SCORPIO MINING CORPORATION

Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(In thousands of U.S. dollars, unless otherwise stated)

Scorpio Mining Corporation

(In thousands of U.S. dollars, unless otherwise stated)

December 31, 2014 and 2013

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements have been prepared by management and are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as outlined in Part I of the Chartered Professional Accountants Canada Handbook. Other information contained in this document has also been prepared by management and is consistent with the data contained in the consolidated financial statements. A system of internal control has been developed and is maintained by management to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable.

The Board of Directors approves the financial statements and ensures that management discharges its financial reporting responsibilities. The Board's review is accomplished principally through the audit committee, which is composed of non-executive directors. The audit committee meets periodically with management and the auditors to review financial reporting and control matters.

The consolidated financial statements have been audited by Deloitte LLP and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

(Signed) Darren Blasutti President & Chief Executive Officer	(Signed) Warren Varga Chief Financial Officer

Toronto, Ontario, Canada
March 27, 2015

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Independent Auditors' Report

To the Shareholders of Scorpio Mining Corporation

We have audited the accompanying consolidated financial statements of Scorpio Mining Corporation, which comprise the consolidated statements of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity, and consolidated statements of cash flows for the years ended December 31, 2014 and December 31, 2013, and 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.

Auditor's 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 audits 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 the auditor's 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, the auditor considers 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 financial position of Scorpio Mining Corporation as at December 31, 2014, December 31, 2013 and January 1, 2013 and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

March 27, 2015

Scorpio Mining Corporation
Consolidated statements of financial position
(In thousands of U.S. dollars)

As at	December 31, 2014	December 31, 2013	January 1, 2013
Assets		(Note 3c)	(Note 3c)
Current assets			
Cash and cash equivalents	$ 15,224	$ 15,437	$ 23,715
Trade and other receivables (Note 8)	6,768	9,294	8,288
Income tax receivable	236	-	-
Inventories (Note 9)	12,353	8,466	7,050
Prepaid expenses	699	598	548
Investment in Scorpio Gold (Note 10)	1,655	2,495	7,491
	36,935	36,290	47,092
Non-current assets			
Restricted cash	368	-	-
Long-term investments	32	-	-
Property, plant and equipment (Note 11)	81,253	92,453	90,374
Deferred tax assets (Note 19)	-	11,088	10,838
Total assets	$ 118,588	$ 139,831	$ 148,304
Liabilities			
Current liabilities			
Trade and other payables	$ 13,070	$ 2,608	$ 2,201
Derivative liability (Note 7)	502	-	-
Advance on mining concession sales	87	-	-
Credit facility (Note 13)	2,155	-	-
	15,814	2,608	2,201
Non-current liabilities			
Other long-term liabilities	559	-	-
Credit facility (Note 13)	5,592	-	-
Post-employment benefit obligations (Note 14)	5,181	-	-
Decommissioning provision (Note 15)	4,832	1,777	1,666
Deferred tax liabilities (Note 19)	1,271	-	-
Total liabilities	33,249	4,385	3,867
Equity			
Share capital (Note 16)	179,897	153,778	153,686
Equity reserve	26,450	23,588	22,900
Foreign currency translation reserve	7,974	8,399	10,054
Changes in available-for-sale investment in Scorpio Gold	307	275	(529)
Deficit	(129,299)	(50,604)	(41,684)
Equity attributable to shareholders of the Company	85,329	135,436	144,427
Non-controlling interest	10	10	10
Total equity	85,339	135,446	144,437
Total liabilities and equity	$ 118,588	$ 139,831	$ 148,304

Contingencies (Note 23)

APPROVED BY THE BOARD

(Signed) Brad Kipp
Director

(Signed) Gordon Pridham
Director

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

Scorpio Mining Corporation

Consolidated statements of loss and comprehensive loss
For the years ended December 31, 2014 and 2013
(In thousands of U.S. dollars, except share and per share amounts)

	2014	2013
		(Note 3c)
Revenue	$ 31,479	$ 30,213
Cost of sales	(26,135)	(23,548)
Depletion and amortization	(11,008)	(6,484)
Corporate general and administrative (Note 18)	(5,364)	(2,919)
Exploration costs	(12)	-
Accretion on decommissioning provision (Note 15)	(101)	(89)
Interest income	86	153
Foreign exchange loss	(397)	(350)
Unrealized loss on derivative liability (Note 7)	(502)	-
Impairment of mining interests (Note 12)	(53,268)	(1,068)
Impairment of investment in Scorpio Gold (Note 10)	(722)	(5,318)
Loss before income taxes	(65,944)	(9,410)
Income tax recovery (expense) (Note 19)	(12,751)	490
Net loss attributable to:		
Equity shareholders of the Company	(78,695)	(8,920)
Other comprehensive income (loss)		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve	(425)	(1,655)
Change in fair value of available-for-sale securities of Scorpio Gold (net of tax)	32	804
Other comprehensive loss	(393)	(851)
Comprehensive loss	$ (79,088)	$ (9,771)
Loss per share		
Basic and diluted	(0.39)	(0.04)
Weighted average number of common shares outstanding		
Basic and diluted (Note 17)	201,601,926	198,517,680

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

Scorpio Mining Corporation

Consolidated statements of changes in equity
For the years ended December 31, 2014 and 2013
(In thousands of U.S. dollars, except share amounts)

	Share capital		Equity	Foreign currency	Changes in fair value of available-for-sale investment		Non-controlling	Total
	Shares (000s)	Amount	reserve	translation reserve	in Scorpio Gold	Deficit	interest	equity
Balance at January 1, 2013 (Note 3c)	198,389	$ 153,686	$ 22,900	$ 10,054	$ (529)	$ (41,684)	$ 10	$ 144,437
Net loss for the period	-	-	-	-	-	(8,920)	-	(8,920)
Translation adjustment	-	-	-	(1,655)	-	-	-	(1,655)
Share-based payments	-	-	723	-	-	-	-	723
Exercise of stock options	200	92	(35)	-	-	-	-	57
Change in fair value of investment in Scorpio Gold	-	-	-	-	(4,514)	-	-	(4,514)
Reclassification of losses recorded in statement of operations (Note 10)	-	-	-	-	5,318	-	-	5,318
Balance at December 31, 2013	198,589	$ 153,778	$ 23,588	$ 8,399	$ 275	$ (50,604)	$ 10	$ 135,446
Balance at January 1, 2014	198,589	$ 153,778	$ 23,588	$ 8,399	$ 275	$ (50,604)	$ 10	$ 135,446
Net loss for the period	-	-	-	-	-	(78,695)	-	(78,695)
Translation adjustment	-	-	-	(425)	-	-	-	(425)
Share-based payments	-	-	206	-	-	-	-	206
Shares issued, options and warrants exchanged on acquisition of U.S. Silver & Gold Inc. (Note 6)	137,469	26,119	2,656	-	-	-	-	28,775
Change in fair value of investment in Scorpio Gold	-	-	-	-	(690)	-	-	(690)
Reclassification of losses recorded in statement of operations (Note 10)	-	-	-	-	722	-	-	722
Balance at December 31, 2014	336,058	$ 179,897	$ 26,450	$ 7,974	$ 307	$ (129,299)	$ 10	$ 85,339

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

Scorpio Mining Corporation

Consolidated statements of cash flows
For the years ended December 31, 2014 and 2013
(In thousands of U.S. dollars)

