



Consolidated Financial Statements

Prepared by Management

Years Ended December 31, 2016 and 2015

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Endeavour Silver Corp. ("the Company") have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and within the framework of the significant accounting policies disclosed in the notes to these consolidated financial statements.

Management, under the supervision and participation of the Chief Executive Officer and the Chief Financial Officer, have a process in place to evaluate disclosure controls and procedures and internal control over financial reporting as required by Canadian and United States securities regulations. We, as CEO and CFO, will certify our annual filings with Canadian Securities Administrators and the U.S. Securities and Exchange Commission, as required in Canada by Multilateral Instrument 52-109 and in the United States as required by the Securities Exchange Act of 1934, respectively.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out its responsibility principally through its Audit Committee, which is independent from management.

The Audit Committee of the Board of Directors meets with management to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval. The Audit Committee reviews the consolidated financial statements and management discussion and analysis; considers the report of the external auditor; assesses the adequacy of internal controls, including management's assessment; examines the fees and expenses for audit services; and recommends to the Board the independent auditors for appointment by the shareholders. The independent auditors have full and free access to the Audit Committee and meet with it to discuss the audit work, financial reporting matters and our internal control over financial reporting. The Audit Committee is appointed by the Board of Directors and all of its members are independent directors.

March 1, 2017

/s/ Bradford Cooke

Chief Executive Officer

/s/ Dan Dickson

Chief Financial Officer



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INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of Endeavour Silver Corp.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Endeavour Silver Corp. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP (Signed)

Chartered Professional Accountants

March 1, 2017
Vancouver, Canada

ENDEAVOUR SILVER CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(expressed in thousands of US dollars)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents	4	\$ 72,317	\$ 20,413
Investments	5	85	614
Accounts receivable	6	25,560	24,343
Inventories	7	13,431	17,350
Prepaid expenses		2,037	2,510
Total current assets		113,430	65,230
Non-current deposits		659	855
Deferred income tax asset	20	183	223
Mineral properties, plant and equipment	9,10	66,238	47,925
Total assets		\$ 180,510	\$ 114,233
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 18,229	\$ 18,949
Finance lease obligation	12	-	1,180
Income taxes payable		4,631	5,844
Credit facility	11	9,000	22,000
Total current liabilities		31,860	47,973
Provision for reclamation and rehabilitation	13	7,846	7,762
Deferred income tax liability	20	7,545	7,623
Total liabilities		47,251	63,358
Shareholders' equity			
Common shares, unlimited shares authorized, no par value, issued and outstanding 127,080,264 shares (Dec 31, 2015 - 102,776,470 shares)	Page 7	449,594	368,898
Contributed surplus	Page 7	6,689	9,465
Accumulated comprehensive income (loss)	6, Page 7	44	(145)
Retained earnings (deficit)		(323,068)	(327,343)
Total shareholders' equity		133,259	50,875
Total liabilities and shareholders' equity		\$ 180,510	\$ 114,233

Commitments and contingencies (Notes 9 and 11)

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

ENDEAVOUR SILVER CORP.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(expressed in thousands of US dollars, except for shares and per share amounts)

	Notes	Years Ended	
		December 31, 2016	December 31, 2015
Revenue		\$ 156,767	\$ 183,556
Cost of sales:			
Direct production costs		101,896	124,840
Royalties		1,948	1,032
Share-based compensation	14 (c)	78	432
Depreciation and depletion		13,952	40,278
Write down of inventory to net realizable value	7	-	234
		117,874	166,816
Mine operating earnings		38,893	16,740
Expenses:			
Exploration	15	10,378	6,327
General and administrative	16	9,284	7,721
Impairment of non-current assets	10	-	134,000
		19,662	148,048
Operating earnings (loss)		19,231	(131,308)
Finance costs	17	1,172	1,368
Other income (expense):			
Write down of available-for-sale financial assets	5	-	(4,785)
Write off of IVA receivable		(434)	-
Foreign exchange		(5,069)	(5,006)
Investment and other		(237)	553
		(5,740)	(9,238)
Earnings (loss) before income taxes		12,319	(141,914)
Income tax expense (recovery):			
Current income tax expense	20	7,755	6,853
Deferred income tax expense (recovery)	20	654	1,174
		8,409	8,027
Net earnings (loss) for the year		3,910	(149,941)
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on available-for-sale financial assets	5	80	(145)
Reclassification for realized gain (loss) on available-for-sale financial assets		(269)	-
Available-for-sale financial assets reclassified to net loss	5	-	4,785
Total other comprehensive income (loss) for the year		(189)	4,640
Comprehensive income (loss) for the year		\$ 3,721	\$ (145,301)
Basic earnings (loss) per share based on net earnings		\$ 0.03	\$ (1.47)
Diluted earnings (loss) per share based on net earnings	14(f)	\$ 0.03	\$ (1.47)
Basic weighted average number of shares outstanding		117,505,811	101,996,503
Diluted weighted average number of shares outstanding	14(f)	119,030,666	101,996,503

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

ENDEAVOUR SILVER CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in thousands of U.S. dollars, except share amounts)

	Note	Number of shares	Share Capital	Contributed Surplus	Accumulated Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance at December 31, 2014		101,976,901	367,853	8,430	(4,758)	(179,252)	192,273
Public equity offerings, net of issuance costs	14 (b)	799,569	1,045				1,045
Share based compensation	14 (c)			2,885			2,885
Unrealized gain (loss) on available for sale assets	5				(172)		(172)
Available-for-sale financial asset reclassified to net loss	5				4,785		4,785
Expiry and forfeiture of options				(1,850)		1,850	-
Earnings (loss) for the year						(149,941)	(149,941)
Balance at December 31, 2015		102,776,470	\$368,898	\$ 9,465	\$ (145)	\$ (327,343)	\$ 50,875
Public equity offerings, net of issuance costs	14 (b)	17,463,472	52,958				52,958
Exercise of options	14 (c)	3,495,000	15,965	(5,417)			10,548
Issued on acquisition of mineral properties, net	9 (b) (c)	3,345,322	11,773				11,773
Share based compensation	14 (c)			3,006			3,006
Unrealized gain (loss) on available for sale assets	5				(80)		(80)
Realized gain (loss) on available for sale assets	5				269		269
Expiry and forfeiture of options				(365)		365	-
Earnings (loss) for the year						3,910	3,910
Balance at December 31, 2016		127,080,264	\$449,594	\$ 6,689	\$ 44	\$ (323,068)	\$ 133,259

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

ENDEAVOUR SILVER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in thousands of U.S. dollars)

		Years Ended	
	Notes	December 31, 2016	December 31, 2015
Operating activities			
Net earnings (loss) for the year		\$ 3,910	\$ (149,941)
Items not affecting cash:			
Share-based compensation	14 (c)	3,482	2,885
Impairment of non-current assets	10	-	134,000
Depreciation and depletion	9	14,261	40,599
Deferred income tax expense (recovery)	20	(38)	1,174
Unrealized foreign exchange loss (gain)		462	309
Loss on available for sale assets		269	-
Finance costs	17	1,172	1,193
Write off of IVA receivable		434	-
Write down of available-for-sale financial assets	5	-	4,785
Write down of inventory to net realizable value	7	-	234
Net changes in non-cash working capital	18	(983)	(2,591)
Cash from operating activities		22,969	32,647
Investing activities			
Property, plant and equipment expenditures	9	(19,635)	(35,662)
Proceeds from disposition of available for sale assets		449	-
Redemption of long term deposits		120	-
Cash used in investing activities		(19,066)	(35,662)
Financing activities			
Repayment of credit facility	11	(13,000)	(7,000)
Repayment of obligation under finance lease	12	(1,180)	(425)
Debt issuance costs		(474)	-
Interest paid	11, 12	(779)	(928)
Public equity offerings	14(b)	55,353	1,146
Exercise of options	14(c)	10,548	-
Share issuance costs		(2,005)	(101)
Cash used in financing activities		48,463	(7,308)
Effect of exchange rate change on cash and cash equivalents		(462)	(309)
Increase (decrease) in cash and cash equivalents		52,366	(10,323)
Cash and cash equivalents, beginning of year		20,413	31,045
Cash and cash equivalents, end of year		\$ 72,317	\$ 20,413

Supplemental cash flow information 18

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

ENDEAVOUR SILVER CORP.

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(expressed in thousands of US dollars, unless otherwise stated)

1. CORPORATE INFORMATION

Endeavour Silver Corp. (the “Company” or “Endeavour Silver”) is a corporation governed by the Business Corporation Act (British Columbia). The Company is engaged in silver mining in Mexico and related activities including acquisition, exploration, development, extraction, processing, refining and reclamation. The Company is also engaged in exploration activities in Chile. The address of the registered office is #301 – 700 West Pender Street, Vancouver, B.C., V6C 1G8.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), effective for the Company’s reporting period for the year ended December 31, 2016.

The Board of Directors approved the consolidated financial statements for issue on March 1, 2017.

