

# SONORO METALS CORP.

(An Exploration Stage Company)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

(Expressed in Canadian Dollars)

(Unaudited)

**NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

**SONORO METALS CORP.**

(An Exploration Stage Company)

Condensed interim consolidated statements of financial position

(Expressed in Canadian Dollars)

(Unaudited)

As at	Note	September 30, 2016	December 31, 2015
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 48,364	\$ 27,547
Receivables		10,979	12,315
Prepaid expenses		15,020	16,960
		74,363	56,822
<b>Non-Current Assets</b>			
Exploration and evaluation assets	6	2,256,779	2,217,665
		\$ 2,331,142	\$ 2,274,487
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	7	\$ 93,982	\$ 61,122
Loan payable	8 & 11	187,989	-
Due to related parties	8	131,775	11,550
		413,746	72,672
<b>Shareholders' Equity</b>			
Share capital	9	5,206,278	5,206,278
Share-based payment reserve	9	459,832	451,310
Deficit		(3,748,714)	(3,455,773)
		1,917,396	2,201,815
		\$ 2,331,142	\$ 2,274,487

Approved on behalf of the Board:

*"Stephen Kenwood" (signed)**"Gary Freeman" (signed)*

Stephen Kenwood, Director

Gary Freeman, Director

**SONORO METALS CORP.**

(An Exploration Stage Company)

Condensed interim consolidated statements of comprehensive loss

(Expressed in Canadian Dollars)

(Unaudited)

		Three months ended September 30,		Nine months ended September 30,	
	Note	2016	2015	2016	2015
<b>Expenses</b>					
Consulting fees	8	\$ 45,000	\$ 66,768	\$ 134,500	\$ 297,250
Exploration expenditures	6	4,078	33,230	27,319	236,601
Legal and audit		24,375	12,334	49,367	42,236
Office and administration	8	12,302	4,044	39,353	36,971
Share-based compensation	8	-	11,209	8,522	56,990
Transfer agent fees		3,041	4,543	16,704	16,159
Travel and promotion		-	826	10,717	48,662
		88,796	132,954	286,482	734,869
Interest income		-	(495)	-	(3,420)
Interest expense	8 & 11	2,503	-	3,989	-
Foreign exchange loss		1,511	46,974	2,470	47,013
		4,014	46,479	6,459	43,593
<b>Loss and Comprehensive Loss for the Period</b>		\$ 92,810	\$ 179,433	\$ 292,941	\$ 778,462
<b>Basic and diluted loss per share</b>		\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.03)
<b>Weighted average number of shares outstanding</b>		23,952,586	22,245,521	23,952,586	22,812,110

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

**SONORO METALS CORP.**

(An Exploration Stage Company)

Condensed interim consolidated statements of changes in equity

(Expressed in Canadian Dollars)

(Unaudited)

	Note	Share Capital		Share-Based Payment Reserve	Deficit	Shareholders' Equity
		Shares	Amount			
Balance, December 31, 2014		22,202,586	\$ 5,029,778	\$ 370,920	\$ (2,507,829)	\$ 2,892,869
Private placement, net of issuance costs	9(b)(i)	1,450,000	145,000	-	-	145,000
Acquisition of mineral properties	9(b)(ii) & (iii)	300,000	31,500	-	-	31,500
Share-based payment		-	-	56,990	-	56,990
Net loss for the period		-	-	-	(778,462)	(778,462)
Balance, September 30, 2015		23,952,586	5,206,278	427,910	(3,286,291)	2,347,897
Share-based payment	9(c)	-	-	23,400	-	23,400
Net loss for the period		-	-	-	(169,482)	(169,482)
Balance, December 31, 2015		23,952,586	5,206,278	451,310	(3,455,773)	2,201,815
Share-based payment	9(c)	-	-	8,522	-	8,522
Net loss for the period		-	-	-	(292,941)	(292,941)
Balance, September 30, 2016		23,952,586	\$ 5,206,278	\$ 459,832	\$ (3,748,714)	\$ 1,917,396

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

**SONORO METALS CORP.**

(An Exploration Stage Company)

Condensed interim consolidated statements of cash flows

For the nine months ended September 30

(Expressed in Canadian Dollars)

