TREVALI MINING CORPORATION

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

Three Months Ended March 31, 2016 and 2015

Corporate Head Office
2300 - 1177 West Hastings Street
Vancouver, BC
Canada
V6E 2K3
Tel: 604-488-1661

TREVALI MINING CORPORATION
(Expressed in Canadian Dollars)

March 31, 2016 and 2015

INDEX | **Page**

Condensed Consolidated Financial Statements

TREVALI MINING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(Expressed in thousands of Canadian Dollars)

	Notes	March 31, 2016	December 31, 2015
ASSETS			
Current			
Cash		$ 22,192	$ 6,336
Restricted cash	**19**	4,545	8,155
Accounts receivable	**5**	27,562	24,253
Prepaid expenses and other		3,378	3,396
Inventory	**6**	5,967	2,979
		63,644	45,119
Reclamation bonds	**7**	9,779	8,699
Non-current receivable		4,935	5,259
Exploration and evaluation assets	**8**	11,171	11,054
Property, plant and equipment	**9**	444,024	447,382
		$ 533,553	$ 517,513
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		$ 28,891	$ 24,041
Flow-through share premium liability	**10**	796	804
Due to related parties	**16**	3,734	4,136
Derivative liability	**12**	1,442	2,125
Interest payable	**11, 12**	3,444	1,011
Current portion of finance leases	**11**	24	24
Current portion of long term debt	**12**	4,578	3,555
		42,909	35,696
Finance leases	**11**	30,453	31,464
Long-term debt	**12**	78,322	80,379
Provision for environmental rehabilitation	**13**	47,406	46,101
Deferred income tax liabilities		18,845	18,619
		217,935	212,259
Shareholders' equity			
Capital stock	**14**	343,768	328,402
Share-based payment reserve	**15**	19,880	19,325
Cumulative translation adjustment		22,003	28,387
Deficit		(70,033)	(70,860)
		315,618	305,254
		$ 533,553	$ 517,513

Liquidity (Note 1) Commitments (Note 19) Subsequent Events (Note 22)

On behalf of the Board:

"Mr. Anton Drescher" (signed) Director
Mr Anton Drescher

"Mr. Peter Meredith" (signed) Director
Mr Peter Meredith

TREVALI MINING CORPORATION

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

TREVALI MINING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited – Prepared by Management)
(Expressed in thousands of Canadian Dollars, except for share and per share amounts)
THREE MONTHS ENDED MARCH 31

	Notes		2016		2015
REVENUES	**16, 17**	$	26,953	$	25,914
Mining operating expenses					
Production costs			8,432		10,742
Smelting, refining and freight			9,738		8,510
Royalty expense			362		940
Depreciation and amortization			4,252		3,503
			22,784		23,695
Income from mining operations			4,169		2,219
GENERAL AND ADMINISTRATION EXPENSES					
Consulting fees			540		698
Investor relations			141		147
Office and miscellaneous			250		253
Professional fees			123		140
Regulatory			119		97
Travel and promotion			13		92
Income before other items			2,983		792
OTHER ITEMS					
Gain (loss) on foreign exchange			12		(221)
Gain on derivatives	**12**		684		-
Litigation settlement			-		(1,276)
Interest expense	**18**		(2,328)		(1,323)
Other income			107		74
Income (loss) before income taxes			1,458		(1,954)
Deferred income tax expense			(631)		(854)
Net Income (loss) for the period		$	827	$	(2,808)
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified subsequently to net income (loss)					
Translation Adjustment			(6,384)		8,258
Total Comprehensive (Loss) Income			(5,557)		5,450
Basic and diluted income (loss) per share					
Basic		$	0.00	$	(0.01)
Diluted			0.00		(0.01)
Weighted average number of shares outstanding					
Basic			336,838,418		283,082,298
Diluted			337,022,541		283,082,298

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

TREVALI MINING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of Canadian Dollars)
THREE MONTHS ENDED MARCH 31

	Notes	2016	2015
CASH FLOWS USED IN OPERATING ACTIVITIES			
Net income (loss) for the period		$ 827	$ (2,808)
Items not affecting cash:			
Depreciation and amortization		4,252	3,503
Share-based payment expense		364	531
Unrealized gain on foreign exchange		309	(110)
Accretion and interest accrued on finance leases	**11**	1,566	659
Accretion of provision for environmental rehabilitation	**13**	297	249
Interest accretion and accrued on long-term debt	**12**	358	321
Interest accrued on reclamation bond		(7)	(24)
Deferred income tax expense		631	854
Gain on derivatives		(684)	-
Changes in non-cash working capital items:			
Accounts receivable		(5,703)	4,454
Prepaid expenses and other		(142)	(501)
Inventory		(2,734)	(500)
Accounts payable and accrued liabilities		1,338	(3,079)
Due to (from) related parties		(1,164)	4
Net cash flows provided by in operating activities		(492)	3,553
CASH FLOWS FROM FINANCING ACTIVITIES			
Shares issued for cash, net of share issue costs		15,303	5,114
Interest payments		-	(272)
Payments on finance leases		(6)	(470)
Net cash flows provided by financing activities		15,297	4,372
CASH FLOWS USED IN INVESTING ACTIVITIES			
Decrease (increase) in restricted cash		2,091	(1,108)
Decrease (increase) in input tax credit and IGV		1,107	(837)
Reclamation bond		(196)	(2,260)
Purchase of plant and equipment and evaluation assets		(1,933)	(10,542)
Net cash flows used in investing activities		1,069	(14,747)
Effect of foreign exchange on cash		(18)	117
Increase (decrease) in cash for the period		15,856	(6,705)
Cash, beginning of period		6,336	24,681
Cash, end of period		$ 22,192	$ 17,976