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

These consolidated financial statements are presented in the Company’s functional currency of US dollars and include the accounts of the Company and its wholly owned subsidiaries: Endeavour Management Corp., Endeavour Silver SARL, Endeavour Gold Corporation S.A. de C.V., EDR Silver de Mexico S.A. de C.V. SOFOM ENR (Formerly Endeavour Capital S.A. de C.V.), Minera Santa Cruz Y Garibaldi S.A de C.V., Metalurgica Guanaceví S.A. de C.V., Minera Plata Adelante S.A. de C.V., Refinadora Plata Guanaceví S.A. de C. V., Minas Bolañitos S. A. de C.V., Guanaceví Mining Services S.A. de C.V., Recursos Humanos Guanaceví S.A. de C.V., Recursos Villalpando S.A. de C.V., Servicios Administrativos Varal S.A. de C.V., Minera Plata Carina SPA, MXRT Holding Ltd., Compania Minera del Cubo S.A. de C.V., Minas Lupycal S.A. de C.V., Metales Interamericanos S.A. de C.V., Oro Silver Resources Ltd. and Minera Oro Silver de Mexico S.A. de C.V. All intercompany transactions and balances have been eliminated upon consolidation of these subsidiaries.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies below have been applied consistently to all years presented and by all subsidiaries in the group.

(a) Currency Translation

The functional and reporting currency of the Company and its subsidiaries is the US dollar. Transactions in currencies other than an entity’s functional currency are recorded at the rates of exchange prevailing on the transaction dates. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated. Foreign currency translation differences are recognized in profit or loss, except for differences on the retranslation of non-monetary available-for-sale financial instruments which are recognized in other comprehensive income (loss).

(b) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and disclosure 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 materially from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant areas requiring the use of management judgment relate to the determination of mineralized reserves, plant and equipment useful lives, estimating the fair values of financial instruments and derivatives, impairment of non-current assets, reclamation and rehabilitation provisions, recognition of deferred tax assets, and assumptions used in determining the fair value of share-based compensation.

ENDEAVOUR SILVER CORP.

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(expressed in thousands of US dollars, unless otherwise stated)

Information about the use of management estimates that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 6	Accounts Receivable
Note 9	Mineral Property, Plant and Equipment
Note 10	Impairment of Non-Current Assets
Note 13	Provision for Reclamation and Rehabilitation
Note 14	Share Capital
Note 20	Income Taxes

Critical judgments in applying policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

Acquisition of Oro Silver Resources Ltd. – critical judgments include the determination of asset purchase versus business combination in respect of the Company’s acquisition of Oro Silver Resources Ltd. during the period and the valuation of assets acquired and liabilities assumed (see note 9(b)). In making its determination, the Company considered established mineral resources associated with the El Compas property and other contracts assumed in the transaction.

(c) Financial instruments

Financial assets and financial liabilities, including derivatives and contingent liabilities, are measured at fair value on initial recognition and recorded on the statement of financial position. Measurement in subsequent periods depends on whether the financial instrument has been classified as a financial asset at fair value through profit or loss, held for trading, available-for-sale, held-to-maturity or loans and receivables or as a financial liability at fair value through profit or loss or at amortized cost.

Financial assets and liabilities at fair value through profit or loss are measured at fair value with changes in fair value recognized in net earnings. Financial assets and financial liabilities classified as held-to-maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Derivative instruments, including embedded derivatives, are recorded on the statement of financial position at fair value. Changes in the fair value of derivative instruments are recognized in net earnings.

Realized gains and losses on short term metal derivative transactions are presented as investment and other income.

(d) Fair value of financial instruments

The carrying values of the Company’s cash and cash equivalents, receivables, accounts payable, accrued liabilities, finance leases and income taxes payable approximate their fair values due to their short terms to maturity. The carrying value of the revolving credit facility approximates its fair value due to the existence of floating market-based interest rates. Investments, consisting of money market investments, marketable securities and notes are recorded at fair value with unrealized gains and losses at the reporting date recognized in comprehensive income unless unrealized losses are indicative of impairments in value, in which case they are recognized in net earnings.

(e) Cash and cash equivalents

Cash and cash equivalents consist of deposits in banks and highly liquid investments with an original maturity at the date of the purchase of no more than ninety days, or that are readily convertible into cash. Cash and cash equivalents are classified as loans and receivables.

(f) Marketable securities

Marketable securities include investments in shares of companies and other investments capable of reasonably prompt liquidation. Share investments are classified as available-for-sale and carried at fair value. Unrealized gains and losses are recognized in other comprehensive income until the securities are disposed of or when there is evidence of impairment in value. Impairment is evident when there has been a significant or sustained decline in the fair value of the marketable securities. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to the income statement as a reclassification adjustment.

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(expressed in thousands of US dollars, unless otherwise stated)

(g) Inventories

Production inventories are valued at the lower of production cost and net realizable value. Work-in-process inventories, including ore stockpiles, are valued at the lower of production cost and net realizable value, after an allowance for further processing costs. Finished goods inventory, characterized as dore bars or concentrate, is valued at the lower of production cost and net realizable value. Materials and supplies are valued at the lower of cost and replacement cost. Similar inventories within the consolidated group are measured using the same method, and the reversal of previous write-downs to net realizable value is required when there is a subsequent increase in the value of inventories.

(h) Mineral properties, plant and equipment

Mineral properties, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of mineral properties, plant or equipment items consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Mineral properties include direct costs of acquiring properties (including option payments) and costs incurred directly in the development of properties once the technical feasibility and commercial viability has been established.

Exploration and evaluation costs are those costs required to find a mineral property and determine commercial feasibility. These costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources can be converted to proven and probable reserves. Project costs related to exploration and evaluation activities are expensed as incurred until such time as the Company has defined mineral reserves. Thereafter, costs for the project are capitalized prospectively in mineral properties, plant and equipment. The Company also recognizes exploration and evaluation costs as assets when acquired as part of a business combination, or asset purchase, with these assets recognized at cost.

Capitalized exploration and evaluation costs for a project are classified as such until the project demonstrates technical feasibility and commercial viability. Upon demonstrating technical feasibility and commercial viability, and subject to an impairment analysis, capitalized exploration and evaluation costs are transferred to mineral property costs within mineral properties, plant and equipment. Technical feasibility and commercial viability generally coincide with the establishment of proven and probable reserves; however, this determination may be impacted by management's assessment of certain modifying factors.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment and amortized separately over their useful lives.

Plant and equipment is recorded at cost and amortized using the straight-line method at rates varying from 5% to 30% annually. The accumulated costs of mineral properties that are developed to the stage of commercial production are amortized using the units of production method, based on proven and probable reserves (as defined by National Instrument 43-101).

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for mineral properties, plant and equipment and any changes arising from the assessment are applied by the Company prospectively.

(i) Impairment of Non-Current Assets

The Company's tangible assets are reviewed for indications of impairment at each financial statement date. If an indicator of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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(expressed in thousands of US dollars, unless otherwise stated)

Management periodically reviews the carrying value of its exploration and evaluation assets with internal and external mining related professionals. A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of reserves, forecast future metal prices, forecast future costs of exploring, developing and operating a producing mine, expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration. The Company does not set a pre-determined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and their carrying values are recoverable.

If any area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the period of abandonment or determination that the carrying value exceeds its fair value. The amounts recorded as mineral properties represent costs incurred to date and do not necessarily reflect present or future values.

(j) Provision for Reclamation and Rehabilitation

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the decommissioning and reclamation of mineral property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. A liability is recognized at the time environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for reclamation and rehabilitation obligations is estimated using expected cash flows based on engineering and environmental reports prepared by third-party industry specialists and is discounted at a pre-tax rate specific to the liability. The capitalized amount is amortized on the same basis as the related asset.

In subsequent periods, the liability is adjusted for any changes in the amount or timing of the estimated future cash costs, changes in the discount or inflation rates and for the accretion of discounted underlying future cash flows. The unwinding of the effect of discounting the provision is recorded as a finance cost in profit or loss for the period.

(k) Revenue recognition

The Company recognizes revenue from the sale of bullion and concentrates upon delivery when it is probable that the economic benefits associated with the transaction will flow to the Company, the risks and rewards of ownership are transferred to the customer, and the revenue can be reliably measured. Revenue from the sale of concentrates is based on prevailing market prices and estimated mineral content which is subject to adjustment upon final settlement based on metal prices, weights and assays. For each reporting period until final settlement, estimates of metal prices are used to record sales. Variations between the sales price recorded at the initial recognition date and the actual final sales price at the settlement date, caused by changes in market metal prices, results in an embedded derivative in the related trade accounts receivable balance. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in fair value classified as a component of revenue. Revenue is recorded in the consolidated statement of comprehensive income, gross of treatment and refining costs paid to counterparties under the terms of the sales agreements.

(l) Share-based payments

The Company has a share option plan which is described in Note 14(c). The Company records all share-based compensation for options using the fair value method with graded vesting. Under the fair value method, share-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable, and are charged over the vesting period. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and vesting conditions are met. The offset is credited to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital. For those options that expire or are forfeited after vesting, the amount previously recorded in contributed surplus is transferred to deficit.

Share-based payment expense relating to cash-settled awards, including deferred share units, is accrued over the vesting period of the units based on the quoted market value of the Company's common shares. As these awards will be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

(m) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and tax losses carried forward. Deferred tax assets and liabilities are measured using substantively enacted or enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent their recovery is considered probable based on their term to expiry and estimates of future taxable income.

