



Malbex
Resources

**MALBEX RESOURCES INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN CANADIAN DOLLARS)**

Independent Auditors' Report

To the Shareholders of Malbex Resources Inc.:

We have audited the accompanying consolidated financial statements of Malbex Resources Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of (income) loss and comprehensive (income) loss, cash flows and changes in equity for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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 Malbex Resources Inc. as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Company, for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on April 29, 2016.

April 19, 2017
Toronto, Ontario

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

MNP
LLP

Malbex Resources Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2016	As at December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,405,029	\$ 6,733,689
Receivables	-	6,776
Prepaid expenses	18,900	20,317
Total assets	\$ 5,423,929	\$ 6,760,782
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (notes 6 and 12)	\$ 57,398	\$ 767,854
Total liabilities	57,398	767,854
Equity		
Capital stock (note 8)	34,360,252	34,360,252
Contributed surplus	12,044,229	11,740,029
Accumulated other comprehensive income	43,800	279,959
Deficit	(41,081,750)	(40,387,312)
Total equity	5,366,531	5,992,928
Total liabilities and shareholders' equity	\$ 5,423,929	\$ 6,760,782

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

Approved on behalf of the Board:

"Robert B. Low", Director

"Joseph Hamilton", Director

Malbex Resources Inc.**Consolidated Statements of (Income) Loss and Comprehensive (Income) Loss
(Expressed in Canadian Dollars)**

	Year ended December 31, 2016	Year ended December 31, 2015
Operating expenses		
Exploration and evaluation recovery (note 14)	\$ -	\$ (94,036)
General and administrative (note 13)	751,347	1,092,277
	751,347	998,241
Interest expense (income)	-	6,299
Foreign exchange (gain) loss	248,556	(690,218)
Gain on sale of Malbex San Juan S.A. (note 7)	(305,465)	-
Gain on sale of mineral property interests (note 6)	-	(5,689,700)
Net (income) loss for the year	\$ 694,438	\$ (5,375,378)
Other comprehensive (income) loss		
Items that will be reclassified subsequently to income		
Cumulative translation adjustments	\$ 236,159	\$ (165,949)
Total comprehensive (income) loss for the year	\$ 930,597	\$ (5,541,327)
Basic and diluted net (income) loss per share (note 10)	\$ 0.05	\$ (0.37)
Weighted average number of common shares outstanding	14,654,730	14,654,730

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

Malbex Resources Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended December 31, 2016	Year ended December 31, 2015
Operating activities		
Net income (loss) for the year	\$ (694,438)	\$ 5,375,378
Adjustments for:		
Unrealized foreign exchange gain	(217,707)	(382,127)
Stock-based compensation	304,200	-
Gain on sale of Malbex San Juan S.A.	(305,465)	-
Changes in non-cash working capital items:		
Receivables	6,776	13,917
Prepaid expenses	1,417	3,984
Accounts payable and accrued liabilities	(299,236)	(294,943)
Net cash provided by (used in) operating activities	(1,204,453)	4,716,209
Investing activities		
Proceeds on disposal of property & equipment	-	2,000
Decrease in restricted cash	-	1,718,828
Cash and cash equivalents sold on disposition of Malbex San Juan S.A.	(105,755)	-
Net cash provided by (used in) investing activities	(105,755)	1,720,828
Financing activities		
Repayment of promissory notes	-	(245,000)
Interest paid	-	(21,475)
Net cash used in financing activities	-	(266,475)
Net change in cash and cash equivalents	(1,310,208)	6,170,562
Effect of exchange rate changes on cash	(18,452)	458,821
Cash and cash equivalents, beginning of year	6,733,689	104,306
Cash and cash equivalents, end of year	\$ 5,405,029	\$ 6,733,689