(Unaudited)

	2016	2015
<b>Operating Activities</b>		
Net loss	\$ (292,941)	\$ (778,462)
Item not involving cash		
Share-based payment	8,522	56,990
Interest expense	3,989	-
Changes in non-cash working capital		
Receivables	1,336	7,888
Prepaid expenses	1,940	88,195
Accounts payable and accrued liabilities	32,860	(146,085)
Loan payable	184,000	-
Due to related parties	120,225	(3,570)
<b>Cash Used in Operating Activities</b>	<b>59,931</b>	<b>(775,044)</b>
<b>Investing Activities</b>		
Expenditures on exploration and evaluation assets	(39,114)	(411,662)
<b>Cash Used in Investing Activities</b>	<b>(39,114)</b>	<b>(411,662)</b>
<b>Financing Activities</b>		
Common shares issued for cash, net of share issuance costs	-	145,000
<b>Cash Used in Financing Activities</b>	<b>-</b>	<b>145,000</b>
<b>Outflow of Cash and Cash Equivalents</b>	<b>20,817</b>	<b>(1,041,706)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>27,547</b>	<b>1,266,413</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 48,364</b>	<b>\$ 224,707</b>
<b>Cash and Cash Equivalents Consists of</b>		
Cash	\$ 23,364	\$ 49,988
Term deposit	25,000	174,719
	<b>\$ 48,364</b>	<b>\$ 224,707</b>
<b>Supplemental Disclosure with Respect to Cash Flows</b>		
Interest received	\$ -	\$ 2,876

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

## **SONORO METALS CORP.**

(An Exploration Stage Company)

Notes to the condensed interim consolidated financial statements

For the three and nine months ended September 30, 2016

(Expressed in Canadian Dollars)

(Unaudited)

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Sonoro Metals Corp. ("Sonoro" or the "Company") was incorporated in Ontario on November 30, 1944 under the *Company Act* of Ontario. On January 15, 2007, the Company was issued a Certificate of Continuation by the Province of British Columbia. The Company's principal business activity is the acquisition, exploration and development of exploration and evaluation assets. The Company is a publicly-traded company listed on the TSX Venture Exchange ("TSX-V") under the symbol "SMO".

The head office, registered address and records office of the Company are located at suite 1430 – 800 West Pender Street, Vancouver, British Columbia, Canada, V6C 2V6.

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes the Company will realize its assets and discharge its liabilities in the normal course of business.

The Company reported a net loss of \$92,810 (2015 - \$179,433) and \$292,941 (2015 – \$778,462) for the three and nine months ended September 30, 2016, respectively, and has an accumulated deficit of \$3,748,714 (December 31, 2015 - \$3,455,773) as at September 30, 2016. As at September 30, 2016, the Company had a working capital deficit of \$339,383 (December 31, 2015 –\$15,850) available to meet its liabilities as they become due and to continue its exploration of current properties and the evaluation of potential resource property acquisitions in the next year.

The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and to finance mineral property acquisitions and future exploration. The Company does not generate cash flow from operations to adequately fund its activities and has therefore relied principally upon the issuance of securities for financing. The Company will be required to and intends to continue relying upon the issuance of securities to finance its future activities, but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. Although these condensed interim consolidated financial statements do not include any adjustments that may result from the inability to secure future financing, such a situation would have a material adverse effect on the Company's business, results of operations and financial condition. These matters indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements do not include any adjustments related to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

The Board of Directors approved these condensed interim consolidated financial statements for issue on November 29, 2016.

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Notes to the condensed interim consolidated financial statements

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(Unaudited)

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### **2. BASIS OF PREPARATION**

#### **Statement of Compliance**

These condensed interim consolidated financial statements have been prepared by management in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting principles consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

The significant accounting policies applied in preparing these condensed interim consolidated financial statements are consistent with the accounting policies as disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2015.

These condensed interim consolidated financial statements do not include all of the required disclosures for annual consolidated financial statements. Accordingly, they should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015 and the notes thereto.

#### **Basis of Measurement**

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for cash and cash equivalents and other financial instruments classified as fair value through profit or loss or available-for-sale that have been measured at fair value, and are presented in Canadian dollars.

