

# SONORO METALS CORP.

(An Exploration Stage Company)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2017 and 2016

(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)

<b>As at</b>	<b>Note</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 88,729	\$ 204,394
Receivables	6	74,178	59,646
Available-for-sale	6	1,566,838	1,566,838
Prepaid expenses		2,004	6,331
		1,731,749	1,837,209
<b>Non-Current Assets</b>			
Exploration and evaluation assets	6	806,550	806,550
		\$ 2,538,299	\$ 2,643,759
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	7, 8	\$ 199,920	\$ 173,807
Deferred sale proceeds	6	650,000	650,000
Due to related parties	8	32,550	10,500
		882,470	834,307
<b>Shareholders' Equity</b>			
Share capital	9	5,284,028	5,284,028
Share-based payment reserve	9	118,582	118,582
Deficit		(3,746,781)	(3,593,158)
		1,655,829	1,809,452
		\$ 2,538,299	\$ 2,643,759

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

For the three months ended March 31

(Expressed in Canadian Dollars)

(Unaudited)

	Note	2017	2016
<b>Expenses</b>			
Consulting fees	8	\$ 57,917	\$ 45,500
Exploration expenditures	6	4,073	13,991
Legal and audit		64,388	10,525
Office and administration	8	11,344	8,400
Share-based payments	8	-	3,825
Transfer agent fees		7,334	7,986
Travel and promotion		14,226	7,978
		(159,282)	(98,205)
<b>Other (expenses) and income</b>			
Interest income		65	-
Foreign exchange gain/(loss)		5,594	(265)
		5,659	(265)
<b>Income (loss) and Comprehensive income (loss) for the Year</b>		\$ (153,623)	\$ (98,470)
<b>Basic and diluted loss per share</b>		\$ (0.01)	\$ (0.00)
<b>Weighted average number of shares outstanding</b>		24,130,805	23,535,874

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, 2015		23,952,586	\$5,206,278	\$ 451,310	\$ (3,455,773)	\$ 2,201,815
Share-based payments		-	-	3,825	-	3,825
Net loss for the period		-	-	-	(98,470)	(98,470)
Balance, March 31, 2016		23,952,586	5,206,278	455,135	(3,554,243)	2,107,170
Acquisition of mineral properties	9(b)(i)	50,000	5,000	-	-	5,000
Share-based payments	9(c)	-	-	4,697	-	4,697
Exercised options	9(b)(ii)	375,000	37,500	-	-	37,500
Reallocation of reserve on exercise of options	9(b)(ii)	-	35,250	(35,250)	-	-
Reallocation of reserve on expiry of options	9(b)	-	-	(306,000)	306,000	-
Net loss for the period		-	-	-	(344,915)	(344,915)
Balance, December 31, 2016		24,377,586	5,284,028	118,582	(3,593,158)	1,809,452
Net loss for the period		-	-	-	(153,623)	(153,623)
Balance, March 31, 2017		24,377,586	\$5,284,028	\$ 118,582	\$ (3,746,781)	\$ 1,655,829

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 three months ended March 31

(Expressed in Canadian Dollars)

(Unaudited)

	<b>2017</b>	<b>2016</b>
<b>Operating Activities</b>		
Net income/(loss)	\$ (153,623)	\$ (98,470)
Item not involving cash		
Share-based payments	-	3,825
Changes in non-cash working capital		
Receivables	(14,532)	1,861
Prepaid expenses	4,327	6,628
Accounts payable and accrued liabilities	26,113	449
Loan payable	-	30,900
Due to related parties	22,050	54,075
<b>Cash Used in Operating Activities</b>	<b>(115,665)</b>	<b>(732)</b>
<b>Inflow (Outflow) of Cash and Cash Equivalents</b>	<b>(115,665)</b>	<b>(732)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>204,394</b>	<b>27,547</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 88,729</b>	<b>\$ 26,815</b>
<b>Cash and Cash Equivalents Consists of</b>		
Cash	\$ 63,729	\$ 1,815
Term deposit	25,000	25,000
	<b>\$ 88,729</b>	<b>\$ 26,815</b>

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 months ended March 31, 2017

(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 \$153,623 (2016 - \$98,470) for the three months ended March 31, 2017 and has an accumulated deficit of \$3,746,781 (December 31, 2016 - \$3,593,158) as at March 31, 2017. As at March 31, 2017, the Company had a working capital of \$849,279 (December 31, 2016 –\$1,002,902) 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 May 30, 2017.

