Aura Minerals Inc.

# Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2015 and 2014

*(Unaudited)*

**NOTICE TO READER – FROM AURA MINERALS INC.**

The unaudited condensed interim consolidated financial statements of Aura Minerals Inc. including the accompanying condensed interim consolidated statements of financial position as at June 30, 2015 and December 31, 2014, the condensed interim consolidated statements of (loss) income, comprehensive (loss) income and cash flows for the three and six months ended June 30, 2015 and 2014 and the condensed interim consolidated statements of changes in equity for the six months ended June 30, 2015 and 2014 are the responsibility of the Company's management.

The unaudited condensed interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgements and estimates necessary to prepare the unaudited condensed interim financial statements in accordance with International Financial Reporting Standards for interim consolidated financial statements. The independent auditor of the Company has not performed a review of these unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2015 and 2014.

# Aura Minerals Inc.

## Condensed Interim Consolidated Statements of (Loss) Income

For the three and six months ended June 30, 2015 and 2014

*Expressed in thousands of United States dollars*

*(Unaudited)*

| | Note | **For the three months ended June 30, 2015** | For the three months ended June 30, 2014 | **For the six months ended June 30, 2015** | For the six months ended June 30, 2014 |
|---|---|---|---|---|---|
| **Revenue** | 9 | **$ 38,632** | $ 65,249 | **$ 86,837** | $ 130,276 |
| **Cost of goods sold** | 10 | **36,296** | 54,098 | **84,415** | 120,781 |
| **Gross margin** | | **2,336** | 11,151 | **2,422** | 9,495 |
| General and administrative expenses | 11 | **2,389** | 2,548 | **5,007** | 6,083 |
| Care and maintenance expenses | | **169** | – | **169** | – |
| Exploration expenses | | **153** | 112 | **300** | 330 |
| **Operating (Loss) Income** | | **(375)** | 8,491 | **(3,054)** | 3,082 |
| Finance costs | | **(1,650)** | (1,123) | **(2,500)** | (4,241) |
| Other income | | **239** | – | **239** | – |
| Other (losses) gains | | **(533)** | (639) | **374** | (1,724) |
| **(Loss) Income before income taxes** | | **(2,319)** | 6,729 | **(4,941)** | (2,883) |
| **Income tax recovery (expense)** | | **797** | (2,709) | **(2,489)** | (2,170) |
| **(Loss) Income for the period** | | **$ (1,522)** | $ 4,020 | **$ (7,430)** | $ (5,053) |
| **(Loss) income per share:** | | | | | |
| Basic and diluted | | **$ (0.01)** | $ 0.02 | **$ (0.03)** | $ (0.02) |
| **Weighted average number of common shares outstanding:** | | | | | |
| Basic and diluted | | **241,681,308** | 228,458,106 | **231,805,295** | 228,458,106 |

*The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.*

# Aura Minerals Inc.

## Condensed Interim Consolidated Statements of Comprehensive (Loss) Income

For the three and six months ended June 30, 2015 and 2014

*Expressed in thousands of United States dollars*

*(Unaudited)*

| | For the three months ended June 30, 2015 | For the three months ended June 30, 2014 | For the six months ended June 30, 2015 | For the six months ended June 30, 2014 |
|---|---|---|---|---|
| **(Loss) Income for the period** | **$ (1,522)** | $ 4,020 | **$ (7,430)** | $ (5,053) |
| **Other comprehensive loss** | | | | |
| Gain (loss) on foreign exchange translation of subsidiaries | **569** | 40 | **(2,602)** | 910 |
| Actuarial gain (loss) on post employment benefit, net of tax | **34** | (75) | **54** | 167 |
| **Other comprehensive income (loss), net of tax** | **603** | (35) | **(2,548)** | 1,077 |
| **Total comprehensive (loss) income for the period** | **$ (919)** | $ 3,985 | **$ (9,978)** | $ (3,976) |

*The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.*

# Aura Minerals Inc.

## Condensed Interim Consolidated Statements of Cash Flows

For the three and six months ended June 30, 2015 and 2014

*Expressed in thousands of United States dollars*

*(Unaudited)*

| | Note | **For the three months ended June 30, 2015** | For the three months ended June 30, 2014 | **For the six months ended June 30, 2015** | For the six months ended June 30, 2014 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| (Loss) income for the period | | **$ (1,522)** | $ 4,020 | **$ (7,430)** | $ (5,053) |
| Items not affecting cash | 12 (a) | **3,634** | 9,728 | **14,924** | 27,132 |
| Changes in non-cash working capital | 12 (b) | **6,414** | (1,896) | **1,714** | (5,952) |
| Other assets and liabilities | | **919** | (783) | **1,264** | 509 |
| **Net cash generated by operating activities** | | **9,445** | 11,069 | **10,472** | 16,636 |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | **(3,644)** | (4,676) | **(7,733)** | (8,057) |
| Proceeds from sale of fixed assets | | **–** | 1,281 | **21** | 1,366 |
| **Net cash used in investing activities** | | **(3,644)** | (3,395) | **(7,712)** | (6,691) |
| **Cash flows from financing activities** | | | | | |
| Proceeds received from private placement | 8 (b) | **4,928** | – | **4,928** | – |
| Draw down of short-term loans | 7 (a) (i) | **1,341** | – | **3,501** | – |
| Proceeds received from gold loan | 7 (b) | **–** | – | **–** | 22,500 |
| Repayment of gold loans | 7 (b) | **(6,498)** | (8,277) | **(9,408)** | (8,277) |
| Repayment of credit facility | 7 (c) | **–** | – | **–** | (22,425) |
| Repayment of short-term loans | | **(1,414)** | (1,436) | **(2,953)** | (4,336) |
| Repayment of other provisions | | **–** | (763) | **–** | (2,593) |
| Decrease (increase) in restricted cash | 13 (b) | **–** | 500 | **–** | (1,000) |
| Repayment of other liabilities | | **–** | (777) | **(734)** | (1,782) |
| Interest paid on debt | | **(392)** | (860) | **(1,093)** | (1,786) |
| Finance lease payments | | **(224)** | (734) | **(224)** | (1,557) |
| **Net cash used in financing activities** | | **(2,259)** | **(12,347)** | **(5,983)** | **(21,256)** |
| **Increase (decrease) in cash and cash equivalents** | | **3,542** | (4,673) | **(3,223)** | (11,311) |
| **Cash and cash equivalents, beginning of the period** | | **1,066** | 8,721 | **7,831** | 15,359 |
| **Cash and cash equivalents, end of the period** | | **$ 4,608** | $ 4,048 | **$ 4,608** | $ 4,048 |