Supplemental cash flow information (Note 21)

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

TREVALI MINING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in thousands of Canadian Dollars, except for share amounts)

	Notes	Number of shares	Issued Share Capital	Share-based payment reserve	Cumulative Translation Adjustment	Deficit	Total Equity
Balance, December 31, 2014		281,462,855	287,006	19,026	11,465	(56,561)	260,936
Share-based payment		-	-	846	-	-	846
Private placement		4,436,957	4,836	-	-	-	4,836
Bonus share units issued		27,625	30	-	-	-	30
Share issuance costs		-	(19)	-	-	-	(19)
Net loss for the period		-	-	-	-	(2,808)	(2,808)
Translation adjustment		-	-	-	8,258	-	8,258
Balance, March 31, 2015		285,927,437	$ 291,853	$ 19,872	$ 19,723	$ (59,369)	$ 272,079

	Notes	Number of shares	Issued Share Capital	Share-based payment reserve	Cumulative Translation Adjustment	Deficit	Total Equity
Balance, December 31, 2015		327,493,077	328,402	19,325	28,387	(70,860)	305,254
Share-based payment		-	-	561	-	-	561
Private placement	**14**	51,129,450	16,450	-	-	-	16,450
Bonus share units issued		173,743	63	(6)	-	-	57
Share issuance costs	**14**	-	(1,147)	-	-	-	(1,147)
Net income for the period		-	-	-	-	827	827
Translation adjustment		-	-	-	(6,384)	-	(6,384)
Balance, March 31, 2016		378,796,270	343,768	19,880	22,003	(70,033)	315,618

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

1. NATURE OF BUSINESS AND LIQUIDITY

Trevali Mining Corporation (the "Company" or “Trevali”) is incorporated under the laws of British Columbia, Canada. The Company is a natural resource company engaged in the acquisition, exploration, development and production from mineral properties. The Company currently holds four properties in Canada and an interest in one property in Peru with an option on a second Peruvian property.

The Company, through its wholly owned subsidiary Trevali Peru S.A.C. operates the Santander underground mine and metallurgical plant located in Peru. The Company entered the production phase at Santander on January 1, 2014 and is producing zinc and lead-silver concentrates.

In Canada, the Company owns through its wholly owned subsidiaries, the Caribou mine and mill, the Halfmile mine and the Stratmat polymetallic deposit all located in northern New Brunswick.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

As at March 31, 2016, the Company had working capital of $20,735 (December 31, 2015 - $9,423) and a cumulative deficit of $70,033 (December 31, 2015 - $70,860). Subsequent to the quarter’s end, the Company closed a flow-through private placement financing. It issued 8,220,000 common shares on a "flow-through" basis under the Income Tax Act (Canada) at a price of $0.365 per Flow-through Share for aggregate gross proceeds of $3,000. In addition, the Company settled $1,400 in debt outstanding by issuing 4,117,647 common shares at a price of $0.34 per share. Please also see subsequent events Note 22.

Based on the anticipated cash flows from Santander and Caribou mines, the Company is expected to have sufficient resources to meet its committed expenditures for the next twelve months. However, additional funds may be required to complete the commissioning, start-up and ramp-up of the Company’s Caribou mine project and the Company may need to seek additional funding to finance such activities.

The Company has relied principally upon the issuance of securities and debt financings for financing. The Company intends to continue to rely on the issuance of equity or debt securities to finance its future activities, and from cash flows from its producing Santander mine in Peru, but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs or development plans will result in profitable mining operations. The Company has positive cash flows generated in Peru to support its operation and expects to generate sufficient cash from its Caribou mine in the second quarter of 2016 to support its Canadian operations. The Company continues to have cash requirements to meet its project development costs and maintain its mineral property interests. The recoverability of amounts shown for mineral properties is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties.

2. BASIS OF PREPARATON

Statement of compliance

These condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and Interpretations issued by the IFRS Interpretations committee (“IFRICs”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

2. BASIS OF PREPARATON (cont'd)

Statement of compliance (cont'd…)

The Company is following the same accounting policies and methods of computation in these condensed financial statements as it did in the audited financial statements for the year ended December 31, 2015.

Approval of the financial statements

The condensed consolidated financial statements of Trevali for the three month period ended March 31, 2016 and 2015 were reviewed by the Audit Committee, approved and authorized for issue by the Board of Directors on May 11, 2016.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2015, except as addressed below.

