

TriMetals Mining Inc.
(An Exploration Stage Company)

Consolidated Financial Statements
December 31, 2016 and 2015

(expressed in U.S. dollars)

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of TriMetals Mining Inc. (the "Company") have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgement based on currently available information.

The Audit Committee of the Board of Directors, consisting of three independent directors, meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, who are appointed by the shareholders, conducted an audit in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

(Signed) "Ralph Fitch"
President and Chief
Executive Officer

(Signed) "Matias Herrero"
Chief Financial Officer

Vancouver, British Columbia
March 16, 2017



March 16, 2017

Independent Auditor's Report

To the Shareholders of TriMetals Mining Inc.

We have audited the accompanying consolidated financial statements of TriMetals Mining Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of loss and comprehensive loss, changes in equity 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.

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

*PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806*



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TriMetals Mining Inc. as at December 31, 2016 and December 31, 2015 and its financial performance and its 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 TriMetals Mining Inc.'s ability to continue as a going concern.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

TriMetals Mining Inc.

(An Exploration Stage Company)

Consolidated Statements of Financial Position as at December 31, 2016 and 2015

(expressed in U.S. dollars)

	Note	2016 \$	2015 \$
Assets			
Current assets			
Cash and cash equivalents		2,193,518	2,316,468
Receivables and prepaids	4	231,823	163,963
Marketable securities	5	135,266	131,215
		<u>2,560,607</u>	<u>2,611,646</u>
Non-current assets			
Equipment	6	69,047	100,537
Reclamation deposit		163,300	163,300
Drilling advance	7	-	156,389
Mining claims and deferred exploration costs	8	28,732,403	26,660,747
Malku Khota project	9, 15	18,734,000	18,734,000
		<u>47,698,750</u>	<u>45,814,973</u>
Total assets		<u>50,259,357</u>	<u>48,426,619</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	14	<u>265,317</u>	<u>292,010</u>
Non-current liabilities			
Convertible notes	10	1,478,041	1,309,770
Class B shares	11	20,802,291	9,241,245
Stock options exercisable into Class B and common shares	12 c	156,842	64,303
		<u>22,437,174</u>	<u>10,615,318</u>
Total liabilities		<u>22,702,491</u>	<u>10,907,328</u>
Equity attributable to shareholders			
Share capital	12	92,326,275	89,941,924
Contributed surplus		11,529,067	9,999,049
Convertible notes - equity component	10	317,197	317,197
Accumulated other comprehensive loss		(171,227)	(149,283)
Deficit		(76,444,446)	(62,589,596)
Total equity		<u>27,556,866</u>	<u>37,519,291</u>
Total liabilities and equity		<u>50,259,357</u>	<u>48,426,619</u>

Going concern (note 1)

Commitments (notes 8 and 19)

Contingencies (note 15)

Subsequent event (note 19)

Approved by the Board of Directors:

(signed) "Paul Sheehan"

(signed) "Roman Mironchik"

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

TriMetals Mining Inc.

(An Exploration Stage Company)

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2016 and 2015

(expressed in U.S. dollars)

	Note	2016 \$	2015 \$
General and administrative expenses			
Arbitration	9	211,246	225,274
Consulting	14	63,432	71,170
Depreciation and amortization		57,778	80,310
Directors' fees	14	57,288	113,484
Filing and transfer agent fees		49,875	64,322
Office and administration		225,318	283,771
Professional fees	14	314,391	485,987
Reconnaissance and sundry exploration		99,873	107,874
Shareholder information and investor relations		178,502	108,761
Share-based payments	12 c, 14	339,952	129,132
Wages and benefits	14	391,900	482,659
		<u>(1,989,555)</u>	<u>(2,152,744)</u>
Other income (expenses)			
Interest and other income		33,354	53,344
Accretion and interest on convertible notes	10	(234,749)	(95,647)
Foreign currency (loss) gain		(6,134)	59,598
Change in fair value of Class B shares	11	(11,561,046)	4,290,100
Change in fair value of stock options exercisable into Class B and common shares	12 c	(92,539)	154,071
Loss on disposal of equipment		(4,181)	-
Reversal of Mexican tax provision	15	-	426,503
		<u>(11,865,295)</u>	<u>4,887,969</u>
Net (loss) earnings for the year		<u>(13,854,850)</u>	<u>2,735,225</u>
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		(25,995)	(307,511)
Unrealized gain (loss) on marketable securities		4,051	(4,857)
Total other comprehensive loss		<u>(21,944)</u>	<u>(312,368)</u>
Total comprehensive (loss) earnings		<u>(13,876,794)</u>	<u>2,422,857</u>
Basic and diluted net (loss) earnings per share		<u>(0.10)</u>	<u>0.02</u>
Weighted average number of shares outstanding		<u>144,786,562</u>	<u>135,738,714</u>

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

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Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(expressed in U.S. dollars)

	Share Capital		Contributed Surplus \$	Convertible notes - equity component \$	Deficit \$	AOCI \$	Total \$
	Number	Amount \$					
Balance, January 1, 2016	135,738,714	89,941,924	9,999,049	317,197	(62,589,596)	(149,283)	37,519,291
Shares issued on exercise of share appreciation rights (SAR's)	154,839	-	-	-	-	-	-
Transfer to share capital on exercise of SAR's	-	79,866	(79,866)	-	-	-	-
Shares issued on exercise of warrants	3,243,243	245,291	-	-	-	-	245,291
Transfer to share capital on exercise of warrants	-	44,388	(44,388)	-	-	-	-
Shares issued on private placement of securities	17,393,000	3,327,711	-	-	-	-	3,327,711
Less: amount allocated to warrants	-	(1,255,450)	1,255,450	-	-	-	-
Less: issue costs - cash	-	(49,036)	-	-	-	-	(49,036)
Less: issue costs - warrants	-	(8,419)	8,419	-	-	-	-
Share-based payments	-	-	390,403	-	-	-	390,403
Total comprehensive loss for the year	-	-	-	-	(13,854,850)	(21,944)	(13,876,794)
Balance, December 31, 2016	156,529,796	92,326,275	11,529,067	317,197	(76,444,446)	(171,227)	27,556,866
Balance, January 1, 2015	135,738,714	89,941,924	9,747,247	-	(65,324,821)	163,085	34,527,435
Convertible notes - equity component	-	-	-	317,197	-	-	317,197
Warrants issued on financings	-	-	101,914	-	-	-	101,914
Share-based payments	-	-	149,888	-	-	-	149,888
Total comprehensive income for the year	-	-	-	-	2,735,225	(312,368)	2,422,857
Balance, December 31, 2015	135,738,714	89,941,924	9,999,049	317,197	(62,589,596)	(149,283)	37,519,291

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

TriMetals Mining Inc.