#### **Basis of consolidation**

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries, Cap Capital Corp. ("Cap Capital"), Minera Mar de Plata S.A. de C.V. ("MMP") and Minera Breco, S.A. de C.V. ("Breco"). A subsidiary is an entity in which the Company has control, where control requires exposure or rights to variable returns and the ability to affect those returns through power over the investee. All significant intercompany transactions and balances have been eliminated.

#### **Critical accounting estimates and judgments**

The preparation of these condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:



## **SONORO METALS CORP.**

(An Exploration Stage Company)

Notes to the condensed interim consolidated financial statements

For the three and nine months ended September 30, 2016

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### **2. BASIS OF PREPARATION (Continued)**

#### *Critical accounting estimates*

Critical accounting estimates are made by management that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year include, but are not limited to, the following:

#### Share-based payments

The fair value of share-based payments is subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

#### Recovery of deferred tax assets

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

#### *Critical accounting judgment*

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements include, but are not limited to, the following:

#### Exploration and evaluation assets

Management is required to make judgments on the status of each mineral property and the future plans with respect to finding commercial reserves. The nature of exploration and evaluation activity is such that only a few projects are ultimately successful and some assets are likely to become impaired in future periods.

#### Functional currency

The Company applies judgment in assessing the functional currency of each entity consolidated in these condensed interim consolidated financial statements, including determinations of whether each entities functional currency is impacted by the direction of the Canadian head office, or local market forces.

#### Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

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Notes to the condensed interim consolidated financial statements

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### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Changes in accounting standards not yet adopted**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements. The standards that may be applicable to the Company include the following:

#### **IFRS 9 *Financial Instruments* (2014)**

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a “fair value through other comprehensive income” category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment.** The 2014 version of IFRS 9 introduces an “expected credit loss” model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **De-recognition.** The requirements for the de-recognition of financial assets and liabilities are carried forward from IAS 39.

This is applicable to the Company's annual periods beginning January 1, 2018.

#### **IFRS 16 *Leases***

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*. IFRS 16 is effective for annual periods beginning on January 1, 2019.

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### 4. FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents as fair value through profit and loss; and accounts payable and accrued liabilities and due to related parties, as other financial liabilities.

#### Fair value

The carrying values of accounts payable and accrued liabilities and due to related parties approximate their fair values due to the short-term nature of these financial instruments. Cash and cash equivalents are measured at their market value in accordance with Level 1 of the fair value hierarchy.

#### Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents. The risk arises from the non-performance of counterparties of contracted financial obligations. Credit risk is mitigated as cash has been placed on deposit with major Canadian and Mexican financial institutions.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as the majority is held with only a few Canadian and Mexican financial institutions. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	September 30, 2016	December 31, 2015
Cash and cash equivalents held at major Canadian financial institutions	\$ 47,032	\$ 25,317
Cash held at major Mexican financial institutions	1,332	2,230
Total cash and cash equivalents	\$ 48,364	\$ 27,547

As at September 30, 2016, the Company held one cashable guaranteed investment certificates of \$25,000 (December 31, 2015 - \$25,000) earning interest at prime less 1.95% (December 31, 2015 - prime less 1.95%), maturing May 1, 2017.

#### Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company had a working capital deficit at September 30, 2016 in the amount of \$339,383 (December 31, 2015 - \$15,850) and will require additional resources in order to meet its liabilities as they become due.

## SONORO METALS CORP.

(An Exploration Stage Company)

Notes to the condensed interim consolidated financial statements

For the three and nine months ended September 30, 2016

(Expressed in Canadian Dollars)

(Unaudited)

### 4. FINANCIAL INSTRUMENTS (Continued)

#### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

##### (a) Interest rate risk

The Company's cash and cash equivalents consist of cash held in bank accounts. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of September 30, 2016 and December 31, 2015.

##### (b) Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars.

The Company is exposed to foreign currency risk with respect to cash and cash equivalents and accounts payable and accrued liabilities as a portion of these amounts are denominated in US dollars and Mexican pesos. The Company has not entered into any foreign currency contracts to mitigate this risk.

