UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the month of **March 2018**

Commission File No. **001-35278**

PRIMERO MINING CORP.

(Translation of registrant's name into English)

Suite 2100, 79 Wellington Street West,
TD South Tower, P.O Box 139
Toronto, Ontario
M5K 1H1 Canada
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F

Form 20-F [X] Form 40-F [ ]

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1) [ ]

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7) [ ]

Indicate by check mark whether the registrant, by furnishing the information contained in this Form, is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes [ ] **No [X]**

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- _____

SUBMITTED HEREWITH

Exhibits	
99.1	Financial Statements for the Years Ended December 31, 2017 and 2016
99.2	Management's Discussion and Analysis for the Years Ended December 31, 2017 and 2016
99.3	News Release dated March 20, 2018

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: **March 20, 2018**

PRIMERO MINING CORP.

"Ryan Snyder"

Ryan Snyder
Chief Financial Officer

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Report on Financial Statements

The consolidated financial statements of Primero Mining Corp. have been prepared by, and are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and reflect management's best estimates and judgments based on information currently available. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements fairly reflect the financial position and results of operations of the Company.

The Board of Directors is responsible for ensuring management fulfills its financial reporting responsibilities. The Audit Committee meets with the Company's management and external auditors to discuss the results of the audit and to review the consolidated financial statements prior to the Audit Committee's submission to the Board of Directors for approval. The Audit Committee also reviews the quarterly financial statements and recommends them for approval to the Board of Directors, reviews with management the Company's systems of internal control, and reviews the scope of the external auditors' audit and non–audit work. The Audit Committee is composed entirely of directors not involved in the daily operations of the Company who are thus considered to be free from any relationship that could interfere with their exercise of independent judgment as a committee member.

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

"Signed"
Joseph F. Conway
President and Chief Executive Officer
March 19, 2018

"Signed"
Ryan Snyder
Chief Financial Officer
March 19, 2018

KPMG LLP

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Primero Mining Corp.

We have audited the accompanying consolidated financial statements of Primero Mining Corp., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of operations and comprehensive loss, changes in 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Primero Mining Corp. as at December 31, 2017 and December 31, 2016, 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.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 b) in the consolidated financial statements which indicates that Primero Mining Corp.'s cash and liquidity position may not be sufficient to meet its obligations as they become due. This condition, along with other matters as set forth in Note 2 b) in the consolidated financial statements, indicate the existence of material uncertainties that cast substantial doubt about Primero Mining Corp.'s ability to continue as a going concern.

"Signed"

Chartered Professional Accountants, Licensed Public Accountants

March 19, 2018

Toronto, Canada

PRIMEROMINING CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(IN THOUSANDS OF UNITED STATES DOLLARS, EXCEPT FOR SHARE AND PER SHARE AMOUNTS)

	Notes	Year ended December 31	
		2017	2016
Revenue	7	**$ 91,769**	$ 147,581
Operating expenses		**(67,280)**	(100,452)
Depreciation and depletion		**(22,433)**	(47,116)
Total cost of sales		**(89,713)**	(147,568)
Earnings from mine operations		**2,056**	13
Mining interest impairment charge	4	**(303,858)**	(111,000)
Exploration expenses		**(1,345)**	(1,885)
Share-based compensation		**(4,149)**	(7,049)
General and administrative expenses	11	**(11,479)**	(13,529)
Idle and restart costs incurred during strike at San Dimas		**(6,207)**	-
Other charges	12	**(7,044)**	(4,725)
Loss from operations		**(332,026)**	(138,175)
Transaction costs		**-**	(679)
Interest and finance expenses	13	**(11,285)**	(8,761)
Mark-to-market gain on debentures& warrants		**5,897**	12,610
Other expenses	14	**(355)**	(427)
Loss before income taxes		**(337,769)**	(135,432)
Income tax recovery	15	**4,393**	19,938
Net Loss from continuing operations		**(333,376)**	(115,494)
Net Loss from discontinued operations,net of income taxes	5	**(76,309)**	(118,926)
Net Loss for the year		**($409,685)**	($234,420)
Other comprehensive loss,net of tax			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations,net of tax of $nil		**3,099**	(102)
Unrealized (loss)gain on investment in Fortune Bay,net of tax of $nil		**(250)**	1,058
Total comprehensive Loss for the year		**($406,836)**	($233,464)
Basic and diluted loss per share from continuing operations		**($1.74)**	($0.65)
Basic and diluted loss per share from discontinued operations		**($0.40)**	($0.67)
Basic and diluted loss per share including discontinued operations		**($2.14)**	($1.32)
Weighted average number of common shares outstanding			
Basic		**191,738,274**	177,569,024
Diluted		**191,738,274**	177,569,024

See accompanying notes to the consolidated financial statements.

PRIMERO MINING CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS OF UNITED STATES DOLLARS)

	Notes		**December 31 2017**		December 31 2016
Assets					
Current assets					
Cash and cash equivalents	19	**$**	**20,966**	$	19,875
Trade and other receivables			**1,241**		1,962
Value added and income taxes receivable			**40,789**		34,494
Prepaid expenses			**2,642**		3,893
Inventories	8		**13,668**		22,829
Total current assets			**79,306**		83,053
Non-current assets					
Restricted cash			**-**		4,577
Mining interests	4,9		**125,050**		577,920
Deferred tax asset			**-**		3,763
Value added tax receivable			**-**		7,344
Other non-current assets			**910**		1,160
Total assets		**$**	**205,266**	$	677,817
Liabilities					
Current liabilities					
Trade and other payables		**$**	**19,593**	$	31,781
Income tax payable			**3,298**		1,558
Other taxes payable			**1,200**		2,035
Current portion of long-term debt	10		**30,310**		50,841
Total current liabilities			**54,401**		86,215
Non-current liabilities					
Other taxes payable			**18,805**		14,120
Deferred tax liability			**7,457**		28,428
Decommissioning liability	20		**11,646**		29,790
Long-term debt	10		**47,625**		52,906
Warrant liability	17	(a)	**44**		1,066
Other long-term liabilities			**5,557**		4,162
Total liabilities		**$**	**145,535**	$	216,687
Shareholders' equity					
Share capital	17	(a) **$**	**915,641**	$	908,923
Shares reserved for future issuance	17	(a)	**243**		297
Contributed surplus	17	(b)	**57,630**		58,857
Accumulated other comprehensive loss			**(845)**		(3,694)
Deficit			**(912,938)**		(503,253)
Total shareholders' equity		**$**	**59,731**	$	461,130
Total liabilities and shareholders' equity		**$**	**205,266**	$	677,817

Basis of Presentation and Going concern (Note 2 b))
Commitments and contingencies (Note 24)
Subsequent events (Note 25)

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors.

"Signed"
Joseph F. Conway, Director

"Signed"
Michael E. Riley, Director

PRIMERO MINING CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(IN THOUSANDS OF UNITED STATES DOLLARS , EXCEPT FOR NUMBER OF COMMON SHARES)

	Notes	Share capital		Shares reserved for future issuance	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
		Shares	Amount					
Balance, January 1, 2016		164,185,807	$ 867,375	$ -	$ 54,984	($4,650)	($268,833)	$ 648,876
Shares issued for								
Public equity offering		22,022,500	33,047	-	-	-	-	33,047
Acquisition of mining concessions		1,854,271	3,540	-	-	-	-	3,540
PSUs settled in shares		1,445,787	4,961	-	(4,851)	-	-	110
Common shares reserved for future issuance		-	-	297	-	-	-	297
Other comprehensive income, net of tax		-	-	-	-	956	-	956
Share-based compensation		-	-	-	8,724	-	-	8,724
Loss for the year		-	-	-	-	-	(234,420)	(234,420)
Balance, December 31, 2016		189,508,365	$ 908,923	$ 297	$ 58,857	($3,694)	($503,253)	$ 461,130
Balance, January 1, 2017		189,508,365	$ 908,923	$ 297	$ 58,857	($3,694)	($503,253)	$ 461,130
Shares issued for								
PSUs settled in shares	17(a)	2,543,773	6,117	-	(6,117)	-	-	-
Severance and other employee payments	17(a)	993,684	601	-	(5)	-	-	596
Release of common shares reserved for future issuance		-	-	(54)	-	-	-	(54)
Other comprehensive income, net of tax		-	-	-	-	2,849	-	2,849
Share-based compensation	17(b)	-	-	-	4,895	-	-	4,895
Loss for the year		-	-	-	-	-	(409,685)	(409,685)
Balance, December 31, 2017		193,045,822	$ 915,641	$ 243	$ 57,630	($845)	($912,938)	$ 59,731

Total comprehensive loss was $406.8 million for the year ended December 31, 2017 (December 31, 2016 – loss of $233.5 million) .

See accompanying notes to the consolidated financial statements.

PRIMERO MINING CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED D ECEMBER 31, 2017 AND 2016
(IN THOUSANDS OF UNITED STATES DOLLARS)

	Notes	Year ended December 31	
		2017	2016
Operating activities			
Loss before income taxes		**($337,769)**	($135,432)
Loss before income taxes, from discontinued operations	5	**(82,020)**	(120,452)
Adjustments for:			
Mining interests impairment charge	4	**398,821**	228,000
Depreciation and depletion		**29,703**	63,329
Share-based compensation expense		**4,875**	8,586
Payments made under the Phantom Share Unit Plan		**-**	(377)
Mark-to-market gain on convertible debentures		**(4,875)**	(9,000)
Mark-to-market gain on warrant liability		**(1,022)**	(3,610)
Write-down of inventory		**-**	1,040
Unrealized foreign exchange loss		**5,329**	2,390
Taxes paid		**(4,027)**	(29,625)
Other		**2,199**	975
Other adjustments			
Transaction costs (disclosed in financing activities)		**-**	232
Finance income (disclosed in investing activities)		**(41)**	(88)
Finance expense		**11,460**	9,299
Operating cash flow before working capital changes		**22,633**	15,267
Changes in non-cash working capital	16	**(82)**	(2,158)
Cash provided by (used in) operating activities		**$ 22,551**	$ 13,109
Investing activities			
Expenditures on mining interests - San Dimas		**($22,410)**	($37,446)
Expenditures on mining interests - Black Fox		**(13,235)**	(29,956)
Expenditures on mining interests - Other		**(206)**	(271)
Proceeds from dispositions, net		**40,369**	-
Cash provided by (used in) investing activities		**$ 4,518**	($67,673)
Financing activities			
Proceeds from equity offering	17(a)	**$ -**	$ 39,958
Transaction costs on equity offering	17(a)	**-**	(2,464)
Net (repayment)/drawdown on revolving credit facility	10(a)	**(19,799)**	50,000
Repayment of convertible debenture	10(c)	**-**	(48,116)
Payments on capital leases		**(1,116)**	(4,497)
Funds released from reclamation bond		**4,799**	1,564
Interest paid		**(9,954)**	(7,493)
Cash provided by (used in) financing activities		**($26,070)**	$ 28,952
Effect of foreign exchange rate changes on cash		**$ 92**	($114)
Increase (decrease) in cash		**$ 1,091**	($25,726)
Cash, beginning of year		**19,875**	45,601
Cash, end of year		**$ 20,966**	$ 19,875

See accompanying notes to the consolidated financial statements.

1. Corporate information

Primero Mining Corp. ("Primero" or the "Company") is a publicly traded company, listed on the Toronto Stock Exchange and previously listed on the New York Stock Exchange until August 14, 2017. Its registered office is Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia. The Corporate address is Suite 2100, 79 Wellington Street West, Toronto, Ontario. The Company owns one producing property, the San Dimas gold-silver mine in the San Dimas district of Mexico, and previously owned a second producing property, the Black Fox gold mine and adjoining properties in Timmins, Ontario, Canada (the "Black Fox Complex") which was sold in 2017 and has been reported as discontinued operations in these consolidated financial statements. The Company also has one project in the exploration stage, Ventanas located in Mexico. The Company previously owned a property in the development stage, the Cerro del Gallo project in Mexico which was sold in 2017 and has been reported as discontinued operations in these consolidated financial statements.

2. Basis of preparation and summary of significant accounting policies

a) Statement of compliance

These consolidated financial statements, as at and for the years ended December 31, 2017 and 2016, of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Company's Board of Directors on March 19, 2018.

b) Basis of presentation and going concern

These consolidated financial statements have been prepared on a going concern basis, under the historical cost basis, except for the certain financial instruments which are presented at fair value. Certain prior year balances have been reclassified to conform with the current year presentation.

In 2017, the Company's Board of Directors commenced a strategic review process to explore alternatives to improve shareholder value. This process ultimately resulted in the sale of the Black Fox Complex in October 2017, the sale of the Cerro del Gallo project in November 2017, and a definitive arrangement agreement (the "Arrangement Agreement") to sell Primero to First Majestic Silver Corp. ("First Majestic"), announced on January 12, 2018. Refer to note 25 for additional details.

On March 13, 2018, the Arrangement was approved by Primero shareholders. On March 13, 2018, the holders of the 5.75% convertible debentures voted to approve an amendment to the maturity date of the debentures to the day following the closing date of the Arrangement with full principal paid on this date. The Company is awaiting anti-trust clearance in Mexico. The Arrangement is expected to close in or around the end of April 2018, subject to applicable regulatory approvals and the satisfaction of other customary conditions.

Primero did not generate enough cash from operations to support its investing activities during 2017. The Company has sufficient cash on hand to support the business through to the expected close of the Arrangement with First Majestic. If the transaction closes as planned, management believes First Majestic will have sufficient funding to satisfy all commitments of Primero and its subsidiaries.

If the Arrangement Agreement with First Majestic is terminated for any reason, there is significant uncertainty that Primero will have sufficient funds to repay the full outstanding obligation under the revolving credit facility ("RCF") upon maturity, which would allow the lenders to exercise their rights under the RCF (see notes 9 and 10). An Event of Default under the RCF, unless waived, would trigger cross default provisions under the convertible debentures and the Silver Purchase Agreement.

The above noted factors represent a material uncertainty that casts substantial doubt on the ability of the Company to continue as a going concern. These financial statements do not include the adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. These adjustments may be material.

These consolidated financial statements include the accounts of the Company and its subsidiaries from their respective dates of acquisition. All intragroup balances and transactions between entities of the group have been eliminated in full. The Company's significant subsidiaries, which are all wholly owned, are:

Subsidiary	Location	Property
Primero Empresa Minera,S.A.deC.V.("PEM ")	Mexico	San Dimas Mine and Ventanas
Silver Trading (Barbados)Lim ited ("STB")	Barbados	-
Primero Mining Luxembourg S.a.r.l.	Luxembourg	-

Subsidiary Disposed of in 2017	Location	Property
San Anton delas Minas,S.A.deC.V.	Mexico	Cerro del Gallo project

The results of discontinued operations, comprising the Black Fox Complex and Cerro del Gallo, included in the consolidated statement of operations and comprehensive loss for the years ended December 31, 2017 and 2016 are disclosed in note 5. The comparative periods have been recast accordingly.

c) Functional and presentation currency

The functional and presentation currency of the Company is the U.S. dollar. The functional currency of PEM and STB is the U.S. dollar. The functional currency of San Anton de las Minas S.A. de C.V. prior to it's disposition was the U.S. dollar. The functional currency of Primero Mining Luxembourg S.a.r.l. is the Mexican peso.

For entities using U.S. dollars as the functional currency, all monetary assets and liabilities denominated in a currency other than the U.S. dollar are translated at current exchange rates at each balance sheet date and the resulting adjustments are included in a separate line item under other income (expenses). Revenue and expense in foreign currencies are translated using the exchange rates at the date of the transaction.

The accounts of Primero Mining Luxembourg S.a.r.l. are translated into the U.S. dollar presentation currency as follows: all assets and liabilities are translated at the exchange rate prevailing at the statement of financial position date; equity balances are translated at the rates of exchange at the transaction dates, and all items included in the statement of operations are translated using the annual average exchange rates unless there are significant fluctuations in the exchange rate, in which case the rate at the date of transaction is used. All differences arising upon the translation to the presentation currency are recorded in the foreign currency translation reserve within accumulated other comprehensive loss; there is no tax impact of this translation.

d) Revenue recognition

Revenue is derived from the sale of gold and silver. Revenue is recognized on individual contracts when there is persuasive evidence that all of the following criteria are met:

- the significant risks and rewards of ownership have been transferred to the buyer;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold have been retained;
- the amount of revenue and costs to sell can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company and collectability of proceeds is reasonably assured.

All of these criteria are met based on the contract with the respective buyers which generally coincides with the receipt of the sales proceeds. Sales prices are based on the terms of the contract or at spot prices.

e) Inventories

Inventories including finished goods (gold and silver), work-in-progress, and stockpiled ore are valued at the lower of average production cost and net realizable value. Net realizable value is calculated as the estimated price at the time of sale less estimated future production costs to convert the inventories into saleable form.

Ore extracted from a mine is stockpiled and subsequently processed into finished goods. Production costs including mining and milling costs, applicable overhead costs, depreciation and depletion are capitalized to inventory depending on its current location and condition. Inventories of stockpiled ore that are not expected to be processed in the next year are classified as non-current inventories.

Inventories also include supplies, which are valued at the lower of average cost or replacement cost.

f) Financial instruments

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends upon whether the financial instrument is classified as fair value through profit or loss (“FVTPL”), available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial instruments classified as FVTPL are measured at fair value with gains and losses recognized in the statement of operations and comprehensive loss. The 5.75% convertible debentures and warrant liability are classified as FVTPL and measured at fair value based on their trading price. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities classified as other liabilities, are measured at amortized cost. Trade and other receivables, cash and cash equivalents, and restricted cash are classified as loans and receivables, and are measured at amortized cost. Trade and other payables, and the RCF are classified as other financial liabilities, and are also measured at amortized cost.

Transaction costs in respect of financial assets and liabilities which are measured at FVTPL are recognized in the statement of operations and comprehensive loss immediately. Transaction costs in respect of other financial instruments are included in the initial carrying value of the financial instrument.

A financial asset is classified as available-for-sale when: (i) it is not classified as a loan and receivable, a held-to-maturity investment or at FVTPL; or (ii) it is designated as available-for-sale on initial recognition. The Company's equity investment in Fortune Bay (included in other non-current assets) is classified as available-for-sale and is measured at fair value with mark-to-market gains and losses recognized in other comprehensive income (OCI). When available-for-sale investments in marketable securities and equity securities are derecognized, the cumulative mark-to-market gains or losses that had been previously recognized in OCI are reclassified to earnings for the period. When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been previously recognized in OCI is reclassified to earnings for the period.

The Company may enter into derivative contracts or financial instruments and non-financial contracts containing embedded derivatives. Embedded derivatives are required to be accounted for separately at fair value as derivatives when the risks and characteristics of the embedded derivatives are not closely related to those of their host contract, and the host contract is not designated as FVTPL. These embedded derivatives are measured at fair value with changes in fair value recognized in earnings for the period.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through 'arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay under the guarantee.

g) Mining interests

The Company categorizes mining interests based on the type of asset and/or the stage of operation, development or exploration of the property.

Land, buildings, plant and equipment includes land, mobile and stationary equipment, and refining and processing facilities for all properties regardless of their stage of development or operation.

Mineral properties include:

- Development and operating properties which include capitalized development and stripping costs, cost of assets under construction, capitalized exploration and evaluation costs and mineral interests for those properties currently in operation for which development has commenced or for which technical feasibility and commercial viability have been determined; and
- Pre-development properties which include exploration and evaluation costs and mineral interests for those properties for which development has not commenced.

Land, buildings, plant and equipment

Upon initial acquisition, land, buildings, plant and equipment are valued at cost, being the purchase price and the directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management.

In subsequent periods, buildings, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment charges. Land is stated at cost less any impairment in value and is not depreciated.

Buildings, plant and equipment are depreciated (net of residual value) using the straight-line method based on estimated useful lives.

Where significant components of an asset have differing useful lives, depreciation is calculated on each separate component. The estimated useful life of each item or part has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates which affect depreciation are accounted for prospectively.

The expected useful lives are as follows:

Plant and buildings	5 years to life of mine
Equipment and vehicles	4 years to life of mine
Computer equipment	3 to 5 years

Mining properties

The cost of acquiring mineral reserves and mineral resources is capitalized in the statement of financial position as incurred.

Mine development costs incurred to develop areas of the mine which will be mined in future periods are capitalized and depleted when the related mining area is mined. Mine development costs incurred to prepare current production areas are considered operating expenses and expensed in the year as incurred.

Mining properties are depleted using the units-of-production method over the mine's estimated proven and probable reserves and, if appropriate, an estimate of the portion of resources expected to be classified as reserves. Depletion is calculated on a mine-by-mine basis.

The Company's depletion estimation methodology allocates mining properties from operating mines into a depletable component and a non-depletable component upon initial acquisition. The value assigned to the depletable component is equal to the value assigned to the proven and probable reserves and a portion of resources of the asset. The value assigned to the non-depletable component is the value assigned to the exploration potential of the asset and the remaining resources not included in the depletable component. Values allocated to both the depletable and non-depletable components may be adjusted prospectively when there has been a significant change in the reserves, resources and/or exploration potential or when impairment charges have been recorded.

The allocation of values to the proven and probable reserves, resources and exploration potential of the asset are based on the discounted cash flow analysis of the Company's future expected cash flows at each operating mine. The depletable component is depleted over 100% of reserves and a portion of resources included in the Company's discounted cash flow analysis. The non-depletable component is not depleted but, in combination with the depletable component, is evaluated for impairment when events and changes in circumstances indicate that the carrying amount may not be recoverable.

Reserves (including proven and probable) and resources (including measured, indicated and inferred) are based on the definitions in National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101"). Exploration potential is the mineralization quantified by the Company's geologists with a sufficient degree of confidence to include in the Company's fair value determination, but without the necessary level of measurement precision to enable it to be classified as a resource as defined by NI 43-101.

Each year, coincident with the updated reserve and resource estimates, the Company expects that a portion of resources will be transferred to reserves and a portion of exploration potential will be transferred to resources. As a result, the category of non-depletable mineralization is expected to reduce and, in the absence of further additions to exploration potential, eventually be fully classified within the depletable component over the life of mine.

When considering the portion of resources to include in the depletion base of the depletable component, management considers the resources which are believed to have the probability of eventually being classified as proven and probable reserves, which includes:

- resources that can be economically mined and are therefore commercially viable, considering management's assumptions on cut off grades, long-term gold and silver prices and exchange rates,
- historical experience and available geological and drilling information of the area under consideration.

Development costs incurred during a period are added to the total mining property capitalized at the commencement of the period in calculating the depletion expense. Future development costs necessary to access resources, have been taken into account when determining the pattern of depletion for the Company's mining properties; such costs are included in the discounted cash flow analysis and are determined by the Company's geologists and engineers based on an in-depth knowledge of the mine and planned development work to access resources.

Exploration and evaluation expenditures

Exploration and evaluation expenditures are charged to the statement of operations and comprehensive loss in the period incurred unless management determines that probable future economic benefits will be generated as a result of the expenditures.

Once a project has been established as technically feasible and commercially viable, the capitalized expenditures are tested for impairment and transferred from exploration and evaluation costs to development costs within mining properties. If events take place subsequently and such project is no longer considered commercially viable it would be transferred back from development costs to exploration and evaluation expenditures.

Major maintenance and repairs

Expenditure on major maintenance and repairs includes the cost of replacement parts of assets and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will be available to the Company, that expenditure is capitalized and the carrying amount of the item replaced derecognized. Similarly, overhaul costs associated with major maintenance are capitalized when it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognized. All other maintenance and repair costs are expensed as incurred.

Borrowing costs

Borrowing costs directly relating to the financing of qualifying assets are added to the capitalized cost of those projects until such time as the assets are substantially ready for their intended use or sale which, in the case of mining properties, is when they are capable of commercial production. Where funds have been borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

All other borrowing costs are recognized in the statement of operations and comprehensive loss in the year in which they are incurred. Borrowing costs are included as part of interest paid in the statement of cash flows.

Leases

The Company holds leases for office space and equipment. Leases are classified as either finance or operating leases.

Assets held under finance leases, where substantially all of the risks and rewards of ownership have passed to the Company, are capitalized in the statement of financial position at the lower of the fair value of the leased property and the present value of the minimum lease payments during the lease term calculated using the interest rate implicit in the lease agreement. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Capitalized amounts are determined at the inception of the lease and are depreciated over the shorter of their useful economic lives or the lease term. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the statement of operations and comprehensive loss as finance expense unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's accounting policy on borrowing costs.

Leases where substantially all of the risks and rewards of ownership have not passed to the Company are classified as operating leases. Rentals payable under operating leases are charged to the statement of operations and comprehensive loss as operating expenses or general and administrative expenses on a straight-line basis over the lease term.

Impairment of non-current assets

The carrying amounts of assets included in mining interests are reviewed for impairment when events and changes in circumstances indicate that the related carrying amounts may not be recoverable. In addition, capitalized exploration and evaluation costs are assessed for impairment upon demonstrating commercial viability of a project. The carrying amounts of the assets are compared to the recoverable amount of the assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable. The recoverable amount is the higher of value-in-use and fair value less cost of disposal ("FVLCD").

For mining assets, when a binding sale agreement and observable market prices are not readily available, FVLCD is estimated using a discounted cash flow approach for each of the Company's cash generating units ("CGU"s) to which the individual assets are allocated. The assumptions used in determining the FVLCD for the CGU's include long-ter Mining plans, long-term commodity prices, discount rates, foreign exchange rates and values of un-modeled mineralization.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment is recognized immediately as an expense.