*The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.*

# Aura Minerals Inc.

## Condensed Interim Consolidated Statements of Financial Position

As at June 30, 2015 and December 31, 2014

*Expressed in thousands of United States dollars*

*(Unaudited)*

| | Note | | June 30, 2015 | | December 31, 2014 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current** | | | | | |
| Cash and cash equivalents | | $ | **4,608** | $ | 7,831 |
| Trade and other receivables | 3 | | **15,687** | | 15,638 |
| Inventory | 4 | | **40,043** | | 46,126 |
| Other current assets | | | **4,393** | | 4,769 |
| | | | **64,731** | | 74,364 |
| **Other long-term assets** | | | **8,097** | | 8,961 |
| **Property, plant and equipment** | 5 | | **90,911** | | 91,548 |
| **Deferred income tax assets** | | | **2,431** | | 4,619 |
| | | $ | **166,170** | $ | 179,492 |
| **LIABILITIES** | | | | | |
| **Current** | | | | | |
| Trade and other payables | 6 | $ | **47,372** | $ | 43,949 |
| Debts | 7 | | **21,695** | | 31,433 |
| Current portion of provision for mine closure and restoration | | | **309** | | 309 |
| Current portion of other liabilities | | | **3,434** | | 3,082 |
| | | | **72,810** | | 78,773 |
| **Deferred income tax liabilities** | | | **266** | | 2,696 |
| **Provision for mine closure and restoration** | | | **18,869** | | 17,914 |
| **Other provisions** | | | **6,173** | | 6,154 |
| **Other liabilities** | | | **5,011** | | 6,016 |
| | | | **103,129** | | 111,553 |
| **SHAREHOLDERS' EQUITY** | | | | | |
| **Share capital** | 8 | | **542,612** | | 537,684 |
| **Contributed surplus** | | | **54,314** | | 54,162 |
| **Accumulated other comprehensive income** | | | **(3,490)** | | (888) |
| **Deficit** | | | **(530,395)** | | (523,019) |
| | | | **63,041** | | 67,939 |
| | | $ | **166,170** | $ | 179,492 |

**Nature of operations and going concern (note 1)**

Approved on behalf of the Board of Directors:

*"Patrick Mars"* — **Patrick Mars, Director**

*"James M. Bannantine"* — **James M. Bannantine, Director**

*The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.*

# Aura Minerals Inc.

## Condensed Interim Consolidated Statements of Changes in Equity

As at June 30, 2015 and 2014

*Expressed in thousands of United States dollars*

*(Unaudited)*

| | Note | Number of common shares | | Share capital | | Contributed surplus | | Accumulated other comprehensive loss | | Deficit | | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At December 31, 2014** | | **228,525,305** | **$** | **537,684** | **$** | **54,162** | **$** | **(888)** | **$** | **(523,019)** | **$** | **67,939** |
| Loss for the period | | – | | – | | – | | – | | (7,430) | | (7,430) |
| Loss on translation of subsidiaries | | – | | – | | – | | (2,602) | | – | | (2,602) |
| Private placement, net of share issuance costs | 8 (b) | 57,009,346 | | 4,928 | | – | | – | | – | | 4,928 |
| Actuarial gain on severance liability, net of tax | | – | | – | | – | | – | | 54 | | 54 |
| Share-based payments | 8 (c) | – | | – | | 152 | | – | | – | | 152 |
| **At June 30, 2015** | | **285,534,651** | **$** | **542,612** | **$** | **54,314** | **$** | **(3,490)** | **$** | **(530,395)** | **$** | **63,041** |

| | Note | Number of common shares | | Share capital | | Contributed surplus | | Accumulated other comprehensive income | | Deficit | | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At December 31, 2013** | | **228,458,106** | **$** | **537,603** | **$** | **53,605** | **$** | **1,142** | **$** | **(380,405)** | **$** | **211,945** |
| Loss for the period | | – | | – | | – | | – | | (5,053) | | (5,053) |
| Gain on translation of subsidiaries | | – | | – | | – | | 910 | | – | | 910 |
| Actuarial gain on severance liability, net of tax | | – | | – | | – | | – | | 167 | | 167 |
| Warrants issued to accompany gold loan | 7 (b) | – | | – | | 90 | | – | | – | | 90 |
| Share-based payments | | – | | – | | 375 | | – | | – | | 375 |
| **At June 30, 2014** | | **228,458,106** | **$** | **537,603** | **$** | **54,070** | **$** | **2,052** | **$** | **(385,291)** | **$** | **208,434** |

*The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.*

## 1 NATURE OF OPERATIONS AND GOING CONCERN

Aura Minerals Inc. ("Aura Minerals" or the "Company") is a mining company focused on the operation and development of mining properties in the Americas. The Company's mining operations and projects comprise:

- a 100% interest in the San Andres gold mine in Honduras (the "San Andres Mine");
- a 100% interest in the Sao Francisco gold mine in Brazil. During the year ended December 31, 2014, the Company disposed of the assets and liabilities of the Sao Vicente gold mine in Brazil . Both Brazilian mines are referred to collectively as the "Brazilian Mines";
- a 100% interest in the Aranzazu mine in Mexico (the "Aranzazu Mine"), which produces a copper-gold-silver concentrate and is currently on care-and-maintenance; and
- a 100% interest in the development-stage copper, gold and iron ore Serrote de Laje project in Brazil (the "Serrote Project").

