



Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

(Expressed in Canadian Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Emerita Resources Corp.

We have audited the accompanying consolidated financial statements of Emerita Resources Corp. and its subsidiary, which comprise the consolidated statements of financial position as at September 30, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Emerita Resources Corp. and its subsidiary as at September 30, 2016 and 2015, and their financial performance and 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 indicates that Emerita Resources Corp. had continuing losses during the year ended September 30, 2016 and a working capital deficit as at September 30, 2016. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about Emerita Resources Corp.'s ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
January 26, 2017

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Emerita Resources Corp.
Consolidated Statements of Financial Position
Expressed in Canadian Dollars

	Note	September 30, 2016	September 30, 2015
		\$	\$
ASSETS			
Current			
Cash		306,773	50,477
Amounts receivable		114,950	102,012
Prepaid expenses		53,083	5,599
Total current assets		474,806	158,088
Long-term			
Reclamation deposit		16,952	17,194
Equipment	3	20,689	29,505
Exploration and evaluation properties	4	1,125,884	991,834
Total assets		1,638,331	1,196,621
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8,9	1,482,211	1,137,629
Total liabilities		1,482,211	1,137,629
SHAREHOLDERS' EQUITY			
Common shares	5	6,950,482	5,913,897
Warrants reserve	6	425,336	171,799
Option reserve	6	328,000	317,069
Deficit		(7,547,698)	(6,343,773)
Total shareholders' equity		156,120	58,992
Total liabilities and shareholders' equity		1,638,331	1,196,621
Nature of operations and going concern	1		
Commitments and contingencies	12		
Subsequent events	14		

Approved on behalf of the Board of Directors on January 26, 2017:

Signed: "Catherine Stretch", Director

Signed: "David Gower", Director

Emerita Resources Corp.

Consolidated Statements of Loss and Comprehensive Loss

Expressed in Canadian Dollars

		Year ended September 30,	
	Note	2016	2015
		\$	\$
Expenses			
Project evaluation expenses		465,691	1,401,824
Exploration and evaluation property writeoff	4	-	111,066
Consulting and management fees		595,784	611,965
Professional fees		17,311	26,186
Shareholders communications and filing fees		61,135	65,312
Travel expenses		32,100	59,211
Office expenses		23,998	78,808
Share-based payments	6	328,000	-
Loss for the period before other items		(1,524,019)	(2,354,372)
Other items			
Interest income		98	39
Foreign exchange gain/(loss)		2,927	(32,057)
Loss and comprehensive loss for the year		(1,520,994)	(2,386,390)
Basic and diluted loss per share		(0.02)	(0.05)
Weighted average number of common shares outstanding			
Basic and Diluted		69,715,206	52,879,610

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

Emerita Resources Corp.

Consolidated Statements of Changes in Shareholders' Equity

Expressed in Canadian Dollars

	Number of shares	Common Shares	Warrant Reserve	Option Reserve	Deficit	Shareholder's equity
	#	\$	\$	\$	\$	\$
Balance, September 30, 2014	48,087,829	5,536,826	16,000	317,069	(3,973,383)	1,896,512
Warrants expired unexercised	-	-	(16,000)	-	16,000	-
Private placement, net of issue costs	11,000,000	548,870	-	-	-	548,870
Warrants	-	(171,799)	171,799	-	-	-
Loss and comprehensive loss for the year	-	-	-	-	(2,386,390)	(2,386,390)
Balance, September 30, 2015	59,087,829	5,913,897	171,799	317,069	(6,343,773)	58,992
 Balance, September 30, 2015	 59,087,829	 5,913,897	 171,799	 317,069	 (6,343,773)	 58,992
Common shares issued, net of issue costs	23,830,000	1,201,890	-	-	-	1,201,890
Warrants	-	(243,925)	243,925	-	-	-
Broker warrants	-	-	20,232	-	-	20,232
Warrants exercised	680,000	78,620	(10,620)	-	-	68,000
Options expired unexercised	-	-	-	(317,069)	317,069	-
Option reserve	-	-	-	328,000	-	328,000
Loss and comprehensive loss for the year	-	-	-	-	(1,520,994)	(1,520,994)
Balance, September 30, 2016	83,597,829	6,950,482	425,336	328,000	(7,547,698)	156,120

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

Emerita Resources Corp.
Consolidated Statements of Cash Flows
Expressed in Canadian Dollars

