

The Company is exposed to financial risk related to foreign exchange rates. The Company operates in Canada and Mexico and has exposure to financial risk arising from fluctuations in foreign exchange rates. The Company expects the majority of its exploration, project development, operating and decommissioning expenditures associated with the Morelos Gold Property to be paid in Mexican pesos and U.S. dollars.

As at December 31, 2016, the Company has hedged its exposure to foreign currency exchange fluctuations through the execution of foreign exchange currency hedges which cover 75% of the Company's non-U.S. dollar denominated capital expenditures from November 2014 to the second quarter of 2017, as well as 75%, 50% and 25% annually of the Company's estimated non-U.S. dollar denominated operating expenditures for the ELG Mine. As at December 31, 2016, a 10% appreciation or depreciation of the Mexican peso relative to the U.S. dollar would result in a decrease or increase of $3,951 (using spot rate as at December 31, 2016 of 20.664 Mexican pesos per U.S. dollar) in the Company's net income (loss) for the year relating to the derivative currency contracts.

As at December 31, 2016, the Company had cash and cash equivalents, accounts receivable, VAT receivables, accounts payable and accrued liabilities and income taxes payable that are denominated in Mexican pesos and in Canadian dollars. A 10% appreciation or depreciation of the Mexican peso and Canadian dollar relative to the U.S. dollar would have resulted in a decrease or increase of $3,687 and $371 in the Company's net income (loss) for the year, respectively.

(iii) Commodity price risk:

Gold prices have fluctuated widely in recent years and the market price of gold has increased by 8% during the year ended December 31, 2016. There is no assurance that a profitable market will exist for gold produced by the Company. Under requirements from the Loan Facility, the Company entered into commitments to deliver 204,360 ounces of gold over an 18-month period commencing in January 2016 to the Lenders, at an average flat forward gold price of $1,241 per ounce. As at December 31, 2016, 102,107 ounces remained to be delivered under these derivative contracts. A 10% appreciation or depreciation of gold prices would result in an increase or decrease of $7,345 and $1,630 (using spot rate as at December 31, 2016 of $1,151 per ounce) in the Company's net income (loss) for the year relating to the derivative gold contracts.

(d) Fair value:

Fair market value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

The following tables illustrate the classification of the Company's financial instruments measured at fair value within the fair value hierarchy. The levels in the hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

			December 31, 2016
	Level 1	Level 2	Level 3
Financial assets			
Derivative gold contracts	$ -	$ 8,586	$ -
	$ -	**$ 8,586**	**$ -**
Financial liabilities			
Derivative currency contracts	$ -	$ 10,185	$ -
	$ -	**$ 10,185**	**$ -**

			December 31, 2015
	Level 1	Level 2	Level 3
Financial assets			
Derivative gold contracts	$ -	$ 34,407	$ -
	$ -	**$ 34,407**	$ -
Financial liabilities			
Derivative currency contracts	$ -	$ 5,574	$ -
	$ -	**$ 5,574**	$ -

Note 18. Capital Management

Capital is comprised of the Company's shareholders' equity and debt. As at December 31, 2016, the Company's shareholders' equity was $683,896 (December 31, 2015 - $670,136), accounts payable and accrued liabilities of $50,545 (December 31, 2015 – $42,389) and debt, comprising of the Loan Facility, Equipment Loan, Finance Lease Arrangement and VAT Loan, net of deferred finance charges of $406,700 (December 31, 2015 - $370,461). The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its ongoing liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term.

The capital required for the development of the ELG Mine was raised through the issuance of common shares, bought deal financings, and debt financing. The net proceeds raised were used to advance the development of the ELG Mine and provide sufficient working capital to meet the Company's ongoing obligations. The ELG Mine reached commercial production effective April 1, 2016.