	2014	2013
Cash flow provided by (used in)		(Note 3c)
Operating activities		
Net loss for the year	$ (78,695)	$ (8,920)
Adjustments for:		
Depletion and amortization	11,008	6,484
Deferred income tax expense (recovery)	12,364	(250)
Accretion on decommissioning provision	101	89
Share-based payments	206	723
Unrealized gain on long-term investments	(9)	-
Unrealized loss on derivative liability (Note 7)	502	-
Non-cash impact of other long-term liabilities	(9)	-
Non-cash impact of credit facility	19	-
Non-cash impact of post-employment benefit obligations	20	-
Impairment of mining interests (Note 12)	53,268	1,068
Impairment of investment in Scorpio Gold (Note 10)	722	5,318
	(503)	4,512
Changes in items of working capital:		
Trade and other receivables	5,674	(937)
Inventories	131	(1,416)
Prepaid expenses	395	(119)
Trade and other payables	4,696	406
Net cash generated from operating activities	10,393	2,446
Investing activities		
Expenditures on property, plant and equipment	(14,495)	(9,608)
Advance on mining concession sales	87	-
Acquisition of U.S. Silver & Gold Inc. (Note 6)	4,299	-
Net cash used in investing activities	(10,109)	(9,608)
Financing activities		
Margin call on foreign exchange derivatives (Note 7)	(217)	-
Issue of common shares for cash	-	57
Net cash generated from (used in) financing activities	(217)	57
Effect of foreign exchange rate changes on cash	(280)	(1,173)
Decrease in cash and cash equivalents	(213)	(8,278)
Cash and cash equivalents, beginning of year	15,437	23,715
Cash and cash equivalents, end of year	$ 15,224	$ 15,437
Cash and cash equivalents consist of:		
Cash	$ 10,336	$ 5,347
Term deposits	4,888	10,090
	$ 15,224	$ 15,437

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

1. Corporate information

Scorpio Mining Corporation (the "Company" or "Scorpio Mining") was incorporated under the Canada Business Corporations Act on May 12, 1998 and conducts mining exploration, development and production in the Americas. The merger of the Company and U.S. Silver & Gold Inc. ("U.S. Silver") was completed on December 23, 2014 pursuant to a plan of arrangement under the Business Corporations Act (Ontario). The address of the Company's registered office is 145 King Street West, Suite 2870, Toronto, Ontario, Canada, M5H 1J8.

The consolidated financial statements of the Company for the year ended December 31, 2014 were approved and authorized for issue by the Board of Directors of the Company on March 26, 2015.

2. Basis of presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Chartered Professional Accountants Canada Handbook. These consolidated financial statements have been prepared under the historical cost method, except for certain financial instruments measured at fair value. The Company has consistently applied the accounting policies used in preparation of these consolidated financial statements throughout all the periods presented with the exception of the change in presentation currency outlined in note 3c. Critical accounting judgments and estimates used by management in the preparation of these consolidated financial statements are presented in note 4.

3. Summary of significant accounting policies

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

a. Consolidation

These consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries, including special purpose entities). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances, income and expenses have been eliminated.

The Company applies the acquisition method to account for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company elects on an acquisition-by-acquisition basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of identifiable net assets. Acquisition-related costs are expensed as incurred. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is negative, a bargain purchase gain is recognized immediately in profit or loss.

Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest's share of changes in equity since the date of acquisition.

Special Purpose Entities ("SPE's") as defined by the IASB in SIC 12 *Consolidation–Special Purpose Entities* are entities which are created to accomplish a narrow and well-defined objective (e.g. to provide services to the operating entity). SPE's are subject to consolidation when there is an indication that the other entity controls the SPE. The Company has determined that it controls certain SPE's relating to service companies at its Mexican operations (4246136 Canada Inc., Servicios Especializados en Minas S.A. de C.V., Triturados Mineros del Noroeste S.A. de C.V. and Servicios Generales en Mineria S.A. de C.V.) and the accounts of those SPE's are consolidated with those of the Company.

b. Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Determination of operating segments are based on the reports reviewed by the chief operating decision makers that are used to make strategic decisions about resources to be allocated to the segment and performance assessment, and for which discrete financial information is available. Unallocated items not directly attributable to a segment comprise mainly of corporate assets and head office expenses.

c. Presentation currency and functional currency

The Company's presentation currency is the U.S. dollar ("USD"). The functional currency of the Company's Canadian subsidiaries is the Canadian dollar ("CAD"), and the functional currency of its U.S., Mexican and British Virgin Island's subsidiaries and SPE's is the USD. The consolidated financial statements of the Company are translated into the presentation currency. Assets and liabilities have been translated using the exchange rate at period end, and income, expenses and cash flow items are translated using the rate that approximates the exchange rates at the dates of the transactions (the average rate for the period). All resulting exchange differences are recorded in the foreign currency translation reserve.

For the year ended December 31, 2014, the presentation currency of the Company changed from CAD to USD. The change in presentation currency is to better reflect the Company's business activities as all of the Company's revenue and a significant portion of its mine operating costs from its mineral resource properties in Mexico and the United States are denominated in USD and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the international mining industry. Comparative financial statements and numbers for periods prior to January 1, 2014 are represented in USD.

d. Foreign currency translations

Transactions in foreign currencies are translated into the entities' functional currency at the exchange rate at the date of the transactions. Monetary assets and liabilities of the Company's operations denominated in a currency other than the functional currency are translated at the rate in effect at the statement of financial position date, and non-monetary items at historic exchange rates at each transaction date. Revenue and expense items are translated at average exchange rates of the reporting period. Gains and losses on translation are charged to the statements of loss and comprehensive loss.

e. Revenue recognition

The following specific conditions must be met before revenue is recognized:

- the title, specific risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the concentrate sold;
- the amount of revenue and costs can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow to the Company.

The Company's sales of concentrates are made under provisional pricing arrangements where the final sale prices are determined by quoted market prices in a period subsequent to the date of sale. In these circumstances, revenue from sales is recorded at the time of sale based on forward prices for the expected date of final settlement.

Subsequent variations in prices and metal quantities are recognized as revenue adjustments as they occur.

Revenue includes treatment and selling costs if payment of those amounts is enforced at the time of sale.

f. Defined benefit plans

The cost of defined benefit plans is determined using the projected unit credit method. The related pension liability recognized in the consolidated statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

Actuarial valuations for defined benefit plans are carried out annually. The discount rate applied in arriving at the present value of the pension liability represents the yield on high quality corporate bonds denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains and losses arising in the year are recognized in full in the period in which they occur, in other comprehensive income (loss) and retained earnings without recycling to the consolidated statement of loss and comprehensive loss in subsequent periods.

Current service cost, the recognized element of any past service cost, interest expense arising on the pension liability and the expected return on plan assets are recognized in the same line items in the consolidated statement of loss and comprehensive loss as the related compensation cost.

The values attributed to plan liabilities are assessed in accordance with the advice of independent qualified actuaries. Service costs arising from plan amendments are recognized immediately.

g. Share-based payments

The Company's stock option plan allows its employees (including directors and officers) and non-employees to acquire shares of the Company. Accordingly, the fair value of the option is either charged to operations or capitalized to exploration or development expenditures, depending on the accounting for the optionee's other compensation, with a corresponding increase in equity reserve.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted using the Black-Scholes Option Pricing Model.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date up to the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in equity reserve. No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

h. Income taxes

Income tax comprises of current and deferred tax. Income tax is recognized in the consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in other comprehensive income (loss) or directly in equity, in which case the income tax is also recognized directly in other comprehensive income (loss) or equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses to the extent it is probable future taxable profits will be available against which they can be utilized.

The Company did not recognize any deferred income taxes relating to its investments in subsidiaries.

Deferred tax assets and liabilities are offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

i. Earnings/loss per share

Basic earnings/loss per share is calculated by dividing the net earnings/loss for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted earnings/loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The treasury stock method, which assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares, are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average market price of the common shares for the period. The Company's potentially dilutive common shares comprise stock options granted to employees, and warrants.

j. Comprehensive income (loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as foreign currency gains or losses related to the Company's net investment in foreign operations and unrealized gains or losses on available-for-sale securities net of tax. The Company's comprehensive income (loss), components of other comprehensive income and cumulative translation adjustments are presented in the consolidated statements of comprehensive income (loss) and the consolidated statements of changes in equity.

k. Inventories

Concentrates, ore stockpile, and spare parts and supplies are valued at the lower of average cost and estimated net realizable value. Cost includes all direct costs incurred in production including direct labour and materials, freight, depreciation and amortization and directly attributable overhead costs. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and future metal prices less estimated future production costs to convert inventories into saleable form.