Achievement of Production Phase

Once a mine reaches the operating levels intended by management, depreciation of capitalized costs begins. Significant judgment is required to determine when certain assets of the Company's reach this level. Management considers several factors including, completion of a reasonable period of commissioning, consistent operating results are being achieved at a pre-determined level of design capacity. Management have determined that the Caribou Mine has not yet operated in the manner intended by management.

4. FINANCIAL INSTRUMENTS

Fair value of financial instruments

Fair value represents the price at which a financial instrument could be exchanged in an active market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The following provides a comparison of carrying and fair values of each classification of financial instrument as at March 31, 2016.

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

4. FINANCIAL INSTRUMENTS (cont'd)

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (cont'd…)

	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Loans and receivables				
Cash (b)	$ 22,192	$ 22,192	$ 6,336	$ 6,336
Restricted cash (b)	4,545	4,545	8,155	8,155
Accounts receivable (b)	27,562	27,562	24,253	24,253
Total financial assets	**$ 54,299**	**$ 54,299**	**$ 38,744**	**$ 38,744**
Financial liabilities				
Fair value through profit or loss				
Derivatives (b)	$ 1,442	$ 1,442	$ 2,125	$ 2,125
Other financial liabilities				
Accounts payable and accrued liabilities (b)	28,891	28,891	24,041	24,041
Due to related parties (b)	3,734	3,734	4,136	4,136
Finance lease (d)	30,477	30,477	31,464	31,464
Santander's creditors obligation	2,805	2,805	2,990	2,990
Working capital facility (a)	23,953	23,952	25,165	25,165
Senior Secured Notes (c)	58,681	58,681	56,413	56,413
Total financial liabilities	**$ 149,983**	**$ 149,983**	**$ 146,334**	**$ 146,334**

(a) The fair value of the working capital facility approximates its carrying value due to the floating interest rate.

(b) The fair values for short term financial assets and liabilities, which include cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, due to related parties and derivative liability approximate carrying values due to the immediate or short-term maturities of these financial instruments.

(c) The fair value of the Senior Secured Notes approximates its carrying value plus accrued interest payable (Note 12).

(d) The fair value of the finance lease approximates its carrying value as it is calculated based on the present value of the future principal cash flows, discounted at the market rate of interest at the reporting dates. For the finance lease the market rate of interest is determined by reference to similar lease agreements. The payments were estimated based on future cash flow from production (Note 11).

5. ACCOUNTS RECEIVABLE

	March 31, 2016	December 31, 2015
Trade receivables[1]	$ 16,807	$ 11,586
IGV tax credits	10,374	11,172
GST/HST tax credits	265	1,373
Other	116	122
	$ 27,562	$ 24,253

[1] Trade receivables are from sales to Glencore (Note 16).

Included in input tax credits and IGV ("IGV") are amounts incurred by Trevali Peru in Peru and are recoverable from taxes collected from mine production revenues.

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

6. INVENTORY

		March 31, 2016		December 31, 2015
Mineralized stockpiles	$	924	$	345
Concentrates		3,156		1,080
Materials and supplies		1,887		1,554
	$	5,967	$	2,979

7. RECLAMATION BONDS

As of March 31, 2016, the Company has cash on deposit with the Province of New Brunswick as security for reclamation and environmental obligations associated with its Halfmile mine for $639 (2015 - $639) and its Caribou mine for $4,871 (2015 - $4,864). The Company has a further $4,269 (2015 - $3,196) cash on deposit with the Government of Peru as security for reclamation and environmental obligations associated with its Santander mine.

8. EXPLORATION AND EVALUATION ASSETS

		Stratmat (Canada)		Huampar (Peru)		Ruttan Bill Copper (Canada)		Other (Canada)		Exploration and evaluation assets
Cost as at December 31, 2015	$	8,146	$	1,969	$	1,228	$	15	$	11,358
Additions		1,127		246		9		29		1,411
Write-down				(1,928)		-		-		(1,928)
Translation adjustment		-		213		-		-		213
Net book value, December 31, 2015	$	9,273	$	500	$	1,237	$	44	$	11,054
Additions		146		-		-		1		147
Translation adjustment		-		(31)		-		-		(30)
Net book value, March 31, 2016	$	9,419	$	469	$	1,237	$	45	$	11,171

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

9. PROPERTY, PLANT AND EQUIPMENT

		Mine development		Construction in progress		Buildings and infrastructure		Equipment and other		Assets under finance lease		Total
Cost as at December 31, 2015	$	355,289	$	7,000	$	58,182	$	28,495	$	31,567	$	480,533
Additions		4,768		90		2,004		4		-		6,866
Change in estimate on assets under finance lease		-		-		-		-		-		-
Capitalized borrowing costs (Note 12c)		2,266		-		-		-		-		2,266
Change in provision for environmental rehabilitation (Note 13)		1,954		-		-		-		-		1,954
Translation adjustment		(7,115)		-		(1,049)		(156)		(1,556)		(9,876)
As at March 31, 2016		357,162		7,090		59,137		28,343		30,011		481,743
Accumulated amortization as at December 31, 2015		(16,015)		-		(8,147)		(3,239)		(5,749)		(33,150)
Charge for the period		(2,483)		-		(804)		(267)		(1,036)		(4,569)
As at March 31, 2016		(18,498)		-		(8,951)		(3,506)		(6,785)		(37,719)
Net book value, March 31, 2016	$	338,664	$	7,090	$	50,186	$	24,837	$	23,226	$	444,024