As at September 30, 2016 and December 31, 2015, the Company's significant exposure to foreign currency risk, based on consolidated statement of financial position carrying values, were to the Mexican peso and the US dollar, as follows:

	September 30, 2016	
	MXN	USD
Cash	19,640	-
Accounts payable and accrued liabilities	(220,392)	-
Total	(200,392)	-
Canadian dollar equivalent	\$ (13,615)	\$ -

  

	December 31, 2015	
	MXN	USD
Accounts payable and accrued liabilities	(94,904)	-
Total	(94,904)	-
Canadian dollar equivalent	\$ (7,132)	\$ -

The sensitivity analysis of the Company's exposure to foreign currency risk suggests that a 10% change in foreign exchange rates between the Mexican peso, US dollar and Canadian dollar would not have a material impact on loss and comprehensive loss for the three and nine months ended September 30, 2016 and 2015.

## SONORO METALS CORP.

(An Exploration Stage Company)

Notes to the condensed interim consolidated financial statements

For the three and nine months ended September 30, 2016

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(Unaudited)

### 4. FINANCIAL INSTRUMENTS (Continued)

#### Market risk (Continued)

##### (c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

### 5. CAPITAL MANAGEMENT

The Company's primary objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to be able to identify and continue with the exploration activities on its exploration and evaluation assets. The Company defines capital that it manages as shareholders' equity.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue shares from treasury, which is the Company's primary source of funds. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations and is not subject to any externally imposed capital requirements.

There have been no changes to the Company's approach to capital management during the nine months ended September 30, 2016.

### 6. EXPLORATION AND EVALUATION ASSETS

	Chipriona	Santa Clara	Los Pinos	San Marcial	Hilltop	Monroe	Total
Balance, December 31, 2014	\$ 927,147	\$ 320,131	\$ 319,560	\$ 68,965	\$ -	\$ 50,000	\$ 1,685,803
Acquisition costs	-	-	-	86,240	495,622	2,829	584,691
Write-down of mineral properties	-	-	-	-	-	(52,829)	(52,829)
Balance, December 31, 2015	927,147	320,131	319,560	155,205	495,622	-	2,217,665
Acquisition costs	-	-	-	39,114	-	-	39,114
Balance, September 30, 2016	\$ 927,147	\$ 320,131	\$ 319,560	\$ 194,319	\$ 495,622	\$ -	\$ 2,256,779

**SONORO METALS CORP.**

(An Exploration Stage Company)

Notes to the condensed interim consolidated financial statements

For the three and nine months ended September 30, 2016

(Expressed in Canadian Dollars)

(Unaudited)

**6. EXPLORATION AND EVALUATION ASSETS (Continued)**

During the nine months ended September 30, 2016, the Company incurred the following exploration expenditures:

	Chipriona	San Marcial	Monroe	Total
Geological fees	\$ -	\$ 2,898	\$ -	\$ 2,898
Concession taxes	7,336	5,002	-	20,012
Supplies	-	4,409	-	4,409
September 30, 2016	\$ 7,336	\$ 12,309	\$ -	\$ 27,319

During the nine months ended September 30, 2015, the Company incurred the following exploration expenditures:

	Chipriona	San Marcial	Monroe	Total
Geological fees	\$ 2,661	\$ 79,775	\$ 12,550	\$ 94,986
Drilling	-	-	106,993	106,993
Assays	-	20,955	-	20,955
Concession taxes	-	13,667	-	13,667
September 30, 2015	\$ 2,661	\$ 114,397	\$ 119,543	\$ 236,601

(a) Chipriona

The Chipriona property is subject to a 2% royalty on net operating profits and the Los Pinos property is subject to a 2% net smelter return royalty.

(b) Santa Clara

The Company owns a 100% interest in the Santa Clara property. The Santa Clara property is subject to a 2.5% royalty on net operating profits.

(c) Los Pinos

The Company owns a 100% interest in the Los Pinos property. The Los Pinos property is subject to a 1.5% net smelter royalty.

(d) San Marcial

On July 8, 2014, the Company completed the acquisition of Breco, a private Mexican company that holds the San Marcial project in Sonora, Mexico. The Company acquired all of the issued and outstanding shares of Breco by paying \$40,000 cash and issuing 50,000 common shares with a market value of \$16,000. The acquisition of Breco was deemed to be the acquisition of an asset.