Where an impairment subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, subject to the amount not exceeding the carrying amount that would have been determined had no impairment been recognized for the asset (or CGU) in prior periods. A reversal of impairment is recognized during the period in the statement of operations and comprehensive loss.

Disposal

Upon disposition, an item within mining interests is derecognized, and the difference between its carrying value and net sales proceeds is disclosed as a gain or loss on disposal in the statement of operations and comprehensive loss.

h) Income taxes

Income tax expense (recovery) comprises current and deferred tax. Current tax and deferred tax are recognized in the statement of operations and comprehensive loss except to the extent they relate to items recognized directly in equity or in OCI, in which case the related taxes are recognized in equity or OCI.

Current income tax is the expected cash tax payable or receivable on the local taxable income or loss for the year for each taxable entity using tax rates enacted or substantively enacted at the reporting date. This may differ from earnings reported in the statement of operations and comprehensive loss due to income or expense items that are not currently taxable or deductible for tax purposes, and any adjustment to income taxes in respect of previous years.

Deferred income tax is recognized in respect of unused tax losses, tax credits and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax rates that have been substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Company records foreign exchange gains and losses representing the impacts of movements in foreign exchange rates on the tax bases of non-monetary assets and liabilities which are denominated in foreign currencies. Foreign exchange gains and losses relating to the translation of the deferred income tax balance from local statutory accounts to functional currency accounts are included in deferred income tax expense or recovery in the statements of operations and comprehensive loss.

Uncertain income tax positions are recorded in the consolidated financial statements when probable and measured at the amount expected to be paid to (recovered from) the taxation authority using the Company's best estimate of the amount.

i) Share–based compensation

Equity-settled awards to employees and others providing similar services

For equity-settled awards, the fair value of the award is charged to the statement of operations and comprehensive loss and credited to share-based compensation reserve (within equity in the consolidated statement of financial position) ratably over the vesting period, after adjusting for the number of awards that are expected to vest. The fair value of the awards is determined at the date of grant using the Black-Scholes option pricing model. At each statement of financial position date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest, is computed and charged to the statement of operations and comprehensive loss.

Expenses recognized for forfeited awards are reversed. For awards that are cancelled, any expense not yet recognized is recognized immediately in the statement of operations and comprehensive loss.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified over the original vesting period. In addition, an expense is recognized for any modification which increases the total fair value of the share-based payment arrangement as measured at the date of modification, over the remainder of the vesting period.

Cash-settled awards to employees and others providing similar services

For cash-settled awards, the fair value is re-calculated at each statement of financial position date until the awards are settled, using the Company's share price (with any changes in fair value recognized in the statement of operations and comprehensive loss). During the vesting period, a liability is recognized representing the portion of the vesting period which has expired at the statement of financial position date multiplied by the fair value of the awards expected to vest at that date. After vesting, the full fair value of the unsettled awards at each statement of financial position date is recognized as a liability. Movements in value are recognized in the statement of operations and comprehensive loss.

Equity or cash-settled awards to employees and others providing similar services

The Company accounts for awards issued under the 2013 Phantom Share Unit Plan as equity-settled. For equity-settled awards, the fair value of the award is charged to the statement of operations and comprehensive loss and credited to share-based compensation reserve (within equity in the consolidated statement of financial position) ratably over the vesting period. The fair value of the awards is determined at the date of grant using the closing market price of the Company's shares. At each statement of financial position date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest, is computed and charged to the statement of operations and comprehensive loss.

No expense is recognized for awards that ultimately do not vest. For any awards that are cancelled, any expense not yet recognized is recognized immediately in the statement of operations and comprehensive loss.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified over the original vesting period. In addition, an expense is recognized for any modification which increases the total fair value of the share-based compensation arrangement as measured at the date of modification, over the remainder of the vesting period.

j) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of operations and comprehensive loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance expense in the statement of operations and comprehensive loss.

Decommissioning liability

The Company records a liability for the estimated reclamation and closure of a mine, including site rehabilitation and long-term treatment and monitoring costs, discounted to net present value; this liability is then accreted to full value over the life of the mine with the accretion charge being recorded as a finance expense. The net present value is determined using the liability-specific risk-free interest rate. The estimated net present value of reclamation and closure cost obligations is re-measured each reporting period or when changes in circumstances occur and/or new material information becomes available. Increases or decreases to the obligations arise due to changes in legal or regulatory requirements, the extent of environmental remediation required, cost estimates and the discount rate applied to the obligation. The net present value of the estimated cost of these changes is recorded in the period in which the change is identified and quantifiable. Reclamation and closure cost obligations relating tOperating mines and development projects are recorded with a corresponding increase to the carrying amounts of related assets and the adjusted cost is depreciated on a prospective basis.

k) Loss per share

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. For this purpose, the treasury stock method is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the period.

l) Segmented reporting

The Company operated in one geographic area, Mexico, with corporate activities occurring in a second geographic area, Canada. Prior to the disposition of the Black Fox Complex, the Company operated in two geographic areas; Mexico and Canada. The Company's operating segments reflect the Company's different mining interests and are reported in a manner consistent with the internal reporting to the chief operating decision maker, used to assess each segment's performance. Primero currently has one reportable segment, the San Dimas mine (which currently includes the Ventanas property and Coral Silver concessions). During 2017 and prior to the dispositions of the Black Fox Complex and the Cerro del Gallo project, Primero had three reportable segments: the San Dimas mine, the Black Fox Complex and the Cerro del Gallo project.

m) Assets held for sale and discontinued operations

Assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and measured at the lower of carrying amount or FVLCD. The assets or disposal groups must be available for immediate sale and the sale must be highly probable within one year. Impairment losses on initial classification as held for sale and gains or losses on subsequent remeasurement are included in the statements of operations and comprehensive loss. No depreciation is charged on assets or disposals groups classified as held for sale.

A discontinued operation is a component of an entity that either has been disposed of, abandoned or that is classified as held for sale.

Discontinued operations are presented on the statements of operations and comprehensive loss as a separate line.

n) Recent pronouncements issued

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined the following will have potential future impact on the Company.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* which supersedes existing standards and interpretations including IAS 18, *Revenue* . IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is currently effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the impact of adopting this standard to be material to its consolidated financial statements.

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments* (IFRS 9). This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments and includes a substantially reformed approach to hedge accounting. The Company does not expect the impact of adopting this standard to be material on its consolidated financial statements.

In January 2016, the IASB issued IFRS 16, Leases (IFRS 16). IFRS 16 is effective for periods beginning on or after January 1, 2019, with early adoption permitted, provided IFRS 15 has been adopted. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting for lessees. The Company is currently evaluating the impact the standard is expected to have on its consolidated financial statements.

3. Critical Accounting Estimates and Judgments

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities at the date of the financial statements. If in the future such judgements, estimates and assumptions, which are based on management's experience and knowledge of the relevant facts and circumstances at the date of the financial statements, deviate materially from actual circumstances, the original judgements, estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

a) Accounting estimates

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

(i) Estimated recoverable reserves and resources

The Company estimates its proven and probable mineral reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. Estimated ounces from mineral reserves and resources as well as estimates for exploration potential are included in the Company's estimation of future cash flows. These cash flows are based on factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in estimated ounces may impact the carrying value of assets, reclamation and remediation obligations, recognition of deferred tax amounts, depreciation and depletion, and impairment charges.

(ii) Determination of useful lives of property, plant and equipment

Property, plant and equipment are depreciated to their estimated residual value over the estimated useful life of the asset. Should the actual useful life of the property, plant or equipment vary, future depreciation charges may change.

(iii) Impairment charges

Non-current assets are tested for impairment if there is an indicator of impairment. The impairment analysis generally requires the use of estimates and assumptions, including amongst others, long-term commodity prices, discount rates, length of mine life, future production levels, future operating costs, future capital expenditures and tax estimates. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances the carrying value of the assets may be impaired or a prior period's impairment charge reversed with the impact recorded in the statements of operations and comprehensive loss.

(iv) Decommissioning liability

The Company's accounting policy for the recognition of accrued site closure costs requires significant estimates and assumptions such as the requirements of the relevant legal and regulatory framework, the magnitude of possible disturbance and the timing, extent and costs of required closure, rehabilitation activity and applicable discount rates. Changes to these estimates and assumptions may result in actual expenditures in the future differing from the amounts currently provided. The decommissioning liability is periodically reviewed and updated based on the available facts and circumstances.

(v) Income taxes

The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of change. Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, the market price for gold and silver, production costs, quantities of proven and probable reserves, interest rates and foreign currency exchange rates.

(vi) Valuation of inventory

All inventory, other than supplies, is valued at the lower of average cost or net realizable value. Management is required to make various estimates and assumptions to determine the value of stockpiled ore, in-circuit inventories and doré inventories. The estimates and assumptions include surveyed quantities of stockpiled ore, in-circuit process volumes, gold and silver contents of both, costs to recover saleable ounces, recoverable ounces once processed and the price per ounce of gold or silver when ounces of gold and silver are expected to be recovered and sold.

(vii) Share-based compensation

The Company makes certain estimates and assumptions when calculating the fair values of share-based compensation granted. The significant estimations and assumptions include expected volatility, expected life, expected dividend rate and risk-free rate of return.

b) Accounting judgments

The critical judgments that the Company's management have made that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

(i) Functional currency

The determination of a subsidiary's functional currency often requires significant judgment where the primary economic environment in which an entity operates may not be clear. This can have a significant impact on the consolidated results of the Company.

(ii) Tax ruling in Mexico

On October 4, 2012, PEM received a ruling (the "APA Ruling") from the Mexican tax authority, Servicio de Administración Tributaria ("SAT"), which confirmed the appropriate price for sales of silver under the Amended and Restated Silver Purchase Agreement (see note 15 c) for further information). Under Mexican tax law, an advance pricing agreement ("APA") ruling is generally applicable for up to a five year period (which in the Company's case, covered the year in which the ruling application was filed, the immediately preceding year and the three subsequent years). The Company's APA Ruling covered the five years ended December 31, 2014.

In February 2016, PEM received a legal claim from the Mexican tax authority seeking to nullify the APA. The legal claim initiated does not identify any different basis for paying taxes, nor have any tax reassessments been received from the SAT. The Company intends to vigorously defend the validity of its APA. The Company has filed procedural and substantive responses to the claim. The procedural response is a challenge against the admission of the SAT's claim. The substantive response contains the Company's response to the SAT's claim. If the SAT is successful in retroactively nullifying the APA, the SAT may seek to audit and reassess PEM in respect of its sales of silver in connection with the Silver Purchase Agreement for 2010 through 2014. If the SAT is successful in retroactively nullifying the APA and issuing reassessments, it would likely have a material adverse effect on the Company's results of operations, financial condition and cash flows. PEM would have rights of appeal in connection with any reassessments.

In June 2017, as part of the ongoing annual audits of the PEM tax returns, the SAT issued an observations letter for the 2010 tax year. An observations letter is issued to a taxpayer in advance of a reassessment being issued, provides an outline of the SAT's position on matters under audit, and affords the taxpayer an opportunity to respond to such position in advance of the reassessment being issued. In this observations letter issued to PEM, the SAT made explicit its view that PEM should pay taxes based on the market price of silver which, if successfully applied to its 2010 taxation year, would make PEM liable for an additional $8.5 million of taxes before penalties or interest. As the Company continues to defend the APA in the Mexican legal proceeding, the APA remains valid and the Company will vigorously dispute any reassessment that may be issued in the future on a basis that assesses taxes on its silver reassessment and no liability has been recognized in the financial statements.

In October 2017, the SAT issued an observations letter for the 2011 tax year, with the same explicit view that PEM should pay taxes on the market price of silver, which if successfully applied to its 2011 taxation year, would make PEM liable for an additional $23.4 million of taxes before penalties or interest. The Company has submitted its formal response to both the 2010 and the 2011 observations letters.

While the Company continues to believe its tax filing position based upon the APA is correct, should the Company ultimately be required to pay tax on its silver revenues based on market prices without any mitigating adjustments, the incremental income tax for the years 2012-2017 would be in the range of $130 - $145 million, before interest or penalties.

While the Company continues to vigorously defend the validity of the APA and its transfer pricing position, it is also engaging in dialogue with the SAT seeking to resolve matters and bring tax certainty through a negotiated solution. Primero has also had constructive dialogue with the SAT in relation to outstanding value-added tax ("VAT") receivables and has received $15.2 million of VAT refunds since July 2017.

Since January 1, 2015, the Company has continued to record its revenue from the sale of silver for purposes of Mexican tax accounting in a manner consistent with the APA, on the basis that the applicable facts and laws have not changed. The Company's legal and financial advisors continue to believe that the Company has filed its tax returns compliant with applicable Mexican law. To the extent the SAT determines that the appropriate price of silver sales under the Silver Purchase Agreement is significantly different from the realized price and while PEM would have rights of appeal in connection with any reassessments, it is likely to have a material adverse effect on the Company's business, financial condition and results of operations.

4. Impairment Charges

	Year ended December 31	
(in thousands of U.S.dollars)	**2017**	2016
San Dimas	**$ 303,858**	$ 111,000
Black Fox Complex	**44,963**	117,000
Cerro del Gallo	**50,000**	-
	$ 398,821	$ 228,000

In accordance with IFRS, non-current assets are tested for impairment when events or changes in circumstances suggest that their carrying amount may not be recoverable. When there is an indicator of impairment, the impacted CGU is tested for impairment.

2017

As part of the strategic review process discussed in note 1 the Company received several proposals during the second quarter of 2017 which provided evidence the carrying value of its CGUs exceeded their fair value. During the second quarter of 2017, the Company recorded an impairment of $285.0 million, which comprised impairments of $195.0 million for the San Dimas mine, $40.0 million for the Black Fox Complex and $50.0 million for the Cerro del Gallo project (note 5). During the third quarter of 2017, an additional impairment of $5.0 million was recorded for the Black Fox Complex to align with the net proceeds received from the disposition during the fourth quarter of 2018. During the fourth quarter, the Company recorded an additional impairment of $109 million relating to the San Dimas mine as the negotiation process that led to the Arrangement Agreement identified that the carrying value of the San Dimas mine exceeded the recoverable amount. The carrying value of the San Dimas CGU as at December 31, 2017 is now aligned to the approximate value implied in the Arrangement Agreement.

The difference between the final net proceeds from disposition and the carrying values of the CGUs immediately prior to the disposition have been recognized as a loss on disposition, for the CGUs disposed of during 2017.

2016

In 2016, the Company's share price declined such that the carrying value of its net assets exceeded its market capitalization. In addition, during the fourth quarter, the Company identified impairment indicators at the San Dimas mine and Black Fox Complex and as a result, recorded non-cash impairment charges of $111.0 million and $117.0 million, respectively based on their FVLCD, which exceeds the value in use for both CGUs.

The recoverable amount was determined as the FVLCD for each CGU. FVLCD was determined based on the net present value of the future estimated cash flows expected to be generated from the continued use of the CGUs, using assumptions derived from from observable market indicators and the current life-of–mines plans for each operation. The mine plans are typically developed annually and are based on management's current best estimates of optimized mine and processing plans, future operating costs and the assessment of capital expenditure at the mine site. The determination of the FVLCD used Level 3 valuation techniques. Key assumptions used in the fair value models include:

Assumptions		**2016**
Discount rate		**6.5% -8.5%**
Gold price		
Short term	**$**	**1,250**
Long term	**$**	**1,300**
Foreign exchange		
Mexican peso (M XN)		
Short term		**M XN 18**
Long term		**M XN 20**
Canadian Dollar (CAD)		
Short term /long term		**CAD 1.30**
Market value per gold ounce		**n.a.**
Life of mine (in years) [1]		**5 & 17**

[1] For purposes of assessing asset impairment, the Company used an estimated life of mine of 5 years for Black Fox and 17 years for San Dimas as at December 31, 2016.

San Dimas Mine

The impairment test for the San Dimas mine was based on the updated life-of-mine plan, which incorporated updated reserves and resources, discount rate factors to account for the underlying risks and management's view of the exploration potential of the mine site. The resulting non-cash impairment charge for the San Dimas mine was driven by decrease in reserves, revisions in the mining cut-off methodology and the application of higher discount rates in the net present value of future estimated cash flows.

Black Fox Complex

The impairment test for the Black Fox Complex was based on the the updated life-of-mine plan. In 2016, the resulting non-cash impairment charge for the Black Fox Complex derived from decreases in reserves and shortened mine life.

Sensitivities

The impairment charges are highly sensitive to discount rates, gold prices and foreign exchange rates used in the cash flow projection. The table below summarizes the impact on the recognized impairment charges with all the variables held constant except as follows:

		San Dimas Mine	**Black Fox Complex**
		2016	**2016**
Discount rate	+/-1%	**$ 29,000**	**$ 2,000**
Gold price	+/-10%	**$ 88,000**	**$ 39,000**
Foreign exchange			
M XN	+/-10%	**$ 46,000**	**n.a.**
CAD	+/-10%	**n.a.**	**$ 37,000**

5. Discontinued operations

On October 6, 2017, the Company sold the Black Fox Complex for total consideration of $32.3 million including cash proceeds of $27.5 million and the release of $4.8 million from restricted cash that was pledged towards environmental closure liabilities. The Black Fox Complex comprises the Black Fox mine and adjacent properties, Grey Fox and Pike River.

On November 27, 2017, the Company sold the Cerro del Gallo project, via the sale of all of the issued and outstanding shares of San Anton Resource Corporation, the indirect owner of the Cerro del Gallo project to Argonaut Gold Inc for cash proceeds of $15 million resulting in a loss on disposition of $1,151.

	Cerro del Gallo	Black Fox Complex	Discontinued operations
Year ended December 31,2017			
Revenue	$ -	$ 65,828	**$ 65,828**
Operating expenses	-	39,982	**39,982**
Depreciation and depletion	44	7,269	**7,313**
Total cost of sales	44	47,251	**47,295**
(Loss) earnings from mine operations	(44)	18,577	**18,533**
Mining interest impairment charge	(50,000)	(44,963)	**(94,963)**
Exploration expenses	(830)	-	**(830)**
General and administrative expenses	(3)	(252)	**(255)**
Other charges	-	(51)	**(51)**
Loss from operations	(50,877)	(26,689)	**(77,566)**
Other expense items	(3,069)	(1,385)	**(4,454)**
Loss before income taxes	(53,946)	(28,074)	**(82,020)**
Income tax recovery	5,711	-	**5,711**
Net Loss	($48,235)	($28,074)	**($76,309)**

	Cerro del Gallo	Black Fox Complex	Discontinued operations
Year ended December 31,2016			
Revenue	$ -	$ 71,595	**$ 71,595**
Operating expenses	-	54,815	**54,815**
Depreciation and depletion	82	16,131	**16,213**
Total cost of sales	82	70,946	**71,028**
(Loss) earnings from mine operations	(82)	649	**567**
Mining interest impairment charge	-	(117,000)	**(117,000)**
Exploration expenses	(1,529)	-	**(1,529)**
General and administrative expenses	(164)	(1,109)	**(1,273)**
Loss from operations	(1,775)	(117,460)	**(119,235)**
Other expense items	(315)	(902)	**(1,217)**
Loss before income taxes	(2,090)	(118,362)	**(120,452)**
Income tax recovery	326	1,200	**1,526**
Net Loss	($1,764)	($117,162)	**($118,926)**

The results of discontinued operations included in the consolidated statement of cash flows, excluding the cash flows arising from the dispositions, for the years ended December 31, 2017 and 2016 are presented below; the comparative periods have been recast accordingly.

Cash flow from (used in):	Years ended December 31 2017	2016
Operating activities before working capital changes	**$ 16,077**	$ 21,170
Changes in non-cash working capital	**($2,637)**	$ 7,704
Operating activities	**13,440**	28,874
Investing activities	**($13,387)**	($30,879)
Financing activities and effect of foreign exchange rates	**($1,033)**	($4,582)
Net cash flow from (used in) discontinued operations	**(980)**	(6,587)

6. Segmented information

The Company's operating segments reflect its different mining interests and are reported in a manner consistent with the internal reporting used to assess each segment's performance. Significant information relating to reportable operating segments is summarized below:

	San Dimas	Corporate	Total
At December 31,2017			
Current assets	$ 72,026	$ 7,280	**$ 79,306**
Mining interests	124,835	215	**125,050**
Other non-current assets	-	910	**910**
Total assets	$ 196,861	$ 8,405	**$ 205,266**
Current liabilities	$ 19,242	$ 35,159	**$ 54,401**
Non-current liabilities	42,428	48,706	**91,134**
Total liabilities	$ 61,670	$ 83,865	**$ 145,535**

As At December 31,2016	San Dimas	Corporate	Black Fox Complex	Cerro del Gallo	Total
Current assets	$ 60,604	$ 4,209	$ 16,761	$ 1,479	**$ 83,053**
Mining interests	428,251	330	$ 85,680	63,659	**577,920**
Other non-Current assets	11,107	1,160	$ 4,577	-	**16,844**
Total assets	$ 499,962	$ 5,699	$ 107,018	$ 65,138	**$ 677,817**
Current liabilities	$ 20,373	$ 54,836	$ 10,988	$ 18	**$ 86,215**
Non-Current liabilities	50,585	53,861	$ 20,315	5,711	**130,472**
Total liabilities	$ 70,958	$ 108,697	$ 31,303	$ 5,729	**$ 216,687**

	San Dimas	Corporate	Continuing Operations	Cerro del Gallo	Black Fox Complex	Discontinued operations	Total
Year ended December 31,2017							
Revenue	$ 91,769	$ -	**$ 91,769**	$ -	$ 65,828	**$ 65,828**	**$ 157,597**
Operating expenses	67,280	-	**67,280**	-	39,982	**39,982**	**107,262**
Depreciation and depletion	22,320	113	**22,433**	44	7,269	**7,313**	**29,746**
Total cost of sales	89,600	113	**89,713**	44	47,251	**47,295**	**137,008**
Earnings (loss) from mine operations	2,169	(113)	**2,056**	(44)	18,577	**18,533**	**20,589**
Mining interest impairment charge	(303,858)	-	**(303,858)**	(50,000)	(44,963)	**(94,963)**	**(398,821)**
Exploration expenses	(1,345)	-	**(1,345)**	(830)	-	**(830)**	**(2,175)**
Share-based compensation	-	(4,149)	**(4,149)**	-	-	**-**	**(4,149)**
General and administrative expenses	(2,242)	(9,237)	**(11,479)**	(3)	(252)	**(255)**	**(11,734)**
Idle and restart costs incurred during strike at San Dimas	(6,207)	-	**(6,207)**	-	-	**-**	**(6,207)**
Other charges	(1,356)	(5,688)	**(7,044)**	-	(51)	**(51)**	**(7,095)**
Loss from operations	(312,839)	(19,187)	**(332,026)**	(50,877)	(26,689)	**(77,566)**	**(409,592)**
Other expense items	(1,025)	(4,718)	**(5,743)**	(3,069)	(1,385)	**(4,454)**	**(10,197)**
Loss before income taxes	(313,864)	(23,905)	**(337,769)**	(53,946)	(28,074)	**(82,020)**	**(419,789)**
Income tax recovery (expense)	4,819	(426)	**4,393**	5,711	-	**5,711**	**10,104**
Net Loss	($309,045)	($24,331)	**($333,376)**	($48,235)	($28,074)	**($76,309)**	**($409,685)**

	San Dimas	Corporate	Continuing Operations	Cerro del Gallo	Black Fox Complex	Discontinued operations	Total
Year ended December 31,2016							
Revenue	$ 147,581	$ -	**$ 147,581**	$ -	$ 71,595	**$ 71,595**	**$ 219,176**
Operating expenses	100,452	-	**100,452**	-	54,815	**54,815**	**155,267**
Depreciation and depletion	46,984	132	**47,116**	82	16,131	**16,213**	**63,329**
Total cost of sales	147,436	132	**147,568**	82	70,946	**71,028**	**218,596**
Earnings (loss) from mine operations	145	(132)	**13**	(82)	649	**567**	**580**
Mining interest impairment charge	(111,000)	-	**(111,000)**	-	(117,000)	**(117,000)**	**(228,000)**
Exploration expenses	(1,885)	-	**(1,885)**	(1,529)	-	**(1,529)**	**(3,414)**
Share-based compensation	-	(7,049)	**(7,049)**	-	-	**-**	**(7,049)**
General and administrative expenses	(5,419)	(8,110)	**(13,529)**	(164)	(1,109)	**(1,273)**	**(14,802)**
Other charges	(2,327)	(2,398)	**(4,725)**	-	-	**-**	**(4,725)**
Loss from operations	(120,486)	(17,689)	**(138,175)**	(1,775)	(117,460)	**(119,235)**	**(257,410)**
Other expense items	(1,494)	4,237	**2,743**	(315)	(902)	**(1,217)**	**1,526**
Loss before income taxes	(121,980)	(13,452)	**(135,432)**	(2,090)	(118,362)	**(120,452)**	**(255,884)**
Income tax recovery	19,938	-	**19,938**	326	1,200	**1,526**	**21,464**
Net Loss	($102,042)	($13,452)	**($115,494)**	($1,764)	($117,162)	**($118,926)**	**($234,420)**

7. Revenue

	Year ended December 31	
	2017	2016
Gold	**$ 74,979**	$ 121,553
Silver	**16,790**	$ 26,028
	$ 91,769	$ 147,581

a) Silver Purchase Agreement

The Silver Purchase Agreement provides that for the life of the mine, the first 6.0 million ounces of silver produced per annum by the San Dimas mine, plus 50% of the excess silver produced above this amount, must be sold to Wheaton Precious Metals International Ltd. ("WPMI"), formerly Silver Wheaton Caymans ("SWC"), at the lesser of $4.32 per ounce (adjusted by 1% per year) and market prices. All silver not sold to WPMI is available to be sold by the Company at market prices.

