# Aura Silver Resources Inc.

(An Exploration Stage Company)

## Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(expressed in United States dollars)

April 24, 2017

## Independent Auditor's Report

**To the Shareholders of**
**Aura Silver Resources Inc.**

We have audited the accompanying consolidated financial statements of Aura Silver Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

**Auditor's responsibility**
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aura Silver Resources Inc. and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Aura Silver Resources Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

**Chartered Professional Accountants, Licensed Public Accountants**

## Aura Silver Resources Inc.
(An Exploration Stage Company)
## Consolidated Statements of Financial Position

(expressed in U.S. dollars)

| | December 31, 2016 $ | December 31, 2015 $ |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | 13,589 | 50,070 |
| Amounts receivable (note 5) | 2,347 | 2,010 |
| Prepaid expenses | 4,381 | 5,655 |
| | 20,317 | 57,735 |
| **Mineral exploration properties** (note 6) | - | - |
| **Deferred exploration expenditures** (note 6) | - | 1,628 |
| | - | 1,628 |
| | 20,317 | 59,363 |
| **Liabilities and shareholders' equity (deficiency)** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 7) | 177,211 | 135,584 |
| **Shareholders' equity (deficiency)** | | |
| **Capital stock** (note 8) | 12,649,725 | 12,639,625 |
| **Warrants** (note 8) | 36,100 | 36,100 |
| **Contributed surplus** (note 8) | 4,524,131 | 4,524,131 |
| **Accumulated deficit** | (17,260,805) | (17,172,687) |
| **Accumulated other comprehensive loss** | (106,045) | (103,390) |
| | (156,894) | (76,221) |
| | 20,317 | 59,363 |

Going concern (note 1)

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

Approved by the Board of Directors:

| | |
|---|---|
| (signed) "W. William Boberg" | (signed) "Robert Boaz" |
| Director | Director |

## Aura Silver Resources Inc.

(An Exploration Stage Company)

**Consolidated Statements of Operations and Comprehensive Loss**

(expressed in U.S. dollars)

| | Year ended December 31, 2016 $ | Year ended December 31, 2015 $ |
|---|---|---|
| **Expenses** | | |
| Promotion and annual meeting costs | 16,306 | 31,264 |
| Regulatory authority and transfer agent fees | 12,047 | 12,606 |
| Professional fees | 43,276 | 56,565 |
| General and administrative | 157,619 | 170,697 |
| Stock option compensation charges (note 6) | - | 27,633 |
| Amortization of equipment | - | 465 |
| Impairment of mineral exploration properties and deferred exploration expenditures (note 6) | 31,428 | 54,384 |
| Total expenses | (260,676) | (353,614) |
| Interest income | - | 55 |
| Forfeiture of accrued compensation (note 11) | 106,918 | - |
| Other income (notes 6 and 10) | 65,640 | 13,011 |
| **Net loss for the year** | (88,118) | (340,548) |
| **Other comprehensive loss:** | | |
| **Items that may be subsequently reclassified to operations** | | |
| Currency translation differences | (2,655) | (11,805) |
| **Total comprehensive loss for the year** | (90,773) | (352,353) |
| Net loss per common share: | | |
| Basic and diluted | (0.00) | (0.00) |
| Weighted average number of common shares outstanding: | | |
| Basic and diluted | 113,696,597 | 107,057,282 |

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

## Aura Silver Resources Inc.
(An Exploration Stage Company)
**Consolidated Statements of Changes in Shareholders' Equity (Deficiency)**

(expressed in U.S. dollars)

| | Capital stock # | Capital stock $ | Warrants # | Warrants $ | Contributed surplus $ | Accumulated deficit $ | Accumulated other comprehensive loss $ | Total shareholders' equity (deficiency) $ |
|---|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2015** | 101,680,844 | 12,547,372 | - | - | 4,491,939 | (16,832,139) | (91,585) | 115,587 |
| Private placement of units (note 8) | 11,150,000 | 98,928 | 11,150,000 | 36,100 | - | - | - | 135,028 |
| Share issue costs | - | (6,675) | - | - | - | - | - | (6,675) |
| Stock option compensation charges (note 8) | - | - | - | - | 32,192 | - | - | 32,192 |
| Net loss for the year | - | - | - | - | - | (340,548) | - | (340,548) |
| Currency translation differences | - | - | - | - | - | - | (11,805) | (11,805) |
| **Balance, December 31, 2015** | 112,830,844 | 12,639,625 | 11,150,000 | 36,100 | 4,524,131 | (17,172,687) | (103,390) | (76,221) |
| Issue of common shares for property (notes 6 and 8) | 1,000,000 | 10,958 | - | - | - | - | - | 10,958 |
| Share issue costs | - | (858) | - | - | - | - | - | (858) |
| Net loss for the year | - | - | - | - | - | (88,118) | - | (88,118) |
| Currency translation differences | - | - | - | - | - | - | (2,655) | (2,655) |
| **Balance, December 31, 2016** | 113,830,844 | 12,649,725 | 11,150,000 | 36,100 | 4,524,131 | (17,260,805) | (106,045) | (156,894) |