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### 6. EXPLORATION AND EVALUATION ASSETS (Continued)

As a result of the acquisition of Breco, Sonoro assumes the original option agreement obligation with the original optionors of the San Marcial property. Future-stage cash payments to an aggregate of \$60,000 over two years and share issuances to an aggregate of 150,000 shares over three years to maintain interest in the underlying San Marcial property option agreement will be made at Sonoro's discretion to the vendors of Breco as follows:

	Cash	Shares
first anniversary date	\$30,000	50,000
second anniversary date	30,000	50,000
third anniversary date	nil	50,000
	<u>\$60,000</u>	<u>150,000</u>

During the year ended December 31, 2015, the Company made the first anniversary payment of \$30,000 and issued 50,000 shares with a fair value of \$5,250.

On September 10, 2012, Breco entered into an option agreement with certain vendors (the "Vendors") whereby Breco can enter into a Final Binding Agreement to acquire a 100% interest in an additional concession that is contiguous to the San Marcial project for periodic cash payments of US \$180,000 to the Vendors (contingent on the Company continuing to exercise its right to proceed with each subsequent phase) and other consideration\*, as follows:

Cash		
Payable September 2012	US \$ 10,000	(paid by Breco - \$9,837)
Payable on execution of Final Agreement	10,000	(paid in October 2014)
Payable 6 months following Final Agreement	20,000	(paid in April 2015)
Payable 12 months following Final Agreement	20,000	(paid in November 2015)
Payable 18 months following Final Agreement	30,000	(paid in August 2016)
Payable 24 months following Final Agreement	30,000	
Payable 30 months following Final Agreement	30,000	
Payable 36 months following Final Agreement	30,000	
<u>Total</u>	<u>US \$180,000</u>	

\* The San Marcial concession is subject to a 2% net smelter return royalty, which may be purchased for US\$750,000 at the Company's election.

During the year ended December 31, 2014, as a result of the acquisition of Breco described above, the Company assumed the option to acquire a 100% interest in the San Marcial concession per the consideration noted above.

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### 6. EXPLORATION AND EVALUATION ASSETS (Continued)

#### (e) Monroe Property

On November 6, 2014, the Company entered into an option agreement whereby the Company can earn a 50% interest in the Monroe Property located in the Fort Steele Mining Division in southeastern British Columbia (the "Option"). To exercise the Option, Sonoro must expend \$2,500,000 on exploration and development of the property and make certain staged option payments of \$400,000 over four years as follows:

Cash payments:	
Payable upon signing	\$ 50,000 (paid in 2014)
On or before the first anniversary	50,000
On or before the second anniversary	100,000
On or before the third anniversary	200,000
Total	\$ 400,000

Exploration and development expenditures:	
A cumulative total of not less than \$250,000 by November 6, 2015 (incurred)	
A cumulative total of not less than \$750,000 by November 6, 2016	
A cumulative total of not less than \$1,250,000 by November 6, 2017	
A cumulative total of not less than \$2,500,000 by November 6, 2018	

During the year ended December 31, 2015, the Company terminated the Option and wrote down the value of the Monroe property to \$nil. As a result, \$52,829 is included in operations as a write-down of mineral properties. The Company has no further continuing obligations.

#### (f) Hilltop Property

On June 12, 2015, the Company entered into a Definitive Agreement with Northern Empire Resources Corp. ("Northern Empire") that grants the Company the option to earn a 60% interest in Northern Empire's Hilltop Gold project ("Hilltop") located in Alaska, USA. During the term of the option, Northern Empire will be the operator of the project. To exercise the option and earn its 60% interest in the Hilltop project, the Company must incur \$3,000,000 on exploration activities to advance the Hilltop project and issue 1,000,000 common shares of the Company to Northern Empire as follows:

	Expenditures	Shares
Within 5 days of signing	\$ 250,000 (incurred)	250,000 (issued)
On or before December 31, 2017	500,000	250,000
On or before December 31, 2018	750,000	250,000
On or before December 31, 2019	1,500,000	250,000
	\$3,000,000	1,000,000



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### 6. EXPLORATION AND EVALUATION ASSETS (Continued)

#### (g) Realization of assets

The Company's investment in and expenditures on exploration and evaluation assets comprise a significant portion of the Company's assets. Realization of the Company's investment in the assets is dependent on establishing legal ownership of the property interest, on the attainment of successful commercial production or from the proceeds of its disposal. The recoverability of the amounts shown for the exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the exploration and evaluation assets, and upon future profitable production or proceeds from the disposition thereof.