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Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(expressed in U.S. dollars)

	2016	2015
	\$	\$
Cash flows (used in) from operating activities		
Net (loss) earnings for the year	(13,854,850)	2,735,225
Items not affecting cash		
Accretion on convertible notes	130,901	51,689
Depreciation and amortization	57,778	80,310
Change in fair value of Class B shares	11,561,046	(4,290,100)
Change in fair value of stock options exercisable into Class B and common shares	92,539	(154,071)
Interest income	(33,354)	(53,344)
Loss on disposal of equipment	4,181	-
Unrealized foreign exchange loss (gain)	37,370	(156,529)
Share-based payments	339,952	129,132
Reversal of Mexican tax provision	-	(426,503)
	(1,664,437)	(2,084,191)
Interest received	10,112	26,372
Changes in non-cash operating working capital		
Change in receivables and prepaids	11,771	41,531
Change in accounts payable and accrued liabilities	50,790	(29,012)
	(1,591,764)	(2,045,300)
Cash flows (used in) from investing activities		
Mining claims and deferred exploration costs	(2,098,688)	(1,992,653)
Repayment of drilling advance	100,000	100,000
Reclamation deposit	-	(18,300)
Purchase of equipment	(33,269)	(20,451)
Proceeds on disposal of equipment	2,800	-
	(2,029,157)	(1,931,404)
Cash flows from financing activities		
Private placement of units, net of issue costs	3,278,675	-
Convertible notes financing, net of issue costs	-	1,762,821
Exercise of warrants	245,291	-
	3,523,966	1,762,821
Decrease in cash and cash equivalents	(96,955)	(2,213,883)
Foreign exchange effect on cash and cash equivalents	(25,995)	(307,511)
Cash and cash equivalents - Beginning of year	2,316,468	4,837,862
Cash and cash equivalents - End of year	2,193,518	2,316,468
Cash and cash equivalents are comprised of:		
Cash	270,419	874,756
Cash equivalents	1,923,099	1,441,712
	2,193,518	2,316,468

Supplemental cash flow information (Note 17)

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

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Notes to Consolidated Financial Statements

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1 Nature of operations and going concern

TriMetals Mining Inc. (“TMI” or the “Company”) was incorporated pursuant to the *Canada Business Corporations Act* by articles of incorporation dated September 28, 2006 and was continued under the *Business Corporations Act* (British Columbia) (“BCBCA”) on December 17, 2013.

The Company’s registered office is located at Suite 880, 580 Hornby Street, Vancouver, British Columbia, Canada and the Company’s head office is located at Suite 117, 2755 S. Locust Street, Denver, Colorado, USA.

The Company’s principal activities include the acquisition, exploration and development of mineral properties. The principal countries where the Company has been undertaking exploration activities are the United States and Chile. Property interests in these countries are held through various wholly owned subsidiaries.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months.

The Company has incurred losses since inception and expects to incur further losses in the development of its business and at December 31, 2016, the Company had working capital of \$2.3 million (December 31, 2015 - \$2.3 million). At that date, the Company also had an accumulated deficit of \$76.4 million which has been funded primarily by the issuance of equity. The Company is dependent upon share issuances to provide the funding necessary to meet its general operating expenses and will require additional financing to continue to explore its mineral properties. The recoverability of amounts shown as mining claims and deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the Company’s ability to obtain financing to develop its mineral properties, and the ultimate realization of profits through future production from, or sale of, the properties. These factors may cast significant doubt upon the Company’s ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company’s ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to meet its general operating expenses and to continue to explore its mineral properties. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. These consolidated financial statements do not reflect the adjustments to the carrying values of the assets and liabilities, the reported expenses and the statements of financial position classifications that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2 Significant accounting policies

2.1 Statement of compliance

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

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These financial statements were approved by the board of directors on March 16, 2017.

2.2 Basis of consolidation

The consolidated financial statements include the results or financial information of TriMetals Mining Inc. and its significant wholly-owned subsidiaries listed in the following table:

Name	Country of incorporation
South American Silver (U.S.) Ltd.	U.S.A.
South American Silver Limited	Bermuda
TriMetals Mining Chile SCM	Chile
Compania Minera Malku Khota S.A.	Bolivia
High Desert Gold Corporation	Canada
TriMetals Mining Inc. (formerly High Desert Gold Corporation)	U.S.A.
Gold Springs LLC	U.S.A.
Minera Genminmex S.A. de C.V.	Mexico

The results of each subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. All significant intercompany transactions and balances have been eliminated.

2.3 Use of estimates, assumptions and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical estimates and assumptions are made in particular with regard to assessment of impairment to the carrying value of mineral properties and to the carrying value of Malku Khota project and the assumptions used in calculating the fair value of Class B shares, convertible notes, warrants and share-based payments.

Mining claims and deferred exploration costs

The recoverability of amounts shown as mining claims and deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the Company's ability to obtain financing to develop the properties, and the ultimate realization of profits through future production or sale of the properties.

Management reviews the carrying values of its mining claims on at least an annual basis, or when an impairment indicator exists, to determine whether an impairment should be recognized. In making its assessment, management considers, among other things, exploration results to date and future exploration plans

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for a particular property. In addition, capitalized costs related to relinquished property rights are written off in the period of relinquishment. Capitalized costs in respect of the Company's mining claims may not be recoverable and there is a risk that these costs may be written down in future periods.

Malku Khota project

In July 2012 the Malku Khota project was expropriated by the State of Bolivia. The Malku Khota mining concessions were held by the Company's Bolivian subsidiary, Compañía Minera Malku Khota S.A. ("CMMK"), a wholly-owned subsidiary of South American Silver Limited ("SASL"). A Bolivian Supreme Decree (the "Decree") revoked the applicable mining concessions and indicated the Bolivian Government would contract an independent company to conduct a valuation of CMMK's investments to establish an amount and conditions under which the Bolivian Government will recognize and compensate CMMK for the investment previously made at the Malku Khota project. Prior to the expropriation the Company had capitalized approximately \$18.7 million to the project. The Company has determined that the Decree revoking the mining concessions and indicating that compensation will be forthcoming does not represent a financial instrument under IFRS. However, an asset exists for the compensation expected from the State of Bolivia. SASL has initiated an international arbitration to seek compensation (see Note 9). Management regularly reviews the carrying amount of the Malku Khota project asset by comparing the carrying value to the amount of expected proceeds from the arbitration. If SASL is unsuccessful in the arbitration the Malku Khota project asset may be written down in future periods.

In 2013 the Company entered into an Arbitration Costs Funding Agreement whereby a third party (the "Fund") has agreed to cover most of SASL costs and expenses related to the international arbitration, including the costs and expenses of the enforcement of any award rendered by the arbitration tribunal, in exchange for a portion of any recoveries received pursuant to the arbitration proceedings or any settlement with Bolivia. No amounts are recognized in the Company's financial statements for most of the costs and expenses related to the arbitration because they are deemed to be the cost of the Fund to receive a portion of the recoveries.

A large majority of the costs of the arbitration to be incurred by SASL or the Company are payable only in the event there is an award in favour of SASL, and such costs will be paid out of the proceeds of any such award. These costs include certain fees and other expenses incurred in connection with the arbitration, including the Fund's portion of any recoveries received pursuant to the arbitration proceedings or any settlement with Bolivia, a contingent success fee payable to SASL's lead arbitration counsel, and other commitments. These fees, costs and expenses will be paid out of any such award, thus potentially reducing funds received by SASL by as much as one-third of the amount of any award in its favour.