## **SONORO METALS CORP.**

(An Exploration Stage Company)

Notes to the condensed interim consolidated financial statements

For the three months ended March 31, 2017

(Expressed in Canadian Dollars)

(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, 2016.

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, 2016 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 months ended March 31, 2017

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(Unaudited)

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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.

#### Assets held for sale

Judgment is required in determining whether an asset meets the criteria for classification as "assets held for sale" in the consolidated statements of financial position. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the expected timeframe of the completion of the anticipated sale and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this financial position category as appropriate. In addition, there is a requirement to periodically evaluate and record assets held for sale at the lower of their carrying value and fair value less costs to sell. Management has evaluated the expected fair value less costs to sell and determined that it is higher than the carrying value, based on an offer to purchase the asset.

## **SONORO METALS CORP.**

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

#### 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 entity's 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.

### **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.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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*.

Applicable to the Company's annual period beginning on January 1, 2019.

### 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:

	March 31, 2017	December 31, 2016
Cash and cash equivalents held at major Canadian financial institutions	\$ 44,503	\$ 84,200
Cash held at major Mexican financial institutions	44,226	120,194
Total cash and cash equivalents	\$ 88,729	\$ 204,394

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

As at March 31, 2017, the Company held a cashable guaranteed investment certificate of \$36,035 (December 31, 2016 - \$105,535) earning interest at 6.45% (December 31, 2016 - 6.45%), maturing April 25, 2017 (December 31, 2016 - maturing January 25, 2017).

## SONORO METALS CORP.

(An Exploration Stage Company)

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For the three months ended March 31, 2017

(Expressed in Canadian Dollars)

(Unaudited)

### 4. FINANCIAL INSTRUMENTS (Continued)

#### 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 has working capital of \$849,279 at March 31, 2017 (December 31, 2016 - \$1,002,902).

#### 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 March 31, 2017 and December 31, 2016.

##### (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 March 31, 2017 and December 31, 2016, 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:

	<b>March 31, 2017</b>	
	MXN	USD
Cash	513,075	1,367
Accounts payable and accrued liabilities	(2,012,977)	-
	(1,499,902)	1,367
Canadian dollar equivalent	\$ (106,022)	\$ 1,818
	<b>December 31, 2016</b>	
	MXN	USD
Cash	1,621,165	3,246
Accounts payable and accrued liabilities	(2,001,328)	-
	(380,163)	3,246
Canadian dollar equivalent	\$ (26,741)	\$ 4,358

## SONORO METALS CORP.

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Notes to the condensed interim consolidated financial statements

For the three months ended March 31, 2017

(Expressed in Canadian Dollars)

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### 4. FINANCIAL INSTRUMENTS (Continued)

#### Market risk (Continued)

##### (b) Foreign currency risk (Continued)

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 impact net income (loss) for the three months ended March 31, 2017 by \$11,500 (2016 - \$1,000).

##### (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 three months ended March 31, 2017.

### 6. EXPLORATION AND EVALUATION ASSETS

	Chipriona	Santa Clara	Los Pinos	San Marcial	Hilltop	Total
Balance, December 31, 2015	\$ 927,147	\$ 320,131	\$ 319,560	\$ 155,205	\$ 495,622	\$ 2,217,665
Acquisition costs	-	-	-	114,512	41,211	155,723
Transfer to held for sale	(927,147)	(320,131)	(319,560)	-	-	(1,566,838)
Balance, December 31, 2016 and March 31, 2017	\$ -	\$ -	\$ -	\$ 269,717	\$ 536,833	\$ 806,550

## SONORO METALS CORP.

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Notes to the condensed interim consolidated financial statements

For the three months ended March 31, 2017

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

During the three months ended March 31, 2017, the Company incurred \$4,073 in concession taxes and supplies relating to the Company's San Marcial property.

During the three months ended March 31, 2016, the Company incurred the following exploration expenditures:

	Chipriona	Santa Clara	Los Pinos	San Marcial	Monroe	Total
Geological fees	\$ -	\$ -	\$ -	\$ 1,898	\$ -	\$ 1,898
Concession taxes	3,407	1,614	1,703	2,241	-	8,965
Supplies	-	-	-	3,128	-	3,128
Balance, March 31, 2016	\$ 3,407	\$ 1,614	\$ 1,703	\$ 7,267	\$ -	\$ 13,991

#### (a) Chipriona, Santa Clara, Los Pinos

On December 13, 2016, through its wholly owned subsidiary, MMP, the Company entered into an assignment agreement (the "Agreement") with Agnico Sonoro, S.A. de C.V. ("Agnico"), a subsidiary of Agnico Eagle Mines Limited, for the sale of the Company's Chipriona, Santa Clara and Los Pinos projects (the "Properties"), and the obligations of the relating underlying royalties, for \$4 million plus a 1% net smelter return royalty ("NSR"). The NSR may be purchased by Agnico at any time for \$1.5 million.