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(expressed in thousands of US dollars, unless otherwise stated)

(n) Earnings per share

Basic earnings per share is computed by dividing the earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the period. For all periods presented, loss available to common shareholders equals the reported loss. The Company uses the treasury stock method for calculating diluted earnings per share. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year.

(o) Business combinations

On a business combination, the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. When the cost of acquisition exceeds the fair values attributable to the Company's share of identifiable net assets, the difference is treated as purchased goodwill. If the fair value attributable to the Company's share of the identifiable net assets exceeds the cost of acquisition, the difference is immediately recognized in the income statement. Incremental costs related to acquisitions are expensed as incurred.

Determination of the fair value of assets acquired and liabilities assumed and resulting goodwill, if any, requires that management make estimates based on the information provided by the acquiree. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, will be adjusted when the final measurements are determined (within one year of the acquisition date).

When purchase consideration is contingent on future events, the initial cost of the acquisition recorded includes an estimate of the fair value of the contingent amounts expected to be payable in the future. When the fair value of contingent consideration as at the date of acquisition is finalized and before the end of the twelve month measurement period, the adjustment is allocated to the identifiable assets acquired and liabilities assumed. Changes to the estimated fair value of contingent consideration subsequent to the acquisition date are recorded in the consolidated statement of comprehensive income.

(p) Accounting standards adopted during the year

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1")

On December 18, 2014, the IASB issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The Company adopted these amendments in its financial statements for the annual period beginning on January 1, 2016 with no material impact on the financial statements.

(q) Changes in IFRS not yet adopted

Amendments to IAS 7, Statement of Cash Flows ("IAS 7")

On January 7, 2016, the IASB issued amendments to IAS 7. The amendments apply prospectively for annual periods beginning on or after January 1, 2017 with early adoption permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Company will adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

Amendments to IAS 12, Income Taxes ("IAS 12")

On January 19, 2016, the IASB issued amendments to IAS 12. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017 with early adoption permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax basis at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine future income tax profits used for assessing the utilization of deductible temporary differences. The Company will adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

Amendments to IFRS 2, Share-based Payment ("IFRS 2")

On June 20, 2016, the IASB issued amendments to IFRS 2 clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of a transaction from cash-settled to equity settled.

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The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The Company intends to adopt the amendments to IAS 2 in its financial statements for the annual period beginning on January 1, 2018. The Company intends to adopt the amendments to IFRS 2 effective January 1, 2018 on a prospective basis. The Company has begun a preliminary assessment however, the Company is not able at this time to estimate reasonably the impact that the amendments will have on the financial statements.

IFRS 9 Financial Instruments (“IFRS 9”)

In November 2009, the IASB issued IFRS 9 as the first step in its project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. On July 24, 2014 the IASB issued the complete IFRS 9. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity’s business model and the contractual cash flows of the financial asset.

Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument.

IFRS 9 amends some of the requirements of IFRS 7, *Financial Instruments: Disclosures*, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on the measurement of financial liabilities and de-recognition of financial instruments. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 with early adoption permitted, and must be applied retrospectively with some exemptions permitted.

The Company intends to adopt IFRS 9 effective January 1, 2018 on a prospective basis. The Company has begun a preliminary assessment however, the Company is not able at this time to estimate reasonably the impact that the amendments will have on the financial statements.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

On May 28, 2014, the IASB issued IFRS 15. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced, which may affect the amount and/or timing of revenue recognized.

On April 12, 2016 the IASB issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the standard to licenses of intellectual property.

The Company intends to adopt IFRS 15 and the clarifications in its consolidated financial statements for the annual period beginning on January 1, 2018. The Company has begun a preliminary assessment however, the Company is not able at this time to estimate reasonably the impact that the amendments will have on the financial statements.

IFRS 16, Leases (“IFRS 16”)

On January 13, 2016, the IASB published a new standard, IFRS 16, *Leases*, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company has not yet begun an assessment of the impact of this standard on its consolidated financial statements.

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4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are comprised of bank balances and highly liquid investments that are readily convertible to cash with an original maturity of 90 days or less at the date of purchase.

	December 31 2016	December 31 2015
Bank balances	\$ 70,893	\$ 20,413
Short term deposits	1,424	-
	\$ 72,317	\$ 20,413

5. INVESTMENTS

	December 31 2016	December 31 2015
Investment in marketable securities, at cost	\$ 41	\$ 5,544
Unrealized gain (loss) on marketable securities	44	(120)
Unrealized foreign exchange gain (loss)	-	(25)
Write down of marketable securities	-	(4,785)
	\$ 85	\$ 614

Marketable securities are classified as Level 1 in the fair value hierarchy (see Note 21) and as available-for-sale financial assets. The fair values of available-for-sale investments are determined based on a market approach reflecting the closing price of each particular security at the reporting date. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security, being the market with the greatest volume and level of activity for the assets. Changes in fair value on available-for sale marketable securities are recognized in other comprehensive income or loss, unless there is objective evidence of impairment. During the year ended December 31, 2015, the Company reviewed the value of its investments for objective evidence of impairment based on both quantitative and qualitative criteria. Accordingly, the Company has recorded a write down through the income statement of \$4.8 million on its marketable securities, which was reclassified from other comprehensive income (loss).

6. ACCOUNTS RECEIVABLE

	December 31 2016	December 31 2015
Trade receivables ⁽¹⁾	\$ 6,703	\$ 1,704
IVA receivables	14,556	16,506
Income taxes recoverable	4,197	5,676
Due from related parties	8	4
Other receivables	100	346
	\$ 25,560	\$ 24,343

(1) The trade receivables consist of receivables from provisional silver and gold sales from the Bolañitos and El Cubo mines. The fair value of receivables arising from concentrate sales contracts that contain provisional pricing mechanisms is determined using the appropriate quoted closing price on the measurement date from the exchange that is the principal active market for the particular metal. As such, these receivables, which meet the definition of an embedded derivative, are classified within Level 1 of the fair value hierarchy (see note 21).

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7. INVENTORIES

	December 31 2016	December 31 2015
Warehouse inventory	\$ 7,873	\$ 9,730
Stockpile inventory ⁽¹⁾	-	3,808
Work in process inventory ⁽²⁾	656	391
Finished goods inventory ⁽³⁾	4,902	3,421
	\$ 13,431	\$ 17,350

(1) The Company has no stockpiled tonnes of mined ore as of December 31, 2016 (December 31, 2015 – 71,793 tonnes). The stockpile inventory balance at December 31, 2015 includes a write down to net realizable value of \$154 for stockpile inventory held at the El Cubo mine. Of this amount \$116 is comprised of cash costs and \$38 related to depreciation and depletion.

(2) The work in process inventory balance at December 31, 2015 includes a write down to net realizable value of \$80 for work in process inventory at the El Cubo mine. Of this amount \$60, is comprised of cash costs and \$20 relates to depreciation and depletion.

(3) The Company held 330,587 silver ounces and 883 gold ounces as of December, 2016 (December 31, 2015 – 194,496 and 1,285, respectively). These ounces are carried at the lower of cost and net realizable value. As at December 31, 2016, the quoted market value of the silver ounces was \$5,369 (December 31, 2015 - \$2,688) and the quoted market value of the gold ounces was \$1,023 (December 31, 2015 - \$1,364).

8. RELATED PARTY TRANSACTIONS

The Company shares common administrative services and office space with a company related by virtue of a common director and from time to time will incur third party costs on behalf of the related parties on a full cost recovery basis. The charges for these costs totaled \$43 for the year ended December 31, 2016 (2015 - \$43). The Company has a \$4 net receivable related to these costs as of December 31, 2016 (December 31, 2015 – \$111).

On May 27, 2016, the Company acquired Oro Silver Resources from Canarc Resource Corp. (“Canarc”), which is a company related by virtue of a common director. See Note 9(b).

The Company was charged \$264 for legal services for the year ended December 31, 2016 by a legal firm in which the Company’s corporate secretary is a partner (December 31, 2015 - \$151). The Company has \$Nil payable to the legal firm as at December 31, 2016 (December 31, 2015 - \$12).

Key management personnel

The key management of the Company comprises executive and non-executive directors, members of executive management and the Company’s corporate secretary. Compensation of key management personnel was as follows:

	Dec 31, 2016	Dec 31, 2015
Salaries and short-term employee benefits	\$ 1,987	\$ 2,472
Non-executive directors' fees	149	97
Non-executive directors' Deferred Share Units	1,214	223
Share-based payments	3,088	2,553
	\$ 6,438	\$ 5,345

The non-executive directors’ deferred share units are cash settled. The recognized expense includes the change in fair value over each reporting period and new issuances of deferred share units during the period. During the year ended December 31, 2016, the Company granted 96,942 cash settled deferred share units with a market value of \$311 at the date of grant (December 31, 2015 –245,438 cash settled deferred share units with a market value of \$487). At December 31, 2016, there were 510,560 cash settled deferred share units outstanding with a market value of \$1,804 (December 31, 2015 – 413,618 outstanding with a market value of \$590), with the change in fair value recognized in the net earnings (loss).