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

Malbex Resources Inc.**Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)**

	Capital stock	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance, December 31, 2014	\$ 34,360,252	\$ 11,740,029	\$ 114,010	\$ (45,762,690)	\$ 451,601
Other comprehensive income for the year	-	-	165,949	-	165,949
Net income for the year	-	-	-	5,375,378	5,375,378
Balance, December 31, 2015	\$ 34,360,252	\$ 11,740,029	\$ 279,959	\$ (40,387,312)	\$ 5,992,928
Stock-based compensation	-	304,200	-	-	304,200
Other comprehensive loss for the year	-	-	(236,159)	-	(236,159)
Net loss for the year	-	-	-	(694,438)	(694,438)
Balance, December 31, 2016	\$ 34,360,252	\$ 12,044,229	\$ 43,800	\$ (41,081,750)	\$ 5,366,531

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

Malbex Resources Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

1. Nature of operations

Malbex Resources Inc. and its subsidiaries (the "Company" or "Malbex") is a Canadian based company. Malbex Resources Inc. was originally incorporated on April 7, 1998 under the laws of British Columbia and operated as Arapaho Capital Corp. ("Arapaho") until December 8, 2009. Effective December 8, 2009, Arapaho has operated as Malbex Resources Inc. and operates on a continuing basis under the laws of Ontario. Malbex is a publicly listed company with common shares traded on the TSX Venture Exchange ("TSX-V"). The address of the Company's registered office is 36 Toronto Street, Suite 1000, Toronto, Ontario, M5C 2C5.

The Company was formerly a gold exploration company with a focus on its project in Argentina. The Company is now focused on identifying a new project and has determined not to limit its search for a new project to the mining and resource sector and is broadening its search to other opportunities where it may be possible to create shareholder value.

As a result of the disposition of the Company's sole property in March of 2015 (which closed in April 2015), it does not currently have any active exploration or development projects. While the Company is currently in the process of examining business opportunities as it formulates a new strategic direction, the Company may currently be considered to be operating with more than one deficiency under the TSX-V Tier 2 continued listing requirements. A failure to remedy these deficiencies in a prescribed period could result in the Company's common shares being transferred to the NEX, which is a unique and separate board of the TSX-V for listed companies that have fallen below the TSX-V's ongoing listing requirements.

2. Significant accounting policies

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRSs issued and outstanding as of April 19, 2017, the date the Board of Directors approved the statements.

Consolidation

The Company's consolidated financial statements include the interests in Malbex's four wholly owned subsidiaries: Malbex Nominee Inc., Malbex Cooperatief U.A., Malbex B.V. and Malbex San Juan S.A. (prior to disposition) as well as its 95% owned Minera Del Carmen, S.A. (prior to disposition). Minera Del Carmen, S.A. is incorporated under the laws of Argentina and holds the interest in, and administers activity on, the Company's Argentinean properties.

These consolidated financial statements incorporate the assets, liabilities and results of operations of all entities controlled by the Company. The effects of all transactions between entities in the consolidated group have been eliminated.

Foreign currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. Items included in the financial statements of Malbex Resources Inc. (the "Parent") and each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Malbex Resources Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Foreign currency (continued)

The functional currency of the Parent is the Canadian dollar and the functional currency of each subsidiary is the United States dollar ("USD"). The subsidiaries are funded by the Parent company in USD. Major supplier contracts and professional staff salaries are denominated in USD and as such the functional currency is determined to be USD. Foreign currency monetary assets and liabilities are translated into the functional currency at the rate of exchange prevailing at the end of the period. Non-monetary assets and liabilities are translated at the rate of exchange prevailing when the assets were acquired or the liabilities incurred. Income, expense items and exploration and evaluation expenditures are translated using the average rate of exchange during the financial statement periods, except for one time specific transactions that can be measured at their transaction date, and depreciation and amortization, which are translated at historic rates. Foreign exchange gains and losses resulting from the translation of monetary balances and balances denominated in foreign currencies are included in net loss and comprehensive loss.

Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated into the presentation currency at the period end exchange rate and the results of their operations are translated at the average rates of exchange for the period. The resulting translation adjustments are recognized in other comprehensive income as cumulative translation adjustments.

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid short-term investments held in the form of high quality money market investments with a maturity date of less than three months at acquisition.