The consideration will be paid by Agnico in four tranches, with an initial instalment of \$650,000 (received) payable upon execution of the Agreement. Three additional payments of \$650,000, \$800,000 and \$1,900,000, respectively, are due and payable following registration of title at Mexico's Public Registry of Mining, commencing with the registration of title from the original vendors through final registration under Agnico.

Upon execution of the Agreement, the Company has presented the carrying value of the Properties of \$1,566,838 as held for sale and has recorded the initial instalment of \$650,000 that was received as deferred sale proceeds. The Company will record the sale upon completion of the milestones and receipt of funds. The transaction is expected to close in the second quarter of 2017.

#### (b) 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 (Paid)	50,000 (Issued)
second anniversary date	30,000 (Paid)	50,000 (Issued)
third anniversary date	nil	50,000
	<b>\$60,000</b>	<b>150,000</b>

During the year ended December 31, 2016, the Company advanced the second anniversary payment of \$30,000 and issued 50,000 shares with a fair value of \$5,000.

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	(paid in December 2016)
Payable 30 months following Final Agreement	30,000	(paid in May 2017)
Payable 36 months following Final Agreement	30,000	
Total	<b>US \$180,000</b>	

\* 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.

The Company, as a result of the acquisition of Breco described above, has 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)

#### (c) 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
	<b>\$3,000,000</b>	<b>1,000,000</b>

\* As at March 31, 2017, the Company has incurred \$286,833 in qualifying exploration expenditures.

During the three months ended March 31, 2017, the Company capitalized \$nil (December 31, 2016 - \$41,211) incurred for claim maintenance.

#### (d) 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.

#### (e) 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.



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(Unaudited)

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

(f) 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:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Trade payables	\$ 167,420	\$ 146,807
Accrued liabilities	32,500	27,000
<b>Total</b>	<b>\$ 199,920</b>	<b>\$ 173,807</b>

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 months ended March 31, 2017

(Expressed in Canadian Dollars)

(Unaudited)

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### **8. RELATED PARTY TRANSACTIONS**

At March 31, 2017, \$32,550 (December 31, 2016 - \$10,500) is owing to related parties without interest and is payable on demand.

#### **Compensation of key management**

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

Three months ended	March 31, 2017	March 31, 2016
Consulting fees	\$ 31,500	\$ 36,500
Share-based payments	-	3,825
	<u>\$ 31,500</u>	<u>\$ 40,325</u>

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 December 5, 2016, the Company issued 50,000 common shares of the Company with a fair value of \$5,000 pursuant to the San Marcial property option agreement. These common shares were fair valued at \$0.10 per common share based on the market price on the date of issue.
- (ii) On October 24, 2016, 375,000 stock options with an exercise price of \$0.10 were exercised for gross proceeds of \$37,500 to the Company. Upon exercise, \$35,250 in share-based payment reserve was allocated to share capital.

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

#### (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, 2015	2,080,000	2,080,000	\$ 0.27
Expired	(637,500)	(637,500)	\$ 0.60
Exercised	(375,000)	(375,000)	\$ 0.10
Balance, December 31, 2016 and March 31, 2017*	1,067,000	1,067,000	\$ 0.12

\* There was no change to the options outstanding during the three months ended March 31, 2017.

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

Expiry Date	Exercise Price	March 31, 2017	December 31, 2016
April 7, 2019	\$ 0.20	225,000	225,000
December 17, 2019	\$ 0.10	842,500	842,500
		1,067,500	1,067,500

The weighted average remaining contractual life for the outstanding options at March 31, 2017 is 2.57 (December 31, 2015 – 2.82) years.

During the three months ended March 31, 2017, nil (2016 - 304,375) stock options vested with the fair value of \$nil (2016 - \$3,825) being recognized as share-based payments in the consolidated statement of comprehensive loss.

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

## (d) Warrants

As at March 31, 2017, the Company had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Outstanding, December 31, 2016	Issued	Expired	Outstanding, March 31, 2017
\$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, 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, December 31, 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

**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 March 31, 2017

	Exploration and Evaluation Assets
United States	\$ 536,833
Mexico	\$ 269,717

As at December 31, 2016

	Exploration and Evaluation Assets
Canada	\$ 536,833
Mexico	\$ 269,717