Share-based payments

The Company uses the fair-value method of accounting for share-based payments related to incentive stock options and compensation warrants granted, modified or settled. Under this method, compensation cost attributable to options granted is measured at fair value at the grant date and expensed over the vesting period. In determining the fair value, the Company makes estimates of the expected volatility of the stock, the expected life of the options, and an estimated risk-free interest rate. Changes to these estimates could result in the fair value of the share-based payments expense being less than or greater than the amount recorded.

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Convertible notes

For accounting purposes, each unit consisting of convertible notes and common share purchase warrants is separated into its liability and equity components using the effective interest rate method. In determining the fair value of the warrants, the Company makes estimates of the expected volatility of the stock, the expected life of the options, and an estimated risk-free interest rate. Changes in the input assumptions can materially affect the fair value estimates and the Company's classification between debt and equity components.

Class B shares and related options

The estimated fair value of the Class B shares is estimated based on the quoted price of the Class B shares on the TSX. The estimated fair value of the non-current liability related to options exercisable into Class B shares and common shares is measured using estimates for the expected value of the stock, the expected life of the options and warrants, and an estimated risk-free rate. Changes to these estimates could result in the fair value of the Class B shares and of the stock options exercisable into Class B and common shares being less than or greater than the amount recorded.

Warrants

In determining the fair value of warrants included in unit placements, the Company makes estimates of the expected volatility of the stock, the expected life of the warrants, and an estimated risk-free interest rate. Changes in the input assumptions can materially affect the fair value estimates and the Company's classification between the equity components.

2.4 Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments held in the form of money market investments and certificates of deposit with investment terms of less than three months at acquisition.

Equipment

Equipment is carried at cost less accumulated depreciation and any recognized impairment loss, net of reversals. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Furniture and equipment	5 years
Computer hardware	3 years
Computer software	1 year
Vehicle	5 years

Mining claims and deferred exploration costs

The Company is in the exploration stage and defers all exploration and evaluation expenditures related to its mineral properties until such time as the properties are put into commercial production, impaired, sold or abandoned. Exploration and evaluation expenditures include the costs of acquiring licenses and costs associated with exploration and evaluation activity. Mineral property option proceeds, if received, are credited against the deferred costs incurred by the Company on the property or properties being optioned. Under this

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method, the amounts shown as mining claims and deferred exploration represent costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values.

Once the technical feasibility and commercial viability of the extraction of mineral reserves or resources from a particular mineral property has been determined, expenditures are reclassified to development assets within property, plant and equipment and are carried at cost until the properties to which the expenditures relate are sold, abandoned or determined by management to be impaired in value.

If a property is put into commercial production, the expenditures will be depleted using the unit of production basis. If a property is impaired, sold or abandoned, the expenditures will be charged to operations in the related period.

Exploration costs that are not attributable to a specific property or that are incurred prior to the Company acquiring the legal rights to a property are charged to operations as reconnaissance and sundry exploration.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and regulatory requirements.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss.

Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered a significant or prolonged decline in the fair value of that investment below its cost.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value adjusted for directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

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Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment

At the end of each reporting period the carrying amounts of the Company's long lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset (or cash-generating unit) is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and the value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Management's assessment of a property's estimated fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

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Restoration, rehabilitation and environmental obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of facts such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a risk free rate that reflects the time value of money are used to calculate the net present value. The capitalized costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit-of production method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an accretion expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

The Company has no material restoration, rehabilitation or environmental obligation as the disturbance to date is minimal.

Earnings per share

Basic earnings or loss per share represents the profit or loss for the period, divided by the weighted average number of common shares in issue during the period. Diluted earnings or loss per share represents the profit or loss for the period, divided by the weighted average number of common shares in issue during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive.

Foreign currencies

The financial statements for the Company and each of its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of the parent company, TMI, is the Canadian dollar; and the functional currency of each of the Company's subsidiaries is the U.S. dollar. The presentation currency of the Company is the U.S. dollar.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and

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liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are charged to the statement of earnings.

The statement of financial position of the parent company is translated into U.S. dollars using the exchange rate at the statement of financial position date and the statement of operations is translated into U.S. dollars using the average exchange rate for the period. All gains and losses on translation from the functional currency to the presentation currency are charged to other comprehensive income.

Income tax

Income tax on the earnings or loss for the periods presented comprises current and deferred tax. Income tax is recognized in earnings or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share capital

Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

Share-based payments

The Company has established a share incentive plan (the "Plan") for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates. The Plan includes a stock award plan comprised of stock options and share appreciation rights. The maximum number of shares available under the Plan is limited to 10% of the issued common shares and that number of Class B shares as are required to be issued upon the exercise of awards issued prior to the Arrangement.

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The fair value of all stock options granted is recorded as a charge to operations or deferred exploration costs and a credit to contributed surplus under the graded attribution method. The fair value, as adjusted for the estimated forfeiture rate, is measured at the date of grant and is recognized over the vesting period. The Company's stock options are subject to graded vesting and thus each tranche in the award is considered a separate grant, with a different vesting date and fair value for purposes of recognizing share-based payment expense. Prior to the vesting date, the then-current fair value of stock options granted to consultants is recognized as share-based payment expense from the date of grant to the reporting date and credited to contributed surplus. Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

Employee benefits from options

Holders of options granted prior to December 20, 2013 are entitled to receive, upon exercise, one TMI common share and one TMI Class B share. The modified option is recognized as a liability because the Class B share is a financial liability and because they are not separable until they are exercised. The fair value of these options at the date of modification has been accounted for as a repurchase of equity instruments and therefore deducted from equity. At the end of each reporting period subsequent to initial recognition, the options are re-measured, with changes in value recognized directly in earnings or loss in the period in which they arise.

Convertible notes

For accounting purposes, each unit consisting of convertible notes and common share purchase warrants is separated into its liability and equity components using the effective interest rate method. The value of the liability component at the time of issue is calculated as the discounted cash flows for the convertible notes assuming a risk-adjusted interest rate which represents the estimated rate for a note without a conversion feature. The fair value of the equity component (conversion or warrant feature) is determined at the time of issue as the difference between the face value of the convertible notes and the fair value of the liability component.

3 Changes in accounting standards including initial adoption

The following new standards have been issued by the IASB but not yet applied:

- IFRS 9, *Financial Instruments*, was issued in July 2014 and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 was developed in phases by the IASB. As a result there are a number of transition options and requirements in relation to earlier versions of IFRS 9 prior to the mandatory effective date of IFRS 9 in its entirety. IFRS 9 is mandatory for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for classification and measurement of financial assets and financial liabilities; impairment methodology for financial instruments; and general hedge accounting. IFRS 9 has specific requirements for whether debt instruments are accounted for at amortized cost, fair value through other comprehensive income or fair value through profit or loss. IFRS 9 requires equity instruments to be measured at fair value through profit or loss unless an irrevocable election is made for use of fair value through other comprehensive income which results in changes in fair value not being recycled to the income statement. The Company has not adopted IFRS 9 and has not completed its assessment of the impact of this standard.