The amount disclosed for share-based payments is the expense for the year calculated in accordance with IFRS 2, Share-based payments for share options and performance share units (see Note 14(c)(e)). The fair value of these share-based payments are recognized as an expense over the vesting period of the award. Therefore, the compensation expense in the current year comprises a portion of current year awards and those of preceding years that vested within the current year.

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9. MINERAL PROPERTY, PLANT AND EQUIPMENT

(a) Mineral properties, plant and equipment comprise:

	Mineral property	Plant	Machinery & equipment and assets under finance lease	Building	Transport & office equipment	Total
Cost						
Balance at December 31, 2014	\$ 398,913	\$ 90,989	\$ 56,134	\$ 9,971	\$ 7,842	\$ 563,849
Additions	30,716	2,786	4,123	508	750	38,883
Disposals	-	-	-	-	(67)	(67)
Balance at December 31, 2015	429,629	93,775	60,257	10,479	8,525	602,665
Additions	27,772	1,096	1,567	192	1,133	31,760
Disposals	-	-	(12)	-	(63)	(75)
Balance at December 31, 2016	\$ 457,401	\$ 94,871	\$ 61,812	\$ 10,671	\$ 9,595	\$ 634,350
Accumulated amortization and impairment						
Balance at December 31, 2014	\$ 315,950	\$ 37,388	\$ 19,698	\$ 2,486	\$ 5,597	\$ 381,119
Amortization	24,284	6,689	6,508	863	1,344	39,688
Impairment	71,100	39,800	17,000	5,600	500	134,000
Disposals	-	-	-	-	(67)	(67)
Balance at December 31, 2015	411,334	83,877	43,206	8,949	7,374	554,740
Amortization	7,986	1,686	3,002	265	508	13,447
Disposals	-	-	(12)	-	(63)	(75)
Balance at December 31, 2016	\$ 419,320	\$ 85,563	\$ 46,196	\$ 9,214	\$ 7,819	\$ 568,112
Net book value						
At December 31, 2015	\$ 18,295	\$ 9,898	\$ 17,051	\$ 1,530	\$ 1,151	\$ 47,925
At December 31, 2016	\$ 38,081	\$ 9,308	\$ 15,616	\$ 1,457	\$ 1,776	\$ 66,238

Included in Mineral property is \$17.2 in acquisition costs for exploration and evaluation properties

As of December 31, 2016, the Company has \$854 committed to capital equipment purchases.

(b) Acquisition of Oro Silver Resources Ltd

On May 27, 2016, the Company issued 2,147,239 common shares to Canarc, a related party company, and assumed Canarc's obligation to pay an aggregate of 165 troy ounces of gold to Marlin Gold Mining Ltd to acquire a 100% interest in Canarc's wholly-owned subsidiary, Oro Silver Resources Ltd., which owns the El Compas project through its wholly owned Mexican subsidiary, Minera Oro Silver de Mexico SA de CV ("Minera Oro Silver").

The 3,990 hectare El Compas project located in Zacatecas, Mexico consists of 28 concessions fully permitted for mining with 22 concessions subject to a 1.5% net smelter return royalty and six concessions subject to a 3.0% net smelter return royalty.

Minera Oro Silver also holds a five year operating lease, renewable for an additional five years, on a 500 tonne per day ore processing plant located in Zacatecas, Mexico for a total annual lease cost of 1,632,000 Mexican Pesos (approximately \$90), adjusted annually for inflation. The plant is currently not operational and will require capital investment to restore to an operational state.

The acquisition is considered to be outside the scope of IFRS 3, Business Combinations, since the El Compas project does not meet the definition of a business, and as such, the transaction was accounted for as an asset acquisition. The purchase price is allocated to the underlying assets acquired and liabilities assumed, based upon their estimated fair values at the date of acquisition.

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Oro Silver Resources Ltd purchase consideration:

Common shares issued ⁽¹⁾	\$	6,529
Assumed liability ⁽²⁾		215
Acquisition costs		30
Total consideration	\$	6,774

(1) 2,147,239 common shares were issued with a fair value of \$3.05 per share, with the fair value per share measured by the closing listed New York Stock Exchange prices of the Company's common shares on the acquisition date. The related share issuance cost of \$20 is recognized as a reduction of equity.

(2) 165 troy ounces of gold (or the U.S. dollar equivalent) will be paid by the Company to Marlin Gold Mining Ltd. or to any of its subsidiaries in three instalments until October 2017. The fair value of the assumed liability was measured using the London PM fixed gold price on the acquisition date.

Fair value summary of assets acquired and liabilities assumed:

Assets:		
Current assets	\$	64
Long term deposit		2
Equipment		16
Mineral properties		6,714
Total assets	\$	6,796
Liabilities:		
Accounts payable and accrued liabilities		(22)
Total liabilities		(22)
Net identifiable assets acquired	\$	6,774

(c) Acquisition of Parral Properties

On September 13, 2016, the Company entered into a definitive agreement with Silver Standard Resources Inc. ("Silver Standard") to acquire a 100% interest in Silver Standard's Parral properties, located in the historic silver mining district of Hidalgo de Parral in southern Chihuahua state, Mexico ("the agreement").

On October 31, 2016, Endeavour paid \$5.3 million in Endeavour common shares, being 1,198,083 common shares at \$4.39 per share, representing the closing price of Endeavour's shares on the New York Stock Exchange ("NYSE") prior to the date of closing the acquisition.

In addition, the Company has committed to spend \$2.0 million on exploration on two of the properties (the San Patricio and La Palmilla properties) over the two-year period following the closing of the transaction. Upon completing this exploration expenditure, Endeavour will have one year to deliver a National Instrument 43-101 ("NI 43-101") technical report, including a resource estimate, and issue an additional \$200 in common shares to Silver Standard for each one million ounces of silver delineated in measured and indicated resources on the San Patricio and La Palmilla properties, based on the 10-day average closing price of Endeavour's common shares on the NYSE prior to the earlier of delivery of the NI 43-101 report and the third anniversary of the initial closing date under the Agreement. Silver Standard will also retain a 1% net smelter returns royalty on production from the San Patricio and La Palmilla properties.

(d) Guanaceví, Mexico

In June 2005, the Company acquired nine silver mining properties in the Guanaceví district, Durango, Mexico, from Industrias Peñoles S.A. de C.V. ("Peñoles"). Peñoles retained a 3% net proceeds royalty on future production after deduction of all shipping and smelting costs, including taxes and penalties, if any. In 2016, the Company expensed \$1,191 in royalties on these properties (2015 - \$166).

These properties and subsequently acquired property concessions acquired by the Company in the Guanaceví district are maintained with nominal property tax payments to the Mexican government.

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(e) Bolañitos, Mexico

In 2007, the Company acquired the exploitation contracts and underlying assets to the Bolañitos silver-gold mines located in the northern parts of the Guanajuato and La Luz silver districts in the state of Guanajuato, Mexico.

These properties and subsequently acquired property concessions acquired by the Company in the Guanajuato district are maintained with nominal property tax payments to the Mexican government.

(f) El Cubo, Mexico

On July 13, 2012, the Company acquired the exploitation contracts and underlying assets relating to the El Cubo silver-gold mine located in the northern parts of the Guanajuato and La Luz silver districts in the state of Guanajuato, Mexico.

Under the terms of the acquired Las Torres lease, the Company was required to provide financial guarantees to the owner of the Las Torres Facility as security against any environmental damages. As at December 31, 2016, there was a \$1,000 letter of credit provided by the Company as security to the owner of the Las Torres facility that expires on August 14, 2018.

The Company holds various property concessions in the Guanajuato District that it maintains with nominal property tax payments to the Mexican government.

(g) Terronera (formerly San Sebastian), Mexico

In February 2010, the Company acquired the option to purchase a 100% interest in the Terronera properties, located in Jalisco, Mexico by paying a total of \$2,750 over three years. As of December 31, 2015, the Company had paid \$2,750 and acquired a 100% interest in the Terronera properties. The Company is required to pay a 2% NSR royalty on any production from the Terronera properties.

(h) Guadalupe Y Calvo, Mexico

On July 13, 2012, the Company acquired the Guadalupe Y Calvo exploration project in Chihuahua, Mexico.

In August 2014 the Company acquired the La Bufa exploration property, which is adjacent to the Company's Guadalupe y Calvo exploration property in Chihuahua, Mexico for 85,587 common shares and a \$19 cash advance. Total consideration paid amounted to \$417, which has been capitalized to mineral properties. The property is subject to a 2% net smelter return ("NSR") royalty on mineral production.

(i) Mineral property contingencies

The Company has also entered into other non-material option agreements on exploration properties in Mexico and Chile.

Management believes the Company has diligently investigated rights of ownership of all of the mineral properties to a level which is acceptable by prevailing industry standards with respect to the current stage of development of each property in which it has an interest and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, all properties may be subject to prior claims, agreements or transfers, and rights of ownership may be affected by undetected defects.

