PANORO MINERALS LTD.

Annual Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars, unless otherwise stated)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Panoro Minerals Ltd. ("the Company") and related information presented in this financial report are the responsibility of the Company's management and have been approved by the Board of Directors. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls through its Audit Committee, which is comprised of a majority of non-management directors. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements have been audited by KPMG LLP on behalf of the shareholders and their report follows.

"Luquman A. Shaheen" (signed)
Luquman A. Shaheen
President and Chief Executive Officer

VANCOUVER, BRITISH COLUMBIA

"Shannon M. Ross" (signed)
Shannon M. Ross
Chief Financial Officer

VANCOUVER, BRITISH COLUMBIA

KPMG LLP
Chartered Professional Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Panoro Minerals Ltd.

We have audited the accompanying consolidated financial statements of Panoro Minerals Ltd., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising 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 our 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, we consider 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 consolidated financial position of Panoro Minerals Ltd. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated 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 2 in the consolidated financial statements which describes that Panoro Minerals Ltd. has no current sources of revenue, incurred a loss during the year ended December 31, 2016, had an accumulated deficit at December 31, 2016, and its ability to carry out its planned business objectives is dependent on its ability to raise adequate financing to continue the exploration and ultimate development of its mineral properties. These conditions, along with other matters as set forth in Note 2, indicate the existence of material uncertainties that cast significant doubt about Panoro Minerals Ltd.'s ability to continue as a going concern.

KPMG LLP (Signed)

Chartered Professional Accountants

Vancouver, Canada
April 28, 2017

PANORO MINERALS LTD.

Consolidated Balance Sheets
(Expressed in Canadian dollars, unless otherwise stated)
As at December 31, 2016 and 2015

	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents		$ 4,538,826	$ 212,647
Short-term investments		4,028,097	-
Marketable securities	12	6,000	2,000
Accounts and advances receivable		55,883	46,275
Prepaid expenses		66,959	40,925
Total current assets		8,695,765	301,847
Non-current assets			
Exploration and evaluation assets	5	69,833,257	67,626,162
Property and equipment	6	60,902	88,865
Total assets		$ 78,589,924	$ 68,016,874
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 2,063,076	$ 1,384,373
Liabilities under Precious Metals Purchase Agreement	7	2,643,450	-
		4,706,526	1,384,373
Liabilities under Precious Metals Purchase Agreement	7	2,643,450	-
Total liabilities		7,349,976	1,384,373
Shareholders' equity			
Share capital	8	92,459,998	86,032,839
Share-based expense reserve	8	10,798,661	10,091,358
Accumulated other comprehensive loss		(4,000)	(8,000)
Deficit		(32,014,711)	(29,483,696)
Total shareholders' equity		71,239,948	66,632,501
Total liabilities and shareholders' equity		$ 78,589,924	$ 68,016,874

Going concern (Note 2)
Subsequent event (Note 2)
Commitments (Note 11)

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

Approved on behalf of the Board:

"Luquman A. Shaheen" **"William J. Boden"**

PANORO MINERALS LTD.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2016 and 2015

	2016	2015
Expenses		
Amortization (note 6)	$ 9,258	$ 16,614
Audit and tax	83,603	109,553
Communications	48,989	94,022
Consulting	20,435	30,793
Directors' fees	61,211	76,317
Financial consulting	320,818	-
Investor relations	71,166	89,030
Legal	437,633	74,239
Office	46,473	71,748
Professional dues and training	17,329	22,739
Regulatory and transfer agent	95,941	74,829
Rent and insurance	206,730	294,099
Salaries and benefits	747,293	1,190,074
Share-based expense (Note 8(b))	603,149	-
Travel	60,457	75,218
	2,830,485	2,219,275
Interest income	(8,014)	(42,142)
Foreign exchange (gain) loss	(291,456)	173,104
Impairment of exploration and evaluation costs	-	2,266,865
Loss for the year	2,531,015	4,617,102
Other comprehensive (income) loss, net of tax:		
Unrealized loss on marketable securities (Note 12(a))	(4,000)	8,000
Total other comprehensive (income) loss	(4,000)	8,000
Comprehensive loss for the year	$ 2,527,015	$ 4,625,102
Loss per share, basic and fully diluted (Note 15)	$ 0.01	$ 0.02
Weighted average number of common shares outstanding (Note 15)	233,836,566	220,640,818