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

## Aura Silver Resources Inc.

(An Exploration Stage Company)

**Consolidated Statements of Cash Flows**

(expressed in U.S. dollars)

| | Year ended December 31, 2016 $ | Year ended December 31, 2015 $ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss for the year | (88,118) | (340,548) |
| Items not affecting cash: | | |
| Stock based compensation (note 8) | - | 27,633 |
| Amortization of equipment | - | 465 |
| Impairment of mineral exploration properties and deferred exploration expenditures (note 6) | 31,428 | 54,384 |
| Forfeiture of accrued compensation (note 11) | (106,918) | - |
| Other income - Agnico Eagle option payment (note 6) | (33,155) | (13,011) |
| Change in non-cash working capital items: | | |
| Amounts receivable | (337) | 6,731 |
| Prepaid expenses | 1,274 | 2,059 |
| Accounts payable and accrued liabilities | 145,525 | 34,392 |
| | (50,301) | (227,895) |
| **Investing activities** | | |
| Sale of short-term investments | - | 82,390 |
| Mineral exploration property costs (note 6) | (15,165) | (37,072) |
| Deferred exploration expenditures (note 6) | (8,803) | (21,240) |
| | (23,968) | 24,078 |
| **Financing activities** | | |
| Agnico Eagle option payment received (note 6) | 38,281 | 40,657 |
| Issuance of common shares and warrants (note 8) | - | 135,028 |
| Share issue costs | (858) | (6,675) |
| | 37,423 | 169,010 |
| Effect of exchange rate changes on cash | 365 | (6,601) |
| **Net change in cash** | (36,481) | (41,408) |
| **Cash - Beginning of year** | 50,070 | 91,478 |
| **Cash - End of year** | 13,589 | 50,070 |

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

(expressed in U. S. dollars)

## 1. Nature of operations and going concern

### General information

Aura Silver Resources Inc. (referred to herein collectively with its subsidiaries as the "Company") is an exploration stage junior mining company engaged in the identification, acquisition, evaluation and exploration of mineral properties in North America. The Company has not determined whether the properties contain mineral resources that are economically recoverable. The recoverability of amounts recorded for mineral exploration properties and deferred exploration expenditures is dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain the necessary financing to complete the development of these resources and upon attaining future profitable production from the properties or sufficient proceeds from disposition of the properties.

Aura Silver Resources Inc. is publicly listed on the TSX Venture Exchange. The Company's registered office is located at Manotick (Ottawa), Ontario, K4M 1A3, Canada, where it is domiciled.

### Going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern which assumes that the Company will be able to continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

Several conditions cast significant doubt on the validity of this assumption and hence the appropriateness ultimately of the use of accounting principles relating to a going concern. From inception to date, the Company has incurred losses from operations and experienced negative cash flows from operating activities. As at December 31, 2016, the Company had cash totalling $13,589 and had a working capital deficiency of $156,894. Existing funds on hand at December 31, 2016 will not be sufficient to support the Company's needs for cash to conduct exploration and to continue operations during the coming year. During June 2014, the Company entered into an option agreement with Agnico Eagle Mines Limited ("Agnico Eagle") with respect to its Greyhound property. Agnico Eagle has the right to fund exploration on the property in order to earn an interest in the project (see note 6). Subsequent to year end, during January and February 2017, the Company closed tranches of a private placement financing of units raising gross proceeds of CDN$500,000 (see note 15). The Company will require additional funding to be able to advance and retain mineral exploration property interests and to meet ongoing requirements for general operations. The ability of the Company to continue as a going concern is dependent on raising additional financing, retaining or attracting joint venture partners, developing its properties and/or generating profits from operations or disposition of properties in the future.

Management has been successful in obtaining sufficient funding for operating, capital and exploration requirements from the inception of the Company to date. There is, however, no assurance that additional future funding will be available to the Company, or that it will be available on terms which are acceptable to management.

These consolidated financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported amounts of expenses and balance sheet classifications that would be necessary if the going concern assumption was not appropriate and such adjustments could be material.

## 2. Basis of preparation

### Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards. These consolidated financial statements have been prepared under the historical cost convention and are expressed in United States dollars, which is the Company's presentation currency.

These consolidated financial statements were approved for issue by the Company's board of directors on April 24, 2017.

## 3. Significant accounting policies

### Basis of presentation

Aura Silver Resources Inc. was incorporated under the Business Corporations Act (Ontario) by Articles of Amalgamation dated July 12, 1988. On June 9, 2006 the shareholders approved a name change to Aura Silver Resources Inc. and continued the Company under the Canada Business Corporation Act. On December 16, 2005, Aura Silver Resources Inc. acquired all of the issued and outstanding shares of Au Martinique Inc. ("Au Martinique") which had been operating since October 27, 2003, in exchange for 14,534,120 common shares and 6,576,825 warrants valued, in the aggregate, at $973,500. The share exchange was accounted for as a reverse take-over with Au Martinique deemed to be the acquiror for accounting purposes. Consequently, Au Martinique's assets and liabilities were carried forward into the consolidated statement of financial position at their historical carrying values. As Aura Silver Resources Inc. had no assets at the acquisition date, the fair value of the common shares and warrants provided for the acquisition were charged to accumulated deficit.