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10. IMPAIRMENT OF NON-CURRENT ASSETS

The recoverable amounts of the Company's CGUs, which include mining properties, plant and equipment are determined on an annual basis, if impairment indicators are identified. In 2014 and 2015, the continued commodity price decline led the Company to determine that there were impairment indicators and to re-assess the recoverable amounts of its CGUs. The recoverable amounts were based on each CGU's future cash flows expected to be derived from the Company's mining properties and represent each CGU's value in use. The cash flows were determined based on the life-of-mine after tax cash flow forecast which incorporates management's best estimates of future metal prices, production based on current estimates of recoverable reserves and resources, exploration potential, future operating costs and non-expansionary capital expenditures.

At December 31, 2015, the Company tested the recoverability of its operating assets, resulting in a detailed review of the Company's three operating mines. The Company estimated future operating and capital costs, factored in analysts' consensus pricing for the first three years of its economic model (Silver: 2016 - \$15.00/oz, 2017 - \$16.78/oz, 2018 - \$17.11/oz; Gold: 2016 - \$1,125/oz, 2017 - \$1,174/oz, 2018 - \$1,192/oz) and used a long term silver price of \$17.33 per ounce and a long term gold price of \$1,201 per ounce and a risk adjusted project specific discount rate of 9.0%-9.5% based on the CGUs weighted average cost of capital. Due to the sensitivity of the recoverable amounts to the various factors mentioned and specifically long term metal prices as well as unforeseen factors, any significant change in the key assumptions and inputs could result in additional impairment charges in future periods.

At December 31, 2015 the carrying value related to the El Cubo CGU was \$113,397, including an associated deferred income tax asset of \$5,120 which was greater than its estimated recoverable amount of \$4,200, calculated on a discounted cash flow basis. The Company considers use of its internal discounted cash flow economic models as a proxy for the calculation of fair value in use. Based on the above assessment, the Company recorded an impairment charge related to the El Cubo CGU of \$104,300, plus valuation of the tax asset of \$4,897 for a total impairment charge of \$109,197 after tax in 2015.

At December 31, 2015 the net carrying value related to the Bolañitos CGU was \$31,992, including an associated deferred income tax liability of \$5,874 which was greater than its estimated recoverable amount of \$6,900, calculated on a discounted cash flow basis. The Company considers use of its internal discounted cash flow economic models as a proxy for the calculation of fair value in use. Based on the above assessment, the Company recorded an impairment charge related to the Bolañitos CGU of \$29,700, and an associated recovery of the deferred tax liability of \$4,607 for a net after tax impact of 25,093 in 2015.

In 2015, The Company reviewed the Guanaceví CGU for value in use, which resulted in no significant change after the impairment charge in 2013. The Guanaceví carrying value was adjusted to value in use in 2013.

In 2016, The Company reviewed the Operating CGUs for value in use, which resulted in no significant change after previous impairment charges. Any modest decrease in one key assumption in isolation causes the estimated recoverable amount to be less than or equal to the net carrying value. Management's long term estimates have not significantly changed from prior year.

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11. CREDIT FACILITY

On July 24, 2012, the Company entered into a \$75 million revolving credit facility (“the Facility”), reducing over three years, with Scotia Capital. The purpose of the Facility is for general corporate purposes and is principally secured by a pledge of the Company’s equity interests in its material operating subsidiaries, including Refinadora Plata Guanaceví SA de CV, Minas Bolañitos SA de CV and Compania Minera del Cubo SA de CV. The interest rate margin on the Facility ranged from 2.75% to 4.25% over LIBOR based on the Company’s net debt to EBITDA ratio, where EBITDA is adjusted for gains or losses on derivative liabilities and extraordinary items. The Company agreed to pay a commitment fee of between 0.69% and 1.05% on undrawn amounts under the facility based on the Company’s net debt to EBITDA ratio. The Facility was subject to various qualitative and quantitative covenants, including a debt to EBITDA leverage ratio, an interest service coverage ratio and a tangible net worth calculation. On July 24, 2013, as part of the Facility agreement, the capacity of the Facility was reduced to \$50 million. During the year ended December 31, 2013, the Company extended the Facility until July 24, 2016, with a requirement to reduce the credit limit from \$50 million to \$25 million by July 24, 2015.

On January 19, 2016, the Company signed an amended and restated credit facility (“the Amended Facility”) which became effective April 1, 2016 to convert the remaining outstanding balance under the existing revolving credit facility into a two year term loan amortized quarterly maturing on December 31, 2017. The Amended Facility is principally secured by a pledge of the Company’s equity interests in its material operating subsidiaries, including Refinadora Plata Guanaceví SA de CV, Minas Bolañitos SA de CV and Compania Minera del Cubo SA de CV. The interest rate margin on the Facility is 4.5% over LIBOR and the Company agreed to pay a fee of \$300 upon signing. The Facility is subject to various qualitative and quantitative covenants, including a debt to EBITDA leverage ratio, an interest service coverage ratio, a tangible net worth calculation, capital and exploration expenditure limits.

At December 31, 2016, the Company had \$9,000 outstanding on the Amended Facility (December 31, 2015 \$22,000), which is due within 12 months of the balance sheet date. The Company recognized \$697 of interest expense during the year in financing costs (December 31, 2015 - \$872).

The Company deferred commitment fees and legal costs of \$1,411 which are being recognized over the life of the Facility. For the year ended December 31, 2016, \$280 of the deferred commitment fees and legal costs were amortized (December 31, 2015 - \$221) and \$304 remain deferred.

Facility Financial Covenants	Facility Financial Requirements	Dec. 31, 2016	Dec. 31, 2015
Leverage Ratio	≤ 3.00:1	0.29	0.53
Interest Service Coverage Ratio	≥ 4.00:1	45	42
Tangible Net Worth	> 45,900	133,215	51,020

12. FINANCE LEASE OBLIGATION

The Company had certain mining equipment under financial leases expiring in 2016. The leases carried a weighted average annual interest rate of 11.02%. Estimated lease payments are as follows:

	December 31 2016	December 31 2015
2016	\$ -	\$ 1,238
Minimum lease payments	-	1,238
Less: interest portion	-	58
Net minimum lease payments	\$ -	\$ 1,180

The equipment under finance leases has been recognized in property and equipment at the present value of minimum lease payments. Interest charges on lease equipment during the year were approximately \$65 (2015 - \$56). Other than interest, no costs were incurred relating to the leases. The leases were secured by the assets under lease. At year end, the net book value of the equipment pledged as security for the finance leases is \$Nil (2015 - \$1,544).

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13. PROVISION FOR RECLAMATION AND REHABILITATION

The Company's environmental permit requires that it reclaim certain land it disturbs during mining operations. Significant reclamation and closure activities include land rehabilitation, decommissioning of buildings and mine facilities, ongoing care and maintenance and other costs. Although the ultimate amount of the reclamation and rehabilitation costs to be incurred cannot be predicted with certainty, the total undiscounted amount of probability weighted estimated cash flows required to settle the Company's estimated obligations is \$2,148 for the Guanaceví mine operations, \$1,775 for the Bolañitos mine operations and \$4,076 for the El Cubo mine operations.

The timing of cash flows has been estimated based on the mine lives using current reserves and the present value of the probability weighted future cash flows assumes a risk free rate specific to the liability of 1.3% for Guanaceví and 1.0% for Bolañitos and El Cubo and an inflation rate of 2.0% for all three operations.

Changes to the reclamation and rehabilitation provision balance during the year are as follows:

	Guanaceví	Bolañitos	El Cubo	Total
Balance at December 31, 2014	\$ 1,831	\$ 1,016	\$ 3,649	\$ 6,496
Unwinding of discount for the year	21	12	73	106
Change in liability due to change in assumptions	179	710	271	1,160
Balance at December 31, 2015	\$ 2,031	\$ 1,738	\$ 3,993	\$ 7,762
Unwinding of discount for the year	27	17	40	84
Balance at December 31, 2016	\$ 2,058	\$ 1,755	\$ 4,033	\$ 7,846

14. SHARE CAPITAL

(a) Management of Capital

The Company considers the items included in the consolidated statement of changes in equity as capital. The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, convertible debentures, asset acquisitions or return capital to shareholders. As at December 31, 2016, the Company is not subject to externally imposed capital requirements.

(b) Public Offerings

In July 2014, the Company filed a short form base shelf prospectus (the "Base Shelf") that qualified for the distribution, including transactions that are deemed to be "at-the-market" ("ATM") distributions, of up to CAN\$ 200 million of common shares, warrants or units of the Company comprising any combination of common shares and warrants (the "Securities"). The Company filed a corresponding registration statement in the United States registering the Securities under United States federal securities laws.

On November 25, 2015, the Company entered into an ATM equity facility with Cowen and Company, LLC, acting as sole agent. Under the terms of this ATM facility, the Company sold common stock having an aggregate offering value of US\$16.5 million on the New York Stock Exchange. The Company determined, at its sole discretion, the timing and number of shares sold under the ATM facility. During the second quarter of 2016, the Company completed this ATM program issuing 7,218,125 common shares under the ATM facility at an average price of \$2.13 per share for proceeds of \$14,893, net of commission.

In May 2016, the Company filed a short form base shelf prospectus that qualifies for the distribution of up to CAN\$ 175 million of common shares, warrants or units of the Company comprising any combination of common shares and warrants (the "Securities"). The Company filed a corresponding registration statement in the United States registering the Securities under United States federal securities laws. The distribution of Securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, or at prices related to such prevailing market prices to be negotiated with purchasers and as set forth in an accompanying prospectus supplement, including transactions that are deemed to be ATM distributions.