Aura Minerals is a public company with shares listed on the Toronto Stock Exchange. The Company is incorporated under the federal laws of Canada, and its head office and registered address are at 155 University Avenue, Suite 1240, Toronto, Ontario, Canada, M5H 3B7.

These condensed interim 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 in the normal course of business.

The Company has experienced recurring operating losses and has an accumulated deficit of $530,395 at June 30, 2015. For the three and six months ended June 30, 2015, the Company incurred net losses of $1,522 and $7,430 respectively. Based on the Company's cash flow forecasts, which reflect current commodity prices, the Company does not have sufficient funds or working capital to achieve the required debt repayments over the next twelve months without refinancing or obtaining additional financing. Aranzazu's operating company, Aranzazu Holding S.A. de C.V., filed for administrative proceedings under the Mexican Commercial Bankruptcy Law, which was approved by the Mexican Federal Court on May 4, 2015.

These factors lend significant doubt to the Company's ability to continue as a going concern. The Company's continued operation is dependent upon its ability to refinance its current funding or raise additional funding to meet its obligations and attain profitable operations. Although management is confident that the Company will be able to refinance its current funding or raise additional financing, there are no assurances that the Company will be successful. These condensed interim consolidated financial statements do not include the adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. These adjustments may be material.

## 2 BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements of Aura Minerals for the three and six months ended June 30, 2015 have been prepared in accordance with the International Financial Reporting Standards and Interpretations (collectively, "IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statments, including IAS34, *"Interim Financial Reporting."*

These unaudited condensed interim consolidated financial statements follow the same accounting policies and methods of application, and should be read in conjunction with, the audited annual consolidated financial statments of the

*Expressed in thousands of United States dollars, except where otherwise noted.*

Company for the year ended December 31, 2014. These unaudited condensed interim consolidated financial statments do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2014.

These financial statements were approved for issue by the board of directors effective August 11, 2015.

## 3 TRADE AND OTHER RECEIVABLES

| | | **June 30, 2015** | | December 31, 2014 |
|---|---|---|---|---|
| Trade accounts receivable | **$** | **496** | $ | 2,305 |
| Value added taxes receivable | | **21,395** | | 20,317 |
| Other receivables | | **171** | | 153 |
| **Total trade and other receivables** | **$** | **22,062** | $ | 22,775 |
| Less: non-current portion of value added taxes receivable | | **(6,375)** | | (7,137) |
| **Trade and other receivables recorded as current assets** | **$** | **15,687** | $ | 15,638 |

## 4 INVENTORY

| | | **June 30, 2015** | | December 31, 2014 |
|---|---|---|---|---|
| Finished product | **$** | **12,075** | $ | 19,781 |
| Work-in-process | | **11,889** | | 8,955 |
| Parts and supplies | | **16,079** | | 17,390 |
| **Total inventory** | **$** | **40,043** | $ | 46,126 |

During the three and six months ended June 30, 2015 the cost of inventories recognized as an expense (note 10) was $36,296 and $84,415 (2014: $54,098 and $120,781). The cost of inventories during the three and six months ended June 30, 2015 includes write-downs of $777 and $5,645 (2014: $1,080 and $7,510) to bring finished product and work-in-process inventories to net realizable value.

*Expressed in thousands of United States dollars, except where otherwise noted.*

## 5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment movements for the six months ended June 30, 2015 and for the year ended December 31, 2014 are as follows:

| | Mineral properties | Land and buildings | Furniture, fixtures and equipment | Plant and machinery | Assets under construction | Total |
|---|---|---|---|---|---|---|
| **Net book value at January 1, 2015** | $ 58,623 | $ 28,407 | $ 1,612 | $ 829 | $ 2,077 | $ 91,548 |
| Additions | 4,925 | 115 | 21 | 329 | 3,049 | **8,439** |
| Reclassifications and adjustments | (77) | – | (160) | 160 | (142) | **(219)** |
| Disposals | – | – | – | (312) | – | **(312)** |
| Depletion and amortization | (2,419) | (734) | (227) | (316) | – | **(3,696)** |
| Adjustment on currency translation | (2,041) | (2,649) | (34) | – | (125) | **(4,849)** |
| **Net book value at June 30, 2015** | **$ 59,011** | **$ 25,139** | **$ 1,212** | **$ 690** | **$ 4,859** | **$ 90,911** |
| **Consisting of:** | | | | | | |
| Cost | 167,944 | 58,998 | 11,664 | 85,242 | 4,859 | **328,707** |
| Accumulated depletion and amortization | (108,933) | (33,859) | (10,452) | (84,552) | – | **(237,796)** |
| | **$ 59,011** | **$ 25,139** | **$ 1,212** | **$ 690** | **$ 4,859** | **$ 90,911** |