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

PANORO MINERALS LTD.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2016 and 2015

	2016	2015
Cash provided by (used for):		
Operating activities:		
Loss for the year	$ (2,531,015)	$ (4,617,102)
Items not involving the use of cash:		
Amortization (Note 6)	9,258	16,614
Share-based expense (Note 8(b))	603,149	-
Services rendered for shares	52,401	-
Impairment of exploration and evaluation costs	-	2,266,865
	(1,866,207)	(2,333,623)
Changes in non-cash operating working capital:		
Accounts and advances receivable	(9,608)	230,299
Prepaid expenses	(26,034)	45,037
Cash used in operating activities	(1,901,849)	(2,058,287)
Investing activities:		
Purchase of short-term investments	(4,028,097)	-
Redemption of short-term investments	-	57,500
Exploration and evaluation expenditures (Note 5)	(2,431,383)	(5,178,886)
Recovery of value-added taxes	350,408	249,848
Purchase of equipment	(3,261)	-
Accounts payable and accrued liabilities	678,705	(696,544)
Proceeds on disposal of equipment	-	200
Cash used in investing activities	(5,433,628)	(5,567,882)
Financing activities:		
Private placement, net of share issue costs	6,374,756	-
Precious Metals Purchase Agreement	5,286,900	-
Cash provided by financing activities	11,661,656	-
Decrease in cash and cash equivalents	4,326,179	(7,626,169)
Cash and cash equivalents, beginning of year	212,647	7,838,816
Cash and cash equivalents, end of year	$ 4,538,826	$ 212,647

Supplementary cash flow information (Note 16)

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

PANORO MINERALS LTD.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2016 and 2015

	Number of Shares	Share Capital	Share-Based Expense Reserve	Accumulated Other Comprehensive Loss	Deficit	Total
Balance, December 31, 2014	220,640,818	$ 86,032,839	$ 10,091,358	$ -	$ (24,866,594)	$ 71,257,603
Loss for the year	-	-	-	-	(4,617,102)	(4,617,102)
Other comprehensive loss	-	-	-	(8,000)	-	(8,000)
Balance, December 31, 2015	220,640,818	86,032,839	10,091,358	(8,000)	(29,483,696)	66,632,501
Loss for the year	-	-	-	-	(2,531,015)	(2,531,015)
Other comprehensive loss	-	-	-	4,000	-	4,000
Stock option grants (note 8)	-	-	707,303	-	-	707,303
Shares issued for services	790,130	52,401	-	-	-	52,401
Private placement (note 8)	36,717,817	6,609,207	-	-	-	6,609,207
Finder's fee in cash	-	(181,435)	-	-	-	(181,435)
Share issue costs	-	(53,014)	-	-	-	(53,014)
Balance, December 31, 2016	258,148,765	$ 92,459,998	$ 10,798,661	$ (4,000)	$ (32,014,711)	$ 71,239,948

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

1. Nature of operations

Panoro Minerals Ltd. is incorporated under the *Business Corporations Act* in the Province of British Columbia. The Company's principal place of business is located at Suite 1610 – 700 West Pender Street, Vancouver, BC, Canada V6C 1G8.

Panoro Minerals Ltd. and its subsidiaries are referred to as "Panoro" or the "Company."

The Company is an exploration-stage company engaged principally in the acquisition, exploration and development of mineral properties in Perú and trades on the TSX Venture Exchange (the "Exchange") as a Tier 2 mining issuer under the trading symbol "PML". The Company also trades on the Bolsa de Valores de Lima under the same trading symbol.