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On May 5, 2016, the Company entered into an ATM equity facility with Cowen and Company, LLC, acting as sole agent. Under the terms of this ATM facility, the Company may, from time to time, sell common stock having an aggregate offering value of up to US\$40.0 million on the New York Stock Exchange. The Company determines, at its sole discretion, the timing and number of shares to be sold under the ATM facility. During the year ended December 31, 2016, the Company issued 10,245,347 common shares under the ATM facility at an average price of \$3.90 per share for proceeds of \$38,949, net of commission.

During the year ended December 31, 2016, the Company also recognized \$843 of additional transaction costs, related to the two ATM financings, as share issuance costs which have been presented net of share capital.

(c) Purchase Options

Options to purchase common shares have been granted to directors, officers, employees and consultants pursuant to the Company's current stock option plan approved by the Company's shareholders in fiscal 2009 and ratified in 2015, at exercise prices determined by reference to the market value on the date of grant. The stock option plan allows for, with approval by the Board, granting of options to its directors, officers, employees and consultants to acquire up to 7.5% of the issued and outstanding shares at any time.

The following table summarizes the status of the Company's stock option plan and changes during the year:

Expressed in Canadian dollars	Year Ended		Year Ended	
	December 31, 2016		December 31, 2015	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average
Outstanding, beginning of year	6,322,050	\$3.80	4,846,950	\$4.38
Granted	2,150,000	\$4.30	2,427,500	\$2.65
Exercised	(3,495,000)	\$3.89	-	-
Cancelled	(519,000)	\$4.14	(952,400)	\$3.83
Outstanding, end of year	4,458,050	\$3.93	6,322,050	\$3.80
Options exercisable at year end	2,921,550	\$3.95	4,488,550	\$4.10

The following tables summarize information about stock options outstanding at December 31, 2016:

CAN \$ Price Intervals	Expressed in Canadian dollars				
	Options Outstanding			Options Exercisable	
	Number Outstanding as at December 31, 2016	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices	Number Exercisable as at December 31, 2016	Weighted Average Exercise Prices
\$2.00 - \$2.99	1,183,500	3.4	\$2.65	799,000	\$2.65
\$4.00 - \$4.99	3,227,300	3.3	\$4.33	2,075,300	\$4.35
\$8.00 - \$8.99	47,250	0.6	\$8.59	47,250	\$8.59
	4,458,050	3.3	\$3.93	2,921,550	\$3.95

During the year ended December 31, 2016, the Company recognized share based compensation expense of \$2,745 (December 31, 2015 - \$2,885) based on the fair value of the vested portion of options granted in the current and prior years.

The weighted average fair values of stock options granted and the assumptions used to calculate compensation expense have been estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Year Ended	Year Ended
	December 31, 2016	December 31, 2015
Weighted average fair value of options granted during the year	\$2.14	\$1.04
Risk-free interest rate	0.69%	0.89%
Expected dividend yield	0%	0%
Expected stock price volatility	67%	63%
Expected option life in years	3.86	3.86

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Option pricing models require the input of highly subjective assumptions. The expected life of the options considered such factors as the average length of time similar option grants in the past have remained outstanding prior to exercise, expiry or cancellation and the vesting period of options granted. Volatility was estimated based on average daily volatility based on historical share price observations over the expected term of the option grant. Changes in the subjective input assumptions can materially affect the estimated fair value of the options. The Company amortizes the fair value of stock options on a graded basis over the respective vesting period of each tranche of stock options awarded. As at December 31, 2016, the unvested share option expense not yet recognized was \$1,342 (December 31, 2015 - \$870) which is expected to be recognized over the next 17 months.

(d) Share Appreciation Rights Plan

The Company's share appreciation rights plan allows a participant the right (the "Right"), when entitled to exercise a share purchase option, to terminate such share purchase option in whole or in part by notice in writing to the Company and in lieu of receiving common shares pursuant to the exercise of the option, and receive instead, at no cost to the participant, that number of common shares, disregarding fractions, which, when multiplied by the market price on the day immediately prior to the exercise of the Right have a total value equal to the product of that number of common shares subject to the option times the difference between the market price on the day immediately prior to the exercise of the Right and the option exercise price. During fiscal 2016, nil options (2015 – nil) were cancelled for the exchange of share appreciation rights.

(e) Performance Share Units Plan

The Company has a Performance Share Unit ("PSU") plan whereby performance share units may be granted to employees of the Company. Once vested and performance conditions have been met, a PSU is redeemable into one common share entitling the holder to receive the common share for no additional consideration. The current maximum number of common shares authorized for issuance from treasury under the PSU plan is 1,000,000.

A total of 425,000 PSUs were granted during the year ended December 31, 2016 (December 31, 2015 – nil) under the Company's PSU plan. During the year, 100,000 PSUs were cancelled resulting in 325,000 PSUs outstanding at December 31, 2016. The PSUs vest on January 1, 2017, subject to achievement of pre-determined performance and/or service criteria. During the year ended December 31, 2016, the Company recognized share based compensation expense of \$737 (December 31, 2015 - \$Nil) based on the fair value of the vested portion of PSUs granted in the current and prior years.

(f) Diluted Earnings per Share

	Year ended	
	Dec. 31 2016	Dec. 31 2015
Basic earnings (loss)	\$ 3,910	\$ (149,941)
Basic weighted average number of shares outstanding	117,505,811	101,996,503
Effect of dilutive securities:		
Stock options	1,199,856	-
Performance share units	325,000	-
Diluted weighted average number of share outstanding	119,030,667	101,996,503
Diluted earnings (loss) per share	\$ 0.03	\$ (1.47)

15. EXPLORATION

	Year ended	
	December 31 2016	December 31 2015
Depreciation and depletion	\$ 61	\$ 81
Share-based compensation	393	270
Salaries, wages and benefits	2,156	1,447
Direct exploration expenditures	7,768	4,529
	\$ 10,378	\$ 6,327

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16. GENERAL AND ADMINISTRATIVE

	Year ended	
	December 31 2016	December 31 2015
Depreciation and depletion	\$ 248	\$ 240
Share-based compensation	3,011	2,183
Salaries, wages and benefits	3,324	2,755
Direct general and administrative expenditures	2,701	2,543
	\$ 9,284	\$ 7,721

17. FINANCE COSTS

	Year ended	
	December 31 2016	December 31 2015
Accretion on provision for reclamation and rehabilitation	\$ 84	\$ 106
Interest paid on finance leases	65	56
Revolving credit facility finance costs	1,023	1,206
	\$ 1,172	\$ 1,368

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Year Ended	
	December 31, 2016	December 31, 2015
Net changes in non-cash working capital:		
Accounts receivable	\$ (1,887)	\$ (4,628)
Inventories	2,793	2,652
Prepaid expenses	473	146
Accounts payable and accrued liabilities	(1,149)	1,576
Income taxes payable	(1,213)	(2,337)
	\$ (983)	\$ (2,591)
Non-cash financing and investing activities:		
Reclamation included in mineral property, plant and equipment	-	1,160
Fair value of exercised options allocated to share capital	5,417	-
Fair value of equity issued on property acquisition	11,813	-
Fair value of capital assets acquired under finance leases	-	1,605
Other cash disbursements:		
Income taxes paid	9,743	11,491
Special mining duty paid	1,042	3,245

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19. SEGMENT DISCLOSURES

The Company's operating segments are based on internal management reports that are reviewed by the Company's executives (the chief operating decision makers) in assessing performance. The Company has three operating mining segments, Guanaceví, Bolañitos and El Cubo, which are located in Mexico as well as Exploration and Corporate segments. The Exploration segment consists of projects in the exploration and evaluation phases in Mexico and Chile.