| | Mineral properties | Land and buildings | Furniture, fixtures and equipment | Plant and machinery | Assets under construction | Total |
|---|---|---|---|---|---|---|
| **Net book value at January 1, 2014** | **$ 141,738** | **$ 42,626** | **$ 3,776** | **$ 36,207** | **$ 4,415** | **$ 228,762** |
| Additions | 16,210 | 49 | 102 | 1,022 | 4,828 | **22,211** |
| Change in provision for mine closure and restoration | 2,891 | – | – | – | – | **2,891** |
| Reclassifications and adjustments | 1,565 | 1,414 | (532) | 779 | (3,465) | **(239)** |
| Disposals | – | (568) | (618) | (3,722) | – | **(4,908)** |
| Depletion and amortization | (11,723) | (4,377) | (900) | (6,643) | – | **(23,643)** |
| Impairment charges | (90,210) | (8,443) | (232) | (26,814) | (3,622) | **(129,321)** |
| Adjustment on currency translation | (1,848) | (2,294) | 16 | – | (79) | **(4,205)** |
| **Net book value at December 31, 2014** | **$ 58,623** | **$ 28,407** | **$ 1,612** | **$ 829** | **$ 2,077** | **$ 91,548** |
| **Consisting of:** | | | | | | |
| Cost | 165,137 | 61,532 | 11,837 | 85,065 | 2,077 | **325,648** |
| Accumulated depletion and amortization | (106,514) | (33,125) | (10,225) | (84,236) | – | **(234,100)** |
| | **$ 58,623** | **$ 28,407** | **$ 1,612** | **$ 829** | **$ 2,077** | **$ 91,548** |

For the three and six months ended June 30, 2015, depletion and amortization expenses of $1,838 and $3,618 (2014: $3,353 and $11,794) have been charged to cost of goods sold, and $60 and $125 (2014: $60 and $272) have been charged to general and administrative expenses.

For the three and six months ended June 30, 2015, the impairment indicators included in note 10 to the consolidated financial statements as of December 31, 2014, did not change significantly, and therefore no further impairments or reversals of previously recorded impairments have been recorded.

*Expressed in thousands of United States dollars, except where otherwise noted.*

## 6 TRADE AND OTHER PAYABLES

| | | June 30, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Trade accounts payable | **$** | **25,041** | $ | 21,543 |
| Other payables | | **5,901** | | 10,113 |
| Income taxes payables | | **10,145** | | 7,302 |
| Accrued liabilities | | **2,133** | | 2,636 |
| Deferred revenue | | **4,152** | | 2,355 |
| | **$** | **47,372** | $ | 43,949 |

## 7 DEBTS

| | | June 30, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Short-term loans (note 7 (a)) | **$** | **12,018** | $ | 13,662 |
| Gold loan (note 7 (b)) | | **8,281** | | 16,151 |
| Finance leases | | **1,396** | | 1,620 |
| | **$** | **21,695** | $ | 31,433 |

**a) Short-term loans**

***i) Short-term promissory note***

On December 4, 2014, the Company, through its wholly-owned Honduran subsidiary, Minerales de Occidente, S.A. de C.V. ("Minosa") received approval for a $4,300 short-term promissory note (the "Promissory Note") from Banco de Occidente, S.A. ("Banco Occidente") to finance the development of a power line project. The Promissory Note bears an annual interest rate of 7.5% with a maturity date of December 4, 2016. As at June 30, 2015, the outstanding balance on the promissary note was $3,081. During the six months ended June 30, 2015 the Company drew $3,501 and repaid $431 on the Promissory Note and incurred $75 of interest expense which has been capitalized to the power line qualifying asset (three months ended June 30, 2015: $1,341, $431 and $50, respectively).

***ii)*** **Bridge Loan**

On February 25, 2013, the Company, through its wholly-owned subsidiary, Mineracao Vale Verde Ltda, received an advance of approximately $20,000 (Brazilian Reais 45,000) from Banco Itau BBA S.A. (the "Itau bridge loan") to finance the development of the Serrote Project. The Itau bridge loan bears interest at the Interbank Deposit Rate plus 5.3% and originally matured on July 31, 2013. The Company has obtained a series of extensions for the repayment of the debt.

During three and six months ended June 30, 2015, the Company has repaid $983 and $2,522 (Brazilian Reais 3,049 and 7,899) of the outstanding principal amount and recorded interest expenses of $422 and $899 (2014: $614 and $1,224 respectively, which were capitalized to the Serrote project qualifying asset).

As at June 30, 2015, the outstanding balance on the Itau bridge loan was $8,937 (Brazilian Reais 27,728) (December 31, 2014: $13,652 (Brazilian Reais 35,600)). Subsequent to June 30, 2015, the Company had made no further repayments.

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**b) Gold Loans**

| | | June 30, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| **Balance, beginning of period** | **$** | **16,151** | $ | – |
| Proceeds from gold loans, net of warrants issued | | **–** | | 37,910 |
| Repayments during the period | | **(9,408)** | | (22,997) |
| Changes in fair value | | **1,538** | | 1,238 |
| **Balance, end of period** | **$** | **8,281** | $ | 16,151 |

On March 17, 2014, the Company obtained a $22,500 loan (the "Gold Loan") from Auramet International LLC, a subsidiary of Auramet Trading LLC ("Auramet"). The proceeds of the Gold Loan were used to settle the Company's entire outstanding obligations pursuant to the Company's Amended Credit Facility (See Note 7 (c)). The Gold Loan was to be repaid in 40 weekly installments of 458 ounces of gold which payments commenced on April 7, 2014. The Gold Loan could be repaid at any time with no early repayment penalties.

In partial consideration for the Gold Loan, the Company issued 4,500,000 non-transferable common share purchase warrants to Auramet, with each warrant entitling the holder thereof to acquire one common share of the Company. Each Warrant had an exercise price of $0.36 and an expiry date of twelve months from issuance. The warrants were issued on March 17, 2014 and fair valued at $90.