#### (h) Title to mineral properties

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history of many exploration and evaluation assets. Although the Company has taken steps to ensure title to the exploration and evaluation assets in which it has an interest, in accordance with industry standards for the current stage of exploration of such assets, these procedures may not guarantee the Company's title. Asset title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

#### (i) Environmental matters

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its exploration and evaluation assets. The Company conducts its exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current assets that may result in a material liability to the Company.

Environmental legislation is becoming increasingly stringent and the costs of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the exploration and evaluation assets, the potential for production on these assets may be diminished or negated.

### 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities for the Company are broken down as follows:

	September 30, 2016	December 31, 2015
Trade payables	\$ 77,482	\$ 40,622
Accrued liabilities	16,500	20,500
Total	\$ 93,982	\$ 61,122

All accounts payable and accrued liabilities for the Company are due within the next 12 months.

## SONORO METALS CORP.

(An Exploration Stage Company)

Notes to the condensed interim consolidated financial statements

For the three and nine months ended September 30, 2016

(Expressed in Canadian Dollars)

(Unaudited)

### 8. RELATED PARTY TRANSACTIONS

The condensed interim consolidated financial statements include the financial statements of Sonoro and its 100% owned subsidiaries, Cap Capital, MMP and Breco.

The Company entered into the following transaction with related parties during the period:

- Rent of \$nil (2015 - \$1,900) was paid to a company with directors in common and is included in office and administration.

At September 30, 2016, \$131,775 (December 31, 2015 - \$11,550) is owing to related parties without interest and is payable on demand.

During the nine months ended September 30, 2016, the Company borrowed \$184,000 (December 31, 2015 - \$nil) from directors and officers. The loan payable accrues interest at 8% per annum and is payable on demand. For the three and nine months ended September 30, 2016, interest expense of \$2,503 and \$3,989 is included in net loss, respectively.

#### Compensation of key management

Key management comprises directors and executive officers. Compensation awarded to key management is as follows:

	Three months ended September 30, 2016		Six months ended September 30, 2015	
Short-term employee benefits	\$ 31,500	\$ 95,500	\$ 94,500	\$ 167,000
Share-based payments	-	35,757	8,522	56,990
	\$ 31,500	\$ 131,237	\$ 103,022	\$ 223,990

The Company incurred no post-employment benefits, no long-term benefits and no termination benefits.

### 9. SHARE CAPITAL AND RESERVES

- (a) Authorized

Unlimited number of common shares without par value.

- (b) Issued

- (i) On June 29, 2015, the Company completed a private placement of 1,450,000 units at a price of \$0.10 per unit for gross proceeds of \$145,000. Each unit consisted of one share and one share purchase warrant exercisable for a term of three years. Each warrant entitles the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.12 during the first year, escalating to \$0.15 in the second year and third years, subject to the right of the Company to accelerate the expiry of the warrants, if at any time after four months and one day from the issue date of the warrants, the common shares of the Company close at a price at or above \$0.25 per share for more than 20 consecutive trading days.

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For the three and nine months ended September 30, 2016

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### 9. SHARE CAPITAL AND RESERVES (Continued)

#### (b) Issued (Continued)

- (ii) On June 26, 2015, the Company issued 50,000 common shares of the Company with a fair value of \$5,250 pursuant to the San Marcial property option agreement. These common shares were fair valued at \$0.105 per common share based on the share price on the date of issue.
- (iii) On June 15, 2015, the Company issued 250,000 common shares of the Company with a fair value of \$26,250 pursuant to the Hilltop property option agreement. These common shares were fair valued at \$0.105 per common share based on the share price on the date of issue.