		Mine development		Construction in progress		Buildings and infrastructure		Equipment and other		Assets under finance lease		Total
Cost as at December 31, 2014	$	280,638	$	3,573	$	31,223	$	27,073	$	30,374	$	372,881
Additions		47,804		3,427		24,999		902		125		77,311
Disposals		-		-		-		(28)		-		(28)
Reclassification		914		-		(1,071)		157		-		-
Change in estimate on assets under finance lease		-		-		-		-		(3,799)		(3,799)
Capitalized borrowing costs		7,505		-		-		-		-		7,505
Pre-production costs, net of revenues		-		-		-		-		-		-
Change in provision for environmental rehabilitation		798		-		-		-		-		798
Translation adjustment		17,629		-		3,031		391		4,814		25,865
As at December 31, 2015		355,289		7,000		58,182		28,495		31,567		480,533
Accumulated amortization as at December 31, 2014		(7,005)		-		(5,125)		(2,189)		(1,982)		(16,301)
Charge for the period		(9,010)		-		(3,022)		(1,050)		(3,767)		(16,849)
Disposals		-		-		-		-		-		-
As at December 31, 2015		(16,015)		-		(8,147)		(3,239)		(5,749)		(33,150)
Net book value, December 31, 2015	$	339,273	$	7,000	$	50,035	$	25,256	$	25,818	$	447,382

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

10. FLOW-THROUGH SHARE PREMIUM LIABILITY

Flow-through share liability includes the liability portion (the premium) of the flow-through shares issued but for which the qualifying exploration expenditures have yet to be incurred. The following is a continuity schedule of the liability portion of the flow-through share issuances.

	Issued on February 27, 2015	Issued on November 2, 2015	Total
Balance at December 31, 2015	$ 142	$ 662	$ 804
Reduction of flow-through share liability on incurring qualifying expenditures	(8)	-	(8)
Balance at March 31, 2016	$ 134	$ 662	$ 796

	Issued on February 27, 2015	Issued on November 2, 2015	Issued on November 6, 2015	Total
Balance at December 31, 2014	$	$ -	$ -	$ -
Premium liability incurred on flow-through shares issued	266	662	45	973
Reduction of flow-through share liability on incurring qualifying expenditures	(124)	-	(45)	(169)
Balance at December 31, 2015	$ 142	$ 662	$ -	$ 804

11. FINANCE LEASES

	Concentration Plant (a)	Caterpillar Lease	Total
Balance at December 31, 2015	**$ 31,401**	**$ 87**	**$ 31,488**
Interest accretion during the period	983	-	983
Payments of the lease during the period	-	(6)	(6)
Translation adjustment	(1,988)	-	(1,988)
	$ 30,396	$ 81	$ 30,477
Less current portion	-	(24)	(24)
Balance at March 31, 2016	$ 30,396	$ 57	$ 30,453

Fair value, which is estimated for disclosure purposes, is calculated based on the present value of future principal cash flows, discounted at the market rate of interest at the reporting date. For the finance lease the market rate of interest is determined by reference to similar lease agreements. The payments were estimated based on future cash flow from production using an annual effective interest rate of 11.28%.

On October 30, 2015 the Company arranged a payment grace period with Glencore with regards to payments on the finance lease and working capital facility (Note 12b). Under the grace period, repayment obligations have been suspended starting from October 30, 2015 and ending the earlier of: (i) October 31, 2016 and (ii) the last day of the month that comes before any month in which the price of Zinc reaches at least US$1,990 per tonne as an average for ten consecutive quotation days. The outstanding payment obligations will continue to accrue interest along with an additional compensatory interest on the finance lease that will accrue without interest; provided however, compensatory interest will accrue on the full amount owing at a rate equivalent to LIBOR (one month) plus five percent during the grace period. At March 31, 2016 the additional compensatory interest payable on the finance lease was $583 (2015 - $377).

The plant was recorded in property plant and equipment as assets under finance lease at its inception date fair value of US$25,608 (Note 9). The Company has provided Glencore with security on the finance lease in the form of a charge on the Plant.

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

12. LONG-TERM DEBT

		Santander's creditors obligation (a)		Working capital facility (b)		Senior Secured Notes (c)		Total
Balance at December 31, 2015	$	2,990	$	25,165	$	56,143	$	84,568
Accretion and accrual of interest		-		358		2,268		2,626
Loss on foreign exchange translation		(185)		(1,571)		-		(1,756)
Loan and interest payments		-		-		-		-
		2,805		23,952		58,681		85,438
Less interest payable		-		-		(2,538)		(2,538)
Less current portion		(2,805)		(1,773)		-		(4,578)
Balance at March 31, 2016	$	-	$	22,179	$	56,143	$	78,322

(a) Third party Santander creditor obligation

On September 29, 2009, Santander became a special purpose entity controlled by the Company by virtue of Santander's Creditors Committee approval of the mineral concession purchase option granted to the Company, and 75% voting right held on the Company's creditor's claims, together with other Company obligations relating thereto. The Company recorded the present value of the obligation to those third party creditors of US$2,160, of which the calculated present value is $2,805 (2015 - $2,736) due on or before December 31, 2016 (being the estimated date of repayment by Trevali), at a discount rate of 15%.