The Gold Loan was recorded at $22,410 at initial recognition, which was equal to the fair value of 18,320 ounces of gold deliverable, net of warrants issued. The Company designated the Gold Loan as a financial liability to be measured at fair value through profit or loss ("FVTPL") and marked-to-market at each period end with changes in fair value recorded as other gains and losses.

On December 2, 2014, the Company obtained an additional $15,500 gold loan (the "Second Gold Loan") from Auramet. The proceeds of the Second Gold Loan would be used for the Company's working capital requirements. The Second Gold Loan is to be repaid in 50 weekly installments of 305 ounces of gold, which payments commenced on February 13, 2015. Similar to the Gold Loan, the Second Gold Loan may be repaid at any time with no repayment penalties.

In partial consideration for the Second Gold Loan, the Company issued 4,500,000 non-transferable common share purchase warrants to Auramet, with each warrant entitling the holder thereof to acquire one common share of the Company. Each Warrant had an exercise price of $0.11 and an expiry date of twelve months from issuance. The warrants were issued on December 2, 2014 and fair valued at $57. The warrants issued in connection with the Gold Loan were cancelled on that date.

The Second Gold Loan was recorded at $15,500 at initial recognition, which was equal to the fair value of 15,250 ounces of gold deliverable, net of warrants issued. The Company designated the Second Gold Loan as a financial liability to be measured at FVTPL and marked-to-market at each period end with changes in fair value recorded as other gains and losses.

During the six months ended June 30, 2014, $566 of transaction costs in respect of the Gold Loan have been included within finance costs on the condensed interim consolidated statements of (loss) income.

During the three and six months ended June 30, 2015 the Company recorded total mark-to-market losses of $569 and $1,538 (2014: $1,003 and 1,259) on these Gold Loans.

The Second Gold Loan requires the Company to maintain a cash and cash equivalent balance of $3,000 at all times, with a 15 day period of grace to correct the balance if it is below this minimum cash balance. As at June 30, 2015, the Company was in compliance with the minimum cash balance requirement. A waiver was however requested, and received, from Auramet in respect of Aranzazu Holding S.A. de C.V. filing for administration proceedings; this is a condition of default under the Second Gold Loan agreement.

*Expressed in thousands of United States dollars, except where otherwise noted.*

Subsequent to June 30, 2015, the Company has delivered 1,830 ounces of gold in payment of the Second Gold Loan valued at $2,061.

**c) Credit Facility**

On March 18, 2011, the Company entered into an agreement for a $25,000 revolving credit facility (the "Credit Facility") with Barclays Bank PLC to finance both the working capital at the Aranzazu Mine and also for general corporate expenditure requirements. On May 10, 2012, the Company entered into an amended Credit Facility (the "Amended Credit Facility") pursuant to which Credit Suisse AG was added as a lender to the Company. Under the Amended Credit Facility, the maturity date was extended from June 30, 2013 to June 30, 2014.

The outstanding Amended Credit Facility balance of $22,425, including payment-in-kind interest from January 1, 2014 to March 17, 2014, was fully repaid on March 17, 2014 from the proceeds of the Gold Loan (note 7 (b)).

## 8 SHARE CAPITAL

**a) Authorized –** Unlimited number of common shares

**b) Private placement**

On June 9, 2015, the Company completed a financing agreement with a private company. The Company raised gross proceeds of $4,940 (C$6,100) through the issuance of 57,009,346 common shares of the Company at a price of C$0.107 per common share, and recorded an addition to share capital of $4,928 (net of share issuance costs of $12).

**c) Stock options and restricted share units**

A continuity of the Company's stock options issued and outstanding are as follows:

| | Number of options | Weighted average price C$ |
|---|---|---|
| **Balance, December 31, 2014** | **19,094,236** | 1.07 |
| Granted | – | – |
| Forfeited / Expired | (2,739,634) | 1.62 |
| **Balance, June 30, 2015** | **16,354,602** | **1.06** |

The Company did not grant stock options to its employees during the three and six months ended June 30, 2015. Subsequent to June 30, 2015, the Company granted 3,365,000 stock options to its employees at an exercise price of C$0.10.

During the three and six months ended June 30, 2015, the Company issued 692,142 of restricted share units ("RSU") at $0.10 per unit to the Company's Chief Executive Officer and Chief Financial Officer in lieu of a portion of their salaries. These RSUs are recorded as part of salaries, wages and benefits in the general and administrative expenses at a fair value of $40.

**d) Share-based payment expense**

Share-based payment expense is measured at fair value and recognized over the vesting period from the date of grant. Share-based payment expense recognized in general and administrative expense in the condensed interim consolidated statements of (loss) income for the three and six months ended June 30, 2015 totaled $47 and $112 (2014: $166 and $376).

*Expressed in thousands of United States dollars, except where otherwise noted.*

## 9 REVENUES BY NATURE

| | | For the three months ended June 30, 2015 | | For the three months ended June 30, 2014 | | For the six months ended June 30, 2015 | | For the six months ended June 30, 2014 |
|---|---|---|---|---|---|---|---|---|
| Gold sales | **$** | **39,085** | | 53,574 | **$** | **82,962** | $ | 106,564 |
| Copper concentrate sales | | **(453)** | | 11,675 | | **3,875** | | 23,712 |
| | **$** | **38,632** | | 65,249 | **$** | **86,837** | $ | 130,276 |

## 10 COST OF GOODS SOLD BY NATURE

| | | For the three months ended June 30, 2015 | | For the three months ended June 30, 2014 | | For the six months ended June 30, 2015 | | For the six months ended June 30, 2014 |
|---|---|---|---|---|---|---|---|---|
| Direct mine and mill costs | **$** | **33,681** | $ | 49,665 | **$** | **75,152** | $ | 101,477 |
| Write-down of inventory to net realizable value | | **777** | $ | 1,080 | | **5,645** | | 7,510 |
| Depletion and amortization (note 5) | | **1,838** | | 3,353 | | **3,618** | | 11,794 |
| | **$** | **36,296** | $ | 54,098 | **$** | **84,415** | $ | 120,781 |