On May 4, 2010, Aura Resources Mexico S.A. de C.V. was incorporated as a wholly-owned Mexican subsidiary of Aura Silver Resources Inc.

These consolidated financial statements include the assets, liabilities and expenses of Aura Silver Resources Inc. and its wholly-owned subsidiaries Au Martinique (which is inactive) and Aura Resources Mexico S.A. de C.V. All inter-company balances and transactions have been eliminated upon consolidation.

(expressed in U. S. dollars)

**Cash and cash equivalents**

Cash and cash equivalents include investments which have a term to maturity at the time of purchase of 90 days or less and which are readily convertible into cash.

**Short-term investments**

Short-term investments are comprised of guaranteed investment certificates with a major Canadian chartered bank which have a term to maturity at the time of purchase in excess of 90 days and less than one year. These investments are readily convertible into cash.

**Equipment**

Equipment is initially recorded at cost and is then amortized using the declining balance method at the following annual rates: computers at 30% and office furniture and equipment at 20%.

**Mineral exploration properties and deferred exploration expenditures**

Acquisition costs of mineral exploration properties together with direct exploration and development expenditures are capitalized. When production is attained, these costs will be amortized. If properties are abandoned or considered to be impaired in value, the costs of the properties and related deferred expenditures will be written down to their estimated recoverable amount, being the higher of fair value less costs to sell and value in use at that time.

**Share capital**

Share issue costs are recorded as a reduction of share capital when the related shares are issued.

**Stock-based compensation**

The Company grants stock options to certain officers, directors and consultants of the Company. Stock options vest over an 18 month period and expire after five years. Each vesting tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation cost related to stock options is charged to expense or is capitalized to deferred exploration expenditures when related to direct exploration activities. Compensation cost is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

**Foreign currency translation**

The functional currency of Aura Silver Resources Inc., the parent entity, is the Canadian dollar. The functional currency of Aura Resources Mexico S.A. de C.V., including costs for the Taviche property, is the United States dollar. The presentation currency of the Company is the United States dollar.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at each consolidated statement of financial position date. Foreign exchange gains or losses on translation to the functional currency of an entity are recorded in the consolidated statement of operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transactions.

For entities with a functional currency different from the presentation currency, translation to the presentation currency is required. Assets and liabilities are translated into the presentation currency at the rate of exchange at the consolidated statement of financial position date. Equity balances are translated at the rates of exchange at the transaction dates. Income and expenses are translated at the exchange rates at the dates of the transactions. All resulting exchange differences arising from translation to the presentation currency are recognized in other comprehensive loss.

**Income taxes**

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of operations except to the extent that it relates to items recognized directly in equity; in which case the income tax is also recognized directly in equity. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

(expressed in U. S. dollars)

**Flow-through share accounting**

In accordance with current tax legislation, the Company renounces the tax deductions relating to qualified resource expenditures that are financed by the issuance of flow-through shares to the benefit of the flow-through shareholders. Common shares issued on a flow-through basis typically include a premium over the market price of the Company's common shares that is associated with the tax benefits of the flow-through share. The Company estimates the proportion of proceeds attributable to the flow-through premium as the excess of the subscription price over the market value of the shares and records this value as a liability at issuance.

Deferred income taxes related to the temporary differences created by the renouncement of flow-through share tax benefits to subscribers are recorded on a pro-rata basis when the qualified expenditures are incurred. This can occur either before or after the formal renunciation of expenditures is filed with tax authorities. When the qualified expenditures are incurred, the tax value of the renunciation is recorded on a pro-rata basis as a deferred income tax liability with a corresponding charge to income tax expense in the consolidated statement of operations and comprehensive loss. If unrecognized deferred tax assets exist, deferred tax liabilities recorded upon incurring the qualified expenditures are offset with a deferred tax recovery recorded in the consolidated statement of operations. Additionally, as qualified expenditures are incurred, the Company recognizes a pro-rata reduction of the flow-through premium liability as income in the consolidated statement of operations and comprehensive loss.

**Loss per common share**

Basic loss per common share is calculated based upon the weighted average number of common shares outstanding during the period. The diluted loss per common share is calculated using the treasury stock method which includes the dilutive effect of stock options, share purchase warrants and compensation options outstanding when applicable. Details regarding potentially dilutive equity instruments are provided in note 9.