	Note	Year ended September 30	2016	2015
		\$	\$	\$
CASH (USED IN) PROVIDED BY:				
OPERATING ACTIVITIES:				
(Loss) for the year		(1,520,994)	(2,386,390)	
Items not involving cash:				
Share-based payment expense	6	328,000	-	
Amortization		8,816	8,493	
Exploration and evaluation property writeoff	4	-	111,066	
Unrealized foreign exchange loss		(514)	2,625	
Working capital adjustments:				
Changes in amounts receivable		(12,938)	(39,061)	
Changes in prepaid expenses		(47,484)	102,025	
Changes in accounts payable and accrued liabilities		344,582	911,676	
Net cash (used in) operating activities		(900,532)	(1,289,566)	
INVESTING ACTIVITIES:				
Exploration and evaluation properties, net of change in working capital		(56,308)	(126,899)	
Net cash (used in) investing activities		(56,308)	(126,899)	
FINANCING ACTIVITIES:				
Proceeds from issuance of common shares	5	1,166,500	446,000	
Cost of issue		(21,878)	(1,130)	
Exercise of warrants	6	68,000	-	
Loan received	13	56,000	-	
Loan repayment	13	(56,000)	-	
Net cash provided by financing activities		1,212,622	444,870	
Effect of exchange rate changes on cash		514	(2,625)	
CHANGE IN CASH, during the year		256,296	(974,220)	
CASH, beginning of year		50,477	1,024,697	
CASH, end of year		306,773	50,477	
SUPPLEMENTAL INFORMATION				
Change in non-cash working capital for exploration and evaluation properties		242	(3,245)	
Issuance of common shares for property (Note 4)		77,500	-	
Issuance of common shares for accounts payable (Note 5(iv))		-	104,000	
Issuance of broker warrants in private placement (Note 6)		20,232	-	

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

Emerita Resources Corp.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Expressed in Canadian Dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

Emerita Resources Corp. (the “Company”, or “Emerita”) was incorporated on October 30, 2009 as 0865140 BC LTD. pursuant to the *Business Corporations Act of British Columbia*. On January 8, 2013, the Company completed its Qualifying Transaction and ceased to be a Capital Pool Company. The Company changed its name to Emerita Gold Corp. and commenced trading as a Tier 2 Mining Issuer on the TSX Venture Exchange on January 11, 2013 under the new trading symbol “EMO”. The Company has a wholly owned subsidiary, 2244182 Ontario Inc. (“2244182”) which owns Emerita Resources Espana SL (“Emerita Espana”), a company incorporated on May 30, 2012 in Spain. The Company is currently engaged in the acquisition, exploration and development of mineral properties, with its primary focus on the Las Morras Property. The head office and principal address of the Company is 65 Queen Street West, Suite 800, Toronto, Ontario, M5H 2M5.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that the current exploration programs will result in profitable operations.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation properties is dependent upon the establishment of a sufficient quantity of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition of these assets.

Although the Company has taken steps to verify title to the properties on which it is conducting its exploration activities, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims and non-compliance with regulatory and environmental requirements. The Company’s assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

The Company has a need for equity financing for working capital and exploration and development of its properties. Because of continuing operating losses and a working capital deficit, the Company’s continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. Material uncertainties as mentioned above cause significant doubt upon the Company’s ability to continue as a going concern.

These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. Such adjustments could be material. Due to continuing operating losses, the Company’s ability to continue as a going concern is dependent on its ability to obtain additional sources of financing. There is no assurance that these funds will be available on terms acceptable to the Company or at all.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and include Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The policies set out were consistently applied to all the periods presented unless otherwise noted below.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation

These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information, and have been prepared using the historical cost basis. Furthermore, these consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary. All values are rounded to the nearest dollar.

These consolidated financial statements include the accounts of the Company, 2244182 Ontario Inc., and Emerita Espana. All material intercompany transactions and balances between subsidiaries have been eliminated on consolidation.

Approval of the consolidated financial statements

These consolidated financial statements of the Company for the year ended September 30, 2016 were reviewed, approved and authorized for issue by the Board of Directors of the Company on January 26, 2017.