## 11 GENERAL AND ADMINISTRATIVE EXPENSES

| | | For the three months ended June 30, 2015 | | For the three months ended June 30, 2014 | | For the six months ended June 30, 2015 | | For the six months ended June 30, 2014 |
|---|---|---|---|---|---|---|---|---|
| Salaries, wages and benefits (note 8 (c)) | **$** | **1,337** | $ | 1,542 | **$** | **2,302** | $ | 2,961 |
| Professional and consulting fees | | **323** | | 399 | | **1,181** | | 939 |
| Directors' fees | | **66** | | 83 | | **140** | | 159 |
| Share-based payment expense (note 8 (d)) | | **47** | | 166 | | **112** | | 376 |
| Amortization (note 5) | | **60** | | 60 | | **125** | | 272 |
| Travel expenses | | **24** | | 65 | | **67** | | 132 |
| Other | | **532** | | 233 | | **1,080** | | 1,244 |
| | **$** | **2,389** | $ | 2,548 | **$** | **5,007** | $ | 6,083 |

*Expressed in thousands of United States dollars, except where otherwise noted.*

## 12 CASH FLOW INFORMATION

### a) Items not affecting cash

| | **For the three months ended June 30, 2015** | For the three months ended June 30, 2014 | **For the six months ended June 30, 2015** | For the six months ended June 30, 2014 |
|---|---|---|---|---|
| Depletion and amortization (note 5) | **$ 1,898** | $ 3,413 | **$ 3,743** | $ 12,066 |
| Deferred and current income tax (recovery) expense | **(797)** | 2,709 | **2,489** | 2,170 |
| Write-down of inventory to net realizable value (note 10) | **777** | 1,080 | **5,645** | 7,510 |
| Accretion expense | **603** | 723 | **1,176** | 1,431 |
| Change in fair value of gold loans (note 7 (b)) | **569** | 1,003 | **1,538** | 1,259 |
| Periodic service, past service and finance costs on post-employment benefit | **300** | 525 | **552** | 1,172 |
| Interest expense | **212** | 207 | **212** | 1,093 |
| Write-off of unamortized transaction costs on credit facility | **–** | – | **–** | 806 |
| Share-based payment expense (note 8 (d)) | **47** | 165 | **112** | 375 |
| Foreign exchange (gain) loss | **(89)** | (6) | **(211)** | 85 |
| Gain on disposal of assets | **(151)** | (819) | **(130)** | (819) |
| Change in other long term liabilities | **(69)** | (104) | **(140)** | (121) |
| Unrealized gain (loss) on gold collar and fixed price contracts | **294** | 790 | **(102)** | (38) |
| Other non-cash items | **40** | 42 | **40** | 143 |
| | **$ 3,634** | $ 9,728 | **$ 14,924** | $ 27,132 |

### b) Changes in non-cash working capital

| | **For the three months ended June 30, 2015** | For the three months ended June 30, 2014 | **For the six months ended June 30, 2015** | For the six months ended June 30, 2014 |
|---|---|---|---|---|
| **Changes in non-cash working capital** | | | | |
| Trade and other receivables | **$ (1,062)** | $ (2,555) | **$ (49)** | $ (1,833) |
| Inventory | **2,115** | (3,032) | **677** | (6,344) |
| Trade and other payables | **5,361** | 3,691 | **1,086** | 2,225 |
| | **$ 6,414** | $ (1,896) | **$ 1,714** | $ (5,952) |

## 13 DERIVATIVE FINANCIAL INSTRUMENTS

### a) Embedded derivatives

The Company has embedded derivatives in its accounts receivable as a result of provisional pricing arrangements on its concentrate sales. These derivatives are marked to their market values at each reporting date. Adjustments to the fair values of the accounts receivable are included in the condensed interim consolidated statements of (loss) income within revenue. During the three and six months ended June 30, 2015 the Company recognized losses of $453 and $333 (2014: gains of $843 and $232), respectively, as changes in fair values of embedded derivatives.

### b) Fixed price contracts and gold collars

At December 31, 2014, the Company had 30,000 ounces of fixed price contracts outstanding at an average price of $1,211 per ounce of gold, expiring between January 31, 2015 and May 29, 2015.

During the six months ended June 30, 2015, the Company entered into fixed price contracts to hedge an additional 20,000 ounces of gold expiring between June 30, 2015 and September 30, 2015 at an average price of $1,234 per ounce of gold. At June 30, 2015, the Company had 8,930 ounces of fixed price contracts outstanding at an average price of $1,220 per ounce of gold. For the three and six months ended June 30, 2015, the Company recorded realized gains on these fixed price contracts of $711 and $421, respectively. For the three and six months ended

June 30, 2015, the Company recorded an unrealized loss of $294 and an unrealized gain of $102 on these fixed price contracts, respectively.

As at June 30, 2015, the Company recorded a derivative asset on these fixed price contracts of $441 (December 31, 2014: $339).

During the six months ended June 30, 2014, the Company hedged a total of 15,000 ounces of gold expiring between July 1, 2014 and September 30, 2014. The derivative instruments entered into were in the form of zero-cost put/call collars with a floor price of $1,300 per ounce of gold and a ceiling price of $1,423 per ounce of gold. The Company advanced $1,500 to Auramet as a margin deposit for this hedging program. During the three and six months ended June 30, 2014, the Company closed out the floor on these zero-cost put/call collars for a realized gain of $563 and received a repayment of $500 of the margin deposit.