The contract year for purposes of the threshold runs from August 6 of a year to August 5 of the following year. The threshold for the year ended August 5, 2017 was not exceeded (4.3 million ounces were delivered under the contract), while the threshold for the year ended August 5, 2016 was exceeded in July 2016. During the year ended December 31, 2017 the Company did not sell any silver at market prices (year ended December 31, 2016 - 0.2 million ounces were sold at market prices).

In connection with the Arrangement Agreement, First Majestic has entered into agreements with WPMI, whereby, following closing of the Arrangement, the Silver Purchase Agreement will be terminated and replaced with a new stream which will provide for a reduction in the amount of payable metal content.

b) Gold Purchase Agreement

The Company had a gold purchase agreement related to the Black Fox Mine, which was disposed of in October 2017. Under the agreement, the Company was obligated to sell 8% of the gold production at the Black Fox Mine and 6.3% at the adjoining Pike River property ("Black Fox Extension").

During the year ended December 31, 2017, the Company recorded revenue classified as discontinued operations of $2.5 million (2016 - $2.7 million) under the contract terms.

8. Inventories

		December 31 2017		December 31 2016
Gold and silver	**$**	**5,848**	$	5,827
Stockpiled ore		**175**		5,285
Work-in-progress		**2,444**		5,771
Supplies		**5,201**		5,946
	$	**13,668**	$	22,829

9. Mining interests

	Mining properties and leases	Land and buildings	Plant, equipment and vehicles	Construction in progress	Total
Cost					
At January 1,2016	$ 948,182	$ 78,198	$ 191,825	$ 35,949	$ 1 **254,** 154
Additions	55,788	8,256	30,536	(21,218)	73,362
Reclassifications	1,086	3,948	(5,279)	239	(6)
Assets derecognized	-	-	(5,021)	-	(5,021)
At December 31,2016	1 **005,** 056	90,402	212,061	14,970	1 **322,** 489
Additions	32,876	4,409	6,332	(8,093)	35,524
Assets derecognized	-	-	(8,180)	-	(8,180)
Disposition of Black Fox Complex and Cerro del Gallo project	(456,856)	(18,579)	(68,012)	(926)	(544,373)
At December 31,2017	**$ 581,076**	**$ 76,232**	**$ 142,201**	**$ 5,951**	**$ 805,460**
Accumulated depreciation and depletion					
At January 1,2016	$ 355,893	$ 16,945	$ 91,198	$ -	$ 464,036
Depreciation and depletion	31,046	3,247	22,942	-	57,235
Impairment charge	228,000	-	-	-	228,000
Reclassifications	1,487	4,768	(6,261)	-	(6)
Assets derecognized	-	-	(4,696)	-	(4,696)
At December 31,2016	616,426	24,960	103,183	-	744,569
Depreciation and depletion	7,162	1,999	19,257	-	28,418
Impairment charge	284,972	48,311	65,538	-	398,821
Assets derecognized	-	-	(7,233)	-	(7,233)
Disposition of Black Fox Complex and Cerro del Gallo project	(412,926)	(15,504)	(55,735)	-	(484,165)
At December 31,2017	**$ 495,634**	**$ 59,766**	**$ 125,010**	**$ -**	**$ 680,410**
Carrying value					
At December 31,2016	$ 388,630	$ 65,442	$ 108,878	$ 14,970	$ 577,920
At December 31,2017	**$ 85,442**	**$ 16,466**	**$ 17,191**	**$ 5,951**	**$ 125,050**

A summary of mining interest by property is as follows:

	Mining properties and leases	Land and buildings	Plant, equipment and vehicles	Construction in progress	**December 31 2017**	December 31 2016
San Dimas Mine	$ 85,442	$ 16,466	$ 16,976	$ 5,951	**$ 124,835**	$ 428,251
Black Fox Complex	-	-	-	-	**-**	85,680
Cerro del Gallo project	-	-	-	-	**-**	63,659
Corporate	-	-	215	-	**215**	330
Total	$ 85,442	$ 16,466	$ 17,191	$ 5,951	**$ 125,050**	$ 577,920

All property of the San Dimas mine is pledged as security for the Company's obligations under the Silver Purchase Agreement (Notes 7 a)). Substantially all of the Company's assets are pledged as security under the revolving credit facility (Note 10 a)).

The carrying value of property, plant and equipment under finance leases at December 31, 2017 was $0.4 million (December 31, 2016 - $8.0 million). The lessors hold first security rights over the leased assets.

Depreciation and depletion recognized for the year ended December 31, 2017 was $28.4 million (2016 - $57.2 million). As at December 31, 2017, the non-cash component in the inventories balance was $1.4 million (2016 – $5.8 million).

10. Debt

		December 31 2017		December 31 2016
Current debt				
Revolving credit facility(RCF) [(a)]	**$**	**30,201**	$	49,639
Finance lease liabilities [(b)]		**109**		1,202
		30,310		50,841
Long-term debt				
5.75% convertible debentures [(c)]	**$**	**47,625**	$	52,500
Finance lease liabilities [(b)]		**-**		406
		47,625		52,906
	$	**77,935**	$	103,747

(a) The Company has a RCF, which bears interest at a floating interest rate equal to LIBOR or the prime rate of Canada or the bankers' acceptance rate (depending on the choice of credit availment by the Company) plus an applicable margin. In March 2016, the Company drew down $50 million under the RCF to repay the 6.5% convertible debentures, assumed as part of the acquisition of Brigus Gold Corp. An additional $10 million was drawn down in March 2017, $5 million was drawn in May 2017 and $10 million was drawn in July 2017, fully drawing the RCF and bringing the outstanding balance under the RCF to $75.0 million. On March 30, 2017, the Company amended the terms of the RCF to extend its maturity date from May 23, 2017 to November 23, 2017 and exclude all financial covenants until the extended maturity date. The RCF with its amended terms was guaranteed by WPM and a fee of $2.7 million was paid in 2017. This fee was accreted over the new term of the RCF as additional interest cost. The net proceeds from the sale of the Black Fox Complex and Cerro del Gallo were used to reduce the outstanding balance of the RCF. The RCF was subsequently extended multiple times from November 2017 to January 2018 in connection with the Company's strategic review process resulting in the current maturity date being the earlier of (i) April 30, 2018, (ii) the closing of the business combination with First Majestic, and (iii) the seventh business day following termination of the proposed business combination. WPM continues to provide a guarantee for the RCF.

Total unamortized transaction costs of $0.1 million relating to the original term of the RCF have been expensed. The revolving credit facility is secured by substantially all of the Company's assets and contains customary covenants and default clauses typical for this type of facility.

(b) The Company is obligated under various finance leases for equipment. All finance lease agreements provide that the Company can purchase the leased equipment at the end of the lease term for a nominal amount. There are no restrictions placed on the Company as a result of these leases, however, the lessors hold first security rights over the leased assets.

(c) On February 9, 2015, the Company issued $75 million of 5.75% convertible unsecured subordinated debentures (the 5.75% convertible debentures) maturing on February 28, 2020. The 5.75% convertible debentures bear interest at a rate of 5.75% per annum, payable in U.S. dollars semi-annually on August 28 and February 28 each year, commencing on August 28, 2015. The 5.75% convertible debentures are convertible into the Company's common shares at a conversion price of approximately $6.55 per share, representing a conversion rate of 152.6718 common shares per $1,000 principal amount of the debentures. Upon conversion, holders will be entitled to receive accrued and unpaid interest up to, but excluding, the date of conversion. The 5.75% convertible debentures have a cross-default provision that would be triggered by any default on the RCF.

The 5.75% convertible debentures are not redeemable prior to February 28, 2018. On and after February 28, 2018 and prior to February 28, 2020, the 5.75% convertible debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice, at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided the simple average of the daily volume-weighted average trading price of the common shares for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125% of the conversion price.

On March 13, 2018, holders of the 5.75% convertible debentures voted to amend the terms of the securities (refer to note 25).

11. General and administrative expenses

				Year ended December 31
		2017		2016
Salaries and wages	**$**	**5,053**	$	5,778
Rent and office costs		**792**		828
Legal, accounting, consulting and professional fees		**2,369**		2,547
Directors fees and expenses		**1,357**		935
Other General and administrative expenses		**1,908**		3,441
	$	**11,479**	$	13,529

12. Other charges

				Year ended December 31
		2017		2016
Legal expenses associated with proceedings in Mexico	**$**	**1,103**	$	3,254
Employee severance payments		**2,120**		1,171
Legal and advisory costs relating to financing initiatives		**647**		300
Advisory fees associated with strategic review process		**2,023**		-
Loss on disposition of Cerro del Gallo		**1,151**		-
	$	**7,044**	$	4,725

13. Interest and finance expenses

	Notes	Year ended December 31	
		2017	2016
Interest expenses			
Interest on 5.75% convertible debentures	10	**$ 4,312**	$ 4,313
Interest on 6.5% convertible debentures		**-**	775
Interest on revolving credit facility	10	**2,792**	1,577
		7,104	6,665
Finance expenses			
Accretion on 6.5% convertible debentures		**$ -**	$ 365
Accretion on asset retirement obligation		**766**	723
Revolving credit facility guarantee fee	10	**2,646**	-
Amortization of revolving credit facility transaction costs		**481**	870
Others		**288**	138
		4,181	2,096
		$ 11,285	$ 8,761

14. Other expenses

	Year ended December 31	
	2017	2016
Foreign exchange gain	**$ 76**	$ 155
Gain on derivative liability	**-**	5
Finance income	**41**	88
Royalty and other	**(472)**	(675)
	($355)	($427)

15. Income taxes

a) Tax expense

Tax expense comprises the following:

	2017	2016
Current income tax expense	**$ 3,298**	$ 1,089
Deferred Income tax recovery	**(7,691)**	(21,027)
Income tax(recovery)	**($4,393)**	($19,938)

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings from continuing operations before taxes. These differences result from the following items:

	2017	2016
Loss before income taxes	**($337,769)**	($135,432)
Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax recovery	**(89,509)**	(35,889)
(Increase) decrease attributable to:		
Effect of different foreign statutory rates on earnings of subsidiaries	**(11,416)**	(2,930)
Share-based payments	**1,148**	1,986
Amounts allowable for tax purposes	**(6,290)**	(9,592)
Impact of foreign exchange and inflation	**(7,709)**	27,180
Withholding taxes on intercompany interest	**3,800**	3,308
Royalty taxes in Mexico	**(149)**	115
B Impairment of mining interest	**79,069**	(5,827)
Benefit of tax losses and temporary differences not recognized	**26,663**	1,711
Income tax(recovery)	**($4,393)**	($19,938)

b) Deferred tax liabilities and assets

The significant components of the Company's deferred tax liabilities and assets are as follows:

		2017		2016
Deferred tax assets				
Non-capital losses	**$**	**-**	$	8,183
Decommissioning liability to be recovered		**472**		1,315
Deduction for Mexican royalty taxes		**-**		9,565
Accruals and other		**-**		2,338
	$	**472**	$	21,401
Deferred tax liability				
Accruals and other		**(26)**		-
Mining interests		**(7,903)**		($46,066)
Net deferred tax liability		**($7,457)**		($24,665)

A reconciliation of net deferred tax liability to the amounts presented in the consolidated statements of financial position follows:

		2017		2016
Deferred tax asset	**$**	**-**	$	3,763
Deferred tax liability		**(7,457)**		(28,428)
Net deferred tax liability		**($7,457)**		($24,665)

The movement in deferred income tax balances is explained as follows:

	2017	2016
As At January 1	**($24,665)**	($49,326)
Deferred tax recovery	**13,408**	22,553
Flow through share premium credit charged to deferred tax expense	**-**	(1,200)
Withholding expense accrued as tax payable	**3,800**	3,308
As At December 31	**($7,457)**	($24,665)

Given recent San Dimas performance, the Company determined that it could not deem future taxable income to be probable under current operating conditions. Therefore, no deferred tax assets have been recognized. Of the Company's total deferred tax liability of $7.5 million (2016 - $28.4 million), $0.6 million (2016 - $5.2 million) is expected to reverse within twelve months of the statement of financial position date and the remainder after twelve months of the statement of financial position date.

The Company has total unused Canadian losses of $235.4 million (2016 - $221.0 million) that are available to be applied against future taxable income. These losses expire from 2025 to 2037. Of these losses, $122 million (2016 - $132 million) are restricted to use only against income from the same or similar business that created these losses.

Deductible temporary differences, unused tax losses and their tax effect for which no deferred tax assets have been recognized are attributable to the following:

	Temporary Differences		**Tax effect**	
	2017	2016	**2017**	2016
Non-capital losses	**$ 210,071**	$ 203,529	**$ 53,360**	$ 51,885
Capital losses	**130,612**	2,555	**17,306**	339
Share issuance costs	**3,878**	5,906	**1,028**	1,565
Accrued liabilities and other	**1,669**	1,138	**442**	302
Resource and equipment tax pools	**-**	162,143	**-**	44,442
Ontario Mining tax	**-**	122,796	**-**	10,438
	$ 346,230	$ 498,067	**$ 72,136**	$ 108,971

Following the completion of the Arrangement, the capital losses are expected to expire, and there is uncertainty over whether the non-capital losses can be utilized after the completion of the Arrangement.

c) Challenge to the 2012 APA

Overview

In February 2016 the Mexican tax authority, the SAT, initiated a proceeding seeking to nullify the APA which it issued to the Company in 2012. The APA confirmed the Company's basis for paying taxes on the price it realized for certain silver sales between 2010 to 2014. If the SAT's challenge is successful it is likely to have a material adverse effect on the Company's business, financial condition and results of operations.

Background

In 2004, affiliates of Goldcorp Inc. ("Goldcorp") entered into a Silver Purchase Agreement with WPM in connection with the San Dimas mine and two other mines in Mexico. Under the Silver Purchase Agreement, Goldcorp received cash and securities in exchange for an obligation to sell the amount of silver extracted from the mines at a price set forth in the Silver Purchase Agreement. In order to satisfy its obligations under the Silver Purchase Agreement, sales were made by Goldcorp through a non-Mexican subsidiary to a WPM subsidiary in the Cayman Islands. Upon Primero's acquisition of the San Dimas Mine, the Silver Purchase Agreement was amended and restated and Primero assumed all of Goldcorp's obligations with respect to the San Dimas concession under the Silver Purchase Agreement. Primero did not receive any of the initial consideration that was paid to Goldcorp under the Silver Purchase Agreement.

As amended and restated, the provisions of the Silver Purchase Agreement require that, on a consolidated basis, the Company sell to WPM 100% of silver produced from the San Dimas concessions during a contract year (August 6th to the following August 5th), up to 6 million ounces and 50% of silver produced thereafter, at the lower of (i) the current market price and (ii) $4.04 per ounce plus an annual increase of 1% (the PEM Realized Price). From August 6, 2016 to August 5, 2017, the contract price was $4.28 per ounce (August 6, 2015 to August 5, 2016 - $4.24) . From August 6, 2017 the contract price is $4.32 per ounce. The price paid by WPM under the Silver Purchase Agreement represents the total value that the Company and its affiliates receive for the sale of silver to WPM. The Silver Purchase Agreement continues indefinitely in respect of any silver produced from the San Dimas concessions.

The specific terms of the Silver Purchase Agreement require that the Company sell the silver through one of its non-Mexican subsidiaries, STB, to WPM's subsidiary, WPMI. As a result, the Company's Mexican subsidiary that holds the San Dimas concessions, PEM, sells the required amount of silver produced from the San Dimas concessions to STB to allow it to fulfill its obligations under the Silver Purchase Agreement.

When the Company initially acquired the San Dimas mine, the sales from PEM to STB were made at the spot market price while the sales by STB to WPMI were at the contracted PEM Realized Price, which at that time was $4.04 per ounce. In order to reflect commercial realities and the effects of the Silver Purchase Agreement on the Company on a consolidated basis, PEM amended the terms of sales of silver between itself and STB and commenced to sell the amount of silver due under the Silver Purchase Agreement to STB at the PEM Realized Price. For Mexican income tax purposes PEM then recognized the revenue on these silver sales on the basis of its actual realized revenue, which was the PEM Realized Price.

APA

In order to provide the Company with stability and assurances that the SAT would accept the PEM Realized Price as the proper price to use to calculate Mexican income taxes, the Company applied for and received the APA from the SAT. The APA confirmed the PEM Realized Price would be used as the Company's basis for calculating taxes owed by the Company on the silver sold under the Silver Purchase Agreement. The Company believed that the function of an APA was to provide tax certainty and as a result made significant investments in Mexico based on that certainty. Under Mexican law, an advanced pricing agreement is valid for five years and therefore the APA represented the SAT's agreement to accept the PEM Realized Price as the basis for calculating taxes for the tax years 2010 through 2014.

Challenge to APA for 2010 – 2014 tax years

In February 2016, the SAT initiated a legal proceeding seeking to nullify the APA, however, the SAT has not identified an alternative basis in the legal claim for calculating taxes on the silver sold by PEM for which it receives the PEM Realized Price. The Company is an 'interested party' in this proceeding. If the SAT is successful in retroactively nullifying the APA, the SAT may seek to audit and reassess PEM in respect of its sales of silver in connection with the Silver Purchase Agreement for 2010 through 2014.

In June 2017, as part of the ongoing annual audits of the PEM tax returns, the SAT issued an observations letter for the 2010 tax year. An observations letter is issued to a taxpayer in advance of a reassessment being issued, provides an outline of the SAT's position on matters under audit, and affords the taxpayer an opportunity to respond to such position in advance of the reassessment being issued. In this observations letter issued to PEM, the SAT made explicit its view that PEM should pay taxes based on the market price of silver which, if successfully applied to its 2010 taxation year, would make PEM liable for an additional $8.5 million of taxes before penalties or interest. As the Company continues to defend the APA in the Mexican legal proceeding, the APA remains valid and the Company will vigorously dispute any reassessment that may be issued in the future on a basis that assesses taxes on its silver revenues that is inconsistent with the APA. The observations letter does not represent a tax reassessment and no liability has been recognized in the financial statements.

In October 2017, the SAT issued an observations letter for the 2011 tax year, with the same explicit view that PEM should pay taxes based on the market price of silver, which if successfully applied to its 2011 taxation year, would make PEM liable for an additional $23.4 million of taxes before penalties or interest. The Company has submitted formal responses to both the 2010 and 2011 observation letters.

While the Company continues to believe its tax filing position based upon the APA is correct, should the Company ultimately be required to pay tax on its silver revenues based on market prices without any mitigating adjustments, the incremental income tax for the years 2012-2017 would be in the range of $130 - $145 million, before interest or penalties.

The Company vigorously defends the validity of the APA and has filed procedural and substantive responses to the claim. In addition, the Company intends to explore opportunities to minimize the potential impact on the Company in the event that the SAT is successful in its legal claim to nullify the APA, but there is no assurance that the Company will find or be able to implement a reasonable solution.

While the Company continues to vigorously defend the validity of the APA and its transfer pricing position, it is also engaging in dialogue with the SAT seeking to resolve matters and bring tax certainty through a negotiated solution. Primero has also had constructive dialogue with the SAT in relation to outstanding VAT receivables and has received $15.2 million of VAT refunds since July 2017.

Primero Mining Corp.'s claim against the Mexican Government

On June 2, 2016, the Company notified the Mexican Government that the measures taken by the SAT against PEM in connection with the judicial proceeding seeking to retroactively nullify the APA, breached several provisions of Chapter 11 of the North American Free Trade Agreement ("NAFTA") because these measures are arbitrary, discriminatory, unfair and inequitable. As at December 31, 2017, the Company has the option to commence international arbitration proceedings pursuant to Article 1119 of the NAFTA at a time of its choosing. As Primero is continuing its dialogue with the Mexican Government regarding the Mexican tax authority's legal claim against the APA, it has temporarily suspended its advancement of international arbitration proceedings against the Mexican Government.

Tax treatment for tax years following 2014

Since January 1, 2015, the Company has continued to record its revenue from the sale of silver for purposes of Mexican tax accounting in a manner consistent with the APA on the basis that the applicable facts and laws have not changed. The Company's legal and financial advisors continue to believe that the Company has filed its tax returns compliant with applicable Mexican law. Given the legal challenge by the SAT against the APA for the 2010-2014 tax years, the Company currently believes it is unlikely the SAT will agree to an Advance Pricing Agreement for the 2015-2019 tax years on terms similar to the challenged APA. To the extent the SAT determines that the appropriate price of silver sales under the Silver Purchase Agreement, for tax purposes, is significantly different from the PEM Realized Price and, while PEM would have rights of appeal in connection with any reassessments, it is likely to have a material adverse effect on the Company's business, financial condition and results of operations.

Other

In the observations letters for both the 2010 and 2011 tax years the SAT raised some queries with respect to certain intercompany transactions, and the Company has provided the pertinent information. The observations letters do not represent a tax reassessment and no liability has been recognized in the financial statements related to these queries.

16. Supplementary cash flow information

Changes in non-cash working capital comprise the following:

		Year ended December 31
	2017	2016
Trade and other receivables	**$ 391**	($169)
Value added and income taxes receivable	**3,464**	1,980
Prepaid expenses	**866**	3,232
Inventories	**(1,800)**	6,382
Trade and other payables	**(4,637)**	(12,652)
Other taxes payable	**1,634**	(931)
	($82)	($2,158)

17. Shareholders' equity

a) Share capital

The authorized share capital consists of unlimited common shares without par value and unlimited preferred shares, issuable in series with special rights and restrictions attached.

On June 9, 2016, PEM completed an acquisition of certain concessions adjacent to its San Dimas mine. The initial consideration comprised a cash payment of $1.0 million and the issuance of 2,010,050 of Primero's common shares. As of December 31, 2017, 1,854,271 common shares were issued (2016 – 1,854,271), 28,342 shares were replaced with cash consideration (2016 – nil), with the remaining 127,437 common shares expected to be issued. The price per common share was $1.91 based on the NYSE trading price at the closing date. The Company has recognized an equity reserve in shareholders' equity for the unissued common shares for concessions that have not yet been transferred. During 2017, one concession was transferred, resulting in the release of $54 from the equity reserve.

On June 24, 2016, the Company completed a public equity offering, raising gross proceeds of $40.0 million (C$51.8 million) through the issuance of 22,022,500 units (Unit) of the Company at a price of C$2.35 per Unit (the equity offering). Each Unit consists of one common share of Primero and one-half of one common share purchase warrant (each whole common share purchase warrant is a "Warrant") of the Company. Each whole Warrant entitles the holder to acquire one common share of the Company at a price of C$3.35 per Common share until June 25, 2018.

Out of the gross proceeds from the equity offering, $4.7 million was allocated to the common share purchase warrants based on their fair value determined using the trading price at the date of closing of the transaction, and the remaining $35.3 million was allocated to the common shares and recorded as share capital. The common share purchase warrants are classified as a financial liability in the statement of financial position. Fair value changes of the common share purchase warrants are recognized in the statement of operations and comprehensive loss. During the year ended December 31, 2017 a mark to market gain of $0.2 million (2016 – gain of $3.6 million) was recognized in relation to the common share purchase warrants.

Transaction costs relating to the equity offering amounted to $2.5 million, of which $0.2 million was allocated to the common share purchase warrants and was recognized as an expense in the statement of operations and comprehensive loss for the year ended December 31, 2016. The balance of $2.3 million was allocated to share capital.

During the year ended December 31, 2017, the Company issued a total of 993,684 common shares, valued at $0.6 million, as severance and other payments to former employees.

b) Share-based compensation

The movement in contributed surplus and phantom share liability related to share-based compensation during the years ended December 31, 2017 and 2016 are as follows:

	Contributed Surplus					
	2013 Plan PSUs	Stock options	Deferred share units	Others	Total	Phantom share liability
At January 1,2016	$ 4,385	$ 20,209	$ 377	$ 30,013	$ 54,984	$ 661
PSUs settled in shares	(4,851)	-	-	-	(4,851)	(110)
PSUs settled in cash	-	-	-	-	-	(377)
Share-based compensation expense	6,420	1,897	407	-	8,724	(131)
At December 31,2016	$ 5,954	$ 22,106	$ 784	$ 30,013	$ 58,857	$ 43
PSUs settled in shares	(6,117)	-	-	-	(6,117)	-
Severance payments	-	-	-	(5)	(5)	-
Share-based compensation expense	3,657	1,002	236	-	4,895	(18)
At December 31,2017	**$ 3,494**	**$ 23,108**	**$ 1,020**	**$ 30,008**	**$ 57,630**	**$ 25**

(i) Stock options

Under the Company's stock option plan (the Plan), the number of common shares that may be issued on the exercise of options granted under the Plan is equal to 10% of the issued and outstanding shares of the Company at the time an option is granted (less any common shares reserved for issuance under other share-based compensation arrangements).

A summary of the Company's stock option activities for the years ended December 31, 2017 and 2016 is presented below.

	Options outstanding	**Weighted average exercise price**
Outstanding At January 1,2016	4,246,198	C$5.70
Granted	2,782,317	2.68
Cancelled/Forfeited	(3,500)	4.52
Expired	(499,771)	8.78
Outstanding at December 31, 2016	6,525,244	C$4.17
Granted	2,057,589	0.75
Cancelled/Forfeited	(437,084)	1.57
Expired	(1,334,433)	5.54
Outstanding at December 31,2017	**6,811,316**	**C$3.04**

The following table summarizes the weighted average assumptions used in the Black-Scholes valuation model for the determination of the cost of stock options issued during the years ended December 31, 2017 and 2016.