Critical judgements and estimation uncertainties

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Capitalization of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including, but not limited to, the geologic and metallurgic information, operating management expertise and existing permits. See Note 4 for details of capitalized exploration and evaluation costs.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical judgements and estimation uncertainties (continued)

Impairment of exploration and evaluation properties

While assessing whether any indications of impairment exist for exploration and evaluation properties, consideration is given to both external and internal sources of information. Changes in the market, economic and legal environment in which the Company operates that are not within its control affect the recoverable amount of exploration and evaluation properties. Internal sources of information considered by the Company include the manner in which exploration and evaluation properties are being used or are expected to be used and indications of expected economic performance of the properties. Estimates include but are not limited to estimates of the discounted future cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation properties.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Equipment

Equipment is stated at cost, less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Equipment is recorded at cost. Amortization is provided on a straight-line basis over the estimated useful lives of the equipment using the following number of years:

Office equipment	5 - 10 years
Office furniture	5 - 10 years
Vehicle	5 years
Software	3 - 5 years

Emerita Resources Corp.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical judgements and estimation uncertainties (continued)

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Contingencies

Refer to Note 12.

Principles of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Any changes to the carrying amount of the asset, including impairment losses, are recognized in loss.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in loss.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income/loss. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive loss and recognized in loss.

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Company's financial assets are comprised of cash, which is classified as loans and receivables.

Financial liabilities

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, directly attributable transaction costs. The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in loss.

Other financial liabilities - After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in loss when the liabilities are derecognized, as well as through the effective interest rate amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The amortization of the effective interest is included in other items in loss.

The Company's financial liabilities are comprised of accounts payable and accrued liabilities, and are classified as other financial liabilities.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in loss.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Exploration and evaluation properties

Expenditures on exploration and evaluation activities, including costs incurred to acquire and secure exploration property licenses, are capitalized to exploration and evaluation properties.

Project evaluation expenses included in net loss relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Management reviews the carrying value of capitalized exploration and evaluation costs at least annually. The review is based on the Company's intentions for development of the undeveloped property. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable or management determines that an impairment is required, all irrecoverable costs associated with the project net of any impairment provisions are written off to loss.

The recoverability of amounts shown for exploration and evaluation properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

Costs recovered in excess of the carrying amount are recognized in loss.

Development assets

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as construction-in-progress and classified as a component of property, plant and equipment. Costs associated with the commissioning of new assets incurred in the period before they are operating in the way intended by management, are capitalized. Development expenditure is net of the proceeds of the sale of metals from ore extracted during the development phase. Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Issued capital

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

Foreign currency translation

The presentation and functional currency of the Company and its subsidiary is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Exchange differences are recognized in operations in the period in which they arise.

Income taxes

Any income tax on profit or loss for the period presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income/loss, in which case the income tax is recognized in equity or other comprehensive income/loss.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, on a non-discounted basis using tax rates at the end of the reporting period applicable to the period of expected realization. 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.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity settled share-based transactions are set out in the equity reserves note (Note 6).

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded vesting basis over the period during which the employee becomes unconditionally entitled to equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (continued)

For those options and warrants that expire after vesting, the recorded value is transferred to deficit.

Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The diluted loss per share calculation assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive. All of the Company's outstanding stock options and warrants were anti-dilutive for the years ended September 30, 2016 and 2015.

Impairment of non-financial assets

The carrying values of capitalized exploration and evaluation properties and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the Company evaluating its non-financial assets on a geographical basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to loss so as to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in loss.

Rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Rehabilitation provision (continued)

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in operations as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in loss.

The Company does not currently have any such significant legal or constructive obligations and therefore, no rehabilitation provision has been recorded as at September 30, 2016 or 2015.

Future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for fiscal years of the Company beginning October 1, 2016 or later. Updates that are not applicable or are not consequential to the Company have been excluded therefrom. The Company has not yet determined the impact of the following on its consolidated financial statements.

IFRS 7 – Financial Instruments: Disclosures (“IFRS 7”) was amended in September 2014 to clarify whether a servicing contract is continuing involvement in a transferred asset for purposes of determining the disclosures required. IFRS 7 was also amended to clarify that the additional disclosures relating to offsetting are not specifically required for interim periods unless required by IAS 34. The amendments are effective for annual periods beginning on or after January 1, 2016.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes (continued)

IFRS 11 - Joint Arrangements ("IFRS 11") was amended in May 2014 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 12 – Income Taxes ("IAS 12") was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