**Financial instruments**

On initial recognition, all financial assets and liabilities, including derivatives, must be measured at their fair value. Transaction costs from loans and receivables increase the carrying amount of the related financial assets. Transaction costs from other financial liabilities reduce the carrying amount of the related financial liabilities. Subsequently, financial assets and liabilities are measured and recognized as follows:

Cash is classified as loans and receivables and measured at amortized cost. Cash equivalents and short-term investments are classified as held-to-maturity and are carried at amortized cost plus accrued interest using the effective interest rate method, with interest income included in the consolidated statement of operations and comprehensive loss. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

**Segmented reporting**

The Company presents and discloses segmented information based on information that is regularly reviewed by the Company's President and CEO who is the chief operating decision-maker. The President & CEO has primary responsibility for allocating resources to the Company's operating segments and assessing their performance. The Company has determined that there is only one operating segment being the sector of exploration and development of mineral resource properties.

**New and revised accounting standards that are not yet effective**

***IAS 7 – Statement of cash flows***
In January 2016, IASB amended IAS 7, Statement of Cash Flows. The amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and, (v) other changes. One way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. This amendment will be mandatory for reporting periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of this standard on its financial statements.

***IFRS 9 – Financial Instruments***
In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments (IFRS 9) which replaces International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. IFRS 9 also introduces additional changes relating to financial liabilities and aligns hedge accounting more closely with risk management.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption of the new standard permitted. Company management has yet to assess the impact of this new standard on the Company's consolidated financial statements. The Company does not intend to early adopt IFRS 9.

**4. Critical accounting estimates, judgments and estimation uncertainties**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures in the notes thereto. These estimates and assumptions are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates. The most significant items requiring the use of management estimates and valuation assumptions are related to the recoverable value of mineral exploration properties and deferred exploration expenditures; the valuation of all liability and equity instruments including flow-through share premiums, warrants, compensation options and stock options; and, the ability of the Company to continue as a going concern.

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases.

(expressed in U. S. dollars)

Determining whether to test for impairment of mineral exploration properties and deferred exploration assets requires management's judgment regarding the following factors, among others: the period for which the entity has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amounts of the exploration assets are unlikely to be recovered in full from successful development or by sale.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs must be determined. Identifying the cash-generating units requires management judgment. In testing an individual asset or cash-generating unit for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the cash-generating unit. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ in such a situation and significant adjustments to the Company's assets and earnings may occur during subsequent periods.

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The model used by the Company is the Black-Scholes valuation model. The Company has made estimates as to the volatility of its own common shares, the probable life of share options, warrants and compensation options granted and the time of exercise of those instruments.

The Company allocates values to share capital and to warrants according to their fair value using the proportional method when the two are issued together as a unit. The Company uses the Black-Scholes valuation model to determine the fair value of warrants issued.

These consolidated financial statements have been prepared on a basis which assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. This assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions. Further information regarding going concern is outlined in note 1.

## 5. Amounts receivable

Amounts receivable of $2,347 (2015 - $2,010) is comprised entirely of harmonized sales tax (HST) receivable.

## 6. Mineral exploration properties and deferred exploration expenditures

| | Taviche (Mexico) | Greyhound (Canada) | Total |
|---|---|---|---|
| ***Mineral exploration properties:*** | | | |
| **Balance, December 31, 2014** | $ - | $ - | $ - |
| Claim fees and property costs | 37,072 | - | 37,072 |
| Impairment of mineral exploration properties | (37,072) | - | (37,072) |
| **Balance, December 31, 2015** | - | - | - |
| Common shares issued for property | 10,958 | - | 10,958 |
| Claim fees and property costs | 15,165 | - | 15,165 |
| Impairment of mineral exploration properties | (26,123) | - | (26,123) |
| **Balance, December 31, 2016** | $ - | $ - | $ - |
| ***Deferred exploration expenditures:*** | | | |
| **Balance, December 31, 2014** | $ - | $ 22,388 | $ 22,388 |
| Geology | 6,399 | 550 | 6,949 |
| Geochemical soil survey | 4,501 | - | 4,501 |
| Drill permitting and related | - | 7,937 | 7,937 |
| General field costs | 6,412 | - | 6,412 |
| Translation to reporting currency | - | (1,601) | (1,601) |
| Agnico Eagle option payment | - | (27,646) | (27,646) |
| Impairment of deferred exploration expenditures | (17,312) | - | (17,312) |
| **Balance, December 31, 2015** | - | 1,628 | 1,628 |
| Geology | 1,202 | - | 1,202 |
| Drilling related | - | 3,498 | 3,498 |
| General field costs | 4,103 | - | 4,103 |
| Agnico Eagle option payment | - | (5,126) | (5,126) |
| Impairment of deferred exploration expenditures | (5,305) | $ - | (5,305) |
| **Balance, December 31, 2016** | $ - | $ - | $ - |

(expressed in U. S. dollars)

**Taviche - Mexico**

On June 8, 2009, the Company concluded a definitive option agreement with Plata Panamericana S.A. de C.V. ("Plata", a wholly-owned subsidiary of Pan American Silver Corporation ("PanAm")), Intrepid Mines Limited and Intrepid Minerals Corporation (collectively "Intrepid"). This definitive option agreement confirmed and superseded all prior agreements (which were entered into during 2006) for a potential joint venture with Intrepid and PanAm with respect to the Taviche properties in Oaxaca State, Mexico. The property concessions subject of the option agreement consisted of the East and West Taviche concessions and the Alma Delia concession. Under the terms of the option agreement the Company and Intrepid (the "Taviche JV") were able to jointly earn a 70% interest in the properties by spending a minimum of $4.0 million over five years on exploration and making option payments totalling $790,000 over the same period. During the remainder of the five year option period with Plata, the Company and Intrepid could equally share exploration expenses and payment requirements or either party's interest in the project would be diluted. Initially, Intrepid had the right to act as operator of the project.