	2017	2016
Risk free interest rate	**0.95%**	0.55%
Expected life in years	**3.50**	3.50
Volatility	**72.90%**	63.92%
Expected dividends	**0.00%**	0.00%
Forfeiture rate	**5.00%**	5.00%
Weighted average fair value of options issued	**C$0.39**	C$0.80

As at December 31, 2017, the following stock options were outstanding and exercisable:

	Awards Outstanding			**Awards Exercisable**		
Range of exercise price per share	Quantity	Remaining contractual life (in years)	Weighted average exercise price	Quantity	Remaining contractual life (in years)	Weighted average exercise price
C$0.75 -C$2.00	2,165,143	4.17	C$0.84	115,980	3.89	C$1.36
C$2.01-C$5.00	3,918,004	2.64	3.46	3,204,048	2.57	3.52
C$5.01-C$8.00	728,169	1.23	7.28	728,169	1.23	7.28
	6,811,316	**2.98**	**C$3.04**	**4,048,197**	**2.37**	**C$4.13**

(ii) Phantom Share Unit Plan (PSUP) and Directors PSU Plan (Directors PSUP)

PSUP is a cash-settled plan. The amount to be paid for vested units is based on the volume weighted average price per share of the Company traded on the Toronto Stock Exchange over the last twenty trading days preceding the vesting date.

A person holding Director PSUs is entitled to elect to receive at vesting, either a cash amount equal to the number of Directors' PSUs that vest multiplied by the volume weighted average trading price per common share over the five preceding trading days, or the number of common shares equal to the number of Directors' PSUs. If no election is made, the Company will pay out such Directors' PSUs in cash.

A summary of the unit activity for the years ended December 31, 2017 and 2016 under the PSUP and the Directors PSUP is presented below.

	PSUP	Directors PSUP
Outstanding At January 1, 2016	233,577	211,371
Redeemed	(189,961)	(136,744)
Cancelled	(3,896)	-
Outstanding at December 31, 2016	39,720	74,627
Redeemed	(36,887)	-
Cancelled	(2,833)	-
Outstanding at December 31, 2017	-	74,627

Units issued under the PSUP and Directors PSUP are accounted for as cash-settled awards. All of the units issued under the PSUP and Directors PSUP have been measured at the reporting date using their fair values. The total amount recognized in the statement of operations and comprehensive loss during the year ended December 31, 2017 in relation to the PSUP and Directors PSUP was an expense of $0.02 million (2016 – recovery of $0.1 million) recognized under general and administrative expenses. The total liability recognized at December 31, 2017 in respect of the PSUP and Directors PSUP was less than $0.1 million (December 31, 2016 – less than $0.1 million) which is classified as a current liability, reported within trade and other payables.

(iii) 2013 PSU Plan (2013 PSUP)

A person holding PSUs issued under this plan is entitled to receive at vesting either a cash amount equal to the number of 2013 PSUs that vest multiplied by the volume weighted average trading price per common share over the five preceding trading days, or the number of common shares equal to the number of PSUs, or a combination of cash and equity. The choice of settlement is solely at the Company's discretion.

A summary of the unit activity for the years ended December 31, 2017 and 2016 under the 2013 PSUP is presented below.

	December 31 2017	December 31 2016
Opening balance	**4,670,104**	2,088,902
Redeemed	**(2,946,800)**	(1,324,092)
Granted	**4,410,812**	4,046,139
Cancelled	**(951,495)**	(140,845)
	5,182,621	4,670,104

The 2013 PSUP is accounted for as an equity-settled plan. All of the outstanding units have been measured at the reporting date using their grant date fair value, calculated based on the grant date closing price of Primero shares on the TSX. The total amount of expense recognized in the statement of operations and comprehensive loss for the year ended December 31, 2017 in relation to the 2013 PSUP was $2.9 million (2016 - $4.9 million).

(iv) Deferred share units

A person holding deferred share units (DSUs) under this plan is entitled to receive at vesting, either a cash payment equal to the redemption value of the DSUs, shares issued from treasury equal to the number of DSUs, shares purchased on the stock exchange, or any combination of these, such that the cash payment plus number of shares delivered have a value equal to the redemption value of the DSUs. The choice of settlement is solely at the Company's discretion.

The redemption value is calculated by the number of DSUs redeemed multiplied by the weighted average price per share traded on the TSX over the last five trading days preceding the redemption date.

As at December 31, 2017, a total of 315,790 DSUs were issued and outstanding. The DSUP is accounted for as an equity-settled plan. All of the outstanding units have been measured at the reporting date using their grant date fair value, calculated based on the grant date closing price of Primero shares on the TSX. The total amount of expense recognized in the statements of operations and comprehensive loss for the year ended December 31, 2017 was $0.2 million (2016 - $0.4 million).

18. Loss per share

Basic loss per share amounts are calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year.

	2017	2016
Net Loss attributable to shareholders		
Basic	**($409,685)**	($234,420)
Diluted	**(409,685)**	(234,420)
Weighted average number of shares		
Basic	**191,738,274**	177,569,024
Diluted	**191,738,274**	177,569,024
Basic loss per share	**($2.14)**	($1.32)
Diluted loss per share	**($2.14)**	($1.32)

For the year ended December 31, 2017, 28,411,463 common shares which are issuable from outstanding stock options, 2013 PSUs, DSUs and from the 5.75% convertible debentures (2016 – 26,928,026 common shares) were excluded from the calculation of diluted loss per share as they would be considered to be anti-dilutive.

19. Cash

a) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of 90 days or less.

b) Restricted cash

The Company does not have any restricted cash at December 31, 2017. At December 31, 2016, restricted cash of $4.6 million (C$6.2 million) represented collateralized cash held for a letter of credit securing C$20.5 million of closure bonds held with the Ontario Ministry of Northern Development and Mines ("MNDM"). This was released in 2017, following the sale of the Black Fox Complex.

20. Decommissioning liability

As at December 31, 2017, the decommissioning liability consists of reclamation and closure costs for the San Dimas mine. As at December 31, 2016, the decommissioning liability consists of reclamation and closure costs for the San Dimas mine and the Black Fox Complex. The undiscounted cash flow amount of the total obligation was $30.7 million at December 31, 2017 (2016 - $59.6 million) and the present value of the obligation was estimated at $11.6 million (2016- $29.8 million).

	San Dimas	Black Fox	Total
Decommissioning liability, January1, 2016	$ 9,324	$ 18,970	**$ 28,294**
Accretion expense	723	320	**1,043**
Change in estimated timing of cash flows	(167)	620	**453**
At December 31,2016	9,880	19,910	**29,790**
Accretion expense	766	208	**974**
Foreign exchange, estimated timing and other adjustments	1,000	-	**1,000**
Disposition	-	(20,118)	**(20,118)**
At December 31,2017	$ 11,646	$ -	**$ 11,646**

The discount rates used by the Company in 2017 and 2016 are based on prevailing risk-free pre-tax rates in Mexico and Canada, respectively, for periods of time which coincide with the period over which the decommissioning costs are discounted. The following table summarizes the assumptions used in provision for the years ended December 31, 2017 and 2016:

	Expected years	Discount rate	Inflation rate
2017			
San Dimas	16 yrs	7.39%	3.50%
2016			
San Dimas	17 yrs	7.75%	3.40%
Black Fox Complex	5 yrs	2.34%	2.00%

21. Capital management

The Company's primary objective in managing capital is to ensure sufficient liquidity through the conclusion of the Arrangement Agreement with First Majestic.

The Company's capital items are the following:

		December 31 2017		December 31 2016
Cash and cash equivalents	**$**	**20,966**	$	19,875
Undrawn revolving credit facility		**4,799**		25,000
Current debt		**30,310**		50,841
Long-term debt		**47,625**		52,906
Shareholders' equity		**59,731**		461,130

To support the Company's capital management objectives, the Company manages its capital structure and makes adjustments to it within the context of the Company's strategy, economic conditions and risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue shares, adjust the amount of debt or enter into new debt. The Company does not currently pay out dividends. Utilization of the undrawn RCF requires consent from WPM.

As at December 31, 2017, the Company was not subject to any financial covenants and was in compliance with all non-financial covenants.

22. Financial instruments

The Company's financial instruments at December 31, 2017 consist of cash and cash equivalents, trade and other receivables, an equity investment in Fortune Bay, trade and other payables, and debt.

At December 31, 2017, the carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and the RCF are considered to be a reasonable approximation of their fair values due to their short-term nature. The fair value of the finance lease liabilities approximate their carrying value as the interest rate implicit in the leases approximate current market rates.

Derivative instruments - Embedded derivatives

Financial instruments and non-financial contracts may contain embedded derivatives, which are required to be accounted for separately at fair value as derivatives when the risks and characteristics of the embedded derivatives are not closely related to those of their host contract and the host contract is not carried at fair value. The Company regularly assesses its financial instruments and non-financial contracts to ensure that any embedded derivatives are accounted for in accordance with its policy. There were no material embedded derivatives requiring separate accounting at December 31, 2017 or December 31, 2016, other than those discussed below.

The 5.75% convertible debentures issued by the Company on February 9, 2015 (Note 10 (c)) are considered to contain multiple embedded derivatives. These debentures and all related derivatives were accounted for as one instrument which was initially recognized at fair value and will subsequently be measured at fair value for each period during the term of the debentures. During the year ended December 31, 2017 a mark to market gain of $4.9 million (2016 – $9.0 million) was recognized in relation to the debentures.

The common share purchase warrants issued by the Company on June 24, 2016 (Note 17 a)) are considered derivative liabilities and were initially recognized at fair value and are subsequently measured at fair value during the term of the warrants. During the year ended December 31, 2017, a mark-to-market gain of $1.0 million (2016 - $3.6 million) was recognized in relation to the common share purchase warrants.

Fair value measurements of financial assets and liabilities recognized on the Consolidated Statements of Financial Position

The categories of the fair value hierarchy that reflect the significance of inputs used in making fair value measurements are as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data.

The levels in the fair value hierarchy that the Company's financial assets and liabilities that are measured and recognized at fair value on a recurring basis are as follows:

Level1		**December 31 2017**		December 31 2016
Investment in Fortune Bay [1]	**$**	**910**	$	1,160
5.75% convertible debentures [2,3]		**47,625**		52,500
Warrant liability [2]		**44**		1,066

1. Fortune Bay is a publicly-listed company and the fair value is based on the trading price of its shares as at the date of the statement of financial position.
2. The fair value of the 5.75% convertible debentures and the warrant liability are calculated using the respective market prices on the TSX Exchange as at the date of the statement of financial position.
3. On March 13, 2018, the holders of the 5.75% convertible debentures voted to approve an amendment to the maturity date of the debentures to the day following the closing date of the Arrangement with full principal of $75 million paid on this date.

At December 31, 2017, there were no financial assets or liabilities measured and recognized on the consolidated statements of financial position at fair value that would be categorized as Level 3 in the fair value hierarchy (December 31, 2016 – $nil).

The following describes the types of financial instrument risks to which the Company is exposed and its objectives and policies for managing those risk exposures:

a) Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. Credit risk is primarily associated with trade and other receivables; however, it also arises on cash and cash equivalents and restricted cash. To mitigate exposure to credit risk on financial assets, the Company ensures non-related counterparties demonstrate minimum acceptable credit worthiness and ensures liquidity of available funds.

The Company closely monitors its financial assets and does not have any significant concentration of credit risk with non-related parties. The Company invests its cash and cash equivalents in highly rated financial institutions and sells its products exclusively to organizations with strong credit ratings. The credit risk associated with trade receivables at December 31, 2017 is considered to be negligible. The Company expects the outstanding VAT receivable from the Mexican tax authorities to be refunded or be offset against future tax payments. Approximately $15.2 million was refunded since July 2017.

The Company's maximum exposure to credit risk at December 31, 2017 and 2016 is as follows:

		2017		2016
Cash and restricted cash	**$**	**20,966**	$	24,452
Trade and other receivables		**1,241**		1,962
Current and non-current taxes receivable		**40,789**		41,838
	$	**62,996**	$	68,252

b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's objectives and key guidelines for capital management, including management of long-term debt, are described in note 21. Further considerations in our liquidity risk are described in note 15 c).

If the Arrangement Agreement to sell the Company to First Majestic is terminated for any reason, there would be significant uncertainy as to whether the Company could discharge its commitments as they come due from cash from operations and collection of receivables without an extension of the RCF maturity date or other form of re-financing.

The table below shows the Company's liquidity risk profile at December 31, 2017:

(in thousands of U.S. dollars)	Within 1 year	2-5 years	**Total**
Cash and cash equivalents	$ 20,966	$ -	**$ 20,966**
Trade and other payables	(19,593)	-	**(19,593)**
Revolving credit facility balance and interest	(30,657)	-	**(30,657)**
Finance lease liabilities	(109)	-	**(109)**
5.75% Convertible debentures and interest	(4,313)	(80,010)	**(84,323)**
Total	($33,706)	($80,010)	**($113,716)**

Refer to note 2 b) for the Company's plans to address liquidity risk associated with the current working capital deficiency. The Company has entered into commercial leases on certain types of equipment and office space which have been classified as operating leases. These leases have terms of between 1 and 6 years. There are no restrictions placed on the Company as a result of entering into these leases. Some of the leases contain renewal or purchase options at the end of the lease. The total operating lease expense from continuing operations during the year ended December 31, 2017 was $0.9 million (2016 - $0.8 million).

c) Market risk

(i) Currency risk

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currency exchange rates. Exchange rate fluctuations may affect the costs incurred in the Company's operations. Gold is sold in US dollars and costs are incurred principally in US dollars, Canadian dollars and Mexican pesos. The appreciation of the Mexican peso or the Canadian dollar against the U.S. dollar can increase the costs of gold production and capital expenditures in US dollar terms. The Company also holds cash that is denominated in Canadian dollars and Mexican pesos which are subject to currency risk. The Company's head office general and administrative expenses are mainly denominated in Canadian dollars and are translated to US dollars at the average rate during the period, and as such if the US dollar appreciates as compared to the Canadian dollar, the costs of the Company would decrease in US dollar terms. The Company is further exposed to currency risk through non-monetary assets and liabilities of its Mexican entities whose taxable profit or loss is denominated in a non-US dollar currency. Changes in exchange rates give rise to temporary differences resulting in a deferred tax liability or asset with the resulting deferred tax charged or credited to income tax expense.

During the year ended December 31, 2017, the Company recognized a loss of $4.5 million on foreign exchange (2016 – loss of $1.0 million). Based on the above net exposures at December 31, 2017, a 10% depreciation or appreciation of the Mexican peso against the U.S. dollar would result in a $1.6 million increase or decrease in the Company's before-tax net loss from continuing operations (2016 - $1.4 million); and a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in a $0.2 million increase or decrease in the Company's before-tax net loss from continuing operations (2016 - $2.7 million).

The Company does not currently use derivative instruments to reduce its exposure to currency risk, however, management monitors its differing currency needs and tries to reduce its exposure to currency risks through exchanging currencies at what are considered to be optimal times.

(ii) Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the financial instruments will fluctuate because of changes in market interest rates. The exposure to interest rates is monitored. The Company's exposure to interest rate risk is limited to the revolving credit facility which is subject to a floating interest rate. An increase or decrease of 100 basis points in the interest rate would result in a decrease or increase in profit before tax of $0.3 million (assuming $30.2 million drawn on the line of credit).

(iii) Price risk

Price risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in commodity prices. Profitability depends on sales prices for gold and silver. Metal prices are affected by numerous factors such as the sale or purchase of gold and silver by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the U.S. dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major producing countries throughout the world.

The table below summarizes the impact on profit before tax for a 10% change in the average commodity price achieved by the Company during the year. The analysis is based on the assumption that the gold and silver prices move 10% with all other variables held constant.

		2017		2016
Gold price				
10% increase	**$**	**14,081**	$	14,084
10% decrease		**(14,081)**		(14,084)
Silver price				
10% increase	**$**	**-**	$	222
10% decrease		**-**		(222)

23. Related party transactions

Compensation of key management personnel of the Company

The key management personnel of the Company are considered to be all directors, the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer. Aggregate compensation recognized in respect of key management personnel of the Company including directors is as follows:

		2017		2016
Short-term employee benefits	**$**	**2,418**	$	3,122
Share-based compensation		**2,409**		3,879
Termination benefits		**1,395**		1,172
	$	**6,222**	$	8,173

As at December 31, 2017 $0.9 million (2016 - $0.6 million) of the short-term employee benefits were outstanding. All of the compensation of key management personnel was equivalent to that which would be incurred in an arm's length transaction.

24. Commitments and contingencies

(a) An Ejido is a communal ownership of land recognized by the federal laws in Mexico. While mineral rights are administered by the federal government through federally issued mining concessions, access to surface rights is also required for mining operations. An Ejido controls surface rights over its communal property through an assembly where each of the Ejido members has a voting right. An Ejido may sell or lease lands directly to a private entity and it may also allow individual members of the Ejido to obtain title to specific parcels of land and thus the right to sell or lease the land.

The San Dimas mine uses Ejidos' lands pursuant to written agreements with Ejidos. Some of these agreements may be subject to renegotiation and changes to the existing agreements may increase operating costs or have an impact on operations. In cases where access to land is required for operations and an agreement cannot be reached with the land owner, Primero may seek access under Mexican law which provides for priority rights for mining activities.

Certain of the properties included in the San Dimas mine and for which Primero holds legal title have been subject to legal proceedings commenced by Ejidos seeking title to the property. These proceedings were initiated against previous owners of the properties, either deceased individuals who, according to certain public deeds, owned the properties more than 80 years ago, corporate entities that are no longer in existence, or Goldcorp companies. As such, Primero initially has no standing to participate in them and may not receive timely notice of such actions brought or decisions rendered.

Since acquiring the San Dimas mine, Primero has been aware of four such Ejidos actions, three of which have been finally resolved in favour of Primero's interests. Primero continues to challenge the fourth outstanding Ejidos' legal claim to defend its position as the legitimate owner of the subject property. If Primero is not successful in its challenge, the San Dimas mine could face higher costs associated with agreed or mandated payments that would be payable to the Ejidos for use of the properties. Further, there can be no assurance that Ejidos will not engage in legal proceedings to claim interests in properties owned by Primero in future.

(b) The Company has agreed to indemnify its directors and officers, and the directors and officers of its subsidiaries, to the extent permitted under corporate law, against costs and damages incurred as a result of lawsuits or any other judicial, administrative or investigative proceeding in which said directors or officers are sued as a result of their services. The directors and officers are covered by directors' and officers' liability insurance.

In July 2016, the Company and certain officers were served with a class action lawsuit that was filed earlier in the year in federal court in the State of California seeking to recover damages for investors in the Company's common shares under the U.S. federal securities laws. The Company filed a motion to dismiss this action which was granted on January 30, 2017. The plaintiff's claims were dismissed without prejudice and the plaintiffs filed an amended complaint on February 27, 2017. On July 14, 2017 the Company's motion to dismiss the amended complaint was granted and the plaintiffs' claims were dismissed without prejudice. Rather than amend the complaint again, the plaintiffs asked the federal court to enter final judgment and initiated an appeal of the dismissal to the Ninth Circuit Court of Appeals on September 8, 2017. The parties have filed their briefs in this appeal and a ruling on the appeal is expected sometime in 2018. The Company intends to vigorously defend this class action lawsuit.

(c) As at December 31, 2017, the Company had entered into commitments to purchase plant and equipment totaling $0.1 million (December 31, 2016 - $0.5 million).

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

(e) Under the Silver Purchase Agreement, a subsidiary of Primero has a commitment to deliver 215 million ounces of silver to WPMI by October 15, 2031 (the "Minimum Silver Amount"). In the event the Minimum Silver Amount is not reached, a payment of $0.50 per ounce for the shortfall ounces is required (the "Minimum Silver Payment"). Goldcorp has indemnified Primero, and will ultimately be responsible for, any amount paid in respect of the Minimum Silver Payment.

25. Subsequent events

On January 12, 2018, the Company announced that it entered into the Arrangement Agreement whereby First Majestic will acquire all of the issued and outstanding common shares of Primero (the "Arrangement"). Under the terms of the Arrangement Agreement, all of Primero's issued and outstanding common shares will be exchanged for First Majestic common shares on the basis of 0.03325 of a First Majestic common share for each Primero common share (the "Exchange Ratio").

Concurrent with execution of the Arrangement Agreement, First Majestic has entered into agreements with WPMI, a wholly-owned subsidiary of WPM whereby, following closing of the Arrangement, the current silver streaming interest at San Dimas held by WPM will be terminated and First Majestic and WPM will enter into a new stream arrangement based on 25% of the gold equivalent production at San Dimas (the "New Stream") with ongoing payments of $600 per gold equivalent ounce delivered under the agreement. As part of the transaction, WPM will receive 20,914,590 common shares of First Majestic having an aggregate value of $151 million.

The Arrangement will also provide for the issuance by First Majestic of an aggregate of approximately 226,476 replacement stock options (assuming no exercise of existing Primero options) to Primero option holders who do not exercise their Primero options prior to the effective time of the Arrangement, at exercise prices adjusted by the Exchange Ratio. Under the Arrangement all existing warrants of Primero will become exercisable to acquire First Majestic common shares at exercise prices adjusted by the Exchange Ratio. The Arrangement will also provide that upon the Arrangement becoming effective all existing deferred share units and phantom share units of Primero will be paid out in cash in an amount equal to C$0.30 per deferred share unit or phantom share unit.

Certain additional amounts payable in connection with the Arrangement, include repayment of all amounts owing under Primero's existing RCF and the expected repayment of Primero's $75 million of outstanding convertible debentures.

On March 13, 2018, the Arrangement was approved by Primero shareholders. The Company is awaiting anti-trust clearance in Mexico. The Arrangement is expected to close in or around the end of April 2018, subject to applicable regulatory approvals and the satisfaction of other customary conditions.

On March 13, 2018, the debenture holders voted to approve an amendment to the maturity date of the debentures. Upon the closing of the Arrangement, the amendment of the trust indenture will accelerate the maturity date of the Primero Debentures to the next Business Day (as defined in the trust indenture) following the effective date of the Arrangement.

This management's discussion and analysis ("MD&A") of the financial condition and results of operations of Primero Mining Corp. ("Primero" or the "Company") should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2017. Additional information on the Company, including its Annual Information Form for the year ended December 31, 2017, which is expected to be filed by March 31, 2018, can be found under Primero's profile at www.sedar.com .

Management is responsible for the preparation of the financial statements and MD&A. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar figures in this MD&A are expressed in US dollars, unless stated otherwise.

This MD&A contains forward-looking statements and should be read in conjunction with the risk factors described in the "Risks and uncertainties" and "Cautionary statement on forward-looking information" sections at the end of this MD&A.

This MD&A has been prepared as of March 19, 2018.

OVERVIEW OF THE BUSINESS

Primero is a Canadian-based precious metals producer with operations in Mexico. The Company owns one producing property, the San Dimas gold-silver mine, located in Mexico's San Dimas district, on the border of Durango and Sinaloa states. In addition, the Company owns one exploration property, Ventanas, located in Durango State, Mexico. On January 12, 2018, the Company announced that it entered into a definitive arrangement agreement (the "Arrangement Agreement") whereby First Majestic Silver Corp. ("First Majestic") will acquire all of the issued and outstanding common shares of Primero ("the Arrangement"). On March 13, 2018, the Arrangement Agreement was approved by Primero shareholders. The Company is awaiting anti-trust clearance in Mexico and the satisfaction of other customary conditions.

The Company previously owned a second producing property, the Black Fox mine, located in the Township of Black River–Matheson, Ontario, Canada, which was sold on October 6, 2017 along with properties adjacent to the Black Fox mine - Grey Fox and Pike River, which together with the Black Fox mine and the Black Fox mill, located on the Stock Mill property, comprised the Black Fox Complex. On November 27, 2017, the Cerro del Gallo gold-silver-copper project was sold, located in the state of Guanajuato in central Mexico.

The profitability and operating cash flow of the Company are affected by numerous factors, including its ability to extend or replace its existing financing or secure future financing, the amount of gold and silver produced and sold, market prices of gold and silver, the price of metal under its existing streaming agreements, operating costs, regulatory and environmental compliance, as well as currency exchange rates, labour relations, political risks, and varying levels of taxation. The Company seeks to manage these risks, but many of the factors affecting these risks are beyond the Company's control.

The Company's shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "P" and were listed on the New York Stock Exchange ("NYSE") under the symbol "PPP" until August 14, 2017. In addition, Primero has a convertible debenture trading on the TSX under the symbol "P.DB.V" and common share purchase warrants trading on the TSX under the symbol "P.WT.C".