The Company's investment in its exploration and evaluation assets comprises a significant portion of the Company's assets. Recovery of the carrying value of the investment in these assets and the Company's ability to continue operations are dependent upon the existence of economically recoverable reserves, confirming and maintaining legal ownership of the resource properties, the ability of the Company to obtain necessary financing to complete the exploration and development, and the attainment of future profitable production or the disposition of these assets for proceeds in excess of their carrying values.

2. Going concern and subsequent event

Going concern

These consolidated financial statements have been prepared on a going concern basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge is liabilities in the normal course of business.

The Company has no operating revenue and incurred a loss of $2,531,015 for the year ended December 31, 2016 (2015 – $4,617,102). As at December 31, 2016, the Company has an accumulated deficit of $32,014,711 (2015 - $29,483,696), and working capital of $3,989,239 (2015 – working capital deficiency of $1,082,526). Although the Company presently has sufficient financial resources to cover its existing obligations and operating costs and undertake its currently planned programs for the next year, the Company expects to require further funding in the longer term to fund ongoing exploration and evaluation activities and ultimately develop its properties. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms that are acceptable to the Company. These conditions create a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

On March 23, 2017, the Company received the scheduled payment of US$750,000, pursuant to the Cotabambas Early Deposit Agreement (the "Agreement"), with Silver Wheaton (See Note 7). The Company has received US$4,750,000 pursuant to the Agreement, and will receive US$750,000 on a semi-annual basis if it meets the terms under which the funds will be advanced.

2. Going concern and subsequent event (continued)

The ability of the Company to carry out its planned business objectives is dependent on its ability to raise adequate financing from lenders, shareholders and other investors and/or achieve operating profitability and generate positive cash flows. The Company is in the business of exploring and developing mineral property interests, and as such, must continually seek sources of financing to further develop and explore its mineral exploration and evaluation assets and to support general and administrative expenses.

The recoverability of amounts shown for exploration and evaluation assets and property and equipment is dependent upon, among other things, the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary mining and environmental permits, and future profitable production or proceeds from the disposition of the exploration and evaluation assets.

The Company will continue to seek additional financing through the sale of mineral property interests, debt financing, and equity financing, and optioning its other mineral property interests. However, it is not certain that such financing will be available. The Company may be adversely impacted by a lack of normal available financing, inability to maintain mining licenses, and continued uncertainty in the exchange and commodity markets.

These financial statements do not reflect material adjustments to the carrying values of its assets and liabilities, which may be required should the Company be unable to continue as a going concern. These adjustments could be material.

3. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). IFRS comprises IFRSs, International Accounting Standards (“IASs”), and interpretations issued by the IFRS Interpretations Committee (“IFRICs”) and the former Standing Interpretations Committee (“SICs”).

The accounting policies applied in these consolidated financial statements are based on IFRS effective for the year ended December 31, 2016.

The consolidated financial statements of the Company for the year ended December 31, 2016, were approved and authorized for issue by the Board of Directors on April 28, 2017.

3. Basis of presentation (continued)

(b) Functional and reporting currency

The functional and reporting currency of the Company and all of its subsidiaries is the Canadian dollar. Foreign currency translation differences are recognized in profit or loss, except for differences on the translation of available-for-sale investments which are recognized in other comprehensive income.

(c) Critical accounting estimates

The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant areas requiring the use of estimates and assumptions relate to the review of asset carrying values and determination of impairment charges relating to non-current assets, valuation of share-based expense, recoverability of deferred tax assets, provision for closure and reclamation, and classification and measurement of liabilities under the Early Deposit Precious Metals Agreement (note 7), among others. Actual results could differ from those estimates. Key estimates made by management with respect to the areas noted previously have been disclosed in the notes to these consolidated financial statements as appropriate.