On March 10, 2010, Intrepid notified the Company that it would not participate in funding the next phase of exploration for the Taviche project and, therefore, would allow its participating interest in the project to be diluted by the Company's ongoing funding of project costs. Operatorship of the project was transferred to the Company during March 2010. Intrepid has not provided further funding since this time. During early 2016, the Company's and Intrepid's ownership interests were 73.5% and 26.5%, respectively. During February 2016, the Company acquired Intrepid's diluting interest resulting in the Company holding a 100% ownership interest in the Taviche project (see below).

During April 2012, the Company, Intrepid and Plata entered into a new agreement which supersedes the option agreement and established the ownership interests of each party in the Taviche and Alma Delia concessions and related matters. Under the terms of the new agreement the Taviche JV acquired a full 100% ownership interest in both the East Taviche and Alma Delia concessions while Plata retained a 100% ownership position in the West Taviche concession. The Taviche JV was entitled to receive a cash payment of $2.0 million, dependent on certain sale or disposition transactions undertaken by Plata in excess of a 70% interest with respect to the West Taviche property (see below). Plata refunded the final earn-in payment of $250,000 paid in September 2011. Additionally, the Taviche JV granted Plata a 1.5% net smelter royalty ("NSR") as well as a right of first offer on the East Taviche and Alma Delia concessions based on certain terms and conditions. The agreement vested a 100% ownership position in East Taviche and Alma Delia with the Taviche JV.

During February 2013, the Taviche JV determined that it would not renew the Alma Delia concession in order to focus on the core project holdings at East Taviche and to reduce project land maintenance costs.

On July 24, 2013, the Company received a cash payment of $1,309,111 from Plata. This payment was triggered by the completion of Plata's sale of the West Taviche concession to Fortuna Silver Mines Inc. and was in accordance with the April 2012 agreement between the Taviche JV and Pan Am. The payment was comprised of the Company's pro-rata share of the total payment of $2 million paid to the Taviche JV of $1,412,000 net of prior concession fees of $102,889 related to East Taviche which were reimbursable to Plata.

During February 2015, the Company completed filings with Mexican authorities to request a reduction in the size of the East Taviche concession. This reduction decreased the East Taviche concession to 986 hectares from its prior 7,470 hectares and retains the core area encompassing the Higo Blanco trend which has been the focus of the Company's exploration efforts in Mexico since 2009. New title documentation for the concession was issued by Mexican authorities during January 2016.

During February 2016, the Company entered into a binding letter agreement with Intrepid for the acquisition of Intrepid's 26.5% diluting joint venture interest in the Taviche project. The acquisition consolidates to 100% the Company's ownership interest in the Taviche project and eliminates a potential 1.5% NSR to Intrepid that would have applied to future production if Intrepid's interest in the joint venture had fallen below 10%. The 1.5% NSR held by Maverix Metals Inc. (previously held by Plata) remains in place. Consideration payable for the acquisition of Intrepid's project interest comprised 1,000,000 common shares of the Company valued at $10,958 (CDN$15,000).

During April 2016, the Company was advised by Plata of its intention to assign its 1.5% NSR on the Taviche property to MacMillan Minerals Inc. pursuant to a purchase and sale agreement. MacMillan Minerals Inc. changed its name to Maverix Metals Inc. upon completion of a reverse takeover transaction during July 2016.

As at December 31, 2016 and 2015, due to junior resource market conditions and the uncertainty associated with the Company's ability to retain its interest in and exploit any future economic benefit from the Taviche, Mexico project, the Company had recorded an impairment charge totalling $31,428 (2015 - $54,384) with respect to the mineral exploration property costs and deferred exploration expenditures associated with the project.

(expressed in U. S. dollars)

**Greyhound - Nunavut, Canada**

During June 2006, the Company initiated its Greyhound project in the central Churchill region of Nunavut, Canada, staking 10 claims for a total of 10,451 hectares. From 2008 to 2011, the Company increased its land holdings in the Whitehills area to a total of 57 claims comprising over 55,000 hectares. During 2013 and 2014, the Company allowed a total of 37 low priority claims to lapse. Currently, the Greyhound project comprises a total of 20 claims covering approximately 19,658 hectares. The Company currently has a 100% direct ownership interest in the Greyhound project.