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- IFRS 16, *Leases*, was issued in January 2016 and eliminates the classification of leases as either operating or finance leases for a lessee. Instead all leases are capitalized by recognizing the present value of lease payments and recognizing an asset and a financial liability representing an obligation to make future lease payments. The principles in IFRS 16 provide a more consistent approach to acquiring the use of an asset whether by leasing or purchasing an asset. The new leasing standard is applicable to all entities and will supersede current lease accounting standards under IFRS. IFRS 16 is mandatory for annual periods beginning on or after January 1, 2019. The Company has not adopted IFRS 16 and has not completed its assessment of the impact of this standard.

4 Receivables and prepaids

	2016 \$	2015 \$
GST receivable	4,274	5,517
Drilling advance	131,389	52,125
Other receivables	5,049	2,919
Other prepaids and advances	91,111	103,402
	<hr/> 231,823	<hr/> 163,963

5 Marketable securities

	2016 \$	2015 \$
Marketable securities	<hr/> 135,266	<hr/> 131,215

The Company owns 1,068,313 shares (10.5% interest) of Highvista Gold Inc. (“HGI”) and, until June 5, 2015, the Company and HGI had two directors in common. The investment in HGI has been reported at fair value based on the period-end market bid quotation with unrealized gains or losses being reported in Other Comprehensive Income (OCI).

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6 Equipment

Year ended December 31, 2016	Furniture and equipment \$	Computer hardware \$	Computer software \$	Vehicles \$	Leasehold improvements \$	Total \$
Cost						
Balance, beginning of the year	196,094	56,260	168,880	63,857	52,609	537,700
Additions	29,365	3,904	-	-	-	33,269
Disposals	(29,091)	-	-	(24,500)	(52,609)	(106,200)
Balance, end of the year	196,368	60,164	168,880	39,357	-	464,769
Accumulated amortization						
Balance, beginning of the year	128,603	55,199	167,714	39,905	45,742	437,163
Amortization for the year	38,505	1,435	1,166	11,300	5,372	57,778
Disposals	(28,708)	-	-	(19,397)	(51,114)	(99,219)
Balance, end of the year	138,400	56,634	168,880	31,808	-	395,722
Net book value at December 31, 2016	57,968	3,530	-	7,549	-	69,047
Year ended December 31, 2015						
	Furniture and equipment \$	Computer hardware \$	Computer software \$	Vehicle \$	Leasehold improvements \$	Total \$
Cost						
Balance, beginning of the year	176,244	55,659	168,880	63,857	52,609	517,249
Additions	19,850	601	-	-	-	20,451
Balance, end of the year	196,094	56,260	168,880	63,857	52,609	537,700
Accumulated amortization						
Balance, beginning of the year	85,578	52,281	163,808	19,966	35,220	356,853
Amortization for the year	43,025	2,918	3,906	19,939	10,522	80,310
Balance, end of the year	128,603	55,199	167,714	39,905	45,742	437,163
Net book value at December 31, 2015	67,491	1,061	1,166	23,952	6,867	100,537

7 Drilling advance

	2016 \$	2015 \$
Drilling advance	131,389	208,514
Less: current portion	(131,389)	(52,125)
	-	156,389

During 2011 and 2012, the Company advanced an aggregate \$1,050,000 under the terms of a drill contract in respect of the Escalones drill program. These advances were being recovered through reductions on a per metre basis to amounts invoiced to the Company in respect of drilling costs and through payments on a per metre basis in respect of drilling by the contractor for other mining companies. During 2014, the parties

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renegotiated the terms of repayment. During 2016, the Company received payments on account of \$100,000 (2015 - \$100,000). The balance outstanding bears interest at the compounded rate of 1% per month.

8 Mining claims and deferred exploration costs – Schedule 1

Mining claims and deferred exploration costs are associated with the following projects.

	2016 \$	2015 \$
a) Escalones, Chile	15,126,940	14,958,164
b) Gold Springs, U.S.	13,605,463	11,702,583
	<u>28,732,403</u>	<u>26,660,747</u>

- a) In 2004, the Company entered into an option agreement (the “Boezio Option”) to acquire the remaining 4,689 hectares of the Escalones property located in Chile which are not already 100% owned by the Company. In each of 2005, 2007, 2009, 2013 and 2015, the terms were renegotiated. Pursuant to the Boezio Option, as revised on November 24, 2015, the Company has the right until June 30, 2020 to purchase the claims upon payment to the owner of \$7,600,000. As at December 31, 2016, \$3,350,000 has been paid. The remaining \$4,400,000 is payable as follows: \$400,000 on June 30, 2017, \$500,000 on each of June 30, 2018 and 2019, and a final payment of \$3,000,000 on June 30, 2020.

The Company is required to pay all amounts required to protect and maintain the property during the option period. There is a 2% net smelter royalty (“NSR”) payable on production if the price of copper is greater than \$0.75 per pound and a 1% NSR if the copper price is equal to or less than \$0.75 per pound. The NSR may be purchased for \$3,000,000 within the five years following the first sale of minerals produced and \$5,000,000 after five years of the date of the first sale of minerals produced.

If the Company purchases the concessions, the Boezio Option requires the Company to commence exploitation of the concessions within two years thereafter. Once Escalones is acquired and until exploitation begins, the Company is required to pay annual advance royalty payments of \$200,000 which are credited against future royalty payments. Failure to commence exploitation within the two year period triggers an obligation to make annual indemnity payments of \$300,000 until exploitation begins. In this event, the \$200,000 annual payments made from the date of exercise of the option are deemed to be indemnity payments, not advance royalty payments. Royalty payments are suspended if exploitation of the mining concessions is suspended for reasons beyond the Company’s control.

- b) The Gold Springs mineral property was acquired through the 2013 acquisition of High Desert Gold Corporation (“HDG”). During the year ended December 31, 2016, the Company expanded its Gold Springs property holdings by acquiring a 64.75 hectare Utah State mineral lease at a cost of \$20,000. See Note 19.

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9 Malku Khota project

	2016	2015
	\$	\$
Malku Khota project	18,734,000	18,734,000

On October 23, 2012, the Company's wholly-owned Bermudian subsidiary, South American Silver Limited ("SASL"), delivered a formal letter to the State of Bolivia notifying it of an investment dispute between the Company and Bolivia. The dispute has arisen as a result of acts and omissions of the Government of Bolivia including the issuance of Supreme Decree No.1308 on August 1, 2012. The Decree revoked mining concessions held by the Company's Bolivian subsidiary, Compañía Minera Malku Khota S.A. ("CMMK"), a wholly-owned subsidiary of SASL.

SASL is a protected investor under the Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of Bolivia for the Promotion and Protection of Investments ("UK-Bolivia Treaty"), and the actions and omissions of the Bolivian government are in violation of the UK-Bolivia Treaty and of international law. Notification of the investment dispute triggered a six-month cooling-off period during which the disputing parties could negotiate a settlement. That cooling-off period ended on April 23, 2013 and on April 30, 2013, the Company commenced international arbitration against the Government of Bolivia under the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) pursuant to the UK-Bolivia Treaty seeking compensation based on fair market value of the Malku Khota project.