Exploration and evaluation expenditures

Exploration and evaluation expenditures are those costs required to find a mineral property and determine technical feasibility and commercial viability. These include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources can be converted to proven or probable reserves. Exploration expenditures typically include costs associated with prospecting, sampling, mapping, drilling, labour and other activities involved in searching for ore. Evaluation expenditures are the costs incurred to establish the technical and commercial viability of developing mineral deposits identified through exploration activities or by acquisition.

Exploration and evaluation expenditures are charged to net income/loss in the period in which they are incurred until such time that the mineral resources are classified as proven or probable ore reserves and the Company has decided to develop the project, subject to financing and permitting. Cash flows attributable to exploration and evaluation expenditures are classified as operating activities in the consolidated statement of cash flows.

Value-added taxes

Included in exploration and evaluation expenditures is long-term value-added tax receivables which were due from the government of Argentina in respect of the Company's exploration activities, prior to the sale of Malbex San Juan S.A.. These receivables are refundable to the Company 12 months after the receivable is established, however only two refund requests may be submitted in any one calendar year. As a result, the actual timing of receipt is uncertain and therefore value-added taxes were expensed as incurred. At such time when the Company regularly receives its refunds, a long-term receivable would be recorded on the statement of financial position.

Malbex Resources Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Impairment of assets

The carrying amount of the Company's long-lived assets is reviewed at each statement of financial position date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset to the recoverable amount, which is the higher of the fair value less the cost of disposal and the value in use.

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recorded in net loss. Impairment losses recognized in prior periods are assessed at each reporting period for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years, net of accumulated amortization.

Share-based payments

Equity-settled share-based payments to employees and consultants providing services to the Company are measured at the fair value of the equity instruments at the grant date.

The fair value of options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options are granted. The fair value of awards is adjusted by the estimated number of options that are expected to vest as a result of non-market conditions, and is expensed over the vesting period, which is established by the Board of Directors for each award, using a graded vesting method of amortization. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest based on non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in net loss, with a corresponding adjustment to contributed surplus.

Income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax assets and liabilities are determined on a non-discounted basis, using the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets are recognized to the extent that it is probable that the asset can be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset 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.

Income (loss) per share

Basic loss per common share has been computed by dividing the income (loss) applicable to common shareholders by the weighted-average number of common shares outstanding during the period.

Malbex Resources Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Income (loss) per share (continued)

Diluted income (loss) per common share is determined using the deemed proceeds on the exercise of stock options and other dilutive instruments are considered to be used to reacquire common shares at the average share price for the period with the incremental number of shares being included in the denominator of the diluted income (loss) per share calculation. The diluted income (loss) per share calculation excludes any potential conversion of options and warrants that would increase income per share or decrease loss per share.

Financial instruments

The Company determines the classification of its financial assets at initial recognition.

The Company's financial instruments primarily consist of cash and cash equivalents (classified as loans and receivables), Receivables (classified as loans and receivables), and accounts payable and accrued liabilities (classified as other financial liabilities at amortized cost). The fair value of these financial instruments approximates their carrying values.

Loans and receivables and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net loss.

The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Financial assets and financial liabilities are recognized on the statement of financial position when the Company has become party to the contractual provisions of the instruments.

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.

For financial liabilities, derecognition occurs 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 net loss.

Adoption of new accounting policies

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions.

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 considerations apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. On January 1, 2016, the Company adopted this standard and there was no significant impact on the consolidated financial statements.

Malbex Resources Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Future accounting pronouncements

IFRS 9 – Financial instruments (“IFRS 9”) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009, October 2010, November 2013 and finalized in July 2014. It replaces the parts of IAS 39 Financial Instruments: Recognition and Measurement that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into three measurement categories: those measured at fair value through profit or loss (“FVTPL”), those measured at fair value through other comprehensive income (“FVOCI”) and those measured at amortized cost, with the determination made at initial recognition. The classification depends on an entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that in cases where the fair value option is selected for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the consolidated statements of operations, unless this creates an accounting mismatch. IFRS 9 has also been updated to amend the requirements around hedge accounting, however, there is no impact to the Company from these amendments as it does not apply hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company has not yet assessed the impact of adoption.

3. Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Such estimates and assumptions, which by their nature are uncertain, affect the carrying value of assets, and impact decisions as to when exploration and evaluation costs should be capitalized or expensed. Other significant estimates made by the Company include factors affecting valuations of stock-based compensation, warrants and recognition of deferred income tax amounts. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material. Significant assumptions and judgment about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

(a) Functional currency – Under IFRS, each entity within the Company has its results measured using the currency of the primary economic environment in which the entity operates (the “functional” currency). Judgment is necessary in assessing each entity’s functional currency. The Company considers the currency of expenses and outflows, as well as financing activities as part of its decision-making process.

4. Capital risk management

The Company considers its capital structure to consist of capital stock, contributed surplus, deficit and accumulated other comprehensive income, which at December 31, 2016 totaled \$5,366,531 (December 31, 2015 - \$5,992,928).

When managing capital, the Company’s objective is to ensure Malbex continues as a going concern, to identify a new project as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management reviews and adjusts its capital structure on an ongoing basis. There can be no assurance that the Company will be able to continue to meet its funding requirements in this manner.

The Company is dependent on external financing to fund its activities. In order to identify a new project and pay for administrative costs, the Company will spend its existing working capital and may issue new shares to facilitate the management of its capital requirements.

Malbex Resources Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

5. Financial instruments

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk, including interest rate, foreign currency rate, and commodity price risk.

Financial risk management is carried out by the Company's management team with guidance from the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and receivables. Cash and cash equivalents are held with Canadian chartered banks which are closely monitored by management.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Company had cash and cash equivalents and receivables of \$5,405,029 to settle current liabilities of \$57,398. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity prices.

i) Interest Rate Risk

The Company has cash balances and no interest bearing debt. The Company's current policy is to invest excess cash in interest-bearing securities of major Canadian chartered banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its financial institutions.

ii) Foreign Currency Risk

The Company is not subject to significant foreign currency risk.

iii) Commodity Price Risk

The Company is not subject to significant commodity price risk due to the disposition of the Company's sole property in March 2015.

Financial Instruments

The Company has designated its cash and cash equivalents, and receivables as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2016 and December 31, 2015, the carrying value and fair value amounts of the Company's financial instruments were approximately equivalent.

Malbex Resources Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

6. Mineral property interests

Argentina

Del Carmen

On April 6, 2015, the Company completed the transfer of its remaining interest in the Del Carmen Project to a subsidiary of Barrick Gold Corporation ("Barrick") for consideration of USD \$4,750,000 and a 0.5% net smelter royalty on the Del Carmen Project (the "Del Carmen Transfer"). The Company netted expected taxes on the sale of the remaining interest against the gain on sale of mineral property interests. The Company also expects to incur withholding taxes on the interest portion of the repayment of intercompany loans to the parent company, Malbex Resources Inc., as a result of the proceeds being paid directly to the parent. All estimated taxes have been accrued.

The Del Carmen Transfer was completed by a wholly owned subsidiary of Malbex transferring its 95% indirect interest in Minera DC to a wholly-owned subsidiary of Barrick. As a result of the completion of the Del Carmen Transfer, Minera DC is now 100% controlled by Barrick and the Shareholders' Agreement has been terminated.

Included in accounts payable and accrued liabilities at December 31, 2015 was \$1,824,000 Argentine Pesos (\$189,836) related to an administrative penalty payable from a prior period, which was paid during the year ended December 31, 2016.

7. Sale of subsidiary

On May 10, 2016, the Company completed the 100% disposition of Malbex San Juan S.A. for proceeds of \$100.

Net proceeds received

Cash	\$	100
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Net liabilities sold

Cash and cash equivalents	105,855
Accounts payable and accrued liabilities	(411,220)
Net liabilities sold	\$ (305,365)

Gain on sale of Malbex San Juan S.A.	\$	305,465
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8. Capital stock

On January 8, 2016, the Company completed the share consolidation of its issued and outstanding common shares on the basis of one post-consolidation common share for every ten pre-consolidation common shares. As part of the share consolidation, the stock options were also consolidated and the exercise price adjusted to reflect the consolidation. The share consolidation has been reflected in these financial statements and all applicable references to the number of shares and stock options and their strike price and per share information has been restated.

a) Authorized share capital

Authorized share capital consists of an unlimited number of voting common shares without par value and an unlimited number of preferred shares, issuable in series. All issued shares are fully paid. No dividends have been paid or declared by the Company since inception.