(b) Working capital facility

On November 6, 2012, the Company closed a US$20,000 working capital facility from development partner, Glencore. The secured working capital facility bears interest at LIBOR + 5%. The loan is repayable on a monthly basis over a five year repayment term based on a formula, which allocates the repayments between the US$20,000 working capital facility and the finance lease (Note 11), based upon a sliding scale, which takes into account the price of zinc and the number of tonnes treated at the Santander mine. Any unpaid balance at the end of the term will be due on this date. It may be pre-paid at any stage without penalty. The Company has provided Glencore with security on the working capital facility in the form of a charge covering substantially all of the Company's Peruvian assets.

On October 30, 2015 the Company arranged a payment grace period with Glencore with regards to payments on the working capital facility. Under the grace period, repayment obligations have been suspended starting from October 30, 2015 and ending the earlier of: (i) October 31, 2016 and (ii) the last day of the month that comes before any month in which the price of Zinc reaches at least US$1,990 per tonne as an average for ten consecutive quotation days. The outstanding payment obligations will continue to accrue interest.

(c) Senior Secured Notes

On May 30, 2014, the Company closed its offering of 52,500 units ("Unit") consisting of 12.5% Senior Secured Notes due May 30, 2019 and Common Share purchase warrants at a price of $980 per Unit, for aggregate proceeds of $51,450. Each Unit consists of $1 principal amount of Notes and 123.2 warrants. Each whole warrant shall entitle the holder thereof, subject to certain conditions, to purchase one Common Share at an exercise price of $1.26. The warrants expire on May 30, 2019.

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

12. LONG-TERM DEBT (cont'd)

(c) Senior Secured Notes (cont'd)

On December 31, 2015, the Company announced that it had amended, by way of entering into a supplemental indenture, its original note indenture with its senior secured holders ("Noteholders") of its $52.5-million 12.5% senior secured notes (each a "Note" and collectively the "Notes") originally placed on May 30, 2014 (the "May 2014 Offering") to extend and expand the debt facility. Under the amended agreement, the Company issued an additional $8.4 million in new Notes ("New Notes") and received a waiver for the Corporation's $7.5-million payment scheduled to be made on August 30, 2016 – which has now been deferred until August 30, 2017. In relation to these amendments and issuance of the New Notes, the 6,468,000 5-year warrants issued in connection with the May 2014 Offering were repriced downward from $1.26 to $0.475 and the term of such warrants were extended to a new five-year term. In addition, in connection with the New Notes issued, an additional 1,034,880 5-year warrants were issued having an exercise price of $0.475.

In connection with these amendments, the Corporation also agreed to adjust the exercise price of the warrants if and whenever, at any time on or after December 30, 2015 and on or prior to June 30, 2016, the Company issued Common Shares, or securities convertible into or exchangeable for Common Shares, at a price lower than $0.413 – the effect of such adjustment mechanism being that the Warrants will be repriced to a 115% or, in some cases, a 110% premium to the subsequent equity issuance price in question. Therefore, the warrants are carried at their fair value and classified as a derivative liability.

On March 16, 2016, the Company closed its offering, pursuant to a short form prospectus, of 46,718,750 Common Shares at a price of $0.32 per Share for aggregate gross proceeds of $14,950. As a result of this offering, the exercise price of 7,502,880 Warrants previously issued with May 31, 2014 offering and December 31, 2015 supplemental indenture were re-priced from an exercise price of $0.475 to $0.368.

The warrants are classified as a derivative liability based on the evaluation of the warrants' being carried at fair value. Subsequently, changes in the fair value is recorded as gain or loss in net income (loss). At March 31, 2016, the revaluation of the warrants resulted in a gain on derivative liability of $684. At March 31, 2016, the fair value of the original 6,468,000 warrants and additional 1,034,880 warrants, which represent transaction costs related to the offering, were estimated at $1,442 using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.68%
Expected life of warrants	4.75 years
Annualized volatility	63.37%
Dividend rate	0.00%

The Company has provided security on the loan facility in the form of a charge over substantially all of the Company's Canadian assets and has received a waiver for the $7.5-million amortization payment scheduled to be made on August 30, 2016, which will now be deferred until August 30, 2017. The Senior Secured Notes bear annual compounded interest at a rate of 12.5% and must now be repaid in installments between the third and fourth anniversaries of the closing date. For the three months ended March 31, 2016, $2,266 (December 31, 2015 - $6,927) of interest and transaction fees has been capitalized to mine development as capitalized borrowing costs under the Caribou project.