3. EQUIPMENT

	Office Equipment	Office Furniture	Software	Vehicle	Total
Cost as at September 30, 2014	\$ 16,737	\$ 18,253	\$ 1,881	\$ 13,762	\$ 50,633
Additions, 2015	-	-	-	-	-
Cost as at September 30, 2015	16,737	18,253	1,881	13,762	\$ 50,633
Additions, 2016	-	-	-	-	-
Cost as at September 30, 2016	16,737	18,253	1,881	13,762	50,633
Accumulated amortization as at September 30, 2014	6,197	2,770	578	2,751	\$ 12,296
Charge for the year, 2015	4,184	1,826	620	2,202	\$ 8,832
Accumulated amortization as at September 30, 2015	10,381	4,596	1,198	4,953	21,128
Charge for the year, 2016	4,187	1,826	600	2,203	\$ 8,816
Accumulated amortization as at September 30, 2016	14,568	6,422	1,798	7,156	29,944
Net book value as at September 30, 2015	\$ 6,356	\$ 13,657	\$ 683	\$ 8,809	\$ 29,505
Net book value as at September 30, 2016	\$ 2,169	\$ 11,831	\$ 83	\$ 6,606	\$ 20,689

Emerita Resources Corp.

Notes to Consolidated Financial Statements

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4. EXPLORATION AND EVALUATION PROPERTIES

	Las Morras Property \$	Falcon Lito Project \$	Total \$
Balance, September 30, 2015	991,834	-	991,834
Cost incurred during the year:			
Option to purchase	-	77,500	77,500
Land management fees, taxes and permits	24,816	-	24,816
Field expenses	1,180	-	1,180
Vehicle and fuel	390	-	390
Overhead - Project office Sevilla	30,164	-	30,164
Balance, September 30, 2016	1,048,384	77,500	1,125,884

	Las Morras Property \$	Peña Encina Property \$	Total \$
Balance, September 30, 2014	867,841	111,066	978,907
Cost incurred during the year:			
Land management fees, taxes and permits	27,514	-	27,514
Labour, contract geologists, prospectors	34,197	-	34,197
Field expenses	15,532	-	15,532
Sample analysis	4,295	-	4,295
Technical reports	8,750	-	8,750
Travel, meals and accommodations	7,905	-	7,905
Vehicle and fuel	567	-	567
Overhead - Project office Sevilla	25,233	-	25,233
Write off	-	(111,066)	(111,066)
Balance, September 30, 2015	991,834	-	991,834

The Company has valid permits for two gold exploration properties. Each of the properties is comprised of exploration permits that were issued by the Extremadura regulatory authorities and the Asturias regulatory authorities respectively.

Las Morras Property

- The original exploration permit for Las Morras Property is comprised of 230 claims, totaling approximately 7,000 hectares. The exploration permit for Las Morras was granted in 2012 with an expiry date of April 17, 2015 subject to a right of renewal for an additional three year term. The Company applied for an additional three year term and received approval of the renewal for a period of two years on August 20, 2015. This property is located in the eastern part of the Badajoz Province of Spain. In 2013, the Company applied for five additional permits around the Las Morras Project area in the Extremadura region. Between November 2014 and January 2015, the company received notice from the Extremadura region authorities that these five additional permits had been granted. The additional permits covered areas of Matillas, La Macheula, El Alandre, Matajarda and Garbayuela. As a result of difficult financing conditions, the Company decided to cancel these additional permits on March 12, 2015.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

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4. EXPLORATION AND EVALUATION PROPERTIES (continued)

Peña Encina Property

- The Peña Encina property is comprised of one exploration permit that expired on April 18, 2015. This property is located in La Codesera District in Spain. The Company has not applied for a renewal of this permit and has formally removed it from its portfolio of mineral properties. For this reason it has written down the full value of the property as at March 31, 2015.