Any write-downs of inventory to net realizable value are recorded as cost of sales. If there is a subsequent increase in the value of inventories, the previous write-downs to net realizable value are reversed to the extent that the related inventory has not been sold.

Ore stockpile represents ore that has been extracted from the mine and is available for further processing. Costs added to ore stockpile are valued based on current mining cost per tonne incurred up to the point of stockpiling the ore and are removed at the average cost per tonne. Ore stockpile is verified by periodic surveys and physical counts.

Materials and supplies inventory are valued at the lower of cost and net realizable value, where cost is determined using the first-in-first-out method. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence by comparing those items to their net realizable value. If carrying value exceeds net realizable value, a write-down is recognized.

l. Investments

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in companies over which the Company exercises neither control nor significant influence and are designated as available-for sale financial instruments are recorded at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized in other comprehensive income (loss), unless the decrease in value is significant or prolonged, in which case, the loss is recorded in the statements of loss and comprehensive loss.

m. Property, plant and equipment

(i) Producing mining interests

Producing mining interests are carried at cost less accumulated depletion and amortization and accumulated impairment losses. Following the completion of commissioning, the costs related to the mining interests are depleted and charged to operations on the unit of production method as a proportion of estimated recoverable mineral reserves.

Completion of the commissioning is deemed to have occurred when major mine and processing plant components are completed, operating results are being achieved consistently for a period of time and that there are indicators that these operational results, including mill capacity and recovery, will be sustainable in the future.

Construction in progress is not depreciated until the assets are ready for their intended use.

(ii) Non-producing mining interests

The Company follows the method of accounting for its non-producing mining interests whereby all costs, net of incidental revenues, relating to the acquisition, exploration and development are deferred and capitalized by property until the property to which they directly relate is placed into production, sold, discontinued or subject to a condition of impairment.

In the event that a mining interest is placed into production, capitalization of costs ceases, the costs are transferred to producing mining interests and the mining interest is depleted on a unit of production basis. The recoverability of amounts is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to finance the development of the properties, and on the future profitable production or proceeds from the disposition thereof.

(iii) Plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets (major components) of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Repairs and maintenance are charged to the consolidated statement of loss and comprehensive loss during the period in which they are incurred.

The amortization methods, useful life and residual values of plant and equipment are assessed annually and adjusted where required.

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

(iv) Impairment of mining interests

The Company reviews and evaluates the carrying values of its tangible and intangible assets to determine whether there is an indication of impairment. For exploration and evaluation assets, indication includes but is not limited to expiration of the right to explore, substantive expenditure in the specific area is neither budgeted nor planned, and if the entity has decided to discontinue exploration activity in the specific area.

When the carrying value of assets exceeds the recoverable amount, the carrying value of the assets is reduced to the recoverable amount. The recoverable amount takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use of the asset. To achieve this, the recoverable amount is the higher of value in use (being the net present value of expected pre-tax future cash flows of the relevant asset) and fair value less costs to sell the asset.

If, after the Company has previously recognized an impairment loss, circumstances indicate that the recoverable amount of the impaired assets is greater than the carrying amount, the Company reverses the impairment loss by the amount the revised fair value exceeds its carrying amount, to a maximum of the previous impairment loss. In no case shall the revised carrying amount exceed the original carrying amount, after depreciation or amortization, that would have been determined if no impairment loss had been recognized.

n. Decommissioning provision

The Company recognizes contractual, statutory and legal obligations associated with retirement of mining properties when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, the decommissioning provision is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding decommissioning provision is added to the carrying amount of that asset and the cost is amortized as an expense over the economic life of the related asset. Following the initial recognition of the decommissioning provision, the periodic unwinding of the discount is recognized in the consolidated statement of loss and comprehensive loss and adjusted for changes to the amount or timing of the underlying cash flows to settle the obligation.

o. Financial instruments

The Company classifies its financial instruments into one of the following categories: fair value through profit or loss ("FVTPL") (assets and liabilities), assets available-for-sale, loans and receivables, assets held-to-maturity and other financial liabilities. All financial instruments are measured at fair value on initial recognition.

Financial assets and liabilities designated as FVTPL are subsequently measured at fair value with changes in fair value recognized in net earnings. Financial assets designated as "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax. Transaction costs for FVTPL financial assets and liabilities are recognized in income when incurred.

Financial assets designated as "loans and receivables" or "held-to-maturity", and financial liabilities designated as "other financial liabilities" are recorded at amortized cost. Transaction costs from loans and receivables and other financial liabilities offset the carrying amount of the related financial assets or liabilities.

The Company has classified cash and cash equivalents and trade and other receivables as “loans and receivables”, trade and other payables are classified as “other financial liabilities”, and investment in Scorpio Gold shares as “available-for-sale”.

p. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset and amortized over the expected useful life of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

q. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

r. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, and related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

s. Non-controlling interests

Non-controlling interests exist in less than wholly-owned subsidiaries of the Company and represent the outside interests’ share of the carrying values of the subsidiaries. When the subsidiary company issues its own shares to outside interests, a dilution gain or loss arises as a result of the difference between the Company’s share of the proceeds and the carrying value of the underlying equity.

4. Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

(i) Reserves and resources

Proven and probable reserves are the economically mineable parts of the Company’s measured and indicated mineral resources. The Company estimates its proven and probable reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. The information relating to the geological data on the size, depth and shape of the ore bodies requires complex geological judgments to interpret the data. The estimation of future cash flows related to proven and probable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size, grade and recovery of the ore bodies.

Changes in the proven and probable reserves or measured, indicated and inferred mineral resources estimates may impact the carrying value of mining properties and equipment, depletion and amortization, impairment assessments and the timing of decommissioning provisions.

(ii) Depletion and amortization

Mining properties are depleted using the unit-of-production method over a period not to exceed the estimated life of the ore body based on estimated recoverable reserves.

Property, plant and equipment are depreciated, net of residual value over their estimated useful life but do not exceed the related estimated life of the mine based on estimated recoverable mineral reserves.

The calculation of the units of production rate, and therefore the annual depletion and amortization expense, could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of actual future production differing from current forecasts of future production and expansion of mineral reserves through exploration activities.

Significant judgment is involved in the determination of useful life and residual values for the computation of depletion and amortization. No assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

(iii) Decommissioning provision

The Company assesses its decommissioning provision on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for decommissioning provision requires management to make estimates of the time and future costs the Company will incur to complete the rehabilitation work required to comply with existing laws and regulations at each mining operation. Also, future changes to environmental laws and regulations could increase the extent of rehabilitation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for decommissioning provision. The provision represents management's best estimate of the present value of the future decommissioning provision. The actual future expenditures may differ from the amounts currently provided.

(iv) Share-based payments

The amount expensed for share-based compensation is based on the application of a recognized option valuation formula, which is highly dependent on, amongst other things, the expected volatility of the Company's registered shares, estimated forfeitures, and the expected life of the options. The Company uses an expected volatility rate for its shares based on past stock trading data, adjusted for future expectations, and actual volatility may be significantly different.

The resulting value calculated is not necessarily the value that the holder of the option could receive in an arm's length transaction, given that there is no market for the options and they are not transferable. It is management's view that the value derived is highly subjective and dependent entirely upon the input assumptions made.

(v) Income taxes

Preparation of the consolidated financial statements requires an estimate of income taxes in each of the jurisdictions in which the Company operates. The process involves an estimate of the Company's current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depletion and amortization, for tax and accounting purposes, and when they might reverse.

These differences result in deferred tax assets and liabilities that are included in the Company's consolidated statements of financial position.