SELECTED CONSOLIDATED ANNUAL INFORMATION

Years ended December 31		2017		2016		2015
Key Performance Data [1]						
Tonnes of ore milled		**1,050,961**		1672,322		1868,926
Produced						
Gold equivalent(ounces)		**124,874**		176,139		259,474
Gold (ounces)		**111,376**		156,052		221,060
Silver (million ounces)		**3.96**		5.32		8.30
Sold						
Gold (ounces)		**114,377**		158,028		218,194
Silver (million ounces)		**3.90**		5.57		8.12
Average realized prices						
Gold ($/ounce) [2]	**$**	**1,231**	$	1,222	$	1,136
Silver ($/ounce) [2]	**$**	**4.30**	$	4.68	$	5.34
Total cash costs (per gold ounce) [4]						
Gold equivalent basis	**$**	**862**	$	865	$	637
By-product basis	**$**	**813**	$	817	$	548
All-in sustaining costs (per gold ounce) [4]	**$**	**1,282**	$	1,333	$	960
Financial Data [2] (in thousands of US dollars except per share amounts)						
Revenues [3]	**$**	**91,769**	$	147,581	$	213,192
Earnings from mine operations [3]		**2,056**		13		53,484
Net loss		**(409,685)**		(234,420)		(106,910)
Basic net loss per share from continuing operations [3]		**(1.74)**		(0.65)		(0.06)
Diluted net loss per share from continuing operations [3]		**(1.74)**		(0.65)		(0.06)
Operating cash flows before working capital changes		**22,633**		15,267		62,125
Weighted average shares outstanding (basic) (000's)		**191,738**		177,569		162,341
Weighted average shares outstanding (diluted) (000's)		**191,738**		177,569		162,341

As at December 31		2017		2016		2015
Assets						
Mining interests [3]	**$**	**125,050**	$	577,920	$	790,118
Total assets	**$**	**205,266**	$	677,817	$	924,968
Liabilities						
Long-term liabilities [3]	**$**	**91,134**	$	130,472	$	162,427
Total liabilities	**$**	**145,535**	$	216,687	$	276,092
Equity	**$**	**59,731**	$	461,130	$	648,876

1. Inclusive of the Black Fox Complex classified as discontinued operations.
2. Average realized gold and silver prices reflect the impact of the gold purchase agreement with Sandstorm at the Black Fox mine and the silver purchase agreement with Wheaton Precious Metals International Ltd. ("WPMI"), formerly Silver Wheaton Caymans at the San Dimas mine (see "Other liquidity considerations ").
3. As reported per IFRS with Black Fox Complex and the Cerro del Gallo project classified as discontinued operations.
4. See "NON-GAAP measurements".

HIGHLIGHTS

Operational performance

- Primero's consolidated production was 124,874 gold equivalent ounces in 2017 compared to 176,139 gold equivalent ounces in 2016. Gold production was 111,376 ounces in 2017 compared to 156,052 ounces in 2016, and silver production was 3.96 million ounces from San Dimas in 2017 compared to 5.32 million ounces in 2016.

- For San Dimas, gold production of 60,167 ounces was at the bottom end of the guidance range of 60,000 to 70,000 ounces for the year. San Dimas gold equivalent production of 73,665 ounces was just below the guidance range of 75,000 to 85,000 ounces for 2017.

- A strike action by unionized employees resulted in a complete stoppage of mining and milling activities at San Dimas from February 15, 2017 to April 22, 2017, which significantly impacted 2017 production levels.

Corporate Developments

- On January 12, 2018, the Company announced that it entered into the Arrangement Agreement whereby First Majestic will acquire all of the issued and outstanding common shares of Primero. Under the terms of the Arrangement Agreement, all of Primero's issued and outstanding common shares will be exchanged for First Majestic common shares on the basis of 0.03325 of a First Majestic common share for each Primero common share. This implies consideration of C$0.30 per Primero common share, based on the 20-day volume weighted average price of the First Majestic common shares on the Toronto Stock Exchange.

- The Arrangement Agreement is the culmination of a strategic review process that was commenced by the Company's Board of Directors to explore alternatives to improve shareholder value. This strategic review process also resulted in the divesture of the Black Fox Complex and the Cerro de Gallo project, as described below.

- On March 13, 2018, the shareholders of Primero voted to approve the Arrangement with First Majestic. The Company is awaiting anti-trust clearance in Mexico. The Arrangement is expected to close before the end of April 2018, subject to applicable regulatory approvals and the satisfaction of other customary conditions.

- On March 13, 2018, the holders of the 5.75% Convertible Debentures voted to approve an amendment to the maturity date of the debentures. Upon the closing of the Arrangement, the amendment of the trust indenture will accelerate the maturity date of the debentures to the next Business Day following the effective date of the Arrangement and will be paid at par plus accrued interest.

- Under the Arrangement, outstanding Primero stock options and warrants will be replaced with First Majestic securities on equivalent terms. All outstanding PSUs and DSUs will be settled in cash at C$0.30 per unit.

- In October 2017, Primero closed the sale of its Black Fox Complex. After closing net working capital adjustments, Primero received total consideration of $32.3 million, comprising $27.5 million in cash proceeds and the release of approximately $4.8 million from restricted cash pledged towards environmental closure liabilities. The operations of Black Fox are reported under "Discontinued Operations" in the consolidated financial statements.

- In November 2017, the Company closed the sale of the Cerro del Gallo project in exchange for consideration of $15 million in cash. The activities of the Cerro del Gallo project are reported under "Discontinued operations" in the consolidated financial statements.

- The net proceeds from the sales of both the Black Fox Complex and the Cerro del Gallo project were applied to the revolving credit facility ("RCF"). As at December 31, 2017, the outstanding principal on the RCF was $30.2 million.

- On March 30, 2017, the Company amended the terms of its RCF to extend the maturity date from May 23, 2017 to November 23, 2017 and exclude all financial covenants until the extended maturity date. The RCF continued to be secured by a charge over substantially all of the Company's asset and was guaranteed by Wheaton Precious Metals ("WPM") for a fee of $2.7 million payable at maturity. In connection with the strategic review process, the RCF was extended multiple times in the fourth quarter of 2017 and on January 12, 2018, the Company has further extended its RCF maturity date to allow for the execution of the Arrangement Agreement. WPM continues to guarantee the RCF through the current maturity date. The Company believes it has adequate liquidity to manage the business through the closing of the Arrangement.

- In June 2017, as part of the ongoing annual audits of the PEM tax returns, the Servicio de Administración Tributaria ("SAT") issued an observations letter for the 2010 tax year. In October 2017, the SAT issued an observations letter for the 2011 tax year. The SAT made explicit its view that PEM should pay taxes based on the market price of silver. The observations letters do not represent a tax reassessment and no liability has been recognized in the financial statements. The Company has formally submitted its responses to both the 2010 and 2011 observations letters and continues to believe it is paying taxes on the appropriate legal basis in Mexico.

- As the Company continues to defend its advanced pricing agreement ("APA") in Mexican legal proceedings, the APA remains valid and the Company will vigorously dispute any reassessment that assesses taxes on its silver revenues that is inconsistent with the APA. The Company has also continued a dialogue with the SAT to seek resolution of its tax matters.

- On July 14, 2017, the Company's motion to dismiss the amended complaint in the U.S. securities class action lawsuit originally filed in 2016 was granted and the plaintiff's claims were dismissed without prejudice. Rather than amend the complaint again, the plaintiffs asked the federal court to enter final judgment and initiated an appeal of the dismissal to the Ninth Circuit Court of Appeals on September 8, 2017. The parties have filed their briefs in this appeal and a ruling on the appeal is expected sometime in 2018. The Company intends to vigorously defend itself against this class action lawsuit.

- In February 2017, the Company announced the appointment of Mr. Joseph Conway as Interim President and Chief Executive Officer following the departure of Mr. Ernest Mast. In September 2017, Mr. Ryan Snyder was appointed Chief Financial Officer of the Company following the resignation of Mr. Kevin Jennings.

Financial performance

- Earnings from continuing mine operations, being the San Dimas mine, for 2017 were $2.1 million compared to $0.01 million in 2016. Despite a decrease in production, there was an increase in earnings due to a significant reduction in cost of sales during 2017.

- The Company incurred a net loss of $409.7 million ($2.14 per share) including $398.8 million in non-cash impairment charges in 2017, compared to a net loss of $234.4 million ($1.32 per share) in 2016 which included $228.0 million in non-cash impairment charges in 2016.

- Operating cash flows before changes in working capital was $22.6 million ($0.12 per share) in 2017 compared to $15.3 million ($0.09 per share) in 2016 mainly due to higher earnings from mine operations and lower taxes paid in Mexico. Working capital outflows were lower in 2017 at $0.1 million compared to $2.2 million in 2016. The decrease relates mainly to lower outflows relating to trade and other payables, partially offset by increased outflows in 2017 associated with inventories.

- Impairment charges of $399 million includes $304 million relating to the San Dimas mine, $50 million relating to the Cerro del Gallo project and $45 million relating to the Black Fox Complex. In 2016, impairment charges included $228 million, with $111 million at the San Dimas mine and $117 million at Black Fox complex.

REVIEW OF ANNUAL CONSOLIDATED FINANCIAL INFORMATION

Years ended December 31, 2017 and 2016

Earnings from continuing mine operations comprises:

	Year ended December 31	
(in thousands of U.S. dollars)	**2017**	2016
Gold revenue	**$ 74,979**	$ 121,553
Silver revenue	**16,790**	26,028
Operating expenses	**(67,280)**	(100,452)
Depreciation and depletion	**(22,433)**	(47,116)
Earnings from mine operations	**$ 2,056**	$ 13

The table below sets out variances in the key drivers of earnings from mine operations for the year ended December 31, 2017 compared with the year ended December 31, 2016:

(in thousands of U.S. dollars)		Year ended December 31
Earnings from mine operations in 2016	$	13
Differences:		
Revenue		
Higher realized gold price		870
Lower ounces of gold sold		(47,444)
Lower realized silver price		(1,468)
Lower ounces of silver sold		(7,770)
Lower operating expenses		33,172
Lower depreciation and depletion		24,683
Earnings from mine operations in 2017	**$**	**2,056**

Revenue

Gold revenue decreased by $46.6 million and silver revenue decreased by $9.2 million in 2017 compared to 2016 primarily as a result of lower production at San Dimas. Production was impacted by the union strike and a work slow-down in July during annual bonus negotiations.

Operating expenses

Operating expenses decreased in 2017 by $33.2 million due to the reduction in mining and milling activity levels.

Depreciation and depletion

Depreciation and depletion was $22.4 million in 2017, a decrease of $24.7 million from 2016 due to lower production levels in 2017 and the impact of the impairments recognized in Q4 2016 and Q2 2017.

A summary income statement follows:

(in thousands of U.S. dollars)	Year ended December 31 2017	2016
Earnings from mine operations	**$ 2,056**	$ 13
Impairment charge	**(303,858)**	(111,000)
Exploration expenses	**(1,345)**	(1,885)
Share-based compensation	**(4,149)**	(7,049)
General and administrative expenses	**(11,479)**	(13,529)
Idle and restart costs incurred during strike at San Dimas	**(6,207)**	-
Other charges	**(7,044)**	(4,725)
Transaction costs	**-**	(679)
Interest and finance expense	**(11,285)**	(8,761)
Mark-to-market gain on convertible debentures & warrants	**5,897**	12,610
Other (expense) income	**(355)**	(427)
Income tax recovery	**4,393**	19,938
Net loss from continuing operations	**($333,376)**	($115,494)

Impairment charges

As part of the strategic review process carried out in 2017, the Company received several proposals during the second quarter of 2017 that identified that the carrying value of its CGUs exceeded their fair value. During the second quarter of 2017, the Company recorded an impairment of $285 million, which comprised impairments of $195 million for the San Dimas mine, $40 million for the Black Fox Complex and $50 million for the Cerro del Gallo project. During the third quarter of 2017, an additional impairment of $5 million was recorded for the Black Fox Complex to align with the actual net proceeds from its disposition during the fourth quarter of 2017. During the fourth quarter, the Company recorded an additional impairment of $109 million relating to the San Dimas mine as the negotiation process that led to the Arrangement Agreement identified that the carrying value of the San Dimas mine exceeded the recoverable amount. The carrying value of the San Dimas CGU as at December 31, 2017 is now aligned to the approximate value implied in the Arrangement Agreement.

In 2016, impairment charges were recognized in relation to San Dimas and the Black Fox Complex based on updated life-of-mine plans.

(in thousands of U.S. dollars)	Year ended December 31 2017	2016
San Dimas	**$ 303,858**	$ 111,000
Black Fox Complex	**44,963**	117,000
Cerro del Gallo	**50,000**	-
	$ 398,821	$ 228,000

Share-based compensation

Share-based compensation includes amortization on equity-settled plans and marked-to-market adjustments on the value of units in the Company's cash-settled plans. The 2017 decrease is attributed to the decline in the Company's share price and a reduction in the value of grants issued.

General and administrative expenses

	Year ended December 31	
(in thousands of U.S. dollars)	**2017**	2016
Salaries and wages	**$ 5,053**	$ 5,778
Rent and office costs	**792**	828
Legal, accounting and consulting services	**2,369**	2,547
Directors' fees and expenses	**1,357**	935
Other general and administrative expenses	**1,908**	3,441
	$ 11,479	$ 13,529

General and administrative expenses were $11.5 million in 2017 compared to $13.5 million in 2016. The decrease in expenses was primarily due to lower head count and employee related costs in 2017 as compared to 2016 as a result of efforts to reduce spending as part of the strategic review.

Other Charges

	Year ended December 31	
(in thousands of U.S. dollars)	**2017**	2016
Legal expenses associated with proceeding sin Mexico	**$ 1,103**	$ 3,254
Employee severance payments	**2,120**	1,171
Legal and advisory costs relating to financing initiatives	**647**	300
Advisory fees associated with strategic review process	**2,023**	-
Loss on disposition of Cerro del Gallo	**1,151**	-
	$ 7,044	$ 4,725

Other charges in 2017 include legal expenses associated with proceedings in Mexico, advisory fees associated with the strategic review process and severance payments to former employees.

Interest and finance expenses

Interest and finance expense increased by $2.5 million in 2017 as compared to 2016, primarily due to the guarantee fee incurred on the revolving credit facility and higher RCF interest charges. Interest and finance expenses include accretion costs.

Mark-to-market gain on convertible debentures and warrants

In June 2016, the Company recognized a warrant liability in connection with the equity offering which is, along with the 5.75% Convertible Debenture, measured at fair value and marked-to-market each period based on the corresponding trading price. The Company recognized a gain of $4.9 million from the 5.75% Convertible Debentures and $1.0 million from the common share purchase warrants during 2017 (2016 - $9.0 million gain from the 5.75% Convertible Debentures and $3.6 million from the common share purchase warrants).

Other income (expense)

Other income (expense) includes foreign exchange gains and losses, gains on the 6.5% convertible debenture derivative liability and other items. The Company recorded a foreign exchange loss of $0.1 million in 2017 compared to a loss of $0.2 million in 2016. Foreign exchange gains and losses result primarily from the translation of Mexican peso denominated and Canadian dollar denominated asset retirement obligations offset by foreign exchange losses from the peso denominated taxes receivable. In 2017, the Mexican peso and the Canadian dollar strengthened relative to the U.S. dollar (the Company's functional currency). In 2016, the Mexican peso depreciated while the Canadian dollar strengthened relative to the U.S. dollar (the Company's functional currency).

Income tax expense

	Year ended December 31	
(in thousands of U.S. dollars)	**2017**	2016
Current tax expense		
Mining royalty at San Dimas	**$ -**	$ 981
Other current tax	**3,298**	108
	$ 3,298	$ 1,089
Deferred tax expense (recovery)		
Withholding tax on inter company interest	**$ 3,418**	$ 3,308
San Dimas change in tax basis	**909**	(18,002)
Mining royalty at San Dimas	**(12,018)**	(6,333)
	($7,691)	($21,027)
Total	**($4,393)**	($19,938)

San Dimas pays income taxes based on its Mexican peso financial statements, which include foreign exchange and other income items (permanent differences) different than the U.S. dollar reporting financial statements. In addition, foreign exchange losses are recognized in deferred income tax expense when the Mexican peso denominated deferred income tax balance is translated to its U.S. dollar reporting currency. In 2017 this increased deferred tax recovery by $6.5 million (2016 – decrease of $26.6 million). The increase in San Dimas tax basis reflects the impact of this foreign exchange and inflation on the San Dimas' deferred income tax balances and the impact of higher book to tax depreciation. The volatility of the exchange rate between the Mexican peso and the U.S. dollar can result in significant adjustments to deferred tax expense.

The Company's Mexican operations in 2017 generated a current tax of $2.1 million in comparison with the current tax expense of $0.1 million in 2016. In addition, San Dimas current income taxes have increased because of lower tax depreciation than accounting depreciation. See Note 15 to the December 31, 2017 consolidated financial statements for a full reconciliation of annual income taxes at the statutory rate to the income tax recovery or expense in the statement of operations and comprehensive loss.

The mining royalty is deductible for tax purposes and is calculated as 7.5% of a royalty base. The royalty base being taxable revenues for income tax purposes (except interest and inflationary adjustment), less allowable deductions for income tax purposes (except interest, inflationary adjustment, depreciation and mining fees), less prospecting and exploration expenses of the year.

The Company has taken the position that the royalty is an income tax as it is based on a measure of revenue less certain specified costs. On substantial enactment, a taxable temporary difference arose, as mining assets and financial assets/liabilities had a book basis but no tax basis for purposes of the royalty. The Company has recognized a net deferred tax liability of $7.5 million as at December 31, 2017 in respect of this royalty (2016 - $22.3 million). This deferred tax liability will be drawn down to $nil as a reduction to tax expense over the life of mine as the mine and its related assets are depleted/depreciated. In 2017, the liability was reduced by $14.8 million (2016-$6.4 million).

REVIEW OF OPERATIONS

San Dimas Mine

	Year ended December 31		Three months ended				
	2017	2016	31-Dec-17	30-Sep-17	30-Jun-17	31-M ar-17	31-Dec-16
Key Performance Data							
Tonnes of ore mined	**437,918**	762,167	**155,742**	110,207	90,648	81,321	194,670
Tonnes of ore milled	**444,711**	759,087	**167,186**	114,657	80,281	82,587	191,925
Tonnes of ore milled per day	**1,555**	2,074	**1,817**	1,246	1,408	1,835	2,086
Average mill head grade (grams/tonne)							
Gold	**4.36**	3.94	**4.05**	4.78	4.81	3.87	3.87
Silver	**296**	228	**263**	301	407	238	245
Average gold recovery rate (%)							
Gold	**97%**	98%	**97%**	97%	96%	98%	97%
Silver	**94%**	96%	**94%**	94%	93%	98%	94%
Produced							
Gold equivalent (ounces)	**73,665**	113,968	**25,574**	20,537	15,234	12,320	28,286
Gold (ounces)	**60,167**	93,881	**21,076**	17,070	11,903	10,118	23,163
Silver (million ounces)	**3.96**	5.32	**1.32**	1.05	0.97	0.62	1.42
Sold							
Gold (ounces)	**59,481**	97,560	**21,162**	15,127	9,997	13,195	22,547
Silver at fixed price (million ounces)	**3.90**	5.41	**1.29**	0.96	0.85	0.80	1.57
Silver at spot (million ounces)	**-**	0.16	**-**	-	-	-	0.01
Average realized price (per ounce)							
Gold	**$ 1,261**	$ 1,246	**$ 1,272**	$ 1,288	$ 1,262	$ 1,210	$ 1,208
Silver [1]	**$ 4.30**	$ 4.68	**$ 4.32**	$ 4.32	$ 4.28	$ 4.28	$ 4.34
Total cash costs (per gold ounce) [2]							
Gold equivalent basis	**$ 939**	$ 856	**$ 933**	$ 884	$ 1,144	$ 790	$ 746
By product basis	**$ 867**	$ 774	**$ 861**	$ 799	$ 1,115	$ 698	$ 643
All in sustaining costs (per ounce) [3]	**$ 1,216**	$ 1,117	**$ 1,167**	$ 1,117	$ 1,650	$ 975	$ 994
Revenue ($000's)	**$ 91,769**	$ 147,581	**$ 32,532**	$ 23,636	$ 16,232	$ 19,369	$ 34,089
Earnings from mine operations ($000's)	**$ 2,169**	$ 145	**$ 4,312**	$ 1,213	($2,765)	($591)	$ 1,780

1. Average realized silver prices reflect the impact of the silver purchase agreement with WPMI (see "Other liquidity considerations").
2. See "NON-GAAP measurements "
3. For the purposes of calculating all-in sustaining costs at individual mine sites, the Company does not include corporate general and administrative expenses. See "NON-GAAP measurements ".

Production during 2017 was impacted by a strike action taken by unionized employees between February 15, 2017 and April 17, 2017. With a new collective bargaining agreement ("CBA") in place, a phased restart was initiated on April 22, 2017. San Dimas continued to implement its production ramp-up plan through the remainder of the year.

Production was also limited in July 2017 due to periods of inactivity during the negotiation of the 2016 annual workers' bonus ("PTU Bonus"). Since the conclusion of these negotiations, the site has experienced an improvement in worker alignment.

Gold equivalent production in 2017 totalled 73,665 ounces, which consisted of 60,167 gold ounces and 3.96 million silver ounces. This compares to 113,968 gold equivalent ounces produced in 2016. Realized head grades in 2017 were 4.36 grams per tonne of gold and 296 grams per tonne of silver, approximately 11% and 30% higher for gold and silver, respectively, compared to 2016. The increased head grades were the result of a specific mining focus on production from the high-quality veins at San Dimas. However, this did not fully offset the lower availability of run-of-mine ore during 2017 resulting from the closure of many lower grade veins, the strike, and low worker productivity during the negotiations for the annual bonus.

All silver sold during 2017 was delivered to WPMI under the silver purchase agreement. The threshold limit under the silver purchase agreement for the 2017 contract year (August 6 of a year to August 5 of the following year) was 6.0 million ounces of silver. The annual threshold was not exceeded for the year-ended August 5, 2017. As of December 31, 2017, the Company has delivered 2.3 million ounces of silver towards the current annual threshold.

Capital expenditures during 2017 were $21.8 million and focused mainly on underground development. Due to liquidity constraints, exploration drilling and drifting in 2017 were below historical levels.

Black Fox [1] (discontinued operations)

	Year ended December 31		Three months ended				
	2017	2016	31-Dec-17	30-Sep-17	30-Jun-17	31-M ar-17	31-Dec-16
Key Performance Data							
Underground mining							
Tonnes of ore mined	**182,889**	234,518	-	62,679	67,993	52,217	73,597
Average gold grade (grams/tonne)	**6.20**	4.98	-	5.84	7.09	5.47	5.21
Tonnes increase (decrease) in stock pile	**423,361**	(678,717)	-	119,862	150,084	153,415	(152,005)
Tonnes processed							
Tonnes of ore milled	**606,250**	913,235	-	182,541	218,077	205,632	225,602
Tonnes of ore milled per day	**2,221**	2,495	-	1,984	2,396	2,285	2,452
Average mill head grade (grams/tonne)	**2.73**	2.22	-	2.85	3.04	2.28	2.49
Average gold recovery rate (%)	**96%**	96%	0%	96%	97%	96%	97%
Produced							
Gold (ounces)	**51,209**	62,171	-	16,065	20,731	14,413	17,512
Sold							
Gold at spot price (ounces)	**50,264**	55,371	1,239	18,506	15,938	14,581	14,494
Gold at fixed price (ounces)	**4,632**	5,097	828	1,130	1,472	1,202	1,214
Average realized gold price [2]							
Gold price (per ounce)	**$ 1,199**	$ 1,181	$ 1,018	$ 1,230	$ 1,198	$ 1,159	$ 1,145
Gold at spot price (per ounce)	**$ 1,251**	$ 1,246	$ 1,270	$ 1,273	$ 1,259	$ 1,211	$ 1,230
Gold at fixed price (per ounce)	**$ 531**	$ 523	$ 531	$ 531	$ 531	$ 529	$ 524
Total cash costs (per gold ounce) [3]	**$ 750**	$ 881	$ -	$ 797	$ 637	$ 859	$ 828
All-in sustaining costs (per ounce) [4]	**$ 1,031**	$ 1,291	$ -	$ 1,099	$ 827	$ 1,233	$ 1,101
Revenue ($000's)	**$ 65,828**	$ 71,595	$ 2,221	$ 24,424	$ 20,865	$ 18,318	$ 18,092
Earnings (loss) from mine operations (000's)	**$ 18,578**	$ 649	$ 872	$ 9,027	$ 6,374	$ 2,305	$ 85

1. The Black Fox Complex has been classified as discontinued operations.
2. Average realized gold prices reflect the impact of the gold purchase agreement with Sandstorm (see "Other liquidity considerations").
3. See "NON- GAAP measurements ".
4. For the purposes of calculating all-in sustaining costs at individual mine sites, the Company does not include corporate general and administrative expenses. See "NON- GAAP measurements ".

The Black Fox mine produced 51,209 ounces of gold in the first nine-months of 2017, the production period attributable to Primero, with underground mining focused on the Deep Central Zone.

On October 6, 2017, the Black Fox Complex was sold to McEwen Mining Inc. ("McEwen") as part of Primero's strategic review process. All metal production subsequent to September 30, 2017 is attributable to McEwen.

FINANCIAL CONDITION REVIEW

During the first quarter of 2017, the Company amended the terms of the RCF to extend its maturity from May 23, 2017 to November 23, 2017 and exclude all financial covenants until the extended maturity date. The maturity date was subsequently extended for several short periods in order to facilitate Primero's ongoing discussions regarding possible strategic transactions. With the signing of the Arrangement Agreement, the maturity has been extended to the earliest of the following dates:

i. The date on which the Arrangement is completed,
ii. The date that is seven business days after the Arrangement Agreement is terminated, and
iii. April 30, 2018

The RCF has been guaranteed by WPM. A guarantee fee of $2.7 million was paid in December 2017 for the initial extension period. Subsequent to this date, as WPM continues to guarantee the RCF and a daily guarantee fee of approximately $5 thousand continues to accrue.