On September 24, 2014, SASL filed its statement of claim and memorial on the merits. On March 31, 2015, Bolivia filed its statement of defense and counter-memorial marking the conclusion of the preliminary written pleadings phase of the arbitration and the beginning of the document production phase. In accordance with the procedural calendar SASL's reply to Bolivia's statement of defense and counter-memorial was filed on November 30, 2015. Pursuant to extensions granted by the Tribunal to both parties, Bolivia's rejoinder was filed on March 21, 2016 and SASL's Rejoinder on Jurisdiction was filed on May 3, 2016. The oral hearing was held in Washington, D.C., on July 11 to July 21, 2016. Pursuant to the procedural orders in place, both parties submitted post-hearing memorials on October 31, 2016, after which the Tribunal will deliberate and issue a final award. It is typical for tribunals in this type of arbitration to require six to twelve months after the oral hearing to finalize and issue a final award.

SASL seeks monetary compensation for damages in the amount of \$385.7 million which includes \$307.2 million for all of its losses caused by Bolivia's breaches of the UK-Bolivia Treaty, plus \$78.5 million in pre-award interest but excludes fees and costs incurred in connection with the arbitration proceeding. As an alternative, SASL had been seeking restitution of the Malku Khota project along with monetary damages for project-delay in the amount of \$176.4 million, including pre-award interest, but after the second round of pleadings, SASL elected not to pursue its claim for restitution of the project itself along with the delay damages due to, among other things, the fact that restitution is rarely granted by tribunals (and even when it is, States are usually given the option of paying current fair market value in lieu of restitution), the changes in the Bolivian mining law since the expropriation impose onerous conditions on foreign investors, and Bolivia's conduct during the arbitration.

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On May 23, 2013, the Company entered into the Arbitration Costs Funding Agreement pursuant to which the Fund will cover most of the Company's future costs and expenses related to its international arbitration proceedings against Bolivia. See Note 15.

The recoverability of amounts shown as Malku Khota project is dependent upon the ability to achieve compensation in excess of the carrying value.

Management performed a review of the recoverability of the carrying amount of the Malku Khota project by comparing the unamortized book value to the higher of value in use and fair value less costs to sell as at December 31, 2016. Management has concluded that no impairment adjustment is necessary at this time.

If the Company is unsuccessful in its efforts to obtain compensation in excess of the unamortized book value of its investment in Malku Khota, the amount included in Malku Khota project may be written down in future periods.

10 Convertible notes

	Liability component \$	Equity component \$	Contributed surplus \$
Balance - December 31, 2014	-	-	-
Private placement of units	1,349,618	318,592	102,362
Allocation of issuance costs	(5,908)	(1,395)	(448)
Accretion	51,689	-	-
Foreign exchange	(85,629)	-	-
Balance - December 31, 2015	1,309,770	317,197	101,914
Accretion	130,901	-	-
Foreign exchange	37,370	-	-
Transfer to share capital on exercise of warrants	-	-	(44,388)
Balance - December 31, 2016	1,478,041	317,197	57,526

During 2015, the Company closed a non-brokered private placement of units consisting of Cdn. \$2,296,000 principal amount convertible notes bearing 6% interest and maturing July 23, 2018 (the "Notes") and 7,446,486 common share purchase warrants (the "Warrants") for gross proceeds of \$1,770,572 (Cdn. \$2,296,000).

If the repayment of the Notes on the maturity date would expose the Company to undue financial hardship, then the Company has the right to extend the maturity date to July 23, 2020 for no additional consideration.

Notwithstanding the foregoing, if the Company receives a cash payment pursuant to any award or settlement in the arbitration by its subsidiary against Bolivia of at least \$5 million (after the payment of all Malku Khota Arbitration Expenses and the Class B Share Entitlement, each as defined in the Company's Articles), the holders shall have the right to demand repayment of the outstanding principal amount of the Notes and accrued interest thereon, in cash, within 60 days of the first public disclosure by the Company of receipt of such net cash payment.

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The holders of the Notes have the option to convert all or any portion of the outstanding principal amount of the Notes into common shares of the Company at any time at the conversion price of Cdn. \$0.20 per share (“Conversion Price”). If the closing price of the common shares of the Company on the TSX is at least Cdn. \$0.40 for 10 consecutive trading days, the Company has the right to convert all or any portion of the outstanding principal amount of the Notes into common shares, without penalty. Shares issued to repay the principal amount of the Notes shall be issued at the Conversion Price, while accrued interest on the converted portion Notes shall be paid in cash.

The Notes are secured by a pledge of approximately 20.7% of the shares of the Company’s subsidiary in Chile, the holder of the Escalones property.

Each Warrant is exercisable to purchase one common share of the Company at the exercise price of Cdn. \$0.10 per share until July 23, 2017. During the year ended December 31, 2016, 3,243,243 of these warrants were exercised.

At the date of issue, \$1,349,618 (Cdn. \$1,750,125) was attributed to the liability component of the convertible notes based on an effective interest rate of 17%. \$102,362 (Cdn. \$132,739) was attributed to the warrants using the Black-Scholes option-pricing model and has been credited to contributed surplus. Assumptions used in the pricing model were as follows: average risk-free interest rate – 1.03%; expected life – 2.0 years; expected volatility – 111%; and expected dividends – nil. The residual amount of \$318,592 (Cdn. \$413,136) was attributed to the equity component of the convertible notes, being the lenders’ conversion option to common shares.

11 Class B shares

	2016	2015
	\$	\$
Class B shares	20,802,291	9,241,245

During the year ended December 31, 2016, 96,505 Class B shares were issued pursuant to the exercise of SAR’s. As at December 31, 2016, an aggregate 116,375,152 Class B shares are issued and outstanding, with each Class B share having the attributes described in Note 12 a). The Class B shares are recorded at their estimated fair value which is estimated based on the quoted price of the Class B shares on the Toronto Stock Exchange (“TSX”).

	\$
Carrying value as at December 31, 2014	13,531,345
Change in fair value	<u>(4,290,100)</u>
Carrying value as at December 31, 2015	9,241,245
Change in fair value	<u>11,561,046</u>
Carrying value as at December 31, 2016	<u>20,802,291</u>

The Class B shares are considered financial instruments and are disclosed as non-current liabilities.

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12 Share capital

a) Authorized

An unlimited number of common shares without par value and up to 127,328,790 Class B shares without par value.

The holders of the common shares are entitled to one vote per share. The holders of the common shares are entitled to dividends, when and if declared by the directors of the Company, and, subject to the rights of the holders of the Class B shares, to the distribution of the residual assets of the Company in the event of the liquidation, dissolution or winding-up of the Company. No dividends have ever been declared or paid as at December 31, 2016.