An assessment is also made to determine the likelihood that the Company's future tax assets will be recovered from future taxable income. To the extent that recovery is not considered likely, the related tax benefits are not recognized.

Judgment is required to continually assess changing tax interpretations, regulations and legislation, to ensure liabilities are complete and to ensure assets, net of valuation allowances, are realizable. The impact of different interpretations and applications could be material.

(vi) Impairment of mining interests

Mining interests are reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Common indicators of impairment in the mining industry include:

- a significant deterioration in expected future commodity prices;
- a significant adverse movement in foreign exchange rates;
- a significant increase in production costs;
- a large cost overrun during the development and construction of a new mine;
- a significant increase in the expected cost of dismantling assets and restoring the site;
- a significant reduction in the mineral content of ore reserves/resources;
- serious mine accidents;
- a significant increase in market interest rates; and
- adverse changes in government regulations and environmental law, including a significant increase in the taxes payable by the mine.

The recovery of amounts recorded for mining interests depends on the Company's interpretation of its interest in the underlying mineral claims based on existing regulations, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. Management relies on the life-of-mine plans and comparable market valuations in its assessments of economic recoverability and probability of future economic benefit.

(vii) Purchase price allocation

Business combinations require judgment and estimates to be made at the date of acquisition in relation to identifying the acquirer, determining assets and liability fair values and the allocation of the purchase consideration over the fair value of the assets and liabilities.

In respect of mining company combinations, such as the combination of U.S. Silver in December 2014, excess purchase consideration is typically allocated to the mineral reserves and resources being acquired. The estimate of reserves and resources is subject to assumptions relating to life of the mine and may change when new information becomes available. Changes in reserves and resources as a result of factors such as production costs, recovery rates, grade or reserves or commodity prices could impact depreciation rates, asset carrying values and decommissioning provision. Changes in assumptions over long-term commodity prices, market demand and supply, and economic and regulatory climates could also impact the carrying value of assets, including goodwill.

5. Changes in accounting policies and recent accounting pronouncements

The Company has adopted the following new standards effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions:

(i) Levies imposed by governments

In May 2013, the IASB issued IFRIC 21 – *Levies* ("IFRIC 21"), an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past activity or event ("obligating event") described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The adoption of IFRIC 21 did not have an impact on the Company's consolidated financial statements.

(In thousands of U.S. dollars, unless otherwise stated)

(ii) Recoverable amount disclosures

In May 2013, the IASB issued amendments to IAS 36 – *Impairment of Assets* ("amendments to IAS 36"). The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or cash generating unit ("CGU") to periods in which an impairment loss has been recognized or reversed. The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less cost of disposal. The amendments are effective for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. See note 12 for disclosures on impairment of mining interests in the Company's consolidated financial statements.

The following are future changes in accounting policies not yet effective as at December 31, 2014:

(i) Financial instruments

IFRS 9 - *Financial Instruments* - The standard was issued in its final version by the IASB in July 2014 bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, "Financial instruments: recognition and measurement" ("IAS 39"). The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is assessing the impact of this Standard.

(ii) Revenue from contracts with customers

IFRS 15 - *Revenue from Contracts with Customers* - The final standard on revenue from contracts with customers was issued in May 2014 and is effective for annual reporting periods beginning after December 15, 2016 for public entities with early application not permitted. The standard covers principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. The Company is assessing the impact of this Standard.

6. Acquisition of U.S. Silver & Gold Inc.

On December 23, 2014, the Company obtained control and completed the acquisition of U.S. Silver via a plan of arrangement under the Business Corporations Act (Ontario). The merger was completed by the Company acquiring all of the outstanding common shares of U.S. Silver and exchanging each outstanding U.S. Silver common share for 1.68 common shares of the Company. Outstanding U.S. Silver options were exchanged for options of the Company and outstanding U.S. Silver warrants became exercisable for warrants of the Company under the same exchange ratio.

The merger has been accounted for as a business combination with the Company identified as the acquirer for accounting purposes.

The consideration paid is calculated as follows:

Non-diluted U.S. Silver common shares outstanding, December 23, 2014	81,826,629
Implicit share exchange ratio	1.68
Scorpio Mining common shares to be exchanged for U.S. Silver common shares	137,468,737
Scorpio Mining common share price, December 23, 2014 (USD)	0.19
Total common share consideration	26,119
Consideration of U.S. Silver options exchanged for Scorpio Mining options	263
Consideration of U.S. Silver warrants exercisable for Scorpio Mining common shares	2,393
Total consideration	$ 28,775

For the purpose of these financial statements, the purchase consideration has been allocated on a preliminary basis to the fair value of assets acquired and liabilities assumed based on management's best estimates and taking into account all available information at the time of the acquisition as well as applicable information at the time these consolidated financial statements were prepared. Due to the underlying assumptions made in the valuation process, the determination of those fair values requires estimations of the effects of uncertain future events at the acquisition date and as a result the carrying amounts of some assets, particularly, property, plant and equipment, acquired through a business combination could therefore differ significantly in the future. As prescribed by IFRS 3 – *Business Combinations*, if the initial accounting for a business combination can be determined only provisionally by the end of the reporting period in which the combination is effected, the acquirer must account for the business combination using those provisional values and has a period, not to exceed twelve months, to complete the purchase price allocation. Any adjustment of the provisional amount of an identifiable asset acquired or liability assumed made as a result of completing the final accounting will be accounted for retrospectively to the original acquisition date.

(In thousands of U.S. dollars, unless otherwise stated)

The preliminary purchase price allocation, which is subject to final adjustments, is as follows:

Net assets acquired		
Cash and cash equivalents	$	4,299
Trade and other receivables and prepaid expenses		3,148
Income tax receivable		236
Inventories		4,018
Prepaid expenses		496
Restricted cash		151
Long-term investments		23
Property, plant and equipment		38,387
Trade and other payables		(5,766)
Other long-term liabilities		(568)
Credit facility		(7,728)
Post-employment benefit obligations		(5,161)
Decommissioning provision		(2,760)
	$	28,775

The acquisition of U.S. Silver by the Company was completed on December 23, 2014. As of the date of these consolidated financial statements, the determination of fair value of assets and liabilities acquired is based on preliminary estimates and has not been finalized. In particular, the fair values of the mining interests, property, plant and equipment, and related tax consequences and exposures have been determined provisionally. The actual fair values of these assets and liabilities may differ materially from the amounts disclosed in the preliminary fair value above and are subject to change. Management will complete its review of the fair values within twelve months of the acquisition date, in particular, the fair values of the mining interests, and property, plant and equipment with consideration to any resulting tax impact.

Acquisition related costs of $2.0 million have been charged to corporate general and administrative expenses in the consolidated statement of loss for the year ended December 31, 2014.

These consolidated financial statements include U.S. Silver's results from December 23, 2014 to December 31, 2014. The revenue from the sale of precious metals and net loss included in the consolidated statement of loss and comprehensive loss since December 23, 2014 contributed by U.S. Silver was $0.2 million and $0.2 million, respectively.

If U.S. Silver had been consolidated from January 1, 2014, on a pro forma basis, the consolidated statements of loss and comprehensive loss would have included revenue of $34.0 million and net loss before income taxes of $16.1 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had accrued on January 1, 2014.