In 2017, the Company's Board of Directors commenced a strategic review process to explore alternatives to improve shareholder value. This process ultimately resulted in the sale of the Black Fox Complex in Q4 2017, the sale of the Cerro del Gallo project in Q4 2017, and the Arrangement Agreement to sell Primero to First Majestic, announced on January 12, 2018.

On March 13, 2018, the Arrangement was approved by Primero shareholders. On March 13, 2018, the holders of the 5.75% convertible debentures voted to approve an amendment to the maturity date of the debentures to the day following the closing date of the Arrangement with full principal and accrued interest paid on this date. The Company is awaiting anti-trust clearance in Mexico. The Arrangement is expected to close in or around the end of April 2018, subject to applicable regulatory approvals and the satisfaction of other customary conditions.

Primero did not generate enough cash from operations to support its investing activities during 2017. The Company has sufficient cash on hand to support the business through to the expected close of the arrangement with First Majestic. If the transaction closes as planned, management believes First Majestic will have sufficient funding to satisfy all commitments of Primero and its subsidiaries.

If the Arrangement Agreement with First Majestic is terminated for any reason, there is significant uncertainty that Primero will have sufficient funds to repay the full outstanding obligation under the RCF upon maturity, which would allow the lenders to exercise their rights under the RCF. The Company notes that any Event of Default under the RCF, unless waived, would trigger cross default provisions under the convertible debentures and the Silver Purchase Agreement. This represents a material uncertainty that casts substantial doubt on the ability of the Company to continue as a going concern.

Key financial ratios the Company uses to assess financial capacity are shown in the net asset table below.

(in thousands of U.S. dollars except ratios and per share amounts)		**Year ended December 31 2017**		Year ended December 31 2016
Cash and cash equivalents	**$**	**20,966**	$	19,875
Other current assets		**58,340**		63,178
Non-current assets		**125,960**		594,764
Total assets	**$**	**205,266**	$	677,817
Current liabilities (excluding current debt)	**$**	**24,091**	$	35,374
Non-current liabilities (excluding long-term debt)		**43,509**		77,566
Current debt		**30,310**		50,841
Long-term debt		**47,625**		52,906
Total liabilities	**$**	**145,535**	$	216,687
Total share holders' equity	**$**	**59,731**	$	461,130
Total equity	**$**	**59,731**	$	461,130
Total common shares outstanding [1]		**193,045,822**		189,508,365
Total options outstanding [1]		**6,811,316**		6,525,244
Total common share purchase warrants outstanding		**11,011,250**		11,011,250
Key financial ratios				
Current ratio [2]		**1.46**		0.96
Total liabilities-to-equity [3]		**2.44**		0.47
Debt-to-total capitalization [4]		**0.57**		0.18

1. As at the date of this MD&A, the Company had 193,045,822 common shares outstanding, the total number of options outstanding was 6,674,325 of which 4,338,184 are exercisable.
2. Current ratio is calculated as (cash and cash equivalents + other current assets) ÷ (current liabilities + current debt).
3. Total liabilities-to-equity is calculated as total liabilities ÷ total equity.
4. Debt-to-total capitalization is calculated as (current debt + long-term debt) ÷ (current debt + long-term debt + total equity).

The Company's net assets (equity) as at December 31, 2017 were $60 million compared to $461 million as at December 31, 2016, a decrease due to the net loss during 2017 which were driven by non-cash impairments. The current ratio has increased from December 31, 2016 as a result of maintaining cash on hand during the year and decreased current debt due to additional funds received from the sale of assets.

ANALYSIS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Sources and uses of cash

	Year ended December 31	
(in thousands of U.S. dollars)	**2017**	2016
Cash flow:		
Provided by operating activities before working capital changes	**$ 22,633**	$ 15,267
Changes in non-cash working capital	**(82)**	(2,158)
Provided by operating activities	**22,551**	13,109
Used in investing activities	**4,518**	(67,673)
Provided by financing activities and other	**(25,978)**	28,838
Increase (decrease) in cash	**$ 1,091**	($25,726)

Operating activities

Primero's cash flows from operating activities before working capital changes were higher in 2017 compared to 2016 as a result of lower taxes paid in relation to San Dimas, partially offset by lower cash earnings from operations due to the impact of the strike at San Dimas.

Changes in non-cash working capital were a cash outflow of $0.1 million in 2017 compared with $2.2 million in 2016. The cash outflow during the year was mainly due to a reduction in trade and other payables, largely offset by a decrease in value added and income tax receivable. At the end of 2017 the Company has $22 million of VAT and $19 million of income taxes pending for refund.

Investing activities

Cash used in investing activities are mostly capital expenditures as shown in the table below.

				December 31
(in millions of U.S. dollars)		**2017**		2016
Capital Expenditures				
San Dimas Underground Development	**$**	**15.0**	$	13.9
San Dimas Sustaining Capital		**2.5**		11.4
San Dimas Projects		**-**		3.7
San Dimas Sub Total	**$**	**17.5**	$	29.0
Black Fox Underground Development		**9.9**		15.1
Black Fox Sustaining Capital		**1.5**		5.7
Black Fox Complex Sub Total	**$**	**11.4**	$	20.8
Cerro del Gallo Development		**-**		-
Total Capital Expenditures	**$**	**28.9**	$	49.8
Capitalized Exploration Expenditures				
San Dimas Diamond Drilling	**$**	**3.8**	$	4.6
San Dimas Drifting		**0.5**		2.2
San Dimas Regional Diamond Drilling		**-**		0.4
San Dimas Sub Total	**$**	**4.3**	$	7.2
Black Fox Diamond Drilling		**3.0**		4.7
Regional Exploration		**0.5**		4.8
Black Fox Complex Sub Total	**$**	**3.5**	$	9.5
Cerro del Gallo Geology Mapping		**-**		-
Total Capitalized Exploration Expenditures	**$**	**7.8**	$	16.7
TOTAL CAPITAL EXPENDITURES	**$**	**36.7**	$	66.5

San Dimas capital spending during 2017 focused on underground development. In order to conserve cash, the capital plan for San Dimas prioritized only the expenditures required to maintain current operating levels for the current year. The majority of exploration activity aimed at new reserve generation was deferred.

Prior to the sale of the Black Fox Complex, Black Fox capital spending mainly relating to underground development costs in the Deep Central zone. The Company closed the Black Fox sale transaction on October 6, 2017.

Financing activities

During 2017, Primero drew down $25.0 million under the RCF. Following the sales of the Black Fox Complex and the Cerro del Gallo project, the net proceeds were applied against the outstanding RCF reducing the outstanding balance to $30.2 million as at December 31, 2017. The total net repayment against the RCF for the 2017 year was $19.8 million.

During 2016, the Company repaid in full the $48.1 million outstanding balance of the 6.5% Convertible Debentures assumed on the acquisition of Brigus Gold Corp. using $50.0 million drawn on the RCF. The Company completed an equity offering pursuant to which the Company issued 22,022,500 Units of the Company at a price of C$2.35 per Unit for aggregate gross proceeds of C$51,752,875. Each Unit consisted of one common share of Primero and one-half of one common share purchase warrant of the Company. Each whole warrant entitles the holder to acquire one common share of the Corporation at a price of C$3.35 per common share until June 25, 2018.

Debt

(in thousands of U.S. dollars)		**As at December 31, 2017**		**As at December 31, 2016**
Current debt				
Revolving credit facility (RCF)	**$**	**30,201**	$	49,639
Finance lease liabilities		**109**		1,202
Total current debt		**30,310**		50,841
Long-term debt				
5.75% convertible debentures	**$**	**47,625**	$	52,500
Finance lease liabilities		**-**		406
Total long-term debt		**47,625**		52,906
Total debt	**$**	**77,935**	$	103,747

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements, other than the potential availability of the undrawn $4.8 million under the RCF. The Company is not anticipating drawing down the remaining balance since it has entered into the Arrangement Agreement with First Majestic.

Shareholders' Equity

Shares Issued

During the year ended December 31, 2017, the Company issued 2,543,773 common shares for the settlement of vested PSUs under the 2013 PSU Plan and the Directors' PSU Plan; 993,684 common shares for severance and other employee payments.

Outstanding Share Data

As at December 31, 2017, the Company had 193,045,822 common shares outstanding (189,508,365 as at December 31, 2016). As at the date of this MD&A, the Company had 193,045,822 common shares outstanding.

Options

As at December 31, 2017, the Company had 6,811,316 options outstanding with a weighted average exercise price of C$3.04; of these 4,048,197 were exercisable at a weighted average exercise price of C$4.13. As at the date of this MD&A, the total number of options outstanding was 6,674,325, of which 4,338,184 are exercisable.

Common Share Purchase Warrants

As at December 31, 2016, the Company had 11,011,250 common share purchase warrants outstanding. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of $3.35 until its expiry date of June 25, 2018.

PSUs Exercisable into Common Shares

As at December 31, 2017 and the date of this MD&A, the Company had 74,627 Directors PSUs outstanding which vested on December 1, 2017 for which settlement is pending the closing of the arrangement with First Majestic. Pursuant to the Arrangement Agreement each Directors PSU outstanding immediately before completion of the arrangement shall be deemed to be fully vested and each holder thereof shall be paid a cash payment in an amount equal to $0.30 per Directors PSU. A director holding Director PSUs would otherwise be entitled to elect to receive, at vesting either (1) a cash amount equal to the number of Director PSUs that vest multiplied by the volume weighted average trading price per common share over the five preceding trading days, (2) the number of common shares equal to the number of Directors' PSUs (subject to the total number of common shares issuable at any time under the Directors' PSU Plan, combined with all other common shares issuable under any other equity compensation arrangements then in place, not exceeding 10% of the total number of issued and outstanding common shares of the Company), or (3) a combination of cash and shares. If no election is made, the Company will pay out such Directors' PSUs in cash.

As at December 31, 2017 and the date of this MD&A, the Company had 5,182,621 PSUs outstanding under the 2013 PSU Plan ("2013 PSUs"), which, by their terms, would vest and expire between February 18, 2017, and December 31, 2020. Pursuant to the Arrangement Agreement, however, each 2013 PSU outstanding immediately before completion of the arrangement shall be deemed to be fully vested and each holder thereof shall be paid a cash payment in an amount equal to $0.30 per 2013 PSU. A person holding 2013 PSUs would otherwise entitled to receive at vesting, at the Company's option, either (1) a cash amount equal to the number of 2013 PSUs that vest multiplied by the volume weighted average trading price per common share over the five preceding trading days, (2) the number of common shares equal to the number of 2013 PSUs (subject to the total number of common shares issuable at any time under the 2013 PSU Plan, combined with all other common shares issuable under any other equity compensation arrangements then in place, not exceeding 10% of the total number of issued and outstanding common shares of the Company) or (3) a combination of cash and shares.

Deferred Share Units

As at December 31, 2017 and the date of this MD&A, the Company had 315,790 deferred share units ("DSU"s) outstanding under the deferred share unit plan which vest between May 25, 2015 and May 25, 2020. Pursuant to the Arrangement Agreement each DSU outstanding immediately before completion of the arrangement shall be deemed to be fully vested and each holder thereof shall be paid a cash payment in an amount equal to $0.30 per DSU. A person holding DSUs under this plan would otherwise be entitled to receive at vesting, either a cash payment equal to the redemption value of the DSUs, shares issued from treasury equal to the number of DSUs, shares purchased on the stock exchange, or any combination of these, such that the cash payment plus number of shares delivered have a value equal to the redemption value of the DSUs. The choice of settlement is solely at the Company's discretion. The redemption value is calculated by the number of DSUs redeemed multiplied by the weighted average price per share traded on the TSX over the last five trading days preceding the redemption date.

Cash requirements

The following table summarizes the contractual maturities of the Company's financial liabilities and operating and capital commitments:

	As at December 31, 2017				As at Dec. 31, 2016
(in thousands of U.S. dollars)	Within 1 year	2-5 years	Over 5 years	**Total**	Total
Trade and other payables and accrued liabilities	$ 19,593	$ -	$ -	**$ 19,593**	$ 31,667
Share based payments	71	-	-	**71**	115
5.75% Convertible debentures and interest	4,313	80,010	-	**84,323**	88,635
Revolving line of credit and interest	30,657	-	-	**30,657**	50,811
Finance lease payments	-	-	-	**-**	1,608
Minimum rental and operating lease payments	-	-	-	**-**	3,218
Reclamation and closure cost obligations	-	5,004	25,711	**30,715**	50,173
Commitment to purchase plant and equipment	122	-	-	**122**	516
Total	$ 54,756	$ 85,014	$ 25,711	**$ 165,481**	$ 226,743

Other liquidity considerations

APA Ruling

In February 2016 the Mexican tax authority, the SAT, initiated a proceeding seeking to nullify the APA which it issued to the Company in 2012. The APA confirmed the Company's basis for paying taxes on the price it realized for certain silver sales between 2010 to 2014. If the SAT's challenge is successful it is likely to have a material adverse effect on the Company's business, financial condition and results of operations.

In June 2017, as part of the ongoing annual audits of the PEM tax returns, the SAT issued an observations letter for the 2010 tax year. An observations letter is issued to a taxpayer in advance of a reassessment being issued, provides an outline of the SAT's position on matters under audit, and affords the taxpayer an opportunity to respond to such position in advance of the reassessment being issued. In this observations letter issued to PEM, the SAT made explicit its view that PEM should pay taxes based on the market price of silver which, if successfully applied to its 2010 taxation year, would make PEM liable for an additional $8.5 million of taxes before penalties or interest. As the Company continues to defend the APA in the Mexican legal proceeding, the APA remains valid and the Company will vigorously dispute any reassessment that may be issued in the future on a basis that assesses taxes on its silver revenues that is inconsistent with the APA. The observations letter does not represent a tax reassessment and no liability has been recognized in the financial statements.

In October 2017, the SAT issued an observations letter for the 2011 tax year, with the same explicit view that PEM should pay taxes based on the market price of silver, which if successfully applied to its 2011 taxation year, would make PEM liable for an additional $23.4 million of taxes before penalties or interest. The Company has submitted formal responses to both the 2010 and 2011 observation letters.

While the Company continues to believe its tax filing position based upon the APA is correct, should the Company ultimately be required to pay tax on its silver revenues based on market prices without any mitigating adjustments, the incremental income tax for the years 2012-2017 would be in the range of $130 - $145 million, before interest or penalties.

The Company vigorously defends the validity of the APA and has filed procedural and substantive responses to the claim. In addition, the Company intends to explore opportunities to minimize the potential impact on the Company in the event that the SAT is successful in its legal claim to nullify the APA, but there is no assurance that the Company will find or be able to implement a reasonable solution.

While the Company continues to vigorously defend the validity of the APA and its transfer pricing position, it is also engaging in dialogue with the SAT seeking to resolve matters and bring tax certainty through a negotiated solution. Primero has also had constructive dialogue with SAT in relation to outstanding VAT receivables and has received $15.2 million of VAT refunds since July 2017.

Other

In 2016, the Company and certain officers were served with a class action lawsuit that was filed earlier in the year in federal court in the State of California seeking to recover damages for investors in the Company's common shares under the U.S. federal securities laws. On July 14, 2017, the Company's motion to dismiss the amended complaint was granted and the plaintiffs' claims were dismissed without prejudice. The plaintiff filed a notice of appeal of the dismissal order on September 8, 2017. The parties have filed their briefs in this appeal and a ruling on the appeal is expected sometime in 2018. The Company intends to vigorously defend this class action lawsuit.

In the observations letters for both the 2010 and 2011 tax years the SAT raised queries with respect to certain intercompany transactions and the Company has provided the pertinent information for 2010 and 2011. The observations letters do not represent a tax reassessment and no liability has been recognized in the financial statements.

Dividend Report and Policy

The Company has not paid any dividends since incorporation and currently has no plans to pay dividends.

Capital management

The Company's primary objective in managing capital is to ensure sufficient liquidity through the conclusion of the Arrangement Agreement with First Majestic.

The Company's capital items are the following:

		December 31 2017		December 31 2016
Cash and cash equivalents	**$**	**20,966**	$	19,875
Undrawn revolving credit facility		**4,799**		25,000
Current debt		**30,310**		50,841
Long-term debt		**47,625**		52,906
Shareholders' equity		**59,731**		461,130

To support the Company's capital management objectives, the Company manages its capital structure and makes adjustments to it within the context of the Company's strategy, economic conditions and risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue shares, adjust the amount of debt or enter into new debt. The Company does not currently pay out dividends. Utilization of the undrawn RCF requires consent from WPM.

As at December 31, 2017, the Company was not subject to any financial covenants and was in compliance with all non-financial covenants.

FOURTH QUARTER RESULTS

Selected Quarterly Information

Three months ended	31-Dec-17	30-Sep-17	30-Jun-17	31-M ar-17	31-Dec-16
Key Performance Data [1]					
Tonnes of ore milled	**167,186**	297,198	298,358	288,219	417,527
Produced					
Gold equivalent (ounces)	**25,574**	36,602	35,965	26,733	45,798
Gold (ounces)	**21,076**	33,135	32,634	24,531	40,675
Silver (million ounces)	**1.32**	1.05	0.97	0.62	1.42
Sold					
Gold (ounces)	**23,229**	34,763	27,407	28,978	38,255
Silver (million ounces)	**1.29**	0.96	0.85	0.80	1.58
Average realized prices					
Gold ($/ounce) [2]	**$ 1,255**	$ 1,263	$ 1,222	$ 1,182	$ 1,182
Silver ($/ounce) [2]	**$ 4.32**	$ 4.32	$ 4.28	$ 4.28	$ 4.34
Financial Data (in thousands of US dollars except per share amounts)					
Revenues	**$ 32,532**	$ 23,636	$ 16,232	$ 19,369	$ 34,089
Earnings (loss) from mine operations	**4,286**	1,185	(2,794)	(621)	1,751
Net (loss) income	**(115,213)**	(7,576)	(300,467)	13,571	(190,087)
Basic (loss) income per share	**(0.60)**	(0.04)	(1.57)	0.07	(1.01)
Diluted(loss)income per share	**(0.60)**	(0.04)	(1.57)	0.07	(1.01)
Operating cash flows before working capital changes	**2,741**	13,516	8,449	(2,073)	6,984
Weighted average shares outstanding (basic) (000's)	**192,597**	192,013	191,949	189,943	188,593
Weighted average shares outstanding (diluted) (000's)	**192,597**	192,013	191,949	194,854	188,593

As at	31-Dec-17	30-Sep-17	30-Jun-17	31-M ar-17	31-Dec-16
Assets					
Mining interests	**$ 125,050**	$ 246,158	$ 244,965	$ 579,234	$ 577,920
Total assets	**$ 205,266**	$ 398,452	$ 394,933	$ 689,495	$ 677,817
Liabilities					
Long-term liabilities	**$ 91,134**	$ 95,797	$ 94,132	$ 123,322	$ 130,472
Total liabilities	**$ 145,535**	$ 226,557	$ 216,704	$ 212,302	$ 216,687
Equity	**$ 59,731**	$ 171,895	$ 178,229	$ 477,193	$ 461,130

1 Key Performance Data is inclusive of the Black Fox Complex prior to Primero's disposition.
2 Average realized gold and silver prices reflect the impact of the gold purchase agreement with Sandstorm at the Black Fox mine and the silver purchase agreement with Silver Wheaton Caymans at the San Dimas mine (see "Other liquidity considerations").

Q4 Highlights

Total production of 25,574 gold equivalent ounces in Q4 2017 compared to 45,798 gold equivalent ounces in the same period of 2016. Gold production was 21,076 ounces in Q4 2017 compared to 40,675 ounces in Q4 2016, and silver production was 1.32 million ounces from San Dimas in Q4 2017 compared to 1.42 million ounces in Q4 2016. The decreased gold production was driven by the sales of Black Fox and lower throughput at San Dimas.

Review of Fourth Quarter Consolidated Financial Information

Earnings from mine operations

(in thousands of U.S. dollars)	Three months ended December 31	
	2017	2016
Gold revenue	**$ 26,921**	$ 27,240
Silver revenue	**5,611**	6,849
Operating expenses	**(23,244)**	(20,874)
Depreciation and depletion	**(5,002)**	(11,464)
Earnings from mine operations	**$ 4,286**	$ 1,751

The table below sets out variances in the key drivers of earnings from mine operations for the three months ended December 31, 2017 compared with three months ended December 31, 2016:

(in thousands of U.S. dollars)	Three months ended December 31
Earnings from mine operations in 2016	$ 1,751
Differences:	
Revenue	
Higher realized gold price	1,554
Lower ounces of gold sold	(1,873)
Lower realized silver price	(27)
Lower ounces of silver sold	(1,211)
Higher operating expenses	(2,370)
Lower depreciation and depletion	6,462
Earnings from mine operations in 2017	**$ 4,286**

- Gold revenue decreased in Q4 2017 compared to Q4 2016 because of a 6% decrease in gold ounces sold, partly offset by a higher realized sales price.
- For Q4 2017 San Dimas sold 1.29 million ounces of silver under the silver purchase agreement, 18% lower than Q4 2016 primarily because of lower production output.
- Operating expenses were $23.2 million in Q4 2017, $2.4 million higher than Q4 2016 mostly because of increased labour costs at San Dimas, driven by a larger bonus accrual than was recorded in 2016.

A summary income statement for the fourth quarter follows:

(in thousands of U.S. dollars)	Three months ended December 31 2017	2016
Earnings from mine operations	**$ 4,286**	$ 1,751
Impairment charge	**(108,858)**	(111,000)
Exploration expenses	**(215)**	(733)
Share-based compensation	**(469)**	(1,466)
General and administrative expenses	**(3,137)**	(2,647)
Other charges	**(2,622)**	(594)
Transaction costs	**-**	710
Interest and finance expense	**(2,729)**	(1,771)
Mark-to-market (loss) gain on convertible debentures & warrants	**(375)**	12,507
Other (expense) income	**(1,279)**	(630)
Income tax recovery	**2,304**	32,212
Net loss from continuing operations	**($113,094)**	($71,661)

- Mining interest impairment charge is as described in Review of Annual Consolidated Financial Information.

- Share-based compensation include amortization on equity settled plans and marked-to- market adjustments on the value of units in the Company's cash-settled plans. The decrease in Q4 2017 expense compared to Q4 2016 reflects the fact that amortization from new grants during 2017 were calculated based on lower values compared to grants from prior year as a result of the decline in the Company's share price in 2017. Amortization from prior year grants also declined as a result of the vesting of certain tranches in prior quarters. In addition, expenses from marked-to-market cash-settled plans also decreased as a result of the decrease in share price during the quarter.

- The breakdown of general and administrative expenses and other charges follows:

(in thousands of U.S. dollars)	Three months ended December 31 2017	2016
General and administrative expenses		
Salaries and wages	**$ 1,261**	$ 906
Rent and office costs	**125**	182
Legal, accounting and consulting services	**1,131**	699
Directors' fees and expenses	**495**	128
Other general and administrative expenses	**125**	732
	$ 3,137	$ 2,647

(in thousands of U.S. dollars)	Three months ended December 31 2017	2016
Other charges		
Legal expenses associated with proceedings in Mexico	**$ 244**	$ 248
Employee severance payments	**-**	46
Legal and advisory costs relating to financing initiatives	**120**	300
Advisory fees associated with strategic review process	**1,107**	-
Loss on disposition of Cerro del Gallo	**1,151**	-
	$ 2,622	$ 594

- Interest and finance expense increased by $1.0 million in Q4 2017 as compared to Q4 2016, primarily due to the guarantee fee and interest on the RCF during the fourth quarter of 2017.

- The 5.75% convertible debentures issued in 2015 and the common share purchase warrants issued in conjunction with the equity offering in June 2016 are both accounted for at fair value and are marked-to-market each period based on the corresponding trading price. For Q4 2017, a loss of $0.4 million was recorded compared with a gain of $12.5 million in Q4 2016.

- Included in other income (expenses) are foreign exchange gains and losses. The Company recorded a foreign exchange loss of $2.4 million in Q4 2017 compared to a gain of $0.03 million in Q4 2016. Foreign exchange gains result primarily from the translation of Mexican peso denominated and Canadian dollar denominated asset retirement obligations offset by foreign exchange losses from the peso denominated VAT receivable. In Q4 2017 and 2016, both the Mexican peso and the Canadian dollar depreciated relative to the U.S. dollar (the Company's functional currency).

- The Company's income tax expense is detailed as follows:

(in thousands of U.S. dollars)	Three months ended December 31 2017	2016
Current tax expense		
Mining royalty at San Dimas	**$ -**	$ 835
Other current tax	**2,501**	(702)
	$ 2,501	$ 133
Deferred tax expense (recovery)		
Withholding tax on inter company interest	**$ 855**	$ 791
San Dimas change in tax basis	**388**	(27,158)
Mining royalty at San Dimas	**(6,049)**	(5,978)
	($4,806)	($32,345)
Total	**($2,305)**	($32,212)

- San Dimas pays income taxes based on its Mexican peso financial statements, which includes foreign exchange and other income items (permanent differences) different than the U.S. dollar functional currency financial statements. In addition, foreign exchange losses are recognized in deferred income tax expense when the Mexican peso denominated deferred income tax balance is translated to the U.S. dollar reporting currency. In Q4 2017 this decreased deferred tax recovery by $12.6 million (2016-$8.4 million). The reduction in San Dimas tax shelters reflects the impact of this foreign exchange offset by inflation on the San Dimas' deferred income tax balances and the impact of higher book to tax depreciation. The volatility of the exchange rate between the Mexican peso and the U.S. dollar can result in significant adjustments to deferred tax expense.