Falcon Litio Project

- In June 2016, the Company entered into a binding letter agreement (the “Falcon Agreement”) with Falcon Metais Ltda. (“Falcon”) pursuant to which Falcon granted to Emerita an option (the “Option”) to acquire a 100% interest in the Falcon Litio MG Project (the “Project”) on or before June 13, 2018 (the “Option Expiry Date”). The Falcon Project is located in Minas Gerais State, Brazil, and is comprised of one exploration permit and five applications for exploration permits. The applications for exploration permits have been submitted to the Brazilian Mining Agency by Falcon and will be transferred to Emerita when the exploration permits are granted.
- In order to acquire the Option, Emerita issued 500,000 common shares to Falcon, at a price per share of \$0.155 based on the estimated market value of the shares on the date of issuance. In order to keep the Option in good standing prior to its expiry, Emerita is required to issue an additional 500,000 common shares to Falcon on or before June 13, 2017. In order to exercise the Option and acquire the Project, Emerita must issue a third tranche of 500,000 common shares to Falcon on or before the Option Expiry Date. All issuances of common shares of Emerita are subject to a statutory hold period and to approval by the Exchange. If Emerita exercises the Option and acquires the Project, Falcon will retain a transferable 2% net smelter royalty on all commercial sales from the Project.
- In addition, if a “mineral resource”, as defined in National Instrument 43-101 (“NI 43-101”), of at least 20 million tonnes with a grade of at least 1.3% LiO₂ is delineated at the Project, Emerita shall either, (i) pay CAD\$5 million in cash to Falcon or, by its sole discretion, (ii) issue CAD\$5 million worth (to be determined on a reasonable volume weighted average price basis) of common shares to Falcon (the “Resource Consideration”). The Resource Consideration shall only be paid by Emerita if (i) the mineral resource is verified by a “qualified person”, as such term is defined in NI 43-101, who is independent of Emerita and Falcon, and (ii) at least 50% of the mineral resource is categorized as an “indicated mineral resource” or “measured mineral resource”, as defined in NI 43-101.
- Pursuant to the Agreement, Falcon will hold the Project in trust for Emerita until Emerita exercises the Option and the Project is assigned and transferred to Emerita. If Emerita does not exercise the Option by the Option Expiry Date, Falcon will retain the Project.

Emerita Resources Corp.

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5. COMMON SHARES

Authorized

At September 30, 2016, the authorized share capital consisted of an unlimited number of common shares without par value.

Common Shares Issued

	Number of shares	Amount
Balance, September 30, 2014	48,087,829	\$ 5,536,826
Private placement, net of issuance costs (iv)	11,000,000	377,071
Balance, September 30, 2015	59,087,829	\$ 5,913,897
Private placement, net of issuance costs (iii)	4,250,000	158,567
Private placement, net of issuance costs (ii)	19,080,000	721,897
Mineral Property Option Acquisition (i)	500,000	77,500
Warrant exercise (Note 6)	680,000	68,000
Valuation allocation of exercise of warrants (Note 6)	-	10,621
Balance, September 30, 2016	83,597,829	\$ 6,950,482

- (i) On June 13, 2016, the Company entered into a binding letter agreement with Falcon Metais Ltda., granting the Company an option to acquire a 100% interest in the Falcon Litio MG Project on or before June 13, 2018. In order to acquire the option, the Company issued 500,000 common shares at a price per share of \$0.155 (Note 4).
- (ii) On May 20, 2016, the Company completed a non-brokered private placement financing by issuing 19,080,000 units at a price of \$0.05 per unit for gross proceeds of \$954,000. Each unit is comprised of one common share and one warrant. Each warrant is exercisable at a price of \$0.10 per warrant until May 20, 2018. The fair value of the warrants was estimated at \$190,800 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 111%; risk-free interest rate of 0.62% and an expected life of 2 years. In addition, 407,400 finder warrants were granted. Each finder warrant is exercisable at a price of \$0.10 per warrant until May 27, 2018. The fair value of the finder warrants was estimated at \$20,232 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 112%; risk-free interest rate of 0.65% and an expected life of 2 years.
- (iii) On December 24, 2015, the Company completed a non-brokered private placement financing by issuing 4,250,000 units at a price of \$0.05 per unit for gross proceeds of \$212,500. Each unit is comprised of one common share and one warrant. Each warrant is exercisable at a price of \$0.10 per warrant until December 24, 2017. The fair value of the warrants was estimated at \$53,125 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 124%; risk-free interest rate of 0.49% and an expected life of 2 years.

Emerita Resources Corp.

Notes to Consolidated Financial Statements
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5. COMMON SHARES (continued)

Common Shares Issued (continued)

- (iv) On April 24, 2015, the Company completed a non-brokered private placement financing by issuing 11,000,000 units at a price of \$0.05 per unit for gross proceeds of \$550,000. Each unit is comprised of one common share and one warrant. Each warrant is exercisable at a price of \$0.10 per warrant until April 27, 2017. The fair value of the warrants was estimated at \$171,799 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 132%; risk-free interest rate of 0.68% and an expected life of 2 years. Of the total shares issued, one vendor received 2,080,000 shares as payment of outstanding invoices totaling \$104,000.