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

12. LONG-TERM DEBT (cont'd)

(c) Senior Secured Notes (cont'd)

Payment Schedule		
Fiscal Year	Interest Payments	Principal Payments
2016	7,527	$-
2017	6,675	15,000
2018	5,269	7,500
2019	2,400	38,400
Total	**$21,871**	**$60,900**

13. PROVISION FOR ENVIRONMENTAL REHABILITATION

The Company's provision for environmental rehabilitation consists of costs accrued based on the current best estimate of mine closure and reclamation activities that will be required at the three mine sites upon completion of mining activity. These activities include costs for earthworks, including land re-contouring and re-vegetation, water treatment and demolition. The Company's provision for future site closure and reclamation costs is based on the level of known disturbance at the reporting date, known legal requirements and estimates prepared by internal and third party specialists.

The assumptions used in the estimation of the provision are as follows:

	Undiscounted liability for closure	Life of mine	Reclamation period (years)	Pre-tax discount rate	Inflation factor	PV of Cash flow required on closure
Santander[1]	13,888	15	6	1.99%	2.00%	14,540
Halfmile	625	20	1	2.00%	2.00%	694
Caribou	31,256	10	50	1.22-2.00%	2.00%	32,172

[1]Santander liability will be settled in US dollars. The USD equivalent of the discounted obligation is $11,196.

The following is a continuity schedule of the Company's estimated provisions:

Balance at December 31, 2015	**$**	**46,101**
Accretion		297
Change in discount rate		996
Change in estimate		958
Change in foreign exchange rate		(946)
Balance at March 31, 2016	**$**	**47,406**

14. CAPITAL STOCK

Authorized:
Unlimited number of common shares without par value.

During the period ended March 31, 2016, the Company:

(a) On February 29, 2016, closed a flow-through private placement financing, issuing 4,410,700 common shares on a "flow-through" basis under the Income Tax Act (Canada) ("Flow-through Shares") at a price of $0.34 per Flow-through Share for aggregate gross proceeds of $1,500.

(b) On March 16, 2016, closed a "best efforts" marketed offering of 46,718,750 common shares of the Company at a price of $0.32 per share for aggregate gross proceeds of $14,950 and incurred share issue costs of $1,043.

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

15. SHARE-BASED PAYMENT RESERVE

Stock options

The Company has a stock option plan in place under which it is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the approximate market price of the Company's stock on the date of grant. The options can be granted for a maximum term of ten years and vesting periods are determined by the Board of Directors.

As at March 31, 2016 and December 31, 2015 the Company had outstanding stock options enabling the holders to acquire common shares as follows:

	March 31, 2016			**December 31, 2015**		
Expiry Date	Exercise Price	Number of Options	Exercisable	Exercise Price	Number of Options	Exercisable
January 17, 2016	-	-	-	$1.95	10,000	10,000
February 1, 2016	-	-	-	$2.00	60,000	60,000
May 1, 2018	0.77	855,000	570,000	$0.77	855,000	570,000
May 31, 2018	$0.62	927,136	618,091	$0.62	927,136	618,091
August 30, 2018	$0.72	66,650	44,433	$0.72	66,650	44,433
June 24, 2019	$1.01	1,187,700	395,900	$1.01	1,187,700	395,900
August 15, 2019	$1.29	277,500	92,500	$1.29	277,500	92,500
January 30, 2020	$1.03	2,966,890	988,963	$1.03	2,966,890	-
	$0.94	6,280,876	2,709,887	$0.94	6,350,876	1,790,924

At March 31, 2016, the weighted average remaining contractual life of the stock options was 3.20 years (December 31, 2015 – 3.41 years).

Stock option transactions are as follows:

	March 31, 2016		**December 31, 2015**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of the period	6,350,876	$0.95	3,857,301	$1.03
Granted	-	-	3,222,000	$1.03
Exercised	-	-	(100,831)	$0.62
Forfeited	-	-	(155,820)	$0.94
Cancelled	-	-	(157,150)	$1.03
Expired	(70,000)	$1.99	(314,624)	$0.71
Balance, end of the period	6,280,876	$0.94	6,350,876	$0.95

Share-based compensation

During the period ended March 31, 2016, the Company recorded $205 in total share-based compensation expense, of which $196 was capitalized to property, plant and equipment.

Option pricing models require the input of subjective assumptions including the expected volatility. The expected volatility is based on the historical volatility of the Company’s common shares.

Changes in the subjective input assumptions can materially affect the fair value estimate.

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

15. SHARE-BASED PAYMENT RESERVE (cont'd)

Warrants

At March 31, 2016 and December 31, 2015 warrants were outstanding as follows:

	March 31, 2016		December 31, 2015	
Expiry Date	Exercise Price	Number of Warrants	Exercise Price	Number of Warrants
April 9, 2017	$1.04	500,000	$1.04	500,000
December 31, 2020	$0.368	6,468,000	$0.475	6,468,000
December 31, 2020	$0.368	1,034,880	$0.475	1,034,880
	$0.41	8,002,880	$0.51	8,002,880

Bonus Shares, RSU's and DSU's

In May 2013, the Company initiated a long-term incentive plan which provides for the grant of bonus shares, RSU's and DSU's in such amounts as approved by the Corporation's Board of Directors. Bonus shares are granted to directors, executives and key employees, RSU's are granted to executives and key employees, and DSU's are granted to directors.