Malbex Resources Inc.
Notes to Consolidated Financial Statements
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8. Capital stock (continued)

b) Common shares issued

	Number of common shares	Amount
Balance, December 31, 2014, December 31, 2015 and December 31, 2016	14,654,730	\$ 34,360,252

9. Stock options

The Company has adopted an incentive stock option plan (the "Option Plan") which provides that the directors of the Company may, from time to time, at their discretion, grant to directors, officers, employees, advisors and consultants to the Company non-transferable options to purchase common shares, provided that the number of common shares reserved for issue under the Option Plan will not exceed 10% of the number of then outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms will be determined at the time of grant in accordance with the Option Plan.

	Number of stock options	Weighted average exercise price
Balance, December 31, 2014	312,500	\$ 4.90
Expired	(62,500)	5.76
Forfeited	(92,500)	4.86
Balance, December 31, 2015	157,500	\$ 4.50
Issued (i)	1,000,000	0.31
Expired	(70,000)	4.50
Balance, December 31, 2016	1,087,500	\$ 0.65

(i) On May 10, 2016, the Company issued 1,000,000 incentive stock options to directors and officers of the Company with an exercise price of \$0.31 and expiring May 10, 2021. The incentive stock options vested immediately. For the purpose of the 1,000,000 incentive stock options, the fair value of \$304,200 was estimated on the date of grant using the Black-Scholes option valuation model with the following assumptions: share price \$0.305; expected dividend yield of 0%; risk-free interest rate of 0.65%; expected average life of five years; and expected volatility of 270%.

The following table reflects the actual stock options issued and outstanding as of December 31, 2016:

Expiry date	Weighted average exercise price (\$)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
January 16, 2017 ⁽¹⁾	4.50	0.04	87,500	87,500
May 10, 2021	0.31	4.36	1,000,000	1,000,000
	0.65	4.01	1,087,500	1,087,500

(1) Expired unexercised subsequent to December 31, 2016.

Malbex Resources Inc.
Notes to Consolidated Financial Statements
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10. (Income) loss per share

For the year ended December 31, 2016, basic and diluted (income) loss per share has been calculated based on the (income) loss attributable to common shareholders of \$694,438 (year ended December 31, 2015 - \$(5,375,378)) and the weighted average number of common shares outstanding of 14,654,730 (year ended December 31, 2015 - 14,654,730). Diluted (income) loss per share did not include the effect of stock options as they are anti-dilutive.

11. Income taxes

A reconciliation between tax expense and the product of accounting loss (income) multiplied by the Corporation's domestic rate is as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Loss (income) before income taxes	\$ 694,438	\$ (5,375,378)
Statutory tax rate	26.50%	26.50%
Expected income tax expense (recovery)	(184,026)	1,424,475
Impact of foreign income tax rate differential	-	471,700
Change in timing differences not recognized	(791,290)	(2,014,459)
Change in timing differences resulting from sale of subsidiary	1,042,786	-
Permanent differences	(67,470)	118,284
Deferred income tax recovery	\$ -	\$ -

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off the current tax assets and current tax liabilities or deferred tax assets and liabilities and they relate to taxes levied by the same tax authority.

The tax benefit of the following unused tax losses and other deductible temporary differences have not been recognized in the financial statements due to the unpredictability of future earnings:

	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	Canada	Canada	Argentina	Argentina
Tax loss carry-forwards	\$ 9,321,305	\$ 7,753,435	\$ -	\$ 2,979,389
Exploration and development	725,706	725,706	-	-
Unrealized foreign exchange	-	(69,811)	-	-
Property plant and equipment	158,461	156,461	-	-
Other	2,690	2,690	-	-
	\$ 10,208,162	\$ 8,568,481	\$ -	\$ 2,979,389

Malbex Resources Inc.
Notes to Consolidated Financial Statements
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11. Income taxes (continued)

The Company's non-capital income tax losses expire as follows:

	Canada	
Year of expiry		
	2026	\$ 550,000
	2027	1,037,000
	2028	283,000
	2029	1,861,000
	2030	1,124,000
	2031	1,287,000
	2032	313,000
	2033	987,000
	2034	236,000
	2035	812,000
	2036	831,000
		\$ 9,321,000

The benefit from the non-capital loss carryforward amounts have not been recorded in the financial statements.