Fourth Quarter Cash Flow Analysis

	Three months ended December 31	
(in thousands of U.S. dollars)	**2017**	2016
Cash flow:		
Provided by operating activities before working capital changes	**$ 2,741**	$ 6,984
Changes in non-cash working capital	**14,935**	(1,959)
Provided by operating activities	**17,676**	5,025
Provided by (used in) investing activities	**31,667**	(14,473)
Used in financing activities and other	**(43,266)**	(1,836)
Increase (decrease) in cash	**$ 6,077**	($11,284)

Operating activities

Operating cash flows before working capital changes decreased in 2017 due to lower gold production and sales at San Dimas and discontinued operations at Black Fox.

The changes in non-cash working capital was a cash inflow of $14.9 million in Q4 2017 compared with an outflow of $2.0 million in Q4 2016. The inflow in 2017 was due mainly to the receipt of VAT receivable in Mexico and a drawdown of inventory.

Investing activities

During the fourth quarter of 2017, cash provided by investing activities resulted from the proceeds from the sale of the Black Fox Complex and Cerro del Gallo project, partially offset by capital expenditures.

San Dimas capital expenditures in the fourth quarter of 2017 were $6.0 million, focused mainly on underground development, capitalized drilling, ventilation improvements, and equipment upgrades. This was below Q4 2016 capital expenditures of $9.0 million.

Financing activities

Financing activities during Q4 2017 consisted primarily of interest payments and RCF repayments compared to Q4 2016 which consisted primarily of capital lease and interest payments.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA

The following table provides a summary of unaudited financial data for the last eight quarters:

(in thousands of U.S. dollars except for per share amounts)	2017				2016			
	Q 4	Q 3	Q 2	Q 1	Q 4	Q 3	Q 2	Q 1
Financial Data [1]								
Revenue	$ 32,532	$ 23,636	$ 16,232	$ 19,369	$ 34,089	$ 36,581	$ 42,578	$ 34,333
Total cost of sales	(28,246)	(22,451)	(18,958)	(20,058)	(32,338)	(36,204)	(38,262)	(40,764)
Earnings from mine operations	$ 4,286	$ 1,185	($2,726)	($689)	$ 1,751	$ 377	$ 4,316	($6,431)
Impairment charges	(108,858)	-	(195,000)	-	(111,000)	-	-	-
Exploration expenses	(215)	(306)	(350)	(474)	(733)	(206)	(612)	(334)
Share-based compensation	(469)	(972)	(922)	(1,786)	(1,466)	(2,268)	(1,801)	(1,514)
General and administrative expenses	(3,137)	(2,513)	(2,883)	(2,946)	(2,647)	(3,344)	(4,209)	(3,329)
Idle and restart costs incurred during strike at San Dimas	-	-	-	(6,207)	-	-	-	-
Other charges	(2,622)	(1,116)	(1,702)	(1,604)	(594)	(2,284)	(1,443)	(404)
(Loss) earnings from operations	($111,015)	($3,722)	($203,651)	($13,638)	($114,689)	($7,725)	($3,749)	($12,012)
Other (expenses) income	(4,383)	(4,834)	(2,476)	5,950	10,816	(171)	(4,467)	(3,435)
Income tax (expense) recovery	2,304	(1,837)	(14,906)	18,832	32,212	(3,394)	(11,272)	2,392
Net (loss) income from continuing operations	($113,094)	($10,393)	($221,033)	$ 11,144	($71,661)	($11,290)	($19,488)	($13,055)
Net income (loss) from discontinued operations, net of income taxes	($2,119)	$ 2,817	($79,434)	$ 2,427	($118,426)	($442)	$ 58	($116)
Net (loss) income for the period	(115,213)	(7,576)	(300,467)	13,571	(190,087)	(11,732)	(19,430)	(13,171)
Basic and diluted (loss) income per share from continuing operations	($0.59)	($0.05)	($1.15)	$ 0.06	($0.38)	($0.06)	($0.12)	($0.08)
Basic and diluted (loss) income per share from discontinued operations	($0.01)	$ 0.01	($0.42)	$ 0.01	($0.63)	$ -	$ -	$ -
Diluted (loss) income per share including discontinued operations	($0.60)	($0.04)	($1.57)	$ 0.07	($1.01)	($0.06)	($0.12)	($0.08)

[1] Black Fox Complex and the Cerro del Gallo project have been retroactively classified as discontinued operations.

- When the Company reaches its annual threshold for deliveries under the silver purchase agreement, the Company realizes silver sales at spot prices, increasing both revenue and net income. Revenue in Q4 2016 and Q3 2016 included $0.1 million and $2.9 million, respectively, of silver sales at spot prices.

- The Company recorded the following non-cash mining interest impairments: Q4 2017 $109.0 million related to San Dimas, Q3 2017 $5.0 million relating to the Black Fox Complex, Q2 2017 $285.0 million, comprising $195.0 million relating to the San Dimas mine, $40.0 million relating to the Black Fox Complex and $50.0 million relating to the Cerro del Gallo Project, Q4 2016 $228.0 million, comprising $111.0 million and $117.0 million on mining interests relating to San Dimas and Black Fox, respectively and in Q4 2015 $104.0 million, comprising of $82.0 million and $22.0 million relating to Black Fox and Cerro del Gallo, respectively.

- Exploration expenses reflect the costs incurred in the Company's exploration properties.

- Share-based compensation fluctuates based on the share price of the Company and vesting of grants in previous periods.

- Other charges include legal costs associated with legal proceedings in Mexico (APA and NAFTA), advisor and legal costs associated with the strategic process, and termination payments apart from Q1 and Q2 2017 which also includes period costs incurred during the San Dimas strike, costs associated with the strategic review process in Q3 and Q4 2017 and a loss on disposition of Cerro del Gallo in Q4 2017.

- Interest and finance expense varies quarterly depending on the amount of debt held by the Company.

- The 5.75% Convertible Debentures and common share purchase warrants are marked-to- market each quarter.

- Other income (expense) largely includes foreign exchange gains or losses from the revaluation of certain local denominated assets and liabilities at San Dimas and Black Fox to U.S. dollars.

- Income tax expense (recovery) is impacted by the effects of foreign exchange fluctuations on Mexican peso denominated non-cash deferred income taxes, which were significant in certain periods such as Q2 2017, Q1 2017, and Q4 2016.

NON-GAAP MEASURES

The Company has included certain non-GAAP performance measures throughout this document. These performance measures are employed by management to assess the Company's operating and financial performance and to assist in business decision-making. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors and other stakeholders use this information to evaluate the Company's operating and financial performance; however, these non-GAAP performance measures do not have any standardized meaning. Accordingly, these performance measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Cash Costs Per Gold Ounce

The Company has included the non-GAAP performance measures of total cash costs per gold ounce on a gold equivalent ounce and by-product basis, throughout this document. The Company reports total cash costs on a production basis. In the gold mining industry, this is a common performance measure but does not have any standardized meaning. In presenting cash costs on a production basis, the Company follows the original recommendations of the Gold Institute Production Cost Standard. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The following table provides a reconciliation of total cash costs per gold equivalent ounce and total cash costs per gold ounce on a by-product basis to operating expenses (the nearest GAAP measure) per the consolidated financial statements.

(in thousands of U.S. dollars except for per ounce amounts)	Three months ended December 31		Year ended December 31	
	2017	2016	**2017**	2016
Operating expenses per the consolidated financial [1] statements	**$ 23,244**	$ 20,874	**$ 67,280**	$ 100,452
Operating expenses per discontinued operation in the consolidated financial statements	**1,306**	13,986	**39,982**	54,815
Share-based compensation included in operating expenses	**46**	(364)	**(702)**	(1,536)
Inventory movements and adjustments [2]	**(724)**	1,091	**1,058**	(1,429)
Total cash operating costs	**$ 23,872**	$ 35,587	**$ 107,618**	$ 152,302
Ounces of gold produced	**21,076**	40,675	**111,376**	156,052
Gold equivalent ounces of silver produced	**4,498**	5,120	**13,498**	20,087
Gold equivalent ounces produced	**25,574**	45,794	**124,874**	176,139
Total cash costs per gold equivalent ounce	**$ 933**	$ 777	**$ 862**	$ 865
Total cash operating costs	**$ 23,872**	$ 35,587	**$ 107,618**	$ 152,302
By-product silver credits	**(5,721)**	(6,185)	**(17,039)**	(24,879)
Cash costs, net of by-product credits	**$ 18,151**	$ 29,402	**$ 90,579**	$ 127,423
Ounces of gold produced	**21,076**	40,675	**111,376**	156,052
Total by-product cash costs per gold ounce produced	**$ 861**	$ 723	**$ 813**	$ 817

(1) Costs incurred during the strike at San Dimas were excluded in calculating operating expenses. These costs consist of non- union labour, costs of running the camp, security and fixed costs such as licenses and utility tariff charges.

(2) Inventory adjustments in the year ended December 31, 2016 includes additional costs incurred due to the abnormal production level resulting from the ground support initiatives and a significant draw down of finished goods inventory at San Dimas.

Gold equivalent ounces of silver produced for the San Dimas mine are computed as silver ounces produced multiplied by the ratio of the average realized silver price to the average realized gold price during each quarter. The computations are shown below.

	Three months ended December31		Year ended December31	
	2017	2016	**2017**	2016
Silver ounces produced (millions) (A)	**1.32**	1.42	**3.96**	5.32
Average realized silver price (B)	**$ 4.32**	$ 4.34	**$ 4.30**	$ 4.68
Average realized gold price (C)	**$ 1,272**	$ 1,208	**$ 1,261**	$ 1,246
Gold equivalent ounces of silver (A) x (B)/(C)	**4,498**	5,123	**13,498**	20,087

By-product silver credits are calculated as silver ounces produced multiplied by the average realized silver price ((A) X (B)) in the table above.

Management uses total cash costs per gold equivalent ounce and by-product cash costs per gold ounce to monitor the operating performance of its mines and to assess the attractiveness of potential acquisition targets. Management also believes these measures provide investors and analysts with useful information about the Company's underlying cash costs of operations and the impact of by-product credits on the Company's cost structure is a relevant metric used to understand the Company's operating profitability and ability to generate cash flow. When deriving the production costs associated with an ounce of gold, the Company includes byproduct credits as the Company considers that the cost to produce the gold is reduced as a result of the by-product sales supplementary to the gold production process, thereby allowing management and the Company's other stakeholders to assess the net costs of gold production.

All-in sustaining costs per gold ounce

The World Gold Council ("WGC") guidance notes on non-GAAP metrics available to companies in the gold industry to use to report their costs in an effort to encourage improved understanding of the total costs associated with mining an ounce of gold. The WGC is a market development organization for the gold industry and is an association whose membership comprises leading gold mining companies, including Primero. The WGC is not a regulatory industry organization. The WGC worked with its member companies to develop the definition of "all-in sustaining costs per gold ounce", which it believes to be helpful to investors, governments, local communities and other stakeholders in understanding the economics of gold mining.

The Company has adopted the reporting of "all-in sustaining costs per gold ounce". This metric is a non-GAAP performance measure. The Company reports this measure on a gold ounces produced basis.

The Company presents all-in sustaining costs because it believes that it more fully defines the total current cost associated with producing gold. The Company also believes that this measure allows investors and other stakeholders of the Company to better understand its costs of producing gold and better assess the Company's ability to generate cash flow from current operations. Management also uses all-in sustaining costs in evaluating the efficiency of its operations because it believes that IFRS measures, such as operating expenses, do not capture all of the costs incurred to discover, develop, and sustain gold production. As the measure seeks to reflect the full cost of gold production from current operations, it does not include capital expenditures attributable to development projects or mine expansions, exploration and evaluation costs attributable to growth projects, income tax payments and financing costs. In addition, the calculation of all-in sustaining costs does not include depreciation and depletion expense as it does not reflect the impact of expenditures incurred in prior periods. Even though this measure is not representative of all of the Company's cash expenditures, management believes that it is a useful measure in allowing it to analyze the efficiency of its current gold mining operations.

The following table provides a reconciliation of all-in sustaining costs per gold ounce cash cost, net of by-product credits for the three months and year ended December 31, 2017 and 2016:

	Three months ended December 31		Year ended December 31	
(in thousands of U.S.dollars except for per ounce amounts)	**2017**	2016	**2017**	2016
Cash costs, net of by-product credits	**$ 18,151**	$ 29,402	**$ 90,579**	$ 127,423
Corporate general and administrative expenses	**3,552**	4,626	**15,880**	$ 21,851
Reclamation cost accretion	**192**	219	**943**	$ 1,043
Sustaining capital expenditures	**6,434**	12,909	**35,397**	$ 57,657
All-in sustaining costs	**$ 28,329**	$ 47,156	**$ 142,799**	$ 207,974
Ounces of gold produced	**21,076**	40,675	**111,376**	156,052
All-in sustaining costs per gold ounce	**$ 1,344**	$ 1,159	**$ 1,282**	$ 1,333

All-in sustaining costs adjust "cash costs, net of by-product credits", for corporate general and administrative expenses, reclamation cost accretion and sustaining capital expenditures. Corporate general and administrative expenses are included as a line item on the Company's statement of operations. Sustaining capital expenditures and reclamation cost accretion are not line items on the Company's financial statements.

Sustaining capital expenditures are defined as those capital expenditures which do not increase annual gold ounce production at a mine site and exclude all expenditures at the Company's projects and certain expenditures at the Company's operating sites which are deemed expansionary in nature.

Reclamation cost accretion represents the growth in the Company's decommissioning liability due to the passage of time. This amount does not reflect cash outflows but it is considered to be representative of the periodic costs of reclamation and remediation. Reclamation cost accretion is included in finance expense in the Company's condensed consolidated statements of operations and comprehensive loss.

The Company's exploration program comprises delineation drilling, exploration drilling, exploration drifting and regional exploration. The costs related to delineation drilling, exploration drilling and exploration drifting are included in all-in sustaining costs. The regional exploration program is designed to identify new mineral targets on the Company's extensive land holdings in order to grow production rather than sustain production.

RELATED PARTY TRANSACTIONS

The Company's related parties include its subsidiaries, associates over which it exercises significant influence, and key management personnel. During its normal course of operation, the Company enters into transactions with its related parties for goods and services. The Company's related party transactions are described in Note 23 to the Company's annual consolidated financial statements for the year ended December 31, 2017.

ACCOUNTING PRONOUNCEMENTS

The Company continually monitors the issuance by the International Accounting Standards Board ("IASB") of new and revised accounting pronouncements which may have an impact on the accounting, presentation and disclosure of transactions underlying the Company's consolidated financial statements. New and revised pronouncements issued which may have an impact in the future on the Company are described in Note 2 to the Company's annual consolidated financial statements for the year ended December 31, 2017.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board. The significant accounting policies applied are described in Note 2 to the Company's annual consolidated financial statements for the year ended December 31, 2017.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities at the date of the financial statements. If in future such judgements, estimates and assumptions, which are based on management's experience and knowledge of the relevant facts and circumstances at the date of the financial statements, deviate materially from actual circumstances, the original judgements, estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

a) Accounting estimates

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

(i) Estimated recoverable reserves and resources

The Company estimates its proven and probable mineral reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. Estimated ounces from mineral reserves and resources as well as estimates for exploration potential are included in the Company's estimation of future cash flows. These cash flows are based on factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in estimated ounces may impact the carrying value of assets, reclamation and remediation obligations, recognition of deferred tax amounts, depreciation and depletion, and impairment charges.

(ii) Determination of useful lives of property, plant and equipment

Property, plant and equipment are depreciated to their estimated residual value over the estimated useful life of the asset. Should the actual useful life of the property, plant or equipment vary, future depreciation charges may change.

(iii) Impairment charges

Non-current assets are tested for impairment if there is an indicator of impairment. The impairment analysis generally requires the use of estimates and assumptions, including amongst others, long-term commodity prices, discount rates, length of mine life, future production levels, future operating costs, future capital expenditures and tax estimates. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances the carrying value of the assets may be impaired or a prior period's impairment charge reversed with the impact recorded in the statements of operations and comprehensive loss.

(iv) Decommissioning liability

The Company's accounting policy for the recognition of accrued site closure costs requires significant estimates and assumptions such as the requirements of the relevant legal and regulatory framework, the magnitude of possible disturbance and the timing, extent and costs of required closure, rehabilitation activity and applicable discount rates. Changes to these estimates and assumptions may result in actual expenditures in the future differing from the amounts currently provided. The decommissioning liability is periodically reviewed and updated based on the available facts and circumstances.

(v) Income taxes

The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of change. Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, the market price for gold and silver, production costs, quantities of proven and probable reserves, interest rates and foreign currency exchange rates.

(vi) Valuation of inventory

All inventory, other than supplies, is valued at the lower of average cost or net realizable value. Management is required to make various estimates and assumptions to determine the value of stockpiled ore, in-circuit inventories and doré inventories. The estimates and assumptions include surveyed quantities of stockpiled ore, in-circuit process volumes, gold and silver contents of both, costs to recover saleable ounces, recoverable ounces once processed and the price per ounce of gold or silver when ounces of gold and silver are expected to be recovered and sold.

(vii) Share-based compensation

The Company makes certain estimates and assumptions when calculating the fair values of share-based compensation granted. The significant estimations and assumptions include expected volatility, expected life, expected dividend rate and risk-free rate of return.

b) Accounting judgments

The critical judgments that the Company's management have made that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

(i) Functional currency

The determination of a subsidiary's functional currency often requires significant judgment where the primary economic environment in which an entity operates may not be clear. This can have a significant impact on the consolidated results of the Company.

(ii) Tax ruling in Mexico

On October 4, 2012, PEM received a ruling (the "APA Ruling") from the Mexican tax authority, Servicio de Administración Tributaria ("SAT"), which confirmed the appropriate price for sales of silver under the Amended and Restated Silver Purchase Agreement (see note 15 (c) for further information). Under Mexican tax law, an advance pricing agreement ("APA") ruling is generally applicable for up to a five year period (which in the Company's case, covered the year in which the ruling application was filed, the immediately preceding year and the three subsequent years). The Company's APA Ruling covered the five years ended December 31, 2014.

In February 2016, PEM received a legal claim from the Mexican tax authority seeking to nullify the APA. The legal claim initiated does not identify any different basis for paying taxes, nor have any tax reassessments been received from the SAT. The Company intends to vigorously defend the validity of its APA. The Company has filed procedural and substantive responses to the claim. The procedural response is a challenge against the admission of SAT's claim. The substantive response contains the Company's response to the SAT's claim. If the SAT is successful in retroactively nullifying the APA, the SAT may seek to audit and reassess PEM in respect of its sales of silver in connection with the Silver Purchase Agreement for 2010 through 2014. If SAT is successful in retroactively nullifying the APA and issuing reassessments, it would likely have a material adverse effect on the Company's results of operations, financial condition and cash flows. PEM would have rights of appeal in connection with any reassessments.

In June 2017, as part of the ongoing annual audits of the PEM tax returns, the SAT issued an observations letter for the 2010 tax year. An observations letter is issued to a taxpayer in advance of a reassessment being issued, provides an outline of the SAT's position on matters under audit, and affords the taxpayer an opportunity to respond to such position in advance of the reassessment being issued. In this observations letter issued to PEM, the SAT made explicit its view that PEM should pay taxes based on the market price of silver which, if successfully applied to its 2010 taxation year, would make PEM liable for an additional $8.5 million of taxes before penalties or interest. As the Company continues to defend the APA in the Mexican legal proceeding, the APA remains valid and the Company will vigorously dispute any reassessment that may be issued in the future on a basis that assesses taxes on its silver revenues that is inconsistent with the APA. The observations letter does not represent a tax reassessment and no liability has been recognized in the financial statements.

In October 2017, the SAT issued an observations letter for the 2011 tax year, with the same explicit view that PEM should pay taxes on the market price of silver, which if successfully applied to its 2011 taxation year, would make PEM liable for an additional $23.4 million of taxes before penalties or interest. The Company has submitted its formal response to both the 2010 and the 2011 observations letters.

While the Company continues to believe its tax filing position based upon the APA is correct, should the Company ultimately be required to pay tax on its silver revenues based on market prices without any mitigating adjustments, the incremental income tax for the years 2012-2017 would be in the range of $130 - $145 million, before interest or penalties.

While the Company continues to vigorously defend the validity of the APA and its transfer pricing position, it is also engaging in dialogue with the SAT seeking to resolve matters and bring tax certainty through a negotiated solution. Primero has also had constructive dialogue with the SAT in relation to outstanding value-added tax ("VAT") receivables and has received $15.2 million of VAT refunds since July 2017.

Since January 1, 2015, the Company has continued to record its revenue from the sale of silver for purposes of Mexican tax accounting in a manner consistent with the APA, on the basis that the applicable facts and laws have not changed. The Company's legal and financial advisors continue to believe that the Company has filed its tax returns compliant with applicable Mexican law. To the extent the SAT determines that the appropriate price of silver sales under the Silver Purchase Agreement is significantly different from the realized price and while PEM would have rights of appeal in connection with any reassessments, it is likely to have a material adverse effect on the Company's business, financial condition and results of operations.

FINANCIAL INSTRUMENTS

The Company's financial instruments at December 31, 2017 consist of cash and cash equivalents, restricted cash, trade and other receivables, an equity investment in Fortune Bay, trade and other payables, and debt.

At December 31, 2017, the carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables and the RCF are considered to be a reasonable approximation of their fair values due to their short-term nature. The fair value of the financial lease liabilities approximate their carrying value as the interest rate implicit in the leases approximate current market rates.

Derivative instruments - Embedded derivatives

Financial instruments and non-financial contracts may contain embedded derivatives, which are required to be accounted for separately at fair value as derivatives when the risks and characteristics of the embedded derivatives are not closely related to those of their host contract and the host contract is not carried at fair value. The Company regularly assesses its financial instruments and non-financial contracts to ensure that any embedded derivatives are accounted for in accordance with its policy. There were no material embedded derivatives requiring separate accounting at December 31, 2017 or December 31, 2016, other than those discussed below.

The 5.75% convertible debentures issued by the Company on February 9, 2015 (Note 10 (c)) are considered to contain multiple embedded derivatives. These debentures and all related derivatives were accounted for as one instrument which was initially recognized at fair value and will subsequently be measured at fair value for each period during the term of the debentures. During the year ended December 31, 2017 a mark to market gain of $4.9 million (2016 – $9.0 million) was recognized in relation to the debentures.

The common share purchase warrants issued by the Company on June 24, 2016 are considered derivative liabilities and were initially recognized at fair value and are subsequently measured at fair value during the term of the warrants. During the year ended December 31, 2017, a mark-to-market gain of $1.0 million (2016 - $3.6 million) was recognized in relation to the common share purchase warrants.

Fair value measurements of financial assets and liabilities recognized on the Consolidated Statements of Financial Position

The categories of the fair value hierarchy that reflect the significance of inputs used in making fair value measurements are as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data.

The levels in the fair value hierarchy that the Company's financial assets and liabilities that are measured and recognized at fair value on a recurring basis are as follows:

Level 1	**December 31 2017**	December 31 2016
Investment in Fortune Bay (1)	**$910**	$1,160
5.75% convertible debentures (2, 3)	**47,625**	52,500
Warrant liability (2)	**44**	1,066

(1) Fortune Bay is a publicly-listed company and the fair value is based on the trading price of its shares as at the date of the statement of financial position.
(2) The fair value of the 5.75% convertible debentures and warrant liability are calculated using the market price on the TSX Exchange as at the date of the statement of financial position.
(3) On March 13, 2018, the holders of the 5.75% convertible debentures voted to approve an amendment to the maturity date of the debentures to the day following the closing date of the Arrangement with full principal of $75 million paid on this date.

At December 31, 2017, there were no financial assets or liabilities measured and recognized on the consolidated statements of financial position at fair value that would be categorized as Level 3 in the fair value hierarchy (December 31, 2016 – $nil).

Financial Instruments Risk

The following describes the types of financial instrument risks to which the Company is exposed and its objectives and policies for managing those risk exposures:

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. Credit risk is primarily associated with trade and other receivables; however, it also arises on cash and cash equivalents and restricted cash. To mitigate exposure to credit risk on financial assets, the Company ensures non-related counterparties demonstrate minimum acceptable credit worthiness and ensures liquidity of available funds.

The Company closely monitors its financial assets and does not have any significant concentration of credit risk with non-related parties. The Company invests its cash and cash equivalents in highly rated financial institutions and sells its products exclusively to organizations with strong credit ratings. The credit risk associated with trade receivables at December 31, 2017 is considered to be negligible. The Company expects the outstanding value added tax receivable from the Mexican tax authorities to be refunded or be offset against future tax payments. Approximately $15.2 million was refunded since July 2017.

The Company's maximum exposure to credit risk at December 31, 2017 and 2016 is as follows:

		2017		2016
Cash and restricted cash	**$**	**20,966**	$	24,452
Trade and other receivables		**1,241**		1,962
Current and non-current taxes receivable		**40,789**		41,838
	$	**62,996**	$	68,252

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's objectives and key guidelines for capital management, including management of long-term debt, are described in note 21 to the Company's annual consolidated financial statements for the year ended December 31, 2017 (see related discussion in the Liquidity section).

If the Arrangement Agreement to sell the Company to First Majestic is terminated for any reason, there would be significant uncertainty as to whether the Company could discharge its commitments as they come due from cash from operations and collection of receivables without an extension of the RCF maturity date or other form of re-financing.