(In thousands of U.S. dollars, unless otherwise stated)

7. Financial risk management

a. Financial risk factors

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

(i) Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and trade and other receivables. The credit risk on cash and cash equivalents is limited because the Company invests its cash in deposits with well-capitalized financial institutions with strong credit ratings in Canada and the United States. Under current concentrate offtake agreements, risk on trade receivables related to concentrate sales is managed by receiving payments for 85% to 100% of the estimated value of the concentrate shipped at the time of shipment or one month following the time of shipment. As of December 31, 2014, the Company's exposure to credit risk with respect to trade receivables amounts to $4.2 million (December 31, 2013: $4.1 million). The Company believes credit risk for Mexican Value Added Taxes of $2.3 million (December 31, 2013: $5.1 million) is not significant as they relate to current amounts receivable from Mexican taxation authorities. There are no receivables that are past due and the Company has no allowance for doubtful accounts at December 31, 2014 and December 31, 2013.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they arise. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's liquidity requirements are met through a variety of sources, including cash, cash generated from operations, existing credit facilities and debt and equity capital markets. As at December 31, 2014, the Company had cash and cash equivalents of $15.2 million to settle trade and other payables of $13.1 million. The Company's trade payables have contractual maturities of less than 30 days and are subject to normal trade terms.

The following table presents the contractual maturities of the Company's financial liabilities on an undiscounted basis:

	December 31, 2014			
	Less than 3 months	3 months to 1 year	2-5 years	Over 5 years
Trade and other payables	$ 13,070	$ -	$ -	$ -
Derivative liability	502	-	-	-
Credit facility	-	2,155	5,592	-
Interest on credit facility	223	625	282	-
Leases	7	21	42	-
Other long-term liabilities	-	-	-	559
Decommissioning provision	32	96	833	3,871
	$ 13,834	$ 2,897	$ 6,749	$ 4,430

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and price risk.

(1) Interest rate risk

The Company is not subject to significant interest rate risk as the existing credit facility has a fixed interest rate.

(In thousands of U.S. dollars, unless otherwise stated)

(2) Currency risk

As at December 31, 2014, the Company is exposed to foreign currency risk through financial assets and liabilities denominated in CAD and Mexican pesos ("MXP"):

Financial instruments that may impact the Company's net earnings or other comprehensive income due to currency fluctuations include CAD and MXP denominated assets and liabilities which are included in the following table:

	As at December 31, 2014	
	CAD	MXP
Cash and cash equivalents	$ 7,683	$ 323
Trade and other receivables	164	2,365
Trade and other payables	2,925	3,447
Credit facility	7,747	-

As at December 31, 2014, the CAD/USD and MXP/USD exchange rates were 1.16 and 14.75, respectively. The sensitivity of the Company's net loss and comprehensive loss due to changes in the exchange rates as at December 31, 2014 is included in the following table:

	CAD/USD Exchange rate	MXP/USD Exchange rate
	+/- 10%	+/- 10%
Approximate impact on:		
Net loss	$ 538	$ 1,719
Other comprehensive loss	4	38

The Company may, from time to time, employ derivative financial instruments to manage exposure to fluctuations in foreign currency exchange rates.

At December 31, 2014, the Company had foreign exchange derivatives to buy 60 million MXP extendable month to month at an exchange rate of 13.13 MXP/USD valued at approximately $4.6 million. The spot rate at December 31, 2014 was 14.75 MXP/USD with the contracts having a value of approximately $4.1 million. Accordingly, the Company recorded an unrealized loss of $0.5 million (2013: nil) on these contracts.

(3) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market. As at December 31, 2014, the Company had certain amounts related to the sales of concentrates that have only been provisionally priced. A ±10% fluctuation in silver, zinc, lead, copper and gold prices would affect trade receivables by approximately $0.4 million. The Company does not use derivatives to manage its exposure to price risk.

b. Fair values

The fair value of cash, restricted cash, trade and other payables, credit facility and other long-term liabilities approximate their carrying amounts. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

(In thousands of U.S. dollars, unless otherwise stated)

- Cash equivalents: The fair value of cash equivalents is valued using quoted market prices in active markets. The Company's cash equivalents consist of money market accounts held at financial institutions which have original maturities of less than 90 days.
- Trade receivables: The fair value of trade receivables from silver sales contracts that contain provisional pricing terms is determined using the appropriate quoted forward price from the exchange that is the principal active market for the particular metal. As such, there is an embedded derivative feature within trade receivables.
- Investment in Scorpio Gold: The investment in Scorpio Gold Corporation shares have been marked to market based on the trading price as at December 31, 2014.
- Long-term investments: The fair value of long-term investments is determined based on the closing price of each security at the balance sheet date. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security.
- Embedded derivatives: Revenues from the sale of metals produced since the commencement of commercial production are based on provisional prices at the time of shipment. Variations between the price recorded at the time of sale and the actual final price received from the customer are caused by changes in market prices for metals sold and result in an embedded derivative in revenues and accounts receivable.
- Derivatives: The Company uses derivative and non-derivative instruments to manage financial risks, including commodity, interest rate, and foreign exchange risks. The use of derivative contracts is governed by documented risk management policies and approved limits. The Company does not use derivatives for speculative purposes. The fair value of the Company's derivative instruments is based on quoted market prices for similar instruments and at market prices at the valuation date.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

	December 31, 2014	December 31, 2013
Level 1		
Cash equivalents	$ 10,336	$ 5,347
Restricted cash	368	-
Investment in Scorpio Gold	1,655	2,495
Long-term investments	32	-
Level 2		
Trade receivables	6,768	9,294
Derivative liability	502	-
Credit facility	7,747	-

(In thousands of U.S. dollars, unless otherwise stated)

8. Trade and other receivables

	December 31, 2014	December 31, 2013
Trade receivables	$ 4,151	$ 4,143
Value added taxes receivable	2,325	5,069
Other receivables	292	82
	$ 6,768	$ 9,294

9. Inventories

	December 31, 2014	December 31, 2013
Concentrates	$ 3,334	$ 966
Spare parts and supplies	7,481	5,840
Ore stockpile	1,538	1,660
	$ 12,353	$ 8,466

The amount of inventories recognized as an expense during the year ended December 31, 2014 was $26.1 million (2013: $23.5 million). During the year ended December 31, 2014, the concentrate inventory write-down to net realizable value included in cost of sales was $1.7 million (2013: $0.1 million).

10. Investment in Scorpio Gold

At December 31, 2014, the Company held 11,292,306 common shares of Scorpio Gold Corporation ("Scorpio Gold") which represented approximately 9% of Scorpio Gold's issued and outstanding common shares.

The investment in Scorpio Gold is accounted for as an available-for-sale financial asset which is reviewed quarterly for significant or prolonged decline in fair value requiring impairment and more frequently when economic or market concerns warrant such evaluation. This review includes an analysis of the facts and circumstances of this financial asset, its market price, the severity of loss and the length of time the fair value has been below cost.

During the third quarter of 2013, after management's review and based on objective evidence, an impairment of $5.3 million, all of which was previously recorded in other comprehensive loss ("OCL"), was reclassified from OCL and recognized in the consolidated statements of loss. This impairment represented the difference between cost and fair market value of this investment during the period. The fair market value of $2.5 million at December 31, 2013 subsequently decreased to $1.5 million as at September 30, 2014 and the Company reclassified the cumulative gain of $0.3 million previously recorded in OCL at December 31, 2013 and recorded an additional $0.7 million as impairment in the consolidated statement of loss and comprehensive loss. The fair market value subsequently increased to $1.7 million as at December 31, 2014 resulting in a gain of $0.3 million recorded in OCL.