6. EQUITY RESERVES

Warrants

The changes in warrants issued during the years ended September 30, 2016 and 2015 are as follows:

	Number of warrants	Weighted average exercise price	Value of warrants
Balance, September 30, 2014	200,000	\$ 0.20	\$ 16,000
Expired	(200,000)	0.20	(16,000)
Granted	11,000,000	0.10	171,799
Balance, September 30, 2015	11,000,000	\$ 0.10	\$ 171,799
Granted, December 24, 2015	4,250,000	0.10	53,125
Exercised, April 4, 2016	(80,000)	0.10	(1,249)
Exercised, April 29, 2016	(100,000)	0.10	(1,562)
Granted, May 20, 2016	19,080,000	0.10	190,800
Granted, May 27, 2016	407,400	0.05	20,232
Exercised, June 20, 2016	(500,000)	0.10	(7,809)
Balance, September 30, 2016	34,057,400	\$ 0.10	\$ 425,336

The following summarizes the warrants outstanding as of September 30, 2016:

Number outstanding #	Number exercisable #	Grant date	Expiry date	Exercise price \$	Grant date fair value \$	Risk-free interest rate	Expected life (Yrs) #	Expected dividend yield
10,320,000	10,320,000	24-Apr-15	24-Apr-17	\$0.10	161,179	132%	0.68%	2.00 0%
4,250,000	4,250,000	24-Dec-15	24-Dec-17	\$0.10	53,125	124%	0.49%	2.00 0%
19,080,000	19,080,000	20-May-16	20-May-18	\$0.10	190,800	111%	0.62%	2.00 0%
407,400	407,400	27-May-16	27-May-18	\$0.10	20,232	112%	0.65%	2.00 0%
34,057,400	34,057,400				425,336			

The weighted-average remaining contractual life of the warrants as of September 30, 2016 is 1.74 years (2015 – 1.57 years).

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6. EQUITY RESERVES (continued)

Share-based payments

The changes in stock options issued during the years ended September 30, 2016 and 2015 are as follows:

	Number of options	Weighted average exercise price	Estimated grant date fair value
Balance, September 30, 2015 and 2014	3,560,000	\$ 0.18	\$ 317,069
Granted, November 25, 2015	200,000	0.10	4,000
Expired, January 10, 2016	(3,000,000)	0.20	(300,000)
Granted, March 1, 2016	200,000	0.05	2,000
Expired, August 28, 2016	(560,000)	0.10	(17,069)
Granted, August 29, 2016	4,450,000	0.10	311,500
Granted, September 8, 2016	150,000	0.10	10,500
Balance, September 30, 2016	5,000,000	\$ 0.10	\$ 328,000

Options outstanding as of September 30, 2016 are as follows:

Number outstanding #	Number exercisable #	Grant date	Expiry date	Exercise price \$	Estimated grant date fair value \$	Risk-free interest rate			Expected life (Yrs) #	Expected dividend yield
						Expected volatility	rate	#		
200,000	200,000	25-Nov-15	25-Nov-17	\$0.10	4,000	118%	0.63%	2.00	0%	
200,000	200,000	01-Mar-16	01-Mar-18	\$0.05	2,000	98%	0.53%	2.00	0%	
4,450,000	4,450,000	29-Aug-16	29-Aug-21	\$0.10	311,500	128%	0.72%	5.00	0%	
150,000	150,000	08-Sep-16	08-Sep-21	\$0.10	10,500	128%	0.68%	5.00	0%	
5,000,000	5,000,000				328,000					

The weighted average remaining contractual life of the options as of September 30, 2016 is 4.63 years (2015 – 0.38 years).

7. CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of exploration and evaluation properties. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The capital of the Company consists of common shares, warrants and options of the Company.

The properties in which the Company currently has an interest are in the exploration and evaluation stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out planned exploration and evaluation and pay for administrative costs, the Company must raise additional amounts.