During June 2014, the Company entered into a definitive option agreement with Agnico Eagle Mines Limited which allows Agnico Eagle to earn an interest in 13 claims (approx. 13,586 hectares) comprising part of the Greyhound project. The option agreement was amended effective June 1, 2015 in order to change the timing and amounts of certain cash option payments. Under the terms of the amended option agreement, over the first three years of the agreement, Agnico Eagle has the exclusive right to earn an undivided 51% ownership interest by making a total of CDN$210,000 in cash payments to the Company and incurring CDN$1,750,000 in work expenditures (or, in respect of work expenditures, at Agnico Eagle's option, by making cash payments to the Company or a combination of work expenditures and cash payments). Details with respect to the initial option period are as follows:

| Due date | Cash payments (CDN$) | Work expenditures (CDN$) |
|---|---|---|
| On or before May 31, 2015 (incurred) | | 250,000 |
| On or before June 1, 2015 (received) | 50,000 | |
| On or before May 31, 2016 (incurred) | | 500,000 |
| On or before June 1, 2016 (received) | 50,000 | |
| On or before May 31, 2017 (ongoing) | | 1,000,000 |
| On or before June 1, 2017 | 110,000 | |
| Cumulative totals | 210,000 | 1,750,000 |

Upon completion of earning a 51% interest, Agnico Eagle will have an option to increase its ownership interest in the project to 70% over a further three year period by: (A) either (i) solely financing a Feasibility Study in respect of the project, or (ii) solely incurring CDN$5,000,000 of additional work expenditures (or, at Agnico Eagle's option, providing cash payments to the Company in an equivalent amount or a combination of work expenditures and cash payments) on or in respect of the project, and (B) providing to the Company cash option payments of (i) CDN$100,000 with the delivery of the notice as to its exercise of this option, and (ii) CDN$150,000 at the first anniversary of exercise of the option.

If any party's interest in the project falls below 10% then that party will forfeit their 10% interest and in return will receive a 2% NSR. The other party may at any time purchase one-half of the NSR, namely a 1% NSR, for an amount of CDN$2,000,000. Agnico Eagle will be the operator of the project.

Prior to the option agreement with Agnico Eagle, as at March 31, 2014, the Company had recorded a full impairment charge with respect to the mineral exploration property costs and deferred exploration expenditures associated with the Greyhound project.

During June 2016, the Company received the second anniversary cash option payment of $38,281 (CDN$50,000) from Agnico Eagle. This amount was applied to reduce the carrying amount of deferred exploration expenditures for the Greyhound project by $5,126 with the balance of $33,155 recorded in other income. During June 2015, the Company received the first anniversary cash option payment of $40,657 (CDN$50,000) from Agnico Eagle. This amount was applied to reduce the carrying amount of deferred exploration expenditures for the Greyhound project by $27,646 with the balance of $13,011 recorded in other income.

**7. Accounts payable and accrued liabilities**

| | December 31, 2016 $ | December 31, 2015 $ |
|---|---|---|
| Trade accounts payable | 136,490 | 75,888 |
| Accrued liabilities | 40,721 | 59,696 |
| | 177,211 | 135,584 |

(expressed in U. S. dollars)

## 8. Capital stock

### Authorized

The Company is authorized to issue an unlimited number of common shares, having no par value, and an unlimited number of preference shares, having no par value, in one or more series with the rights, privileges and conditions as determined by the Board of Directors at the time of issuance.

### Issued

On February 17, 2016, the Company acquired Intrepid Mines Limited's 26.5% diluting joint venture interest in the Taviche, Mexico project. Consideration payable for the acquisition comprised 1,000,000 common shares of the Company valued at $10,958 (CDN$15,000).

On July 9, 2015, the Company closed a private placement financing issuing a total of 11,150,000 units at CDN$0.015 per unit for gross proceeds of $135,028 (CDN$167,250). The Company's Chief Executive Officer and Chief Financial Officer together subscribed for a total of 7,650,000 units for gross proceeds of CDN$114,750. The Company applied for, and received, approval from the TSX Venture Exchange for a waiver from the five-cent minimum price requirement. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of CDN$0.05 per share for a period of 36 months following the date of issuance which expires on July 9, 2018.

### Warrants

During July 2015, the Company issued 11,150,000 warrants in connection with a private placement. These warrants are exercisable at CDN$0.05 per share and expire July 9, 2018. These warrants were recorded at a value of $36,100. This value was determined using the Black-Scholes option pricing model with the following assumptions: expected volatility 103%; expected warrant life of 3 years; risk-free interest rate of 0.40%; and an expected dividend yield of nil.

### Stock options

On July 8, 2005, the Company's shareholders approved the creation of the Company's stock option plan (the "Plan"). Eligible participants in the Plan include directors, officers, employees and consultants to the Company. The exercise price of the options granted under the Plan is fixed by the Board of Directors but may not be less than the Discounted Market Price, as that term is defined by the TSX Venture Exchange, of the shares at the time the option is granted. Options granted under the Plan have a five year life subject to earlier expiry upon the termination of the optionee's employment or the optionee ceasing to be a director or officer of the Company. Options vest with Plan participants as follows: 10% at the date of grant and 15% quarterly over the 18 month period following the date of grant. On June 28, 2012, shareholders of the Company approved an amendment to the Plan to increase the maximum number of common shares reserved for issuance under the Plan from 5,700,000 to 9,700,000.