The Incentive Plan for the grant of the bonus shares is considered an equity-settled share-based compensation arrangement, and is administered by a trustee. Each unit entitles the participant to receive one common share of the Company subject to vesting criteria. Bonus share grants vest one third per year over a three year period.

RSU's and DSU's can be settled in either cash or equity at the option of the Company. RSU grants vest 100% on the third anniversary of the date of grant and DSU grants vest 100% on the first anniversary of the date of the grant. Bonus shares, RSU's and DSU's expected to be settled in common shares are measured at fair value based on the Company's share price on date of grant.

During the three month period ended March 31, 2016, the Company redeemed 17,143 bonus shares for common stock of the Company. The Company also recorded $356 in share-based compensation expense, of which $123 was capitalized to property, plant and equipment.

At March 31, 2016 and December 31, 2015 share units were outstanding as follows:

Bonus Shares:

	March 31, 2016		December 31, 2015	
	Number of units	Weighted average fair value	Number of units	Weighted average fair value
Balance, beginning of the period	1,117,577	$0.92	931,597	$0.91
Issued	-	-	1,415,174	$1.01
Forfeited	-	-	(90,606)	$(0.93)
Redeemed	(17,143)	$(0.36)	(1,138,588)	$(1.03)
Balance, end of the period	1,100,434	$0.92	1,117,577	$0.92

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

15. SHARE-BASED PAYMENT RESERVE (cont'd)

RSU's:

	March 31, 2016		**December 31, 2015**	
	Number of units	Weighted average fair value	Number of units	Weighted average fair value
Balance, beginning of the period	2,871,000	$0.98	2,628,350	$0.98
Issued	-	-	435,500	$0.98
Forfeited	-	-	(192,850)	$(0.92)
Balance, end of the period	2,871,000	$0.98	2,871,000	$0.98

Bonus Shares, RSU's and DSU's (cont'd)

DSU's:

	March 31, 2016		**December 31, 2015**	
	Number of units	Weighted average fair value	Number of units	Weighted average fair value
Balance, beginning of the period	697,060	$0.98	298,300	$0.97
Issued	-	-	398,760	$0.99
Redeemed	-	-	-	-
Balance, end of the period	697,060	$0.98	697,060	$0.98

16. RELATED PARTY TRANSACTIONS AND BALANCES

During the period ended March 31, 2016, the Company entered into the following transactions with related parties:

Management compensation

(a) Paid or accrued consulting fees of $189 (2015 - $225) to companies related to officers of which $50 (2015 - $83) was capitalized to property, plant and equipment and an amount of $139 (2015 - $142) was recorded as part of cost of sales.

(b) Paid or accrued consulting and directors' fees of $357 (2015 - $263) to directors and officers. The Company recorded share-based compensation expense related to the vesting of issued stock options of $91 (2015 - $406) included in consulting fees, $40 (2015 - $206) capitalized to property, plant and equipment, $10 (2015 - $49) included in investor relations, and $Nil (2015 - $3) included in office and miscellaneous.

Other transactions

The Company also incurred the following transactions during the period ended March 31, 2016 and 2015 with Glencore:

(a) Paid $Nil (2015 - $470) in principal on the Concentration Plant finance lease (Note 11).

(b) Paid $Nil (2015 - $272) in principal and interest on the working capital facility (Note 12).

(c) Earned revenue of $26,953 (2015 - $25,914) on concentrate sales (Note 17).

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

16. RELATED PARTY TRANSACTIONS AND BALANCES (cont'd)

(d) Paid or accrued production expenses of $6,419 (2015 - $7,857) and mine development expenses of $2,635 (2015 - $3,594) capitalized to property, plant and equipment in 2016.

Amounts due to related parties is comprised of $137 (2015 - $723) due to directors and officers and $68 (2015 - $91) due to companies related to officers for consulting fees, and $3,325 (2015 - $4,792) bearing approximately 8% interest due to Glencore for mine development and operation expenses.

The amounts due to directors are unsecured, bear no interest and are payable on demand.

17. REVENUES

		Zinc		Lead		Total
Three months ended March 31, 2016						
Revenues before settlement adjustment	$	13,684	$	11,546	$	25,230
Settlement adjustments:						
Commodities		1,695		28		1,723
Foreign exchange		-		-		-
Revenues	$	15,379	$	11,574	$	26,953

		Zinc		Lead		Total
Three months ended March 31, 2015						
Revenues before settlement adjustment	$	13,652	$	12,314	$	25,966
Settlement adjustments:						
Commodities		(116)		64		(52)
Revenues	$	13,536	$	12,378	$	25,914

During the three months ended March 31, 2016 the Company delivered all of its concentrate to one customer, Glencore, under the terms of the off-take agreement for $26,953 (2015 - $25,914). Glencore is a related party of the Company.