	December 31, 2016					
	Corporate	Exploration	Guanaceví	Bolanitos	El Cubo	Total
Cash and cash equivalents	\$ 62,223	\$ 635	\$ 1,649	\$ 1,627	\$ 6,183	\$ 72,317
Investments	85	-	-	-	-	85
Accounts receivables	607	1,303	5,019	4,845	13,786	25,560
Inventories	-	-	8,946	1,831	2,654	13,431
Prepaid expenses	1,363	170	404	60	40	2,037
Non-current deposits	76	56	311	143	73	659
Deferred income tax asset	-	-	-	-	183	183
Mineral property, plant and equipment	247	17,709	38,105	6,972	3,205	66,238
Total assets	\$ 64,601	\$ 19,873	\$ 54,434	\$ 15,478	\$ 26,124	\$ 180,510
Accounts payable and accrued liabilities	\$ 5,829	\$ 1,329	\$ 5,025	\$ 2,093	\$ 3,953	\$ 18,229
Income taxes payable	452	525	1,030	2,309	315	4,631
Credit facility	9,000	-	-	-	-	9,000
Provision for reclamation and rehabilitation	-	-	2,058	1,755	4,033	7,846
Deferred income tax liability	-	-	7,340	205	-	7,545
Total liabilities	\$ 15,281	\$ 1,854	\$ 15,453	\$ 6,362	\$ 8,301	\$ 47,251
	December 31, 2015					
	Corporate	Exploration	Guanaceví	Bolanitos	El Cubo	Total
Cash and cash equivalents	\$ 10,983	\$ 149	\$ 6,889	\$ 1,004	\$ 1,388	\$ 20,413
Investments	614	-	-	-	-	614
Accounts receivables	920	578	2,865	5,785	14,195	24,343
Inventories	-	-	6,348	6,844	4,158	17,350
Prepaid expenses	1,734	261	324	34	157	2,510
Non-current deposits	-	56	583	143	73	855
Deferred income tax asset	-	-	-	-	223	223
Mineral property, plant and equipment	322	4,628	30,932	8,166	3,877	47,925
Total assets	\$ 14,573	\$ 5,672	\$ 47,941	\$ 21,976	\$ 24,071	\$ 114,233
Accounts payable and accrued liabilities	\$ 4,776	\$ 624	\$ 3,498	\$ 2,401	\$ 7,650	\$ 18,949
Finance lease obligation	-	-	333	-	847	1,180
Income taxes payable	-	-	3,402	2,431	11	5,844
Credit facility	22,000	-	-	-	-	22,000
Provision for reclamation and rehabilitation	-	-	2,031	1,737	3,994	7,762
Deferred income tax liability	-	-	6,356	1,267	-	7,623
Total liabilities	\$ 26,776	\$ 624	\$ 15,620	\$ 7,836	\$ 12,502	\$ 63,358

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	Corporate	Exploration	Guanaceví	Bolanitos	El Cubo	Total
Year ended December 31, 2016						
Silver revenue	\$ -	\$ -	\$ 34,349	\$ 18,166	\$ 34,250	\$ 86,765
Gold revenue	-	-	5,871	37,907	26,224	70,002
Total revenue	\$ -	\$ -	\$ 40,220	\$ 56,073	\$ 60,474	\$ 156,767
Salaries, wages and benefits:						
mining	\$ -	\$ -	\$ 4,925	\$ 5,687	\$ 8,556	\$ 19,168
processing	-	-	1,797	936	1,655	4,388
administrative	-	-	2,865	2,446	2,772	8,083
stock based compensation	-	-	26	26	26	78
change in inventory	-	-	(759)	144	74	(541)
Total salaries, wages and benefits	-	-	8,854	9,239	13,083	31,176
Direct costs:						
mining	-	-	11,098	9,510	18,055	38,663
processing	-	-	7,491	7,842	11,061	26,394
administrative	-	-	2,385	1,820	2,885	7,090
change in inventory	-	-	(1,983)	408	226	(1,349)
Total direct production costs	-	-	18,991	19,580	32,227	70,798
Depreciation and depletion:						
depreciation and depletion	-	-	7,186	3,905	2,714	13,805
change in inventory	-	-	(396)	259	284	147
Total depreciation and depletion	-	-	6,790	4,164	2,998	13,952
Royalties	-	-	1,405	268	275	1,948
Total cost of sales	\$ -	\$ -	\$ 36,040	\$ 33,251	\$ 48,583	\$ 117,874
Earnings (loss) before taxes	\$ (16,196)	\$ (10,378)	\$ 4,180	\$ 22,822	\$ 11,891	\$ 12,319
Current income tax expense (recovery)	-	-	510	6,811	434	7,755
Deferred income tax expense (recovery)	-	-	681	(62)	35	654
Total income tax expense (recovery)	-	-	1,191	6,749	469	8,409
Net earnings (loss)	\$ (16,196)	\$ (10,378)	\$ 2,989	\$ 16,073	\$ 11,422	\$ 3,910
Year ended December 31, 2015						
Silver revenue	\$ -	\$ -	\$ 59,338	\$ 22,128	\$ 33,827	\$ 115,293
Gold revenue	-	-	9,397	27,022	31,844	68,263
Total revenue	\$ -	\$ -	\$ 68,735	\$ 49,150	\$ 65,671	\$ 183,556
Salaries, wages and benefits:						
mining	\$ -	\$ -	\$ 6,975	\$ 5,582	\$ 10,524	\$ 23,081
processing	-	-	2,153	794	1,955	4,902
administrative	-	-	3,787	2,679	3,404	9,870
stock based compensation	-	-	144	144	144	432
change in inventory	-	-	866	(32)	381	1,215
Total salaries, wages and benefits	-	-	13,925	9,167	16,408	39,500
Direct costs:						
mining	-	-	10,652	10,418	20,511	41,581
processing	-	-	9,969	9,956	14,310	34,235
administrative	-	-	2,601	1,988	3,215	7,804
change in inventory	-	-	1,936	(146)	362	2,152
Total direct production costs	-	-	25,158	22,216	38,398	85,772
Depreciation and depletion:						
depreciation and depletion	-	-	8,131	9,615	21,369	39,115
change in inventory	-	-	420	(147)	890	1,163
Total depreciation and depletion	-	-	8,551	9,468	22,259	40,278
Royalties	-	-	515	220	297	1,032
Write down of inventory to NRV	-	-	-	-	234	234
Total cost of sales	\$ -	\$ -	\$ 48,149	\$ 41,071	\$ 77,596	\$ 166,816
Impairment on long lived assets	-	-	-	29,700	104,300	134,000
Earnings (loss) before taxes	\$ (18,327)	\$ (6,327)	\$ 20,586	\$ (21,621)	\$ (116,225)	\$ (141,914)
Current income tax expense (recovery)	(428)	-	5,052	2,123	106	6,853
Deferred income tax expense (recovery)	178	-	558	(5,414)	5,852	1,174
Total income tax expense (recovery)	(250)	-	5,610	(3,291)	5,958	8,027
Net earnings (loss)	\$ (18,077)	\$ (6,327)	\$ 14,976	\$ (18,330)	\$ (122,183)	\$ (149,941)

The Exploration segment included \$503 of costs incurred in Chile for the year ended December 31, 2016 (2015 - \$490).

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20. INCOME TAXES

(a) Tax Assessments

Minera Santa Cruz y Garibaldi SA de CV ("MSCG"), a subsidiary of the Company, received a MXN\$238 million assessment on October 12, 2010 by Mexican fiscal authorities for failure to provide the appropriate support for certain expense deductions taken in MSCG's 2006 tax return, failure to provide appropriate support for loans made to MSCG from affiliated companies, and deemed an unrecorded distribution of dividends to shareholders, among other individually immaterial items. MSCG immediately initiated a Nullity action and filed an administrative attachment to dispute the assessment.

In June 2015, the Superior Court ruled in favour of MSCG on a number of the matters under appeal; however, the Superior Court ruled against MSCG for failure to provide appropriate support for certain deductions taken in MSCG's 2006 tax return. In June 2016, the Company received a MXN 122.9 million (USD \$5.9 million) tax assessment based on the June 2015 ruling. The 2016 tax assessment comprised of MXN 41.8 million in taxes owed (USD \$2.0 million), MXN 17.7 million (0.9 million) in inflationary charges, MXN 40.4 million (USD \$1.9 million) in interest and MXN 23.0 million (USD \$1.1 million) in penalties. The 2016 tax assessment was issued for failure to provide the appropriate support for certain expense deductions taken in MSCG's 2006 tax return, failure to provide appropriate support for loans made to MSCG from affiliated companies. The MXN 123 million assessment includes interest and penalties. If MSCG agrees to pay the tax assessment, or a lesser settled amount, it is eligible to apply for forgiveness of 100% of the penalties and 50% of the interest.

The Company filed an appeal against the June 2016 tax assessment on the basis certain items rejected by the courts were included in the new tax assessment, while a number of deficiencies exist within the assessment.

Included in the Company's consolidated financial statements, are net assets of \$595,000, including \$42,000 in cash, held by MSCG. Following the Tax Court's rulings, MSCG is in discussions with the tax authorities with regards to the shortfall of assets within MSCG to settle its estimated tax liability. An alternative settlement option would be to transfer the shares and assets of MSCG to the tax authorities. As of December 31, 2016, the Company recognized an allowance for transferring the shares and assets of MSCG amounting to \$595,000. The Company is currently assessing MSCG's settlement options based on on-going court proceedings and discussion with the tax authorities.

(b) Deferred Income Tax

	December 31, 2016	December 31, 2015
Mexico operations		
Deferred income tax assets:		
Tax loss carryforwards	\$ 3,410	\$ 146
Provision for reclamation and rehabilitation	2,709	1,858
Other	1,759	1,675
Deferred income tax liabilities:		
Inventories	(2,312)	(1,753)
Mineral properties, plant and equipment	(11,700)	(6,524)
Other	(1,228)	(2,802)
Deferred income tax liabilities, net	\$ (7,362)	\$ (7,400)

As at December 31, 2016, the Company had available for deduction against future taxable income in Mexico non-capital losses of approximately \$122,515 (2015 – \$109,182). These losses, if unutilized, expire between 2017 to 2025.

	December 31, 2016	December 31, 2015
Canada operations		
Deferred income tax assets:		
Tax loss carryforwards	\$ -	\$ -
Mineral properties, plant and equipment	-	-
Financing costs	-	-
Other	-	-
Recognized deferred income tax assets, net	\$ -	\$ -

As at December 31, 2016, the Company had \$5,053 non-capital losses in Canada (2015 – CAN \$5,354), which expire in 2026, and capital losses of \$8,981 (2015 – \$7,350), which do not expire.