	December 31, 2014	December 31, 2013
Investment, beginning of year	$ 2,495	$ 7,491
Loss on adjustments to investment during the year	(840)	(4,996)
Investment, end of year	$ 1,655	$ 2,495

(In thousands of U.S. dollars, unless otherwise stated)

11. Property, plant and equipment

	Mining interests	Non-producing properties	Plant and equipment	Corporate office equipment	Total
Cost					
Balance at January 1, 2013	$ 18,541	$ 67,791	$ 19,357	$ 99	$ 105,788
Reclassification	9,555	(11,092)	1,537	-	-
Assets acquired	-	9,136	533	1	9,670
Change in decommissioning provision	22	-	-	-	22
Disposals	-	-	-	(10)	(10)
Balance at December 31, 2013	28,118	65,835	21,427	90	115,470
Acquisition of U.S. Silver & Gold Inc.	27,398	-	10,899	90	38,387
Reclassification	806	(2,690)	1,884	-	-
Assets acquired	96	12,284	2,117	7	14,504
Change in decommissioning provision	194	-	-	-	194
Disposals	-	-	(14)	-	(14)
Balance at December 31, 2014	$ 56,612	$ 75,429	$ 36,313	$ 187	$ 168,541
Accumulated depreciation and depletion					
Balance at January 1, 2013	$ 10,032	$ -	$ 5,412	$ 22	$ 15,466
Depreciation/depletion for the year	3,789	-	2,678	17	6,484
Impairments (Note 12)	1,068	-	-	-	1,068
Disposals	-	-	-	(1)	(1)
Balance at December 31, 2013	14,889	-	8,090	38	23,017
Depreciation/depletion for the year	7,556	-	3,435	17	11,008
Impairments (Note 12)	2,766	50,502	-	-	53,268
Disposals	-	-	(5)	-	(5)
Balance at December 31, 2014	$ 25,211	$ 50,502	$ 11,520	$ 55	$ 87,288
Carrying value					
at December 31, 2013	$ 13,229	$ 65,835	$ 13,337	$ 52	$ 92,453
at December 31, 2014	$ 31,401	$ 24,927	$ 24,793	$ 132	$ 81,253

12. Impairment of mining interests

As at June 30, 2013, there was evidence of the potential impairment of the carrying value of the Company's Nuestra Señora Mine due to declining metal prices and the restatement of ore reserves in April 2013. As a result of these events, the Company assessed the recoverability of the carrying amount of this property. The recoverable amount of the Company's Nuestra Señora Mine was determined based on the after-tax discounted cash flows expected to be derived from this property's fair-market value less estimated costs to sell. The after-tax discounted cash flows were determined based on life-of-mine cash flow projections which incorporate management's best estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size, grade and recovery of the ore bodies. As a result of impairment tests performed as at June 30, 2013, the Company recorded an impairment loss of $1.1 million which is allocated entirely against capitalized expenditures on the Nuestra Señora Mine.

As at December 31, 2014, there was evidence of the potential impairment of the carrying value of the Company's Cosalá District due to declining metal prices and suspension of the El Cajón Project. As a result of these events, the Company assessed the recoverability of the carrying amount of these properties. The recoverable amount of the Company's Cosalá District mining properties was determined based on the after-tax discounted cash flows expected to be derived from this property's fair-market value less estimated costs to sell. The after-tax discounted cash flows were determined based on life-of-mine cash flow projections which incorporate management's best estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size, grade and recovery of the ore bodies. As a result of impairment tests performed as at December 31, 2014, the Company recorded an impairment loss of $53.3 million which is allocated against both the Nuestra Señora Mine and the Company's non-producing properties.

(In thousands of U.S. dollars, unless otherwise stated)

The fair value models are considered to be Level 3 within the fair value hierarchy. Key assumptions used in the fair value models used as at December 31, 2014 include discount rate of 13% based on the Company's weighted average cost of capital, estimated long-term silver price from $16 per ounce in 2015 up to $19 per ounce in 2020 and beyond and estimated long-term zinc, lead and copper prices of $1.00, $0.91 and $3.00 per pound, respectively, based on observable market data including spot price and industry analyst consensus, and mine life of up to 9 years.

13. Credit facility

On August 7, 2013, U.S. Silver signed a credit agreement with Royal Capital Management Corp. ("RCM") as security agent, and certain lenders (the "RCM Credit Agreement"). The RCM Credit Agreement provides for the issuance of notes with an aggregate principal amount of $8.5 million CAD for a term of three years at an interest rate of 12% per annum payable on a monthly basis. Security is provided by a first charge on all material assets of U.S. Silver and its subsidiaries. As at December 31, 2014, the Company had drawn $8.5 million CAD on the facility. Beginning August 2015, two years following the date of issue, the notes will be redeemed in monthly increments of $0.5 million CAD, with the balance due and payable on maturity. The debt may be pre-paid at any time during the three-year term, subject to a repayment fee. As at December 31, 2014, the fair value of the prepayment option is nil.

In connection with the RCM Credit Agreement, the Company issued 10,625,000 U.S. Silver warrants (or 17,850,000 Scorpio Mining equivalent warrants) upon execution to RCM where each warrant is exercisable for one U.S. Silver common share at an exercise price of $0.68 CAD (or for one Scorpio Mining common share at an exercise price of $0.40 CAD) for a period of five years (see share capital note 16). A financing cost is payable to RCM on July 31, 2018 in the amount of $2.1 million CAD less the amount which the aggregate share value of shares acquired by RCM upon exercise of the warrants exceeds the exercise price of the warrants. As at December 31, 2014, the fair value of the financing cost payable was estimated to be $0.4 million.

14. Post-employment benefit obligations

The Company maintains two non-contributory defined benefit pension plans covering substantially all employees at its U.S. operating subsidiary, U.S. Silver – Idaho, Inc. One plan covers salaried employees and one plan covers hourly employees. Benefits for the salaried plan are based on salary and years of service. Hourly plan benefits are based on negotiated benefits and years of service. The Company's funding policy is to contribute annually the minimum amount prescribed, as specified by applicable regulations. The expected average service life of the active plan participants as at December 31, 2014 is approximately 9 years.

The amounts recognized in the consolidated statements financial position are as follows:

	December 31, 2014
Present value of funded obligations	$ 20,214
Fair value of plan assets	15,033
Deficit of funded plans	$ 5,181

The amounts recognized in the consolidated statements of loss and comprehensive loss are as follows:

	December 31, 2014
Current service costs and interest costs included in wages and employee expense	$ 20

(In thousands of U.S. dollars, unless otherwise stated)

The principal actuarial assumptions were as follows:

	December 31, 2014
Discount rate (expense)	4.75%
Discount rate (year end disclosures)	4.00%
Future salary increases (salaried plan only)	5.00%

A 1% change in discount rate would have resulted in approximately $3.0 million increase in the defined benefit obligation from $20.2 million to $23.2 million as at December 31, 2014. A 1% change in future salary increases would have resulted in approximately $0.1 million increase in the defined benefit obligation from $20.2 million to $20.3 million as at December 31, 2014.

Plan assets are fully comprised of pooled or mutual funds. The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yield on fixed interest investments is based on gross redemption yields as at the end of the reporting period. Expected returns on equity investments reflect long-term real rates of return in the market.

Expected contributions to pension benefit plans for the year ended December 31, 2015 are approximately $0.8 million.

15. Decommissioning provision

The decommissioning provision consists of land rehabilitation, demolition of buildings and mine facilities, and related costs. Although the ultimate amount of the decommissioning provision is uncertain, the fair value of these obligations is based on information currently available, including closure plans and the Company's interpretation of current regulatory requirements.

Fair value is determined based on the net present value of future cash expenditures upon reclamation and closure. Reclamation and closure costs are capitalized into property, plant and equipment depending on the nature of the asset related to the obligation and amortized over the life of the related asset.

The decommissioning provision relates to reclamation and closure costs of the Company's Cosalá District and Galena Complex. The decommissioning provision is estimated at an undiscounted amount of $6.8 million, over a period of 2 to 11 years, and discounted using a risk free rate varying from 1.6% to 5.9%.

	December 31, 2014	December 31, 2013
Balance, beginning of year	$ 1,777	$ 1,666
Provisions acquired from U.S. Silver & Gold Inc.	2,760	-
Change in estimates	194	22
Accretion on decommissioning provision	101	89
Balance, end of year	$ 4,832	$ 1,777

(In thousands of U.S. dollars, unless otherwise stated)

16. Share capital

a. Authorized

Authorized share capital consists of an unlimited number of common shares.