12. Related party transactions

Related parties include key management being the Company's executive officers and the Board of Directors.

The following related party transactions were conducted in the normal course of operations and were made on an arm's length basis:

(a) Compensation of key management personnel of the Company

In accordance with IAS 24, Related Party Disclosures ("IAS 24"), key management personnel are those 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.

The remuneration of key management personnel is determined by the Board of Directors having regard to the performance of individuals and market trends and was as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Management salaries	\$ 71,362	\$ 94,754
Director fees	75,000	75,000
Stock-based compensation	304,200	-
	\$ 450,562	\$ 169,754

(b) The Company received consulting services from Pickax International Corporation ("Pickax"), a company controlled by the President and Chief Executive Officer ("CEO"). During the year ended December 31, 2016 the Company incurred \$23,000 (year ended December 31, 2015 - \$45,000) for CEO services. As at December 31, 2016, Pickax was owed \$6,000 (December 31, 2015 - \$1,000) and this amount was included in accounts payable and accrued liabilities.

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12. Related party transactions (continued)

(c) The Chief Financial Officer ("CFO") is a senior employee of Marrelli Support Services Inc. ("MSSI"), a firm also providing accounting services. During the year ended December 31, 2016 the Company incurred \$48,362 (year ended December 31, 2015 - \$49,754) for CFO and accounting services rendered by MSSI. As at December 31, 2016, MSSI was owed \$6,340 (December 31, 2015 - \$8,359) and this amount was included in accounts payable and accrued liabilities.

13. General and administrative

	Year ended December 31, 2016	Year ended December 31, 2015
Corporate expenses	\$ 212,375	\$ 428,491
Salaries and benefits (note 12)	42,403	95,240
Investor relations	43,114	43,175
Stock-based compensation	304,200	-
Professional fees (note 12)	149,255	525,371
	\$ 751,347	\$ 1,092,277

14. Exploration and evaluation expenditures

Argentina

	Year ended December 31, 2016	Year ended December 31, 2015
Exploration expenses	\$ -	\$ 35,453
Value-added tax	-	10,162
Fine by Mining Police	-	(139,651)
	\$ -	\$ (94,036)

15. Segmented information

An operating segment is a component within Malbex that engages in business activities from which it may earn revenues and incur expenses (including expenses relating to transactions with other components of the Company), whose operating results are regularly reviewed by the entity's chief operating decision maker, the chief executive officer, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Company's operations consisted of a single reportable segment engaged in the acquisition and exploration of precious metals projects. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts. The Company has a head office located in Toronto, Canada.

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15. Segmented information (continued)

Geographical information

The Company had operated in two principal geographical areas in the prior two periods – Canada and Argentina. Geographical segmentation of the Company's non-current assets is as follows:

At December 31, 2016 and December 31, 2015, there were no non-current assets

The following tables summarizes the net loss by geographic segment:

Year ended December 31, 2016	Argentina	Canada	Total
General and administrative	\$ 43,868	\$ 707,479	\$ 751,347
Foreign exchange (gain) loss	(253,845)	502,401	248,556
Gain on sale of Malbex San Juan S.A.	(305,465)	-	(305,465)
	\$ (515,442)	\$ 1,209,880	\$ 694,438

Year ended December 31, 2015	Argentina	Canada	Total
Exploration and evaluation expenditures	\$ (94,036)	\$ -	\$ (94,036)
General and administrative	187,788	904,489	1,092,277
Interest expense	-	6,299	6,299
Foreign exchange gain	(86,977)	(603,241)	(690,218)
Gain on sale of mineral property interests	(5,689,700)	-	(5,689,700)
	\$ (5,682,925)	\$ 307,547	\$ (5,375,378)