The Class B shares carry redemption and retraction rights and rights on liquidation which entitle the holders collectively to 85% of the net cash, if any, (after deducting all costs, taxes and expenses and the third party funder's portion thereof) received by TMI from an award or settlement in relation to TMI's wholly-owned subsidiary SASL's arbitration proceeding against the State of Bolivia for the expropriation of the Malku Khota project. The Class B shares are non-voting and non-participating in regards to dividends and on liquidation other than as described above.

b) Financings

During the year ended December 31, 2016, the Company completed in two tranches a private placement for gross proceeds of \$3,327,711 (Cdn. \$4,348,250) through the issuance of 17,393,000 units (the "Units") at a price of Cdn. \$0.25 per Unit. Each Unit is comprised of one common share and one half of one common share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to purchase one additional common share of the Company at an exercise price of Cdn. \$0.40 per share for a period of 36 months from the closing date of the private placement. \$1,255,450 was attributed to these warrants using the Black-Scholes option-pricing model and has been credited to contributed surplus. Assumptions used in the pricing model were as follows: average risk-free interest rate – 1.15%; expected life – 3 years; expected volatility – 114% to 117%; and expected dividends – nil.

In connection with the private placement, the Company paid a cash commission of \$15,200 and 79,200 non-transferable compensation-warrants. Each compensation-warrant entitles the holder to purchase one Unit, for a period of 18 months, at a price of Cdn. \$0.30 per Unit. \$8,419 was attributed to these warrants based on the Black-Scholes option-pricing model. Assumptions used in the pricing model were as follows: average risk-free interest rate – 1.15%; expected life – 1.5 years; expected volatility – 106%; and expected dividends – nil.

The Company also paid share issue costs of \$33,836 in respect of this private placement.

c) Stock options

(i) Changes in stock options

The Company's stock options outstanding as at December 31, 2016 and 2015 and the changes for the years then ended are as follows:

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	Number of options	Weighted average price Cdn.\$
Balance outstanding – December 31, 2014	8,388,150	0.87
Options granted	4,592,500	0.16
Options forfeited or expired	(1,233,734)	0.61
Balance outstanding – December 31, 2015	11,746,916	0.62
Options granted	2,720,000	0.30
Options exercised	(433,333)	0.32
Options forfeited or expired	(3,193,125)	1.44
Balance outstanding – December 31, 2016	10,840,458	0.31

During 2016, the weighted average stock price on the date of option exercise was Cdn. \$0.50 per share. There were no options exercised during 2015.

(ii) Share-based payments

During the year ended December 31, 2016, the Company recorded share-based payments of \$390,403 (2015 - \$149,888) in respect of stock options. Of this amount, \$339,952 (2015 - \$129,132) was recorded as a charge to operations and \$50,451 (2015 - \$20,756) was included in deferred exploration costs.

During the year ended December 31, 2016, the Company granted stock options as follows:

- to non-executive directors of the Company for the purchase of 900,000 common shares at a strike price of Cdn. \$0.305 per share. These options are exercisable for a period of five years and vested immediately;
- to officers, employees and consultants of the Company for the purchase of 1,270,000 common shares at a strike price of Cdn. \$0.305 per share. These options are exercisable for a period of five years, and 33 1/3% vested immediately, with a further 33 1/3% vesting on the date which is 12 months following the date of the grant; and the final 33 1/3% vesting on the date which is 24 months following the date of the grant;
- to a non-executive director of the Company for the purchase of 250,000 common shares at a strike price of Cdn. \$0.285 per share and for the purchase of 50,000 common shares at a strike price of Cdn. \$0.225 per share. These options are exercisable for a period of five years and vested immediately, provided that such options cannot be exercised until ratified by the shareholders of the Company at its next annual general meeting; and
- to a consultant of the Company for the purchase of 250,000 common shares at a strike price of Cdn. \$0.25 per share. These options are exercisable for a period of five years, vesting quarterly on each of the 3, 6, 9 and 12 month anniversaries of the date of grant, provided that such options cannot be exercised until ratified by the shareholders of the Company at its next annual general meeting.

During the year ended December 31, 2015, the Company granted stock options as follows:

- to non-executive directors of the Company for the purchase of 1,500,000 common shares at a strike price of Cdn. \$0.21 per share. These options are exercisable for a period of five years and vested immediately;

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- to officers, employees and consultants of the Company for the purchase of 1,092,500 common shares at a strike price of Cdn. \$0.21 per share. These options are exercisable for a period of five years, and 33 1/3% vested immediately, with a further 33 1/3% vesting on the date which is 12 months following the date of the grant; and the final 33 1/3% vesting on the date which is 24 months following the date of the grant; and
- to executive officers of the Company for the purchase of 2,000,000 common shares at a strike price of Cdn. \$0.10 per share. These options are exercisable for a period of three years, and 33 1/3% vested immediately, with a further 33 1/3% vesting on the date which is 6 months following the date of the grant; and the final 33 1/3% vesting on the date which is 12 months following the date of the grant.

The fair value of each option grant during the years ended December 31, 2016 and 2015 was estimated at the time of the grant using the Black-Scholes option pricing model with assumptions for grants as follows:

	2016	2015
Weighted average exercise price	Cdn. \$0.30	Cdn. \$0.16
Weighted average grant date share price	Cdn. \$0.30	Cdn. \$0.07
Risk-free interest rate	1.4%	2.0%
Expected life	5.0 years	3.0 to 5.0 years
Expected volatility	104% to 105%	103% to 107%
Dividend rate	0%	0%

Grant date share price is the closing market price on the date before the options were granted. Expected volatility was determined by measuring the historical volatility of the Company's share price. The historical period used to measure historical volatility was the same as the expected life of the options granted. The weighted average grant date fair value of options granted during the year ended December 31, 2016 was \$0.17 per share (2015 - \$0.03 per share).

(iii) Options outstanding at the end of the year

All of the outstanding options have associated share appreciation rights which allow the optionees to exercise their options on a cashless basis resulting in a lesser number of common shares to be issued to the optionee pursuant to their exercise.

Options to acquire one common share and one Class B share are outstanding at December 31, 2016 as follows:

Number of options outstanding	Number of options exercisable	Exercise price Cdn. \$	Expiry date
1,033,333	1,033,333	0.44	October 21, 2018

These stock options have been categorized as a financial liability. The fair values of these options have been estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model are as follows: average risk-free interest rate – 0.7%; expected life – 1.8 years; expected volatility – 77%; and expected dividends – nil. The fair value of these options as at December 31, 2016 amounts to \$156,842 (December 31, 2015 - \$64,303). The change in fair value of these stock options during the year ended December 31, 2016 of \$92,539 (2015 - \$154,071) was included in loss for the year.

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At December 31, 2016, these options have a weighted average remaining contractual life of 1.8 years.