In addition, during the six months ended June 30, 2014, the Company also entered into contracts to hedge a total of 68,000 ounces of gold between January 1, 2014 and September 30, 2014. The derivative instruments entered into were in the form of fixed price contracts at an average price of $1,290 per ounce of gold. At June 30, 2014, the Company had 19,904 ounces of fixed price contracts outstanding at an average price of $1,317 per ounce of gold. For the three and six months ended June 30, 2014, the Company recorded a realized gain on these fixed price contracts of $611 and a realized loss of $443, respectively.

The fixed price contracts and gold collars were not designated as accounting hedges by the Company and have therefore been marked to their market values at each reporting date. Adjustments to the market value are included in the consolidated statement of (loss) income in other losses and gains.

*Expressed in thousands of United States dollars, except where otherwise noted.*

## 14 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair vale of the Company's financial assets and liabilities measured at fair value on a recurring basis at June 30, 2015 and December 31, 2014 are summarized in the following table:

| | Level | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| **Financial Assets** | | **Carrying value** | **Fair value** | Carrying value | Fair value |
| *Loans and receivables, measured at amortized cost* | | | | | |
| Accounts receivable | N/A | **$667** | **$667** | $2,458 | $2,458 |
| Other assets | N/A | **1,722** | **1,722** | 1,824 | 1,824 |
| *At fair value through profit and loss* | | | | | |
| Derivative assets | 2 | **441** | **441** | 339 | 339 |
| | | **$2,830** | **$2,830** | $4,621 | $4,621 |
| **Financial Liabilities** | | | | | |
| *At fair value through profit and loss* | | | | | |
| Gold loan | 2 | **$8,281** | **$8,281** | $16,151 | $16,151 |
| *Other financial liabilities, measured at amortized cost* | | | | | |
| Accounts payable and accrued liabilities | N/A | **$37,225** | **$37,225** | $36,647 | $36,647 |
| Short-term loans | N/A | **12,018** | **12,018** | 13,662 | 13,662 |
| Other provisions | 3 | **6,173** | **6,173** | 6,154 | 6,154 |
| Other liabilities | 3 | **8,445** | **8,445** | 9,098 | 9,098 |
| | | **$72,142** | **$72,142** | $81,712 | $81,712 |

The Company measures certain of its financial assets and liabilities at fair value on a recurring basis and these are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The three levels of the fair value hierarchy are: Level 1, which are inputs that are unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, which are inputs other than Level 1 quoted prices that are observable for the asset or liability, either directly or indirectly; and Level 3, which are inputs for the asset or liability that are not based on observable market data.

The Company classifies derivative assets and liabilities in Level 2 of the fair value hierarchy as they are valued using pricing models which require a variety of inputs such as expected gold price. The Company classified its other liability in Level 3 as there is no observable market data for the fair value inputs. The Company uses a discounted cash flow model to determine the fair value. The key inputs for level 3 are the expected gold price, expected production and discount rate.

*Expressed in thousands of United States dollars, except where otherwise noted.*

**15 SEGMENTED INFORMATION**

The reportable operating segments have been identified as the San Andres Mine, the Brazilian Mines, the Aranzazu Mine, the Serrote Project and Corporate. The Company manages its business, including the allocation of resources and assessment of performance, on a project by project basis, except where the Company's projects are substantially connected and share resources and administrative functions. The segments presented reflect the way in which the Company's management reviews its business performance. Operating segments are reported in a manner consistent with the internal reporting provided to executive management who act as the chief operating decision-maker. Executive management is responsible for allocating resources and assessing performance of the operating segments.

For the three and six months ended June 30, 2015 and 2014, segmented information is as follows:

| For the three months ended June 30, 2015 | San Andres Mine | Brazilian Mines | Aranzazu Mine | Serrote Project | Corporate | Total |
|---|---|---|---|---|---|---|
| Sales to external customers | $ 23,195 | $ 15,890 | $ (453) | $ – | $ – | $ 38,632 |
| Cost of production | 17,579 | 16,530 | 349 | – | – | 34,458 |
| Depletion and amortization | 1,707 | 131 | – | – | – | 1,838 |
| Gross margin (loss) | 3,909 | (771) | (802) | – | – | 2,336 |
| Other (expenses) income | (689) | (1,593) | 179 | (906) | (1,646) | (4,655) |
| Income (Loss) before income taxes | $ 3,220 | $ (2,364) | $ (623) | $ (906) | $ (1,646) | $ (2,319) |
| Property, plant and equipment | $ 54,880 | $ 2,666 | $ 3,939 | $ 29,322 | $ 104 | $ 90,911 |
| Total assets | $ 90,336 | $ 33,698 | $ 7,458 | $ 29,377 | $ 5,302 | $ 166,170 |
| Capital expenditures | $ 3,406 | $ – | $ – | $ 290 | $ – | $ 3,696 |

| For the three months ended June 30, 2014 | San Andres Mine | Brazilian Mines | Aranzazu Mine | Serrote Project | Corporate | Total |
|---|---|---|---|---|---|---|
| Sales to external customers | $ 26,396 | $ 27,178 | $ 11,675 | $ – | $ – | $ 65,249 |
| Cost of production | 17,738 | 21,487 | 11,520 | – | – | 50,745 |
| Depletion and amortization | 1,399 | 644 | 1,310 | – | – | 3,353 |
| Gross margin (loss) | $ 7,259 | $ 5,047 | $ (1,155) | $ – | $ – | $ 11,151 |
| Other (expenses) income | (568) | (1,666) | (420) | 483 | (2,251) | (4,422) |
| Income (Loss) before income taxes | $ 6,691 | $ 3,381 | $ (1,575) | $ 483 | $ (2,251) | $ 6,729 |
| Property, plant and equipment | $ 52,346 | $ 7,518 | $ 133,246 | $ 37,155 | $ 1,150 | $ 231,415 |
| Total assets | $ 84,171 | $ 54,551 | $ 157,053 | $ 37,358 | $ 9,272 | $ 342,405 |
| Capital expenditures | $ 2,674 | $ - | $ 1,949 | $ 1,576 | $ 49 | $ 6,248 |