Activity with respect to stock options is summarized as follows:

| | Number | Weighted-average exercise price CDN $ | Expiry |
|---|---|---|---|
| **Balance, December 31, 2014** | 9,110,000 | 0.14 | May 2015 to June 2019 |
| Expired | (2,260,000) | 0.20 | May 2015 |
| **Balance, December 31, 2015** | 6,850,000 | 0.12 | July 2016 to June 2019 |
| Expired | (2,500,000) | 0.23 | July and August 2016 |
| Forfeited | (200,000) | 0.10 | May 2017 |
| **Balance, December 31, 2016** | 4,150,000 | 0.05 | May 2017 to June 2019 |

(expressed in U. S. dollars)

As at December 31, 2016 outstanding stock options are as follows:

| Options outstanding | | | Options exercisable | | |
|---|---|---|---|---|---|
| **Exercise price CDN $** | **Number of options** | **Weighted-average remaining contractual life (years)** | **Number of options** | **Weighted-average remaining contractual life (years)** | **Expiry** |
| 0.05 | 3,900,000 | 2.5 | 3,900,000 | 2.5 | June 20, 2019 |
| 0.10 | 250,000 | 0.4 | 250,000 | 0.4 | May 25, 2017 |
| | 4,150,000 | 2.3 | 4,150,000 | 2.3 | |

As at December 31, 2015, a total of 6,850,000 stock options were exercisable. During 2016, a total of 2,500,000 stock options exercisable at CDN$0.23 expired and 200,000 stock options exercisable at CDN$0.10 were forfeited. During 2015, a total of 2,260,000 stock options exercisable at CDN$0.20 expired.

During the year ended December 31, 2016, the Company recorded a total of $Nil (2015 - $32,192) related to stock based compensation with respect to stock options. During the year ended December 31, 2015, $27,633 was charged to stock based compensation expense and $4,559 was capitalized as deferred exploration expenditures. Total stock based compensation amounts are included in shareholders' equity as contributed surplus. The values determined using the Black-Scholes option pricing model, with respect to stock options granted during 2014 (no stock options were granted during 2015 or 2016), utilized the following assumptions:

| | 2014 |
|---|---|
| Expected volatility | 99% |
| Expected option life (in years) | 5.0 |
| Risk-free interest rate | 0.94% |
| Expected dividend yield | 0% |
| Weighted-average exercise price | 0.05 |
| Weighted-average market price at grant date | 0.04 |
| Weighted-average fair value | 0.03 |

The Company determines expected volatility in relation to both historical Company volatility and by analysis of comparable companies in the mineral exploration sector.

## 9. Income taxes

For the years ended December 31, 2016 and 2015 the expected provision for (recovery of) income tax based on the combined Canadian federal and provincial income tax rate is reconciled to the Company's reported provision for (recovery of) income taxes as follows:

| | 2016 $ | 2015 $ |
|---|---|---|
| Loss before income taxes | (88,118) | (340,548) |
| Statutory rate | 26.50% | 26.50% |
| Expected recovery of income tax | (23,351) | (90,245) |
| Permanent differences | - | 13,589 |
| Effect of exchange rate differences | (30,047) | 284,830 |
| Adjustment in respect of prior years | (16,218) | 10,980 |
| Origination and reversal of timing differences | 69,616 | (219,154) |
| Provision for (recovery of) income taxes | - | - |

Significant components of the Company's deferred income tax assets are as follows:

| | 2016 $ | 2015 $ |
|---|---|---|
| **Deferred income tax assets** | | |
| Non-capital loss carry forwards | 1,085,942 | 1,048,963 |
| Share issue costs | 1,243 | 1,875 |
| Asset basis differences and tax effect of flow-through shares | 1,011,330 | 987,013 |
| Net deferred income tax asset | 2,098,515 | 2,037,851 |

(expressed in U. S. dollars)

As at December 31, 2016, no deferred tax asset was recognized related to these amounts. As at December 31, 2016, the Company has loss carry forward balances which are available to offset future years' taxable income. These carry forward balances expire as follows:

| Year of expiry | Amount $ |
|---|---|
| 2026 | 362,000 |
| 2027 | 533,000 |
| 2028 | 335,000 |
| 2029 | 239,000 |
| 2030 | 454,000 |
| 2031 | 563,000 |
| 2032 | 431,000 |
| 2033 | 394,000 |
| 2034 | 402,000 |
| 2035 | 292,000 |
| 2036 | 93,000 |
| | 4,098,000 |

**10. Other income / Mexican value added tax refunds**

During January 2016, the Company received Mexican value added tax ("VAT") refunds with respect to two claims related to claim periods in 2010. In total, VAT refunds and interest of MXN$585,374 ($32,485) were received. These refund claims were originally filed during 2011 and were initially rejected and were later resubmitted. Due to the uncertainty and inconsistency related to the Mexican tax authority's interpretation of tax laws related to value added tax claims and due to the significant time periods it can take to realize collection of claimed amounts, the Company records Mexican value added tax refunds only at the time of receipt.