(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

On March 30, 2015, an amendment to the Loan Facility was completed. The amendment included adjustments to accommodate the financing impacts of the change in the planned schedule. As part of this amendment, the Company was required to place $30,855 into restricted cash to fund potential project cost overruns. During the year ended December 31, 2016, $6,000 was used to fund ELG Mine expenditures and the remaining $24,855 was released from restricted cash. Furthermore, as set out in the Credit Agreement, as amended on March 30, 2015, the Loan Facility is subject to an Interim and Final Completion Test ("ICT" and "FCT", respectively) requiring the Company to meet certain operational, financial and legal criteria. The deadlines for completion of the ICT and FCT are September 30, 2016 and March 31, 2018, respectively. The Company successfully completed, and the Lenders accepted, the ICT in September 2016. The Company was required to complete certain additional work with respect to the Tailings Dry Stack with a deadline of February 28, 2017. The Company successfully completed, and the Lenders accepted, the additional work with respect to the Tailings Dry Stack. Inability to achieve the FCT would constitute an event of default under the Loan Facility, unless a waiver or amendment to the Loan Facility is obtained. The Company is also restricted from repatriating funds from MML until the FCT has been achieved.

In addition, the Company is also restricted from repatriating funds until the VAT Loan has been paid in full.

As at December 31, 2016, cash balances held by MML totalled $70,048 (December 31, 2015 - $30,304).

Note 19. General and Administrative Costs

The following is a summary of general and administrative costs for the years ended December 31, 2016 and 2015:

	Year Ended	
	December 31, 2016	December 31, 2015
Salaries and benefits	**$ 7,074**	$ 5,164
Share-based compensation	**4,760**	2,771
Professional fees	**1,681**	1,604
Administration and office	**1,183**	1,190
Depreciation and amortization	**142**	913
Travel	**541**	604
Total	**$ 15,381**	$ 12,246

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015
(Amounts in thousands of U.S. dollars, except share and per share amounts, unless otherwise noted)

Note 20. Exploration and Evaluation Costs

The following is a summary of exploration and evaluation costs for the years ended December 31, 2016 and 2015:

	Year Ended	
	December 31, 2016	December 31, 2015
Exploration		
Salaries, contracted services and consulting fees	**$ 2,091**	$ 4,998
Drilling and sampling	**1,089**	2,197
Rights, permits and licensing	**59**	231
	3,239	7,426
Evaluation	**469**	2,246
Total	**$ 3,708**	$ 9,672

Note 21. Segmented Information

The Company's mineral property and equipment is located substantially in Mexico. The Company operates one reportable operating segment, being mineral exploration and mine development and operation in Mexico. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

Note 22. Related Party Transactions

Certain key management personnel of the Company purchased refined gold from the Company's first gold pour at the prevailing gold market prices. Total sales to key management personnel for the year ended December 31, 2016 amounted to $44.

Key management compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company. The Board of Directors, President & CEO, the Chief Operating Officer, and the Chief Financial Officer are key management personnel.

The remuneration of key management personnel, paid or payable, during the years ended December 31, 2016 and 2015 was as follows:

	Year Ended	
	December 31, 2016	December 31, 2015
Salaries and benefits	**$ 2,360**	$ 1,605
Share-based compensation	**3,624**	1,490
Total	**$ 5,984**	$ 3,095

Note 23. Commitments

Purchase commitments

As at December 31, 2016, the total purchase commitments for the ELG Mine amounted to $38,865, which are expected to settle over the next 12 months.

Service commitments

As at December 31, 2016, the total service commitments amounted to $1,234, which are expected to settle within 2017.

Operating leases

The Company has operating lease agreements involving office space and equipment. Future minimum lease payments required to meet obligations that have initial or remaining non-cancellable lease terms are $159 for 2017, $156 for both 2018 and 2019, and $78 for 2020.

ELG royalties

Production revenue from the "Reducción Morelos Norte" concession is subject to a 2.5% royalty payable to the Mexican Geological Survey agency. The royalty is accrued based on revenue and is payable on a quarterly basis.

In 2014, the Mexican government enacted a tax reform introducing a mining tax of 7.5% on earnings before the deduction of taxes, interest, depreciation and amortization, and a royalty of 0.5% on sales of gold, silver and platinum. Both the mining tax and royalty are payable on an annual basis in March of the following year.