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When circumstances cause a change in management's judgment about the recoverability of deferred tax assets, the impact of the change will be reflected in current income.

(c) Income Tax Expense

	December 31, 2016	December 31, 2015
Current income tax expense (recovery):		
Current income tax expense in respect of current year	\$ 7,565	\$ 4,302
Special mining duty	2,027	2,390
Adjustments recognized in the current year in relation to prior years	(1,837)	160
Deferred income tax expense (recovery):		
Deferred tax expense recognized in the current year	(682)	8,453
Special mining duty	1,336	(7,301)
Adjustments recognized in the current year in relation to prior years	-	23
Total income tax expense	\$ 8,409	\$ 8,027

The reconciliation of the income tax provision computed at statutory tax rates to the reported income tax provision is as follows:

	December 31, 2016	December 31, 2015
Canadian statutory tax rates	26.00%	26.00%
Income tax expense computed at Canadian statutory rates	\$ 3,113	\$ (36,898)
Foreign tax rates different from statutory rate	(3,122)	(9,573)
Change in tax rates	-	-
Withholding taxes, net of tax credits	693	808
Mark-to-market accounting	-	-
Stock-based compensation	684	674
Foreign exchange	5,808	9,510
Inflationary adjustment	2,157	(384)
Other items	1,149	1,064
Adjustments recognized in the current year in relation to prior years	(474)	183
Current year losses not recognized	1,987	48,033
Special mining duty Mexican tax	1,526	(4,911)
Recognition of previously unrecognized losses	(5,112)	(479)
Income tax expense	\$ 8,409	\$ 8,027

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21. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

(a) Financial Assets and Liabilities

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

	Held for trading	Loans and receivables	Available for sale	Financial liabilities	Carrying value	Fair value
	\$	\$	\$	\$	\$	\$
<u>Financial assets:</u>						
Cash and cash equivalents	-	72,317	-	-	72,317	72,317
Investments	-	-	85	-	85	85
Accounts receivable	-	25,560	-	-	25,560	25,560
Total financial assets	-	97,877	85	-	97,962	97,962
<u>Financial liabilities:</u>						
Accounts payable and accrued liabilities	-	-	-	18,229	18,229	18,229
Credit facility	-	-	-	9,000	9,000	9,000
Total financial liabilities	-	-	-	27,229	27,229	27,229

Fair value hierarchy

IFRS 13, Fair Value Measurement, establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The fair values of financial assets and financial liabilities at December 31, 2016 are:

	Total	Level 1	Level 2	Level 3
	\$	\$	\$	\$
<u>Financial assets:</u>				
Investments	85	85	-	-
Trade receivables	6,703	6,703	-	-
Total financial assets	6,788	6,788	-	-

The three levels of the fair value hierarchy established by IFRS 13 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Marketable securities are determined based on a market approach reflecting the closing price of each particular security at the reporting date. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security. As a result, these financial assets have been included in Level 1 of the fair value hierarchy.

The Company determines the fair value of the embedded derivative related to its trade receivables based on the quoted closing price obtained from the silver and gold metal exchanges.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full contractual term.

The Company has no financial assets or liabilities included in Level 2 of the fair value hierarchy.

Level 3: Inputs for the financial asset or liability are not based on observable market data.

The Company has no financial assets or liabilities included in Level 3 of the fair value hierarchy.

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(b) Financial Instrument Risk Exposure and Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process. The types of risk exposure and the manner in which such exposures are managed is outlined as follows:

Credit Risk

The Company is exposed to credit risk on its bank accounts, investments, and accounts receivable. Credit risk exposure on bank accounts and short term investments is limited through maintaining the Company's balances with high-credit quality financial institutions, maintaining investment policies, assessing institutional exposure and continual discussion with external advisors. Value added tax ("IVA") receivables are generated on the purchase of supplies and services to produce silver and gold, which are refundable from the Mexican government. Trade receivables are generated on the sale of concentrate inventory to reputable metal traders.

The carrying amount of financial assets represents the Company's maximum credit exposure.

Below is an aged analysis of the Company's receivables:

	Carrying amount	Gross impairment	Carrying amount	Gross impairment
	December 31, 2016		December 31, 2015	
Less than 1 month	\$ 10,066	\$ -	\$ 9,892	\$ -
1 to 3 months	4,314	-	4,350	-
4 to 6 months	2,189	-	3,870	-
Over 6 months	8,991	2,212	6,231	1,778
Total accounts receivable	\$ 25,560	2,212	\$ 24,343	\$ 1,778

At December 31, 2016, 91% of the receivables that were outstanding greater than one month were comprised of IVA and tax receivables in Mexico (December 31, 2015 – 94%) and 9% of the receivables outstanding are pending finalizations of concentrate sales.

At December 31, 2016, an impairment loss of \$2,031 relates to IVA receivable claims from prior years and \$181 relates to an allowance on related party receivables from prior years (December 31, 2015 - \$1,778).

Liquidity Risk

The Company ensures that there is sufficient capital in order to meet short term business requirements. The Company's policy is to invest cash at floating rates of interest, while cash reserves are maintained in cash equivalents in order to maintain liquidity after taking into account the Company's holdings of cash equivalents, money market investments, marketable securities, receivables and available borrowings under the Company's revolving credit facility. The Company believes that these sources, operating cash flows and its policies will be sufficient to cover the likely short term cash requirements and commitments.

In the normal course of business, the Company enters into contracts that give rise to future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities and operating and capital commitments at December 31, 2016:

	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	18,229	-	-	-	18,229
Income taxes payable	4,631	-	-	-	4,631
Credit facility	9,000	-	-	-	9,000
Provision for reclamation and rehabilitation	-	7,846	-	-	7,846
Capital expenditure commitments	854	-	-	-	854
Minimum rental and lease payments	233	478	496	1,742	2,949
Total contractual obligations	32,947	8,324	496	1,742	43,509

ENDEAVOUR SILVER CORP.

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(expressed in thousands of US dollars, unless otherwise stated)

Market Risk

Significant market related risks to which the Company is exposed consist of foreign currency risk, interest rate risk, commodity price risk and equity price risk.

Foreign Currency Risk – The Company’s operations in Mexico and Canada make it subject to foreign currency fluctuations. Certain of the Company’s operating expenses are incurred in Mexican pesos and Canadian dollars, therefore the fluctuation of the U.S. dollar in relation to these currencies will consequently have an impact on the profitability of the Company and may also affect the value of the Company’s assets and the amount of shareholders’ equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

The U.S. dollar equivalents of financial assets and liabilities denominated in currencies other than the US dollar as at December 31 are as follows:

	December 31, 2015		December 31, 2015	
	Canadian Dollar	Mexican Peso	Canadian Dollar	Mexican Peso
Financial assets	\$ 7,631	\$ 21,673	\$ 1,777	\$ 18,446
Financial liabilities	(2,806)	(13,162)	(1,416)	(14,368)
Net financial assets (liabilities)	\$ 4,825	\$ 8,511	\$ 361	\$ 4,078

Of the financial assets listed above, \$6,996 (2015 – \$224) represents cash and cash equivalents held in Canadian dollars and \$2,710 (2015 - \$882) represents cash held in Mexican Pesos. The remaining cash balance is held in U.S. dollars.

As at December 31, 2016, with other variables unchanged, a 5% strengthening of the US dollar against the Canadian dollar would decrease net earnings by \$230 due to these financial assets and liabilities.

As at December 31, 2016, with other variables unchanged, a 5% strengthening of the US dollar against the Mexican peso would decrease net earnings by \$405 due to these financial assets and liabilities.

Interest Rate Risk – In respect of financial assets, the Company’s policy is to invest cash at floating rates of interest and cash reserves are to be maintained in cash equivalents in order to maintain liquidity. Fluctuations in interest rates impact the value of cash equivalents. The Facility is subject to interest rate risk as amounts outstanding are subject to charges at a LIBOR-based rate plus 4.5% depending on financial and operating measures) payable according to the quoted rate term. The interest rate charge for the year was 4.96%. As at December 31, 2016, with other variables unchanged, a 1% increase in the LIBOR rate would result in additional interest expense of \$90.

Commodity Price Risk – Gold and silver prices have historically fluctuated significantly and are affected by numerous factors outside of the Company’s control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand due to speculative hedging activities and certain other factors. The Company has not engaged in any hedging activities, other than short term metal derivative transactions less than 90 days, to reduce its exposure to commodity price risk. Revenue from the sale of concentrates is based on prevailing market prices which is subject to adjustment upon final settlement. For each reporting period until final settlement, estimates of metal prices are used to record sales. At December 31, 2016 there are 300,000 ounces of silver and 9,223 ounces of gold which do not have a final settlement price and the estimated revenues have been recognized at current market prices. As at December 31, 2016, with other variables unchanged, a 10% decrease in the market value of silver and gold would result in a reduction of revenue of \$1.6 million.

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(expressed in thousands of US dollars, unless otherwise stated)

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SHARES LISTED

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Trading Symbol - EDR

New York Stock Exchange
Trading Symbol – EXK