The Company may continue to assess new properties and may seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no significant changes in the Company's approach to capital management during the years ended September 30, 2016 and 2015.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

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7. CAPITAL MANAGEMENT (continued)

The Company and its subsidiaries are not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

As of September 30, 2016, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

8. FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- a) Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- b) Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- c) Level 3 - Inputs for assets and liabilities that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Company's financial instruments include cash, and accounts payable and accrued liabilities. The carrying values of these financial instruments reported in the statement of financial position approximate their respective fair values due to the relatively short-term nature of these instruments. As at September 30, 2016 and 2015, the Company had no instruments to classify in the fair value hierarchy.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(a) *Credit risk*

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

a. *Trade credit risk*

The Company is not exposed to significant trade credit risk.

b. *Cash*

In order to manage credit and liquidity risk the Company's policy is to invest only in highly rated investment grade instruments that have maturities of three months or less. Limits are also established based on the type of investment, the counterparty and the credit rating.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

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8. FINANCIAL INSTRUMENTS (Continued)

(b) Currency risk

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's foreign currency risk arises primarily with respect to the Euro from its property interests in Spain and US dollars from operations. Fluctuations in the exchange rates between these currencies and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

As at September 30, 2016 and 2015, the Company had the following financial instruments and denominated in foreign currency (expressed in Canadian dollars):

September 30, 2016

	Euro	US dollars
Cash	\$ 26,484	\$ 7,870
Accounts payable and accrued liabilities	(460,465)	(288,877)
	\$ (433,981)	\$ (281,007)

September 30, 2015

	Euro	US dollars
Cash	\$ 38,391	\$ 5,352
Accounts payable and accrued liabilities	(465,855)	(124,898)
	\$ (427,464)	\$ (119,546)

A 1% strengthening (weakening) of the Canadian dollar against the Euro and US dollar would decrease (increase) net loss by approximately \$4,000 (2015 - \$4,000), and \$3,000 (2015- \$1,200), respectively.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At September 30, 2016, the Company had a cash balance of \$306,773 (September 30, 2015 - \$50,477) to settle current liabilities of \$1,482,211 (September 30, 2015 - \$1,137,629). The Company's trade payables have contractual maturities of less than 30 days and are subject to normal trade terms.

(d) Commodity / Equity price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as it relates to gold, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Commodity price risk is remote as the Company is not a producing entity.

Emerita Resources Corp.

Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements September 30, 2016 and 2015

*September 30, 2010 and
Expressed in Canadian Dollars*

9. RELATED PARTY TRANSACTIONS

The Company shares office space with other companies who may have common officers or directors. The costs associated with this space are administered by an unrelated company.

As at September 30, 2016 an amount of \$634,927 included in accounts payable, were owed to directors and officers of the Company (September 30, 2015 - \$297,163). The amounts outstanding on fees are unsecured, non-interest bearing, with no fixed terms of repayment.

Compensation of key management personnel of the Company

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. During the years ended September 30, 2016 and 2015, the remuneration of directors and other key management personnel are as follows:

	Year ended September 30,	
	2016	2015
Management fees	\$ 299,560	\$ 393,109
Directors fees	90,000	82,000
Share-based payments	196,000	-
	\$ 585,560	\$ 475,109

In connection with the May 20, 2016 placement (see Note 5(ii)), officers and directors of the Company subscribed for 500,000 units of the Company for a total proceeds of \$25,000.

In connection with the December 24, 2015 placement (see Note 5(iii)), officers and directors of the Company subscribed for 100,000 units of the Company for a total proceeds of \$5,000.

In connection with the April 24, 2015 placement (see Note 5(iv)), officers and directors of the Company subscribed for 1,500,000 units of the Company for a total proceeds of \$75,000.

10. SEGMENT INFORMATION

The Company conducts its business as a single operating segment, being mineral exploration and evaluation in Spain and Brazil. At September 30, 2016 and 2015, all exploration and evaluation assets were located in Spain. The following tables summarize the total assets and liabilities by geographic segment as at September 30, 2016 and 2015:

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10. SEGMENT INFORMATION (continued)

September 30, 2016	Spain	Canada	Total
Cash	\$ 26,484	\$ 280,289	\$ 306,773
Other current assets	125,703	42,330	168,033
Reclamation deposit	16,952	-	16,952
Property, plant and equipment	20,689	-	20,689
Exploration and evaluation properties	1,125,884	-	1,125,884
Total Assets	\$ 1,315,712	\$ 322,619	\$ 1,638,331

Accounts payable and accrued liabilities	\$ 460,465	\$ 1,021,746	\$ 1,482,211
Total liabilities	\$ 460,465	\$ 1,021,746	\$ 1,482,211