	December 31, 2014	December 31, 2013
Issued		
336,057,650 (2013: 198,588,913) common shares	$ 179,897	$ 153,778

b. Stock option plan

The number of shares reserved for issuance under the Company's stock option plan is limited to 10% of the number of common shares which are issued and outstanding on the date of a particular grant of options. Under the plan, the Board of Directors determines the term of a stock option to a maximum of 10 years, the period of time during which the options may vest and become exercisable as well as the option exercise price which shall not be less than the closing price of the Company's share on the Toronto Stock Exchange on the date immediately preceding the date of grant. The Compensation Committee determines and makes recommendations to the Board of Directors as to the recipients of, and nature and size of, share-based compensation awards in compliance with applicable securities law, stock exchange and other regulatory requirements.

A summary of changes in the Company's outstanding stock options is presented below:

		December 31, 2014		December 31, 2013
	Number	Weighted average exercise price	Number	Weighted average exercise price
	(thousands)	CAD	(thousands)	CAD
Balance, beginning of year	13,068	0.95	11,873	1.17
Exchanged from U.S. Silver	11,069	1.09	-	-
Granted	-	-	4,310	0.49
Exercised	-	-	(200)	0.30
Expired	(1,465)	0.84	(2,915)	1.20
Balance, end of year	22,672	1.03	13,068	0.95

The weighted average share price and closing price of the Company's stock options exercised during the year ended December 31, 2013 were $0.30 and $0.50, respectively. There were no options exercised during the year ended December 31, 2014.

(In thousands of U.S. dollars, unless otherwise stated)

The following table summarizes information on stock options outstanding and exercisable as at December 31, 2014:

Exercise price	Weighted average remaining contractual life	Outstanding	Weighted average exercise price	Exercisable	Weighted average exercise price
CAD	(years)	(thousands)	CAD	(thousands)	CAD
0.20 to 0.39	1.96	4,670	0.32	2,097	0.34
0.40 to 0.89	2.28	6,300	0.60	6,154	0.61
0.90 to 1.39	1.66	7,857	1.25	7,823	1.25
1.40 to 1.89	1.42	1,359	1.61	1,193	1.58
1.90 to 2.39	1.70	1,562	2.20	1,510	2.20
2.40 to 2.89	1.53	802	2.69	802	2.69
2.90 to 3.39	1.69	122	3.01	122	3.01
		22,672	1.03	19,701	1.12

c. Share-based payments

The weighted average fair value at grant date of the Company's stock options granted during the year ended December 31, 2013 was $0.22. There were no options granted during the year ended December 31, 2014.

The Company used the Black-Scholes Option Pricing Model to estimate fair value using the following weighted-average assumptions:

	Year ended December 31, 2014	Year ended December 31, 2013
Expected stock price volatility (1)	-	70%
Risk free interest rate	-	1.06%
Expected life	-	2.75 years
Expected forfeiture rate	-	3.00%
Expected dividend yield	-	0%
Share-based payments included in cost of sales	$ 51	$ 232
Share-based payments included in general and administrative expenses	155	491
Total share-based payments	$ 206	$ 723

(1) Expected volatility has been based on historical volatility of the Company's publicly traded shares.

(In thousands of U.S. dollars, unless otherwise stated)

d. Warrants

The warrants that are issued and outstanding as at December 31, 2014 are as follows:

Number of warrants	Exercise price (CAD)	Issuance date	Expiry date
6,110,444	0.23	Dec 2014	Dec 22, 2017
1,448,278	0.43	May 2014	Mar 21, 2016
3,403,468	0.43	Mar 2014	Mar 21, 2016
970,350	0.35	Mar 2014	Mar 21, 2016
17,850,000	0.40	Aug 2013	Aug 7, 2018
8,094,517	0.45	Aug 2013	Aug 22, 2016
880,320	0.38	Aug 2013	Aug 22, 2016
38,757,377			

The warrants represent the 23,069,867 warrants previously issued by U.S. Silver and are now exercisable for warrants of the Company under the 1.68 exchange ratio as a result of the merger between U.S. Silver and the Company.

e. Restricted Share Units:

The Company has a Restricted Share Unit Plan under which eligible directors, officers and key employees of the Company are entitled to receive awards of restricted share units. Each restricted share unit is equivalent in value to the fair market value of a common share of the Company on the date of grant with the value of each cash settled award charged to compensation expense over the period of vesting. At each reporting date, the compensation expense and associated liability (which is included in trade and other payables in the consolidated statement of financial position) are adjusted to reflect changes in market value. As at December 31, 2014, 2,062,968 restricted share units are outstanding at an aggregate value of $0.3 million. The restricted share units represent the 1,227,957 restricted share units previously issued by U.S. Silver exchanged for restricted share units of the Company under the 1.68 exchange ratio as a result of the merger between U.S. Silver and the Company.

17. Weighted average basic and diluted number of common shares outstanding

	Year ended December 31, 2014	Year ended December 31, 2013
Basic weighted average number of shares	201,601,926	198,517,680
Effect of dilutive stock options	-	-
Diluted weighted average number of shares	201,601,926	198,517,680

Diluted weighted average number of common shares for the year ended December 31, 2014 excludes 22,672,000 (2013: 13,068,139) anti-dilutive stock options and 38,757,377 (2013: nil) anti-dilutive warrants.

(In thousands of U.S. dollars, unless otherwise stated)

18. Corporate general and administrative expenses

	Year ended December 31, 2014	Year ended December 31, 2013
Salaries and benefits	$ 1,106	$ 1,118
Directors' fees	353	224
Share-based payments	155	491
Professional fees	482	296
Office and general	439	790
Shareholder action	856	-
Acquisition costs	1,973	-
	$ 5,364	$ 2,919

19. Income taxes

The following is a reconciliation of income taxes calculated at the Canadian federal and provision statutory tax rate to the income tax expense for the years ended December 31, 2014 and 2013:

	Year ended December 31, 2014	Year ended December 31, 2013
Loss before income taxes	$ (65,944)	$ (9,410)
Combined statutory tax rate	26.50%	26.50%
Income tax recovery computed at statutory tax rate	(17,475)	(2,494)
Reconciling items:		
Effect of recognition of 7.5% mining royalty in Mexico	446	830
Effect of higher tax rate in foreign jurisdictions	(346)	(155)
Non-deductible items	2,504	145
Adjustments to prior year tax assets	-	387
Foreign exchange adjustments	1,207	623
Non-recognition of tax assets	25,968	-
Other	447	174
Total income tax expense (recovery)	$ 12,751	$ (490)
Effective tax rate	(19.34%)	5.20%

On December 11, 2013, the Mexican government enacted a tax reform to introduce a mining royalty effective January 1, 2014. This royalty is deductible for tax purposes and is calculated as 7.5% of a royalty base which is computed as taxable revenues for income tax purposes (except interest and inflationary adjustment), less allowable deductions for income tax purposes (except interest, inflationary adjustment, depreciation and mining fees), less prospecting and exploration expenses for the year.

The 7.5% mining royalty is treated as an income tax in accordance with IFRS for financial reporting purpose, as it is based on a measure of revenue less certain specified costs. On substantial enactment, a taxable temporary difference arises, as certain mining assets related to extractive activities have book basis but no tax basis for purposes of the royalty. The Company has recognized a deferred tax liability of $1.3 million as at December 31, 2014 in respect of this royalty. This deferred tax liability will be drawn down to $nil as a reduction of tax expense over the life of mine as the mine and its related assets are depleted or depreciated.

(In thousands of U.S. dollars, unless otherwise stated)

Significant components of the Company's deferred tax assets and liabilities are shown below:

	December 31, 2014	December 31, 2013
Deferred tax assets		
Mining interests	$ 14,568	$ 5,216
Non-capital losses	27,904	18,813
Share issue costs	187	5
Provisions	4,035	995
Non-producing properties	889	227
Total gross deferred tax assets	47,583	25,256
Unrecognized deferred tax assets	(43,203)	(3,731)
Total deferred tax assets	4,380	21,525
Deferred tax liabilities		
Mining interests	(1,790)	(8,315)
Current assets	(1,621)	(2,057)
Other	(2,240)	(65)
Total deferred tax liabilities	(5,651)	(10,437)
Net deferred tax assets (liabilities)	$ (1,271)	$ 11,088

The Company has the following non-capital losses for income tax purposes.