**11. Related party transactions and compensation of key management and directors**

Key management includes all persons named or performing the duties of Chief Executive Officer, President, Chief Financial Officer, Vice-President and the directors of the Company. Compensation awarded to key management and directors included:

| | Year ended December 31, 2016 $ | Year ended December 31, 2015 $ |
|---|---|---|
| Management service contract fees | 78,974 | 102,400 |
| Stock option compensation charges at fair value | - | 27,240 |
| | 78,974 | 129,640 |

Effective December 31, 2016, the Company's Chief Executive Officer forfeited accrued compensation totalling $106,918 (CDN$140,000) with respect to fourteen months of compensation related to the period from July 2015 to September 2016. Management service contract fee amounts disclosed above are net of the compensation amounts forfeit. The total amount forfeited of $106,918 has been reported in other income in the consolidated statement of operations and comprehensive loss.

As at December 31, 2016, a total of $73,085 (December 31, 2015 - $57,404) is included in accounts payable and accrued liabilities with respect to amounts due to Company officers who are related parties.

(expressed in U. S. dollars)

## 12. Financial instruments and risk management

The Company's financial instruments consist of cash, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest rate or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. The Company examines the various financial risks to which it may be exposed and assesses the impact and likelihood of those risks. The Company may be exposed to various financial risks related to credit risk, liquidity risk, currency risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors of the Company.

***Credit risk***
Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash. The Company's cash is held with a major Canadian financial institution. The maximum exposure is equivalent to the carrying amounts. The Company does not consider any of its financial assets to be impaired.

***Liquidity risk***
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due (see note 1). The Company manages liquidity risk through monitoring cash outflows due in its day-to-day business and by regular cash flow forecasting of cash requirements to fund exploration projects and operating costs. As at December 31, 2016, the Company's liabilities include trade accounts payable and accrued liabilities all of which are due within normal trade terms of generally 30 days.

***Currency risk***
The Company is primarily exposed to financial risk arising from fluctuations in foreign exchange rates with respect to the United States dollar. As at December 31, 2016, the Company held cash in United States dollars of $630 (December 31, 2015 - $18,397). The Company has not utilized derivative instruments to reduce its exposure to foreign currency risk.

During the year ended December 31, 2016, approximately 1.4% (2015 - 5.3%) of the Company's operating expenses were not denominated in the functional currency and were denominated in United States dollars. The Company's property costs for the Greyhound project are denominated in Canadian dollars while Mexican project costs are primarily denominated in United States dollars. The Company has completed a sensitivity analysis to estimate the impact on net loss that a change in the United States / Canadian dollar foreign exchange rate would have. For the year ended December 31, 2016, with all other variables held constant, a plus or minus 10% change in the United States / Canadian dollar exchange rate would give rise to a change in reported net loss of plus or minus $365 (2015 - $1,869).

***Interest rate risk***
Financial instruments that expose the Company to interest rate risk have periodically included cash equivalents and short-term investments invested in guaranteed investment certificates. As at December 31, 2016, the Company did not hold any short-term investments. Fluctuations in market interest rates during 2016 or during 2015 would not have had a material impact on the Company's financial results.

## 13. Segmented information

The Company's operations comprise one reportable segment being the exploration and development of mineral resource properties. The Company's corporate and administrative offices are in Canada. The Company's exploration activities are focused on projects in Canada and Mexico; therefore, any mineral exploration property and deferred exploration expenditure assets would be located in those countries.

## 14. Capital structure

The Company's capital structure is comprised of shareholders' equity. The Company is not subject to externally imposed capital requirements. The Company's objectives when managing its capital structure are to preserve the Company's access to capital markets and its ability to meet its financial obligations and to finance its exploration activities and general corporate costs.

The Company monitors its capital structure using future forecasts of cash flows, particularly those related to its exploration programs.

The Company manages its capital structure and makes adjustments to it to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Company may adjust its exploration programs, operating expenditure plans, or issue new common shares and warrants. The Company's capital management objectives have remained unchanged over the periods presented in these consolidated financial statements.

## 15. Subsequent events

***Private placement financing***
During January 2017, the Company closed a private placement financing, in two tranches, issuing a total of 14,285,714 units at CDN$0.035 per unit for gross proceeds of $379,972 (CDN$500,000). The Company applied for, and received, approval from the TSX Venture Exchange for a waiver from the five-cent minimum price requirement. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of CDN$0.05 per share for a period of 36 months following the dates of issuance. In connection with this private placement, the Company paid finders fees of CDN$11,071 and issued 316,309 compensation options. Each compensation option entitles the finder to acquire a unit (having the same features as described above) at an exercise price of $0.05 per unit and is exercisable for 36 months from the date of issuance.