18. INTEREST EXPENSE

	Note		March 31, 2016		March 31, 2015
Interest accretion on finance lease	**11**	$	983	$	659
Interest accretion on provision for environmental rehabilitation	**13**		297		249
Interest expense on long term debt	**12**		941		321
Interest expense on trade payables			107		94
		$	2,328	$	1,323

All borrowing costs incurred before production phase are capitalized to the relevant projects.

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

19. COMMITMENTS AND RESTRICTED CASH

The net proceeds of secured note issuance of $4,100 was held in escrow and transferred to unrestricted cash at January 15, 2016. Current restricted cash related to operations in Canada includes miscellaneous deposits of $40 (December 31, 2015 - $4,100).

The Company receives IGV from its sales of concentrate. 10% (2015-10%) of the amount received is deposited directly by the vendor in a restricted account. The Company is allowed to apply every quarter to Peruvian tax authority (“SUNAT”) to release the IGV from the restricted account. As of March 31, 2016, the balance held in the IGV restricted account was $4,505 (December 31, 2015 - $4,016).

20. SEGMENTED INFORMATION

The Company’s executive management team manages its business, including the allocation of resources on a project by project basis, except where the Company’s projects are substantially connected and share resources and administrative functions. The Company’s two operating segments are the Canadian development projects, comprised of the Halfmile/Stratmat and Caribou projects, and the operating Santander mine in Peru. Corporate includes the Company’s executive head office and general corporate administration and activity. For the period ended March 31, 2016 and March 31, 2015 segmented information is as follows:

	Three months ended March 31, 2016			
	Projects in Canada	Santander	Corporate	Total
Revenues	$ -	$ 26,953	$ -	$ 26,953
Mining operation expenses	-	(22,784)	-	(22,784)
Income from operation	-	4,169	-	4,169
General and administration	(4)	(130)	(1,052)	(1,186)
Other items				
Foreign exchange	(297)	224	86	12
Interest expense	(210)	(2,118)	-	(2,328)
Derivative gain	-	-	684	684
Other income	7	97	3	107
Income (loss) before income tax	$ (504)	$ 2,242	$ (279)	$ 1,458

	Three months ended March 31, 2015			
	Projects in Canada	Santander	Corporate	Total
Revenues	$ -	$ 25,914	$ -	$ 25,914
Mining operation expenses	-	(23,695)	-	(23,695)
Income from operation	-	2,219	-	2,219
General and administration	(45)	(19)	(1,363)	(1,427)
Other items				
Foreign exchange	11	(152)	(80)	(221)
Interest expense	(174)	(1,149)	-	(1,323)
Litigation settlement	(8)		(1,268)	(1,276)
Other income	25	-	49	74
Income (loss) before income tax	$ (191)	$ 899	$ (2,662)	$ (1,954)

(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

20. SEGMENTED INFORMATION (cont'd)

	March 31, 2016			
	Projects in Canada	Santander	Corporate	Total
Cash	$ 2,878	$ 570	$ 18,744	$ 22,192
Restricted cash	20	4,505	20	4,545
Accounts receivable	7,544	19,971	47	27,562
Inventory	4,323	1,644	-	5,967
Reclamation bonds	5,510	4,269	-	9,779
Non-current receivable	4,935	-	-	4,935
Exploration and evaluation assets	10,702	469	-	11,171
Property, plant and equipment	279,855	164,155	14	444,024
Other assets	864	2,430	84	3,378
Total assets	$ 316,631	$ 198,013	$ 18,909	$ 533,553

	December 31, 2015			
	Projects in Canada	Santander	Corporate	Total
Cash	$ 3,672	$ 1,051	$ 1,613	$ 6,336
Restricted cash	20	4,015	4,120	8,155
Accounts receivable	7,014	17,195	44	24,253
Inventory	2,058	921	-	2,979
Reclamation bonds	5,503	3,196	-	8,699
Non-current receivable	5,259	-	-	5,259
Exploration and evaluation assets	10,554	500	-	11,054
Property, plant and equipment	274,032	173,339	11	447,382
Other assets	653	2,669	74	3,396
Total assets	$ 308,765	$ 202,886	$ 5,862	$ 517,513

21. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-cash transactions for the three month period ended March 31 consist of the following:

	2016	2015
Due to related parties included in property, plant and equipment	$ 997	$ 1,233
Accounts payable and accrued liabilities included in property, plant and equipment	$ 3,854	$ 7,218
Share-based payment included in property, plant and equipment	$ 197	$ 315
Fair value of bonus shares issued	$ 6	$ 30

22. SUBSEQUENT EVENTS

(a) Subsequent to the quarter's end, the Company closed a flow-through private placement financing. It issued 8,220,000 common shares on a "flow-through" basis under the Income Tax Act (Canada) at a price of $0.365 per Flow-through Share for aggregate gross proceeds of $3,000.

(b) Subsequent to the quarter's end, the Company settled $1,400 in debt outstanding by issuing 4,117,647 common shares at a price of $0.34 per share.