#### (c) Stock options

Pursuant to the policies of the TSX-V, under the Company's stock option plan, options to purchase common shares are granted to directors, employees and consultants at exercise prices determined by reference to the market value on the date of grant for a maximum term of five years. The Board of Directors may grant options for the purchase of up to a total of 10% of the outstanding shares at the time of the option grant less the aggregate number of existing options and number of common shares subject to issuance under outstanding rights that have been issued under any other share compensation arrangement. Options granted under the plan may vest over a period of time at the discretion of the Board of Directors.

A summary of the Company's outstanding and exercisable stock options is as follows:

	Outstanding	Exercisable	Weighted Average Exercise Price
Balance, December 31, 2014	2,080,000	1,152,500	\$ 0.27
Granted	-	-	\$ -
Expired	-	-	\$ -
Cancelled	-	-	\$ -
Balance, December 31, 2015	2,080,000	1,775,625	\$ 0.27
Granted/expired/cancelled	-	-	\$ -
Balance, September 30, 2016	2,080,000	2,080,000	\$ 0.27

No options were granted during the nine months ended September 30, 2016.

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Notes to the condensed interim consolidated financial statements

For the three and nine months ended September 30, 2016

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(Unaudited)

**9. SHARE CAPITAL AND RESERVES (Continued)**

## (c) Stock options (Continued)

The following summarizes information on the number of stock options outstanding:

Expiry Date	Exercise Price	September 30, 2016	December 31, 2015
December 23, 2016	\$ 0.60	637,500	637,500
April 7, 2019	\$ 0.20	225,000	225,000
December 17, 2019	\$ 0.10	1,217,500	1,217,500
		2,080,000	2,080,000

The weighted average remaining contractual life for the outstanding options at September 30, 2016 is 2.22 (December 31, 2015 – 2.97) years.

## (d) Warrants

As at September 30, 2016, the Company had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Outstanding, December 31, 2015	Issued	Expired	Outstanding, September 30, 2016
\$0.15/\$0.20/\$0.25	November 20, 2017	1,666,667	-	-	1,666,667
\$0.15/\$0.20/\$0.25	November 27, 2017	7,000,000	-	-	7,000,000
\$0.15/\$0.20/\$0.25	December 3, 2017	2,865,000	-	-	2,865,000
\$0.12/\$0.15/\$0.15	June 29, 2018	1,450,000	-	-	1,450,000
		12,981,667	-	-	12,981,667

As at December 31, 2015, the Company had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Outstanding, December 31, 2014	Issued	Expired	Outstanding, December 31, 2015
\$0.15/\$0.20/\$0.25	November 20, 2017	1,666,667	-	-	1,666,667
\$0.15/\$0.20/\$0.25	November 27, 2017	7,000,000	-	-	7,000,000
\$0.15/\$0.20/\$0.25	December 3, 2017	2,865,000	-	-	2,865,000
\$0.12/\$0.15/\$0.15	June 29, 2018	-	1,450,000	-	1,450,000
		11,531,667	1,450,000	-	12,981,667

## **SONORO METALS CORP.**

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Notes to the condensed interim consolidated financial statements

For the three and nine months ended September 30, 2016

(Expressed in Canadian Dollars)

(Unaudited)

### **10. SEGMENTED INFORMATION**

The Company has one business segment, the exploration of mineral properties. The Company's significant assets are distributed by geographic locations as follows:

As at September 30, 2016

	Exploration and Evaluation Assets
United States	\$ 495,622
Mexico	\$ 1,761,157

As at December 31, 2015

	Exploration and Evaluation Assets
Canada	\$ 495,622
Mexico	\$ 1,722,043

### **11. LOAN PAYABLE**

During the nine months ended September 30, 2016, the Company borrowed \$184,000 (December 31, 2015 - \$nil) from directors and officers. The loan payable accrues interest at 8% per annum and is payable on demand. For the three and nine months ended September 30, 2016, interest expense of \$2,503 and \$3,989 is included in net loss, respectively.

### **12. EVENTS AFTER THE REPORTING PERIOD**

- (a) Subsequent to September 30, 2016, the Company entered into additional loan agreements with three directors for total proceeds of \$45,000. The additional loans accrue interest at 8% per annum and are payable on demand.
- (b) Subsequent to September 30, 2016, 375,000 stock options with an exercise price of \$0.10 were exercised for total proceeds to the Company of \$37,500.