*Expressed in thousands of United States dollars, except where otherwise noted.*

| For the six months ended June 30, 2015 | San Andres Mine | Brazilian Mines | Aranzazu Mine | Serrote Project | Corporate | Total |
|---|---|---|---|---|---|---|
| Sales to external customers | $ 49,416 | $ 33,546 | $ 3,875 | $ – | $ – | $ 86,837 |
| Cost of production | 36,378 | 36,611 | 7,808 | – | – | 80,797 |
| Depletion and amortization | 3,351 | 267 | – | – | – | 3,618 |
| Gross margin (loss) | $ 9,687 | $ (3,332) | $ (3,933) | $ – | $ – | $ 2,422 |
| Other (expenses) income | (1,525) | 45 | (120) | (910) | (4,853) | (7,363) |
| Income (Loss) before income taxes | $ 8,162 | $ (3,287) | $ (4,053) | $ (910) | $ (4,853) | $ (4,941) |
| Property, plant and equipment | $ 54,880 | $ 2,666 | $ 3,939 | $ 29,322 | $ 104 | $ 90,911 |
| Total assets | $ 90,336 | $ 33,698 | $ 7,458 | $ 29,377 | $ 5,301 | $ 166,170 |
| Capital expenditures | $ 7,703 | $ – | $ – | $ 736 | $ – | $ 8,439 |

| For the six months ended June 30, 2014 | San Andres Mine | Brazilian Mines | Aranzazu Mine | Serrote Project | Corporate | Total |
|---|---|---|---|---|---|---|
| Sales to external customers | $ 44,554 | $ 62,010 | $ 23,712 | $ – | $ – | $ 130,276 |
| Cost of production | 30,260 | 55,096 | 23,631 | – | – | 108,987 |
| Depletion and amortization | 3,900 | 2,706 | 5,188 | – | – | 11,794 |
| Gross margin (loss) | $ 10,394 | $ 4,208 | $ (5,107) | $ – | $ – | $ 9,495 |
| Other (expenses) income | $ (897) | $ (3,999) | $ (2,493) | $ (18) | $ (4,971) | $ (12,378) |
| Income (Loss) before income taxes | $ 9,497 | $ 209 | $ (7,600) | $ (18) | $ (4,971) | $ (2,883) |
| Property, plant and equipment | $ 52,346 | $ 7,518 | $ 133,246 | $ 37,155 | $ 1,150 | $ 231,415 |
| Total assets | $ 84,171 | $ 54,551 | $ 157,053 | $ 37,358 | $ 9,272 | $ 342,405 |
| Capital expenditures | $ 4,270 | $ 313 | $ 3,747 | $ 3,357 | $ 49 | $ 11,736 |

Revenues for the San Andres Mine and the Brazilian Mines relate to the sale of refined gold. Revenues for the Aranzazu Mine relate to the sale of copper-gold-silver concentrate to two external customers.

## 16 RELATED PARTY TRANSACTIONS

On January 1, 2015, the Company entered into a consulting agreement to provide management services with Acumen Capital, LLC (“Acumen”), a US based company located in Texas, which is controlled by the Company’s Chief Executive Officer (“CEO”). Acumen will provide the services of CEO to the Company.

For the three and six months ended June 30, 2015, the Company paid consulting fees to Acumen of $124 and $416 (2014: $Nil). As at June 30, 2015, the Company owed $Nil (December 31, 2014: $Nil) to Acumen.

## 17 PENDING ACQUISITION OF ERNESTO/PAU-A-PIQUE PROJECT

On April 30, 2015, the Company announced that it entered into an agreement with Serra da Borda Mineração e Metalurgia S.A. ("SBMM") a company affiliated with Yamana Gold Inc. ("Yamana") to acquire, upon completion of certain conditions, the assets and liabilities of the Ernesto/Pau-a-Pique Project (the “Project”) located in the southwest of Mato Grosso state, near Pontes e Lacerda in Brazil.

The completion of the acquisition is subject to the receipt of regulatory approvals in Brazil including both antitrust and national defense regulatory requirements (the "regulatory approval period"). Pursuant to the acquisition agreement (the "Agreement") and upon receipt of the appropriate regulatory approvals, as consideration for the Project, the Company will issue or provide to Yamana: (i) 2,000,000 common shares of the Company; (ii) 3,500,000 common share purchase warrants of the Company; and (iii) a 2% net smelter return royalty on the first 1,000,000 gold ounces produced from the Project, and thereafter, a 1% net smelter return royalty on gold ounces produced from the Project.

In order to facilitate the acquisition, during the regulatory approval period, Yamana will make available a working capital facility to SBMM of up to approximately $9,000 (the "Working Capital Facility") to be invested in the capital requirements of the Project. The Working Capital Facility will be assumed by the Company upon receipt of the appropriate regulatory approvals and is expected to be repaid with the cash flow from the Project or will be payable in full within 36 months from the date of the Agreement. Should the Project not enter into production and the Company not have sufficient funds to repay the Working Capital Facility on the due date, such amount outstanding will, at the option of Yamana, be converted into common shares of the Company.

If the above transaction does not receive the approvals from both antiturst and national regulatory bodies, the same conditions for the Working Capital Facility, as mentioned in the previous paragraph, would continue to be applicable and the Company would assume the liability.