Options to acquire common shares are outstanding at December 31, 2016 as follows:

Number of options outstanding	Number of options exercisable	Exercise price Cdn. \$	Expiry date
167,750	167,750	1.05	March 29, 2017
584,375	584,375	0.65	October 22, 2018
2,000,000	2,000,000	0.10	December 23, 2018
300,000	300,000	0.365	January 28, 2019
1,742,500	1,742,500	0.42	November 13, 2019
2,292,500	1,928,333	0.21	August 12, 2020
2,170,000	1,323,333	0.305	May 19, 2021
250,000	-	0.285	October 10, 2021
250,000	-	0.25	November 10, 2021
50,000	-	0.225	November 21, 2021
<u>9,807,125</u>	<u>8,046,291</u>		

The weighted average exercise price of the outstanding options to acquire one common share is Cdn. \$0.29 per share, and of exercisable options is Cdn. \$0.30 per share. At December 31, 2016, these options have a weighted average remaining contractual life of 3.2 years.

d) Warrants

(i) Changes in warrants

The Company's warrants outstanding as at December 31, 2016 and 2015 and the changes for the years then ended are as follows:

	Number of warrants	Weighted average price Cdn.\$
Balance – December 31, 2014	1,721,499	0.83
Warrants issued	7,446,486	0.10
Warrants expired	(1,171,499)	0.84
Balance – December 31, 2015	7,996,486	0.15
Warrants issued	8,775,700	0.40
Warrants exercised	(3,243,243)	0.10
Warrants expired	(550,000)	0.84
Balance – December 31, 2016	<u>12,978,943</u>	<u>0.30</u>

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(ii) Warrants outstanding at the end of the year

Warrants to acquire common shares are outstanding at December 31, 2016 as follows:

Number Outstanding		Exercise Price Cdn. \$	Expiry Date
4,203,243		0.10	July 23, 2017
6,000	(1)	0.30	January 5, 2018
73,200	(2)	0.30	January 11, 2018
4,472,500		0.40	July 5, 2019
4,224,000		0.40	July 11, 2019
<u>12,978,943</u>			

- (1) Each compensation-warrant entitles the holder to acquire one unit consisting of one common share and one half of one common share purchase warrant, with each whole warrant entitling the holder to purchase an additional common share at an exercise price of Cdn. \$0.40 per share until July 5, 2019.
- (2) Each compensation-warrant entitles the holder to acquire one unit consisting of one common share and one half of one common share purchase warrant, with each whole warrant entitling the holder to purchase an additional common share at an exercise price of Cdn. \$0.40 per share until July 11, 2019.

13 Income taxes

	2016 \$	2015 \$
Deferred tax		
Origination and reversal of timing differences	(623,224)	(413,424)
Adjustment to unrecognized deferred tax asset	623,224	413,424
Total deferred tax	<u>-</u>	<u>-</u>

The tax on the Company's profit before tax differs from the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

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	2016 \$	2015 \$
Tax rate	26%	26%
Net (loss) earnings for the year	(13,854,850)	2,735,225
Provision for income taxes at applicable rates	(3,602,261)	711,159
Tax effects of:		
Prior year adjustments	(30,437)	51,844
Foreign rate differences	(70,419)	(90,650)
Non-deductible expenses and non-taxable gains	3,042,355	(1,139,775)
Losses not recognized	37,538	53,998
Adjustments to benefits not recognized	623,224	413,424
Income tax expense	-	-

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016 \$	2015 \$
Deferred tax assets		
Deferred tax assets	10,050,464	9,406,598
Deferred tax liabilities		
Deferred tax liabilities	(521,333)	(521,333)
Benefits not recognized	(9,529,131)	(8,885,265)
Deferred tax liabilities (net)	-	-

Movement of deferred tax assets and liabilities

		Excess of tax basis over carrying value of assets \$	Tax basis of financing fees in excess of book value \$	Sub-total \$	Benefits not recognized \$	Total \$
Balance at December 31, 2014	8,350,992	426,074	136,155	8,913,221	(8,913,221)	-
Charged (credited) to equity	-	-	-	-	-	-
Charged (credited) to the statement of loss	521,170	(39,669)	(68,077)	413,424	(413,424)	-
Charged (credited) to other comprehensive loss	79,953	-	-	79,953	(79,953)	-
Balance at December 31, 2015	8,952,115	386,405	68,078	9,406,598	(9,406,598)	-
Charged (credited) to equity	-	-	14,938	14,938	(14,938)	-
Charged (credited) to the statement of loss	690,716	9,278	(71,066)	628,928	(628,928)	-
Charged (credited) to other comprehensive loss	-	-	-	-	-	-
Balance at December 31, 2016	9,642,831	395,683	11,950	10,050,464	(10,050,464)	-

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	Excess of carrying value over tax basis of assets \$	Benefits not recognized \$	Total \$
Balance at December 31, 2014	(521,333)	521,333	-
Charged (credited) to the statement of loss	-	-	-
Charged (credited) to other comprehensive loss	-	-	-
Balance at December 31, 2015	(521,333)	521,333	-
Charged (credited) to the statement of loss	-	-	-
Charged (credited) to other comprehensive loss	-	-	-
Balance at December 31, 2016	(521,333)	521,333	-

The Company has a non-capital loss carried forward available to reduce future taxable income of approximately \$34,835,000. Of this amount, \$768,000 do not expire. The remainder of the losses expire as follows:

	\$
2026	87,000
2027	694,000
2028	1,118,000
2029	1,628,000
2030	3,802,000
2031	6,269,000
2032	7,128,000
2033	6,047,000
2034	3,180,000
2035	2,454,000
2036 and thereafter	1,660,000
	<u>34,067,000</u>

14 Related party transactions

The Company incurred the following expenditures during the years ended December 31, 2016 and 2015 that were charged by related parties:

	2016 \$	2015 \$
Consulting fees	64,919	88,068
Legal fees	88,599	175,451
Consulting fees - mineral property costs	14,360	46,475
Legal fees - share issue costs	18,387	-

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Included in accounts payable at December 31, 2016 is an amount of \$59,358 (December 31, 2015 - \$77,283) due to related parties. These amounts are non-interest bearing and have no specific terms of repayment.

Key management includes the Chief Executive Officer, the Chief Financial Officer and the remaining directors. The compensation paid or payable to key management for services during the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
	\$	\$
Directors' fees	57,288	113,484
Wages and benefits	279,750	420,000
Share-based payments	261,577	89,276
	<u>598,615</u>	<u>622,760</u>

15 Contingencies

The Company may be subject to various contingent liabilities that occur in the normal course of operations. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the consolidated financial condition or future results of the Company.

Malku Khota project

Under the terms of the privileged Arbitration Costs Funding Agreement, the Company has given certain warranties and covenants to the Fund and is obliged to pledge at least 35% of the shares of the Company's subsidiary in Chile, beneficiary of the Escalones property, as security for its obligations. In consideration for the funding, the Company has agreed to pay to the Fund a portion of any recoveries received pursuant to the arbitration proceedings or any settlement with Bolivia. As at December 31, 2016, the arbitration has not been settled and the amount of the contingent payment is deemed to be indeterminable. Accordingly nothing has been accrued for the Fund's portion of any recoveries in the arbitration.

The Company has agreed to a contingent success fee to its lead arbitration counsel to be determined based on the outcome of the arbitration. As at December 31, 2016, the arbitration has not been settled and accordingly the success fee is deemed to be indeterminable and accordingly nothing has been accrued.