September 30, 2015	Spain	Canada	Total
Cash	\$ 38,391	\$ 12,086	\$ 50,477
Other current assets	91,074	16,537	107,611
Reclamation deposit	17,194	-	17,194
Property, plant and equipment	29,505	-	29,505
Exploration and evaluation properties	\$ 991,834	-	991,834
Total Assets	\$ 1,167,998	\$ 28,623	\$ 1,196,621

Accounts payable and accrued liabilities	\$ 465,854	\$ 671,775	\$ 1,137,629
Total liabilities	\$ 465,854	\$ 671,775	\$ 1,137,629

The following tables summarize the loss by geographic segment for the years ended September 30, 2016 and 2015:

September 30, 2016	Spain	Canada	Total
Interest income	\$ -	\$ (98)	\$ (98)
Project evalution expenses	465,691	-	465,691
General and administrative expenses	-	1,058,328	1,058,328
Foreign exchange (gain) loss	-	(2,927)	(2,927)
Loss	\$ 465,691	\$ 1,055,303	\$ 1,520,994

September 30, 2015	Spain	Canada	Total
Interest income	\$ -	\$ (39)	\$ (39)
Project evalution expenses	1,401,824	-	1,401,824
Property writeoff	111,066	-	111,066
General and administrative expenses	-	841,482	841,482
Foreign exchange loss	23,157	8,900	32,057
Loss	\$ 1,536,047	\$ 850,343	\$ 2,386,390

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11. INCOME TAXES

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.50% (2015 – 26.50%) were as follows:

Provision for income taxes

	2016	2015
	\$	\$
(Loss) before income taxes	(1,520,994)	(2,386,390)
Expected income tax recovery based on statutory rate	(403,000)	(632,000)
Adjustment to expected income tax benefit:		
Share-based payments	87,000	-
Expenses not deductible for tax purposes	1,000	-
Difference in tax rates	(16,000)	-
Difference in foreign exchange rates	(20,000)	(38,000)
Change in benefit of tax assets not recognized	351,000	670,000
 <u>Deferred income tax provision (recovery)</u>	 -	 -

Deferred income taxes

Deferred income tax assets have been recognized in respect of the following items:

	2016	2015
	\$	\$
Exploration and evaluation properties	(277,000)	(263,000)
Non-capital loss carry-forwards	277,000	263,000
 <u>Net tax assets (liabilities)</u>	 -	 -

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2016	2015
	\$	\$
Non-capital loss carry-forwards	6,165,000	5,109,000
Share issue costs	25,000	12,000
Other temporary differences	141,000	141,000
 <u>Total</u>	 6,331,000	 5,262,000

Non-capital losses of \$3,579,000 in Canada expire between 2029 and 2036. Non-capital losses of €2,401,000 (\$3,540,000) in Spain expire between 2030 and 2034. The potential future benefit of these losses has not been recognized in the consolidated financial statements because it is not probable that future taxable profit will be available against which the Company can use the benefits.

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12. COMMITMENTS AND CONTINGENCIES

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company expects to make expenditures to comply with such laws and regulations.

The Company is party to certain management contracts. These contracts contain minimum commitments of approximately \$326,000 (2015 - \$300,000) and additional contingent payments of up to approximately \$1,241,000 (2015 - \$1,185,000) upon the occurrence of a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

The Company is party to a shared costs services agreement, which expires on January 31, 2017. The remaining commitment to January 31, 2017 is \$30,000 as of September 30, 2016 (2015 - \$30,000).

The Company is subject to various claims, lawsuits and other complaints arising in the ordinary course of business. The Company records provisions for losses when claims become probable and the amounts are estimable. Although the outcome of such matters cannot be determined, it is the opinion of management that the final resolution of these matters will not have a material adverse effect on the Company's financial condition, operations or liquidity.

The Company has been named as a defendant in a claim made by a group of companies regarding the payment of outstanding amounts owing to the group of companies relating to certain advertising services. The plaintiff is seeking payment in the amount of € 208,457 (CAD \$307,287). Although the ultimate outcome of this action cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, management believes this claim to be without merit.

13. LOANS PAYABLE

On February 25, 2016, the Company entered into an unsecured loan agreement for \$56,000, carrying a \$400 arrangement fee and bearing interest at 20% per annum. The loan was repaid on May 20, 2016 in full.

14. SUBSEQUENT EVENTS

In January 2017, 1,322,000 of the Company's outstanding warrants were exercised, generating net proceeds of \$132,200.