Expiry	U.S.	Canada	Mexico
2015	$ -	$ -	$ 990
2016	-	-	3,392
2017	-	-	4,674
2018	-	-	31,832
2022	-	-	173
2023	-	-	4,690
2024	535	-	-
2025	705	-	-
2026	661	164	-
2027	530	142	-
2028	638	1,572	-
2029	615	1,819	-
2030	587	7,571	-
2031	179	429	-
2032	110	2,825	-
2033	19,110	7,105	-
	$ 23,670	$ 21,627	$ 45,751

(In thousands of U.S. dollars, unless otherwise stated)

20. Related party transactions

Remuneration to directors and key management who have the authority and responsibility for planning, directing and continuing the activities of the Company:

	Year ended December 31, 2014	Year ended December 31, 2013
Salaries and benefits	$ 1,546	$ 1,672
Severance	837	-
Directors' fees	353	224
Share-based payments	176	628

21. Segmented and geographic information, and major customers

a. Segmented information

The Company's operations comprise of three reporting segments engaged in acquisition, exploration, development and exploration of mineral resource properties in Mexico and the United States. Management has determined the operating segments based on the reports reviewed by the chief operating decision makers that are used to make strategic decisions.

b. Geographic information

All revenues from sale of concentrates for year ended December 31, 2014 were earned in Mexico and the United States (December 31, 2013: Mexico).

The following segmented information is presented as at and during the years ended December 31, 2014 and 2013. The U.S. operations segment only includes results from December 23, 2014 for the year ended December 31, 2014.

	As at December 31, 2014				As at December 31, 2013			
	Mexican Operations	U.S. Operations	Corporate and Other	Total	Mexican Operations	U.S. Operations	Corporate and Other	Total
Cash and cash equivalents	$ 8,970	$ 2,334	$ 3,920	$ 15,224	$ 10,111	$ -	$ 5,326	$ 15,437
Trade and other receivables	4,746	1,858	164	6,768	9,281	-	13	9,294
Income tax receivable (payable)	-	(124)	360	236	-	-	-	-
Inventories	8,142	4,211	-	12,353	8,466	-	-	8,466
Prepaid expenses	100	323	276	699	513	-	85	598
Investment in Scorpio Gold	-	-	1,655	1,655	-	-	2,495	2,495
Restricted cash	216	152	-	368	-	-	-	-
Long-term investments	-	-	32	32	-	-	-	-
Property, plant and equipment	42,855	38,266	132	81,253	92,401	-	52	92,453
Deferred tax assets	-	-	-	-	11,088	-	-	11,088
Total assets	$ 65,029	$ 47,020	$ 6,539	$ 118,588	$ 131,860	$ -	$ 7,971	$ 139,831
Trade and other payables	$ 5,655	$ 4,371	$ 3,044	$ 13,070	$ 2,313	$ -	$ 295	$ 2,608
Derivative liability	502	-	-	502	-	-	-	-
Advance on mining concession sales	87	-	-	87	-	-	-	-
Other long-term liabilities	-	559	-	559	-	-	-	-
Credit facility	-	-	7,747	7,747	-	-	-	-
Post-employment benefit obligations	-	5,181	-	5,181	-	-	-	-
Decommissioning provision	2,072	2,760	-	4,832	1,777	-	-	1,777
Deferred tax liabilities	1,271	-	-	1,271	-	-	-	-
Total liabilities	$ 9,587	$ 12,871	$ 10,791	$ 33,249	$ 4,090	$ -	$ 295	$ 4,385

(In thousands of U.S. dollars, unless otherwise stated)

	Year ended December 31, 2014				Year ended December 31, 2013			
	Mexican Operations	U.S. Operations	Corporate and Other	Total	Mexican Operations	U.S. Operations	Corporate and Other	Total
Revenue	$ 31,243	$ 236	$ -	$ 31,479	$ 30,213	$ -	$ -	$ 30,213
Cost of sales	(25,812)	(323)	-	(26,135)	(23,548)	-	-	(23,548)
Depletion and amortization	(10,881)	(127)	-	(11,008)	(6,484)	-	-	(6,484)
Corporate general and administrative	-	-	(5,364)	(5,364)	-	-	(2,919)	(2,919)
Exploration costs	-	(12)	-	(12)	-	-	-	-
Accretion on decommissioning provision	(101)	-	-	(101)	(89)	-	-	(89)
Interest income	-	-	86	86	-	-	153	153
Foreign exchange gain (loss)	(483)	-	86	(397)	(480)	-	130	(350)
Unrealized loss on derivative liability	(502)	-	-	(502)	-	-	-	-
Impairment of mining interests	(53,268)	-	-	(53,268)	(1,068)	-	-	(1,068)
Impairment of investment in Scorpio Gold	-	-	(722)	(722)	-	-	(5,318)	(5,318)
Loss before income taxes	(59,804)	(226)	(5,914)	(65,944)	(1,456)	-	(7,954)	(9,410)
Income tax recovery (expense)	(12,751)	-	-	(12,751)	490	-	-	490
Net loss for the period	$ (72,555)	$ (226)	$ (5,914)	$ (78,695)	$ (966)	$ -	$ (7,954)	$ (8,920)

c. Major customers

The Company sold concentrates to five customers during the year ended December 31, 2014 (three customers prior to the acquisition of U.S. Silver) and three customers during the year ended December 31, 2013, with each customer accounting for 51%, 27%, 21%, 1%, and 0% (2013: 51%, 33%, 16%) of revenues, respectively.

22. Capital management

Capital is defined as equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern and to maximize the value for its shareholders.

The Company's activities have been funded so far through debt and equity financing based on cash needs, and through operations. The Company typically sells its shares by way of private placement. There were no changes in these objectives, policies and processes used to manage capital during the year.

The Company manages its capital structure and determines its capital requirements in light of the changing economic conditions and the risk characteristics of its assets. To reach its objectives the Company may have to maintain or adjust its capital structure by issuing new share capital or new debt.

At this stage of its development it is the policy of the Company to preserve cash to fund its operations and not to pay dividends. As of December 31, 2014 and 2013, the Company is not subject to any externally imposed capital requirements.

The following summarizes the Company's capital structure:

	December 31, 2014	December 31, 2013
Equity attributable to shareholders of the Company	$ 85,329	$ 135,436

23. Contingencies

Due to the size, complexity and nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated.

In November 2010, the Company received a reassessment from the Mexican tax authorities related to its Mexican subsidiary, Minera Cosalá, for the year ended December 31, 2007. The tax authorities disallowed the deduction of transactions with certain suppliers for an amount of approximately $13.3 million (MXP 196.8 million), of which $5.7 million (MXP 84.4 million) would be applied against available tax losses. The Company appealed this reassessment and the Mexican tax authorities subsequently reversed $6.4 million (MXP 94.6 million) of their original reassessment. The remaining $6.9 million (MXP 102.2 million) consists of $5.7 million (MXP 84.4 million) related to transactions with certain suppliers and $1.2 million (MXP 17.8 million) of value added taxes thereon. The Company appealed the remaining reassessment with the Mexican Tax Court in December 2011. The Company may be required to post a bond of approximately $1.2 million (MXP 17.8 million) to secure the value added tax portion of the reassessment. The deductions of $5.7 million (MXP 84.4 million), if denied, would be offset by available tax losses. No amount has been recognized in the consolidated financial statements as the Company believes it is not likely that the reassessment will be upheld by the Tax Court. There has been no change in status of the tax assessment since December 31, 2013, as the Company waits for it to be addressed by the tax authorities.