The table below shows the Company's liquidity risk profile at December 31, 2017:

(in thousands of U.S. dollars)	Within 1 year	2-5 years	**Total**
Cash and cash equivalents	$ 20,966	$ -	**$ 20,966**
Trade and other payables	(19,593)	-	**(19,593)**
Revolving credit facility balance and interest	(30,657)	-	**(30,657)**
Finance lease liabilities	(109)	-	**(109)**
5.75% Convertible debentures and interest	(4,313)	(80,010)	**(84,323)**
Total	($33,706)	($80,010)	**($113,716)**

Refer to note 2b) to the Company's annual consolidated financial statements for the Company's plans to address liquidity risk associated with the current working capital deficiency. The Company has entered into commercial leases on certain types of equipment and office space which have been classified as operating leases. These leases have terms of between 1 and 6 years. There are no restrictions placed on the Company as a result of entering into these leases. Some of the leases contain renewal or purchase options at the end of the lease. The total operating lease expense from continuing operations during the year ended December 31, 2017 was $0.9 million (2016 - $0.8 million).

Market risk

(i) Currency risk

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currency exchange rates. Exchange rate fluctuations may affect the costs incurred in the Company's operations. Gold is sold in U.S. dollars and costs are incurred principally in U.S. dollars, Canadian dollars and Mexican pesos. The appreciation of the Mexican peso or the Canadian dollar against the U.S. dollar can increase the costs of gold production and capital expenditures in U.S. dollar terms. The Company also holds cash that is denominated in Canadian dollars and Mexican pesos which are subject to currency risk. The Company's head office general and administrative expenses are mainly denominated in Canadian dollars and are translated to U.S. dollars at the average rate during the period and as such if the U.S. dollar appreciates as compared to the Canadian dollar, the costs of the Company would decrease in U.S. dollar terms. The Company is further exposed to currency risk through non-monetary assets and liabilities of its Mexican entities whose taxable profit or loss is denominated in a non-U.S. dollar currency. Changes in exchange rates give rise to temporary differences resulting in a deferred tax liability or asset with the resulting deferred tax charged or credited to income tax expense.

During the year ended December 31, 2017, the Company recognized a loss of $4.5 million on foreign exchange (2016 – loss of $1.0 million). Based on the above net exposures at December 31, 2017, a 10% depreciation or appreciation of the Mexican peso against the U.S. dollar would result in a $1.6 million increase or decrease in the Company's before-tax net loss from continuing operations (2016 - $1.4 million); and a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in a $0.2 million increase or decrease in the Company's before-tax net loss from continuing operations (2016 - $2.7 million).

The Company does not currently use derivative instruments to reduce its exposure to currency risk, however, management monitors its differing currency needs and tries to reduce its exposure to currency risks through exchanging currencies at what are considered to be optimal times.

(ii) Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the financial instruments will fluctuate because of changes in market interest rates. The exposure to interest rates is monitored. The Company's exposure to interest rate risk is limited to the revolving credit facility which is subject to a floating interest rate. An increase or decrease of 100 basis points in the interest rate would result in a decrease or increase in profit before tax of $0.3 million (assuming $30.2 million drawn on the line of credit).

(iii) Price risk

Price risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in commodity prices. Profitability depends on sales prices for gold and silver. Metal prices are affected by numerous factors such as the sale or purchase of gold and silver by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the U.S. dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major producing countries throughout the world.

The table below summarizes the impact on profit before-tax for a 10% change in the average commodity price achieved by the Company during the year. The analysis is based on the assumption that the gold and silver prices move 10% with all other variables held constant.

		2017		2016
Gold price				
10% increase	**$**	**14,081**	$	14,084
10% decrease		**(14,081)**		(14,084)
Silver price				
10% increase	**$**	**-**	$	222
10% decrease		**-**		(222)

RISKS AND UNCERTAINTIES

Closing of Arrangement Agreement with First Majestic

As disclosed under the "Financial Condition Review" section, the Arrangement is currently subject to certain regulatory approvals including anti-trust approval in Mexico. In the event that the Arrangement does not close as planned, there would be significant uncertainty with respect the Company's ability to meet its financial commitments.

Challenge to the 2012 APA

As discussed under the "Other Liquidity Considerations" section, the ongoing proceedings and negotiations associated with the APA nullity claim represent a significant risk and uncertainty to the Company.

Class action

The Company has agreed to indemnify its directors and officers, and the directors and officers of its subsidiaries, to the extent permitted under corporate law, against costs and damages incurred as a result of lawsuits or any other judicial, administrative or investigative proceeding in which said directors or officers are sued as a result of their services. The directors' and officers are covered by directors' and officers' liability insurance.

In July 2016, the Company and certain officers were served with a class action lawsuit that was filed earlier in the year in federal court in the State of California seeking to recover damages for investors in the Company's common shares under the U.S. federal securities laws. The Company filed a motion to dismiss this action which was granted on January 30, 2017. The plaintiff's claims were dismissed without prejudice and the plaintiffs filed an amended complaint on February 27, 2017. On July 14, 2017 the Company's motion to dismiss the amended complaint was granted and the plaintiffs' claims were dismissed without prejudice. Rather than amend the complaint again, the plaintiffs asked the federal court to enter final judgment and initiated an appeal of the dismissal to the Ninth Circuit Court of Appeals on September 8, 2017. The parties have filed their briefs in this appeal and a ruling on the appeal is expected sometime in 2018. The Company intends to vigorously defend this class action lawsuit.

INTERNAL CONTROLS

The Company is required to maintain and evaluate the effectiveness of its internal control over financial reporting under National Instrument 52-109 in Canada ("NI 52-109"). There is no assurance that the Company will be able to achieve and maintain the adequacy of its internal control over financial reporting as such standards are modified, supplemented, or amended from time to time, and the Company may not be able to ensure that it can conclude on an ongoing basis that its internal control over financial reporting is effective. The Company's failure to establish and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of its financial statements. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could result in the Company's inability to meet its reporting obligations. There can be no assurance that the Company will be able to remediate material weaknesses, if any, identified in future periods, or maintain all of the controls necessary for continued compliance, and there can be no assurance that the Company will be able to retain sufficient skilled finance and accounting personnel. No evaluation can provide complete assurance that the Company's internal control over financial reporting will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be reported.

Disclosure Controls and Procedures

Disclosure controls and procedures form a framework designed to provide reasonable assurance that information disclosed publicly fairly presents in all material respects the financial condition, results of operations, and cash flows of the Company for the periods presented in this MD&A. The Company's disclosure controls and procedures framework includes processes designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to management by others within those entities to allow timely decisions regarding required disclosure.

The Company's management, with the participation of its CEO and CFO, has evaluated the design, operation and effectiveness of the Company's disclosure controls and procedures. Based on the results of that evaluation, the Company's CEO and CFO have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported, within the time periods specified in the securities legislation, and is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls Over Financial Reporting

The Company's management, with the participation of its CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed or under the supervision of, the CEO and CFO, and effected by the Company's Board of Directors, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that the Company's receipts and expenditures are made only in accordance with authorizations of management and the Company's Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

Management assessed the effectiveness of Primero's internal control over financial reporting as of December 31, 2017, based on the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, Management concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

Readers are cautioned that any controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Due to the inherent limitations in all controls systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

Certain statements made and information contained in this MD&A constitute "forward-looking information" within the meaning of Canadian securities laws, such as, references to the Company's ability to extend or replace its existing financing, future gold and silver production, and the future profitability and viability of the Company's operations. Forward–looking information and statements in this MD&A include those that relate to:

- continued production at the San Dimas mine,
- the satisfaction of conditions necessary and the expected timing to close the arrangement with First Majestic,
- the ability of the Company to continue as a going concern,
- the Company's ability to repay amounts under the RCF and its ability to further extend the maturity date of the RCF,
- the available alternatives to sustain operations should the arrangement with First Majestic be delayed or not close,
- the actual results of exploration activities, including the current inability of the Company to continue the historical conversion of resources to reserves at the San Dimas mine, and the impact of the failure of exploration efforts to identify large replacement veins on future mining and production rates,
- actual results of reclamation activities at the San Dimas,
- the estimation or realization of Mineral Reserves and Resources,
- the timing and amount of estimated future production, capital expenditures and costs, including forecasted cash costs,
- the ability of the Company to manage its work force and its adherence to standard work practices as well and management of union agreements with each operating site,
- the timing of the development of new mineral deposits,
- future prices of precious and base metals,
- expected ore grades, recovery rates, and throughput,
- that plant, equipment or processes will operate as anticipated,
- the occurrence of accidents, labour disputes, road blocks and other risks associated with the mining industry,
- the ability of the Company to obtain governmental approvals or permits in connection with the continued operation and development of the San Dimas mine (which is currently intended to be sold before year end),
- the SAT's challenge to the APA ruling and the basis for calculating taxes on silver sold pursuant to the Silver Purchase Agreement for past and future periods and the impact of future adverse tax assessments on the economic viability of the San Dimas mine,
- the ability of the Company to successfully renegotiate the terms of the Silver Purchase Agreement,
- the ability of the Company to comply with environmental, safety and other regulatory requirements,
- expectations regarding currency fluctuations,

- Ejido disputes relating to the Company's properties,
- the timing and possible outcome of pending litigation, and
- the ability of the Company to maintain effective control over financial reporting

Such forward-looking information is necessarily based upon a number of factors and assumptions that, while considered reasonable by the Company as of the date of such statements, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The assumptions made by the Company in preparing the forward looking information contained in this MD&A, which may prove to be incorrect, include, but are not limited to: the expectations and beliefs of management; the specific assumptions set forth above in this MD&A; that the transaction with First Majestic will be approved by the Company's shareholders and that all regulatory approvals will be timely received; assumptions relating to the Company's ability to extend, repay or refinance its RCF; that there are no significant disruptions affecting operations, whether due to supply disruptions, damage to or loss of equipment, whether as a result of natural occurrences including flooding, political changes, title issues, intervention by local landowners, loss of permits, or environmental concerns or otherwise; that there are no disruptions in the supply of power from the Las Truchas power generation facility, whether as a result of damage to the facility or unusually limited amounts of precipitation; that the Company does not change its development and exploration plans;; that the exchange rate between the Canadian dollar, Mexican peso and the United States dollar remains consistent with current levels; that prices for gold and silver remain consistent with the Company's expectations; that prices for key mining supplies, including labour costs and consumables, remain consistent with the Company's current expectations; that production meets expectations; that the Company's current estimates of mineral reserves, mineral resources, exploration potential, mineral grades and mineral recovery are accurate; that the Company identifies higher grade veins in sufficient quantities to support near term mining and production plans; that the ratio of gold to silver price is maintained in accordance with the Company's expectations; that there are no material variations in the current tax and regulatory environment; that the APA is not nullified and that the Company pays taxes on a similar basis for future periods; that Mexican tax laws relative to the APA ruling remain unchanged; that the Company will continue to pay taxes in Mexico based on realized prices of silver or that the Company is able to achieve another acceptable resolution with the SAT; that the Company will receive required permits and access to surface rights; that the Company can access financing, appropriate equipment and sufficient labour and that the political environment within Mexico will continue to support the development of environmentally safe mining projects.

No assurance can be given as to whether these assumptions will prove to be correct. These assumptions should be considered carefully by investors. Investors are cautioned not to place undue reliance on the forward-looking information and statements or the assumptions on which the Company's forward-looking information and statements are based.

Forward-looking information is subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements. Such risks include, but are not limited to: regulatory approvals may be delayed or denied, the volatility of prices of gold and other metals; uncertainty of mineral reserves, mineral resources, exploration potential, mineral grades and mineral recovery estimates; uncertainty of future production, exploration and development plans; insufficient capital to continue development and exploration plans; litigation risks; risks inherent in the execution of significant transactions; currency fluctuations; cessation of mining operations due to uneconomic conditions; financing of additional capital requirements; cost of exploration and development programs; mining risks, including unexpected formations and cave-ins, which delay operations or prevent extraction of material; risks associated with foreign operations; governmental and environmental regulation; tax law changes; the ability of the Company to continue to pay taxes based on the realized price of silver; the volatility of the Company's stock price; landowner dissatisfaction and disputes; delays in permitting; damage to equipment; labour disruptions; and other interruptions. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements.

Investors are advised to carefully review and consider the risk factors identified in this MD&A under the heading " *Risk and uncertainties* ", and in the Company's Annual Information Form for the year ended December 31, 2016 as filed on SEDAR, for a discussion of the factors that could cause the Company's actual results, performance and achievements to be materially different from any anticipated future results, performance or achievements expressed or implied by the forward-looking statements. Investors are further cautioned that the foregoing list of assumptions and risk factors is not exhaustive and it is recommended that prospective investors consult the more complete discussion of the Company's business, financial condition and prospects that is included in this MD&A. The forward-looking information and statements contained in this MD&A are made as of the date hereof and, accordingly, are subject to change after such date.

The Company does not undertake to update any forward-looking information, except as, and to the extent, required by applicable securities laws. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

Cautionary Note for United States Investors

The disclosure in this MD&A uses terms that comply with reporting standards in Canada and certain estimates are made in accordance with National Instrument 43-101 "Standards of Disclosure for Mineral Projects" ("NI 43-101"). NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Unless otherwise indicated, all reserve and resource estimates contained in or incorporated by reference in this MD&A have been prepared in accordance with NI 43-101. These standards differ significantly from the requirements of the United States Securities and Exchange Commission (the "SEC"), SEC Industry Guide 7 as amended ("Guide 7") and reserve and resource information contained herein and incorporated by reference herein may not be comparable to similar information disclosed by U.S. companies.

This MD&A uses the terms "Mineral Reserve", "Proven Mineral Reserve" and "Probable Mineral Reserve" which are terms defined in the Canadian Institute of Mining, Metallurgy and Petroleum which were adopted by the Canadian Securities Administrators' NI 43-101. Under SEC standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. Among other things, all necessary permits would be required to be in hand or issuance imminent in order to classify mineralized material as reserves under the SEC standards. Accordingly, Mineral Reserve estimates contained in this MD&A may not qualify as "reserves" under SEC standards. In addition, disclosure of "contained ounces" is permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report mineralization as in place tonnage and grade without reference to unit measures.

This MD&A also uses the terms "Measured Mineral Resources", "Indicated Mineral Resources" and "Inferred Mineral Resources". We advise investors that while such terms are recognized and required by Canadian securities regulations, the SEC does not recognize them. Inferred Mineral Resources have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian regulations, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies, except in limited circumstances. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. Investors are cautioned not to assume that all or any part of Measured Mineral Resources or Indicated Mineral Resources will ever be converted into Mineral Reserves. Investors are also cautioned not to assume that any part or all of an Inferred Mineral Resource exists, or is economically or legally mineable.

NI 43-101 also permits the inclusion of disclosure regarding the potential quantity and grade, expressed as ranges, of a target for further exploration provided that the disclosure (i) states with equal prominence that the potential quantity and grade is conceptual in nature, that there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the target being delineated as a Mineral Resource, and (ii) states the basis on which the disclosed potential quantity and grade has been determined. Disclosure regarding exploration potential has been included in this MD&A. United States investors are cautioned that disclosure of such exploration potential is conceptual in nature by definition and there is no assurance that exploration of the mineral potential identified will result in any category of NI 43-101 Mineral Resources being identified.

For the above reasons, information contained in this MD&A may not be comparable to similar information disclosed by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

On behalf of the Board

"Joseph F. Conway"

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Joseph F. Conway
Vice Chairman, Interim President & CEO

PRIMERO NEWS RELEASE

TSX: P

PRIMERO REPORTS FOURTH QUARTER AND FULL-YEAR 2017 RESULTS

(Please note that all dollar amounts in this news release are expressed in U.S. dollars unless otherwise indicated. Refer to the year-end 2017 management's discussion and analysis ("MD&A") and audited financial statements for more information.)

Toronto, Ontario, March 20, 2018 – Primero Mining Corp. ("Primero" or the "Company") (TSX:P) today reported financial and operating results for the fourth quarter and full-year ended December 31, 2017.

Primero commenced a strategic review process in early 2017 that resulted in the sale of the Black Fox Complex in October 2017 and the sale of the Cerro del Gallo development project in November 2017. In January 2018 the Company also announced that it had entered into the Arrangement Agreement whereby First Majestic will acquire all of the issued and outstanding common shares of Primero. The transaction is expected to close in or around April 2018, subject to applicable regulatory approvals and the satisfaction of other customary conditions.

Fourth Quarter and Full-Year 2017 Production Results

Primero produced 25,574 gold equivalent ounces [1] during the fourth quarter of 2017, at total cash costs of $933 per gold equivalent ounce [2] and all-in sustaining costs ("AISC") [3] of $1,344 per ounce. Gold production was 21,076 ounces in Q4 2017 compared to 40,675 ounces in Q4 2016, and silver production was 1.32 million ounces from San Dimas in Q4 2017 compared to 1.42 million ounces in Q4 2016. The decreased gold production was driven by the sale of Black Fox and lower throughput at San Dimas.

This resulted in full-year 2017 consolidated production of 124,874 gold equivalent ounces at total cash costs of $862 per gold equivalent ounce and AISC of $1,282 per ounce. Gold production was 111,376 ounces in 2017 compared to 156,052 ounces in 2016, and silver production was 3.96 million ounces from San Dimas in 2017 compared to 5.32 million ounces in 2016.

San Dimas' 2017 gold production of 60,167 ounces was at the bottom end of the guidance range of 60,000 to 70,000 ounces for the year. San Dimas' gold equivalent production of 73,665 ounces was just below the guidance range of 75,000 to 85,000 ounces for 2017.

A strike action by unionized employees resulted in a complete stoppage of mining and milling activities at San Dimas from February 15, 2017 to April 22, 2017, which significantly impacted 2017 production levels.

The Black Fox mine produced 51,209 ounces of gold in the first nine-months of 2017, the production period attributable to Primero, with underground mining focused on the Deep Central Zone. On October 6, 2017, the Black Fox Complex was sold to McEwen Mining Inc. ("McEwen") and all metal production subsequent to September 30, 2017 is attributable to McEwen.

PRIMERO

Fourth Quarter and Full-Year 2017 Financial Results

Primero generated $34.8 million of revenue in Q4 2017 from the sale of 23,229 ounces of gold at an average realized price of $1,255 per ounce and 1.29 million ounces of silver at an average realized price of $4.32 per ounce. This resulted in Primero generating $157.6 million of revenue in full-year 2017 from the sale of 114,377 ounces of gold at an average realized price of $1,231 per ounce and 3.90 million ounces of silver at an average realized price of $4.30 per ounce. Due to the sale of the Black Fox Complex during 2017, its revenue is included in discontinued operations in Primero's financial statements.

Silver produced at San Dimas is subject to a silver purchase agreement [4] and as a result all silver sold during 2017 was delivered to Wheaton Precious Metals International Ltd. ("WPMI"), under the silver purchase agreement. The annual threshold limit under the silver purchase agreement for the 2017 contract year (August 6 of a year to August 5 of the following year) was 6.0 million ounces of silver. The annual threshold was not exceeded for the year-ended August 5, 2017. As of December 31, 2017, the Company has delivered 2.3 million ounces of silver towards the current annual threshold.

The Company incurred a net loss of $409.7 million ($2.14 per share) in 2017 including $398.8 million in non-cash impairment charges in 2017, compared to a net loss of $234.4 million ($1.32 per share) in 2016 which included $228.0 million in non-cash impairment charges in 2016.

As part of the strategic review process carried out in 2017, the Company received several proposals during the second quarter of 2017 that identified that the carrying value of its cash generating units exceeded their fair value. During the second quarter of 2017, the Company recorded an impairment of $285 million, which comprised impairments of $195 million for the San Dimas mine, $40 million for the Black Fox Complex and $50 million for the Cerro del Gallo project. During the third quarter of 2017, an additional impairment of $5 million was recorded for the Black Fox Complex to align with the actual net proceeds from its disposition during the fourth quarter of 2017. As at December 31, 2017, the consideration under the Arrangement Agreement identified that the carrying value of the San Dimas mine exceeded the fair value. The Company recorded an additional impairment of $109 million relating to San Dimas.

Operating cash flows before changes in working capital was $22.6 million ($0.12 per share) in 2017, compared to $15.3 million ($0.09 per share) in 2016 mainly due to higher earnings from mine operations and lower taxes paid in Mexico. Working capital outflows were lower in 2017 at $0.1 million compared to $2.2 million in 2016.

This release should be read in conjunction with Primero's audited year-end 2017 financial statements and MD&A report on the Company's website, www.primeromining.com , in the "Financial Reports" section under "Investors", or on the SEDAR website at www.sedar.com .

(1) "Gold equivalent ounces" include silver ounces produced, and converted to a gold equivalent based on a ratio of the average commodity prices realized for each period. The ratio for the fourth quarter 2017 for San Dimas was based on realized prices of $1,272 per ounce of gold and $4.32 per ounce of silver. The ratio for the full-year 2017 for San Dimas was based on realized prices of $1,261 per ounce of gold and $4.30 per ounce of silver.

(2) Total cash costs per gold equivalent ounce and total cash costs on a by-product basis are non-GAAP measures. Total cash costs per gold equivalent ounce are defined as cost of production (including refining costs) divided by the total number of gold equivalent ounces produced. Total cash costs on a by-product basis are calculated by deducting the by-product silver credits from operating costs. The Company reports total cash costs on a production basis. In the gold mining industry, these are common performance measures but do not have any standardized meaning, and are non-GAAP measures. The Company follows the recommendations of the Gold Institute standard. The Company believes that, in addition to conventional measures, prepared in accordance with GAAP, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. See the fourth quarter full-year 2017 MD&A for a reconciliation of total cash costs to reported operating expenses (the nearest GAAP measure).

(3) The Company, in conjunction with an initiative undertaken within the gold mining industry, has adopted an all-in sustaining cost non-GAAP performance measure that the Company believes more fully defines the total cost associated with producing gold; however, this performance measure has no standardized meaning. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The Company reports this measure on a gold ounces produced basis. For the purposes of calculating all-in sustaining costs at individual mine sites, the Company does not include corporate general and administrative expenses. Corporate general and administrative expenses are included in the computation of all-in sustaining costs per consolidated gold ounce. Refer to the Company's fourth quarter and full-year 2017 MD&A for a reconciliation of all-in sustaining costs per gold ounce.

(4) According to the silver purchase agreement between the Company and Wheaton Precious Metals Corp. ("WPM"), until August 6, 2015 Primero delivered to WPM a per annum amount equal to the first 3.5 million ounces of silver produced at San Dimas and 50% of any excess at $4.12 per ounce (increasing by 1% per year). Thereafter Primero will deliver to WPM a per annum amount equal to the first 6.0 million ounces of silver produced at San Dimas and 50% of any excess at $4.20 per ounce (increasing by 1% per year). The Company will receive silver spot prices only after the annual threshold amount has been delivered.

About Primero

Primero Mining Corp. is a Canadian-based precious metals producer that owns 100% of the San Dimas gold-silver mine in Mexico.

Primero's website is www.primeromining.com .

For further information, please contact:

Investor Relations
Tel: (416) 814-3160
info@primeromining.com

CAUTIONARY NOTE ON FORWARD-LOOKING INFORMATION

This news release contains "forward-looking statements", within the meaning of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation, concerning the business and operations of Primero Mining Corp. and its consolidated subsidiaries (collectively, "Primero" or the "Company"). All statements, other than statements of historical fact, are forward-looking statements. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "if approved", "forecasts", "intends", "anticipates", "believes", "in order to" or variations of such words and phrases or statements that certain actions, events or results "are anticipated", "may", "could", "would", "might" or "will" or similar statements or the negative connotation thereof. Forward-looking information is also identifiable in statements of currently occurring matters which will continue in future, or other statements that may be stated in the present tense and are not historical facts.

Forward-looking statements in this news release include, but are not limited to, the expected timing to closed the transaction whereby First Majestic will acquire all of the issued and outstanding common shares of the Company, the ability to generate significant free cash flow; statements regarding the APA and the Company's ability to defend its validity, the Company's ability to pay taxes in Mexico on realized silver prices; the Company's negotiations with the union at its San Dimas mine.

The assumptions made by the Company in preparing the forward-looking information contained in this news release, which may prove to be incorrect, include, but are not limited to: the expectations and beliefs of management; the specific assumptions set forth above in this news release; that the transaction with First Majestic will be approved by the Company's shareholders and that all regulatory approvals will be timely received, that there are no significant disruptions affecting operations; that the exchange rate between the Canadian dollar, Mexican peso and the United States dollar remain consistent with current levels or as set out in this news release; that prices for gold and silver remain consistent with the Company's expectations; that production meets expectations; that there are no material variations in the current tax and regulatory environment; that the political environment within Mexico and Canada will continue to support the development of environmentally safe mining projects.

Forward-looking statements are subject to known and unknown risks, uncertainties and other important factors that may cause the actual results, performance or achievements of Primero to be materially different from those expressed or implied by such forward-looking statements, including: regulatory approvals may be delayed or denied, the Company may not be able to achieve planned production levels; the Company may not be able to generate significant free cash flow; the Company may be required to change its development and exploration plans with a negative impact on production; the Company may not discover mineralization in minable quantities; and the exchange rate between the Canadian dollar, the Mexican peso and the United States dollar may change with an adverse impact on the Company's financial results. Certain of these factors are discussed in greater detail in Primero's registration statement on Form 40-F on file with the U.S. Securities and Exchange Commission, and its most recent Annual Information Form on file with the Canadian provincial securities regulatory authorities and available at www.sedar.com .

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. In addition, although Primero has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Forward-looking statements are made as of the date hereof and accordingly are subject to change after such date. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans and allowing investors and others to get a better understanding of our operating environment. Primero does not undertake to update any forward-looking statements that are included in this document, except in accordance with applicable securities laws.