A large majority of the costs of the arbitration to be incurred by SASL or the Company are payable only in the event there is an award in favour of SASL and will be paid out of the proceeds of any such award. These costs include certain fees and other expenses incurred in connection with the arbitration, including the Fund's portion of any recoveries received pursuant to the arbitration proceedings or any settlement with Bolivia, a contingent success fee payable to SASL's lead arbitration counsel, and other commitments. These fees, costs and expenses will be paid out of any such award, thus potentially reducing funds received by SASL by as much as one-third of the amount of any award in its favour.

Convertible notes

The Notes issued in 2015 (Note 10) are secured by a pledge of approximately 20.7% of the shares of the Company's subsidiary in Chile, the holder of the Escalones property.

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Mexican uncertain tax position

The Company recorded a provision for Mexican tax on the 2013 acquisition of HDG. The provision related to the 2011 transfer of a Mexican mineral property. Management believes that it is unlikely that its 2011 Mexican tax return will be reassessed and during 2015 reversed the previous accrual amounting to \$426,503. The Mexican tax authorities have until 2018 to assess the existing filing.

16 Segment information

The Company's operations are limited to a single industry segment, being mineral exploration and development. Geographic segment information of the Company's assets and liabilities as at December 31, 2016 and 2015 is as follows:

Identifiable assets	2016	2015
	\$	\$
Bolivia	18,756,620	18,748,157
Canada	2,210,527	2,395,307
Chile	15,296,987	15,222,311
United States and other	13,995,223	12,060,844
Total assets	<u>50,259,357</u>	<u>48,426,619</u>
Identifiable liabilities	2016	2015
	\$	\$
Bolivia	4,276	2,839
Canada	88,399	138,555
Chile	7,838	14,573
United States and other	164,804	136,043
Total liabilities	<u>265,317</u>	<u>292,010</u>

Geographic segmentation of the Company's net loss (earnings) for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
	\$	\$
Bolivia	81,768	82,436
Canada	13,062,734	(3,336,954)
Chile	54,386	123,235
United States and other	655,962	396,058
Net loss (earnings)	<u>13,854,850</u>	<u>(2,735,225)</u>

17 Supplemental cash flow information

The Company conducted non-cash investing and financing activities during the years ended December 31, 2016 and 2015 as follows:

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	2016	2015
	\$	\$
Interest income included in receivables and prepaids	1,517	1,150
Investing activities		
Deferred exploration costs included in accounts payable	(60,831)	(138,314)
Financing activities		
Share-based payments included in deferred exploration costs	50,451	20,756

18 Financial instruments

a) Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain a flexible capital structure which optimizes the costs of capital as an acceptable risk. In the management of capital, the Company includes the components of equity attributable to shareholders and the convertible notes, as well as cash and cash equivalents.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

The Company is dependent on the equity markets as its principal source of operating working capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company is not subject to any capital requirements imposed by a regulator, other than continued listing requirements of the TSX. The Company expects its current capital resources will be sufficient to carry out its exploration plans and operations through the current operating period.

The Company's investment policy is to invest its cash in term deposits, with maturities of three months or less from the original date of acquisition.

There have been no changes to the Company's approach in managing capital during the year ended December 31, 2016.

b) Fair value of financial instruments

The Company classifies fair values of financial instruments within a three-level hierarchy that prioritizes the inputs to fair value measurement and reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted

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prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Company's marketable securities and its Class B shares have been classified as "Level 1" financial instruments and stock options exercisable into Class B and common shares have been classified as "Level 2" financial instruments.

c) **Currency risk**

A portion of the Company's financial assets and liabilities is denominated in foreign currencies giving rise to risks from changes in foreign exchange rates. The Company is exposed to currency exchange rate risks to the extent of its activities in the U.S., Bolivia, Chile and Mexico. The Company's currency risk is presently limited to approximately \$1,480,000 of financial assets and liabilities denominated in U.S. dollars which are owned by the Canadian parent, or denominated in Bolivian Bolivianos, Chilean pesos, or Mexican pesos. Based on this exposure as at December 31, 2016, a 5% change in exchange rates would give rise to a change in net earnings of approximately \$74,000. The Company does not use derivative financial instruments to reduce its foreign exchange exposure.

d) **Credit risk**

Credit risk is the risk of loss if a customer or third party to a financial instrument fails to meet its commercial obligations.

The majority of the Company's cash is held with a Canadian chartered bank and accordingly, the Company's exposure to credit risk is considered to be limited. Cash equivalents consist of term deposits which have an original maturity of three months or less from the date of purchase and which are readily convertible into a known amount of cash. The Company also maintains deposits for ongoing working capital at major banks in the jurisdictions in which its foreign subsidiaries operate.

e) **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company manages its cash according to its operational needs and to maximize interest revenue.

f) **Liquidity risk**

The Company manages liquidity risk by maintaining sufficient cash and cash equivalents balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities are all current. See Note 1.

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19 Subsequent event

Subsequent to December 31, 2016, the Company acquired the rights to 1,658 acre feet of water per year for the Gold Springs project through a water lease agreement which includes an option to purchase 1,500 of the 1,658 acre feet of water rights.

The water lease agreement with the option to purchase continues from year to year with automatic yearly renewal of the terms for 20 years. The annual aggregate lease payment is \$300,000, payable in quarterly instalments, and such payments may be offset prior to mining by subleasing the water rights. The Company has the option to purchase 1,500 of the 1,658 acre feet per year of water rights leased in the agreement for consideration of \$7,000,000. This option can be exercised at any time during the 20-year term of the lease.

TriMetals Mining Inc.*(An Exploration Stage Company)***Consolidated Schedule of Deferred Exploration Costs***(expressed in U.S. dollars)*

	Chile properties \$	U.S. properties \$	Total \$
Balance at December 31, 2014	14,635,739	9,927,065	24,562,804
Land and option payments	140,761	224,717	365,478
Laboratory	9,694	145,117	154,811
Field supplies	-	19,245	19,245
Camp	2,134	51,868	54,002
Consulting and supervision	128,560	585,127	713,687
Surveying and staking	9,921	-	9,921
Environmental	16,155	66,955	83,110
Technical consulting	126	261,644	261,770
Drilling	-	229,192	229,192
Trenching	9,479	43,180	52,659
Travel and accommodation	4,891	127,717	132,608
Share-based payments	-	20,756	20,756
Value added tax credits	704	-	704
	<u>322,425</u>	<u>1,775,518</u>	<u>2,097,943</u>
Balance at December 31, 2015	14,958,164	11,702,583	26,660,747
Land and option payments	39,621	207,458	247,079
Laboratory	10,588	151,579	162,167
Field supplies	-	15,418	15,418
Camp	5,954	38,472	44,426
Consulting and supervision	98,552	476,453	575,005
Surveying and staking	7,606	8,580	16,186
Environmental	3,085	160,902	163,987
Technical consulting	-	19,574	19,574
Drilling	-	546,144	546,144
Trenching	1,678	84,170	85,848
Travel and accommodation	1,557	143,679	145,236
Share-based payments	-	50,451	50,451
Value added tax credits	135	-	135
	<u>168,776</u>	<u>1,902,880</u>	<u>2,071,656</u>
Balance at December 31, 2016	15,126,940	13,605,463	28,732,403