The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of share-based awards granted. Option pricing models require the input of highly subjective assumptions. The expected life of options considers such factors as the average length of time similar option grants in the past have remained outstanding prior to exercise, expiry or cancellation and the vesting period of options granted. Volatility is estimated based on average daily volatility based on historical share price observations over the expected term of the option grant. Changes in the subjective input assumptions can materially affect the estimated fair value of options.

4. Significant accounting policies

(a) Use of judgements

Significant areas requiring judgement relate to the determination of functional currency as disclosed in note 3(b) and the criteria applicable to a going concern.

In concluding that the Canadian dollar is the functional currency of the parent, and its subsidiary companies, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant, the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained. Management considers funds on hand at year end, planned expenditures and strategic objectives in its assessment. Due to the nature of its business, management reviews and adjusts administrative and exploration expenditures based on available working capital. The Company focuses on its concessions in Perú and maintaining them in good standing by making annual concession payments due in June of each year.

(b) Basis of consolidation

The subsidiaries of the Company at December 31, 2016, are as follows:

Name of subsidiary	Country of Incorporation	Principal activity
Panoro (Cayman) Ltd.	Cayman Islands	Holding company
Cordillera Copper Ltd	Bahamas	Holding company
Panoro Apurimac SA	Perú	Mineral exploration
Minera Panoro Perú SAC	Perú	Mineral exploration
0995683 B.C. Ltd.	Canada	Holding company
Minera Promesa SA	Perú	Mineral exploration
Minera Kusiorco SA	Perú	Mineral exploration
Panoro Gold Projects Perú SA	Perú	Mineral exploration
Panoro Holding Ltd.	Canada	Holding company
Panoro Trading (Caymans) Ltd.	Cayman Islands	Commodities trading
Panoro Pacific Minerals Inc.	Philippines	Inactive

The consolidated financial statements of the Company comprise the financial statements of the parent and its wholly-owned subsidiaries as at December 31, 2016. All intercompany transactions and balances have been eliminated on consolidation.

4. Significant accounting policies (continued)

(c) Foreign currency transactions and operations

Transactions in foreign currencies are translated into the functional currency at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at a fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognized in profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits with original maturities of ninety days or less from the date of acquisition, and which are readily convertible into known amounts of cash.

(e) Short-term investments

Short-term deposits with original maturities greater than 90 days that are not readily convertible into known amounts of cash are classified as short-term investments. Interest from cash and cash equivalents and short-term deposits is recorded on an accrual basis.

(f) Exploration and evaluation expenditures

Expenditures incurred before legal rights to explore a specific area are obtained are expensed. All acquisition and exploration and evaluation costs are capitalized until such time as the project to which they relate is put into commercial production, sold, abandoned or the recovery of costs is determined to be unlikely. The costs 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 and probable reserves.

Upon reaching commercial production, these capitalized costs will be amortized over the estimated reserves on a unit-of-production basis. For properties which do not yet have proven reserves, the amounts shown represent costs to date and are not intended to represent present or future values. The recovery of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain financing to complete exploration and development of the properties, and on future profitable production or proceeds on disposition of the properties. The underlying value of all properties is dependent on the existence and economic recovery of mineral resources in the future which includes acquiring the necessary permits and approvals.

4. Significant accounting policies (continued)

(f) Exploration and evaluation expenditures (continued)

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

Any shares received in a company in consideration of payment of a property through a joint venture is accounted for as a reduction of the exploration and evaluation asset carrying value.

(g) Impairment of long-lived assets

Management periodically reviews the carrying value of its exploration and evaluation assets with internal mining related professionals. Impairment is determined for the properties by assessing the recoverable amount of each cash generating unit ("CGU"). The Company defines a CGU as each separate property which is the smallest identifiable group of assets that generates cash inflows that are independent of other assets or group of assets. A decision to abandon, reduce or expand a mineral property interest is based upon many factors including the future costs of exploring and developing a specific exploration asset, the expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration.

The Company does not set a pre-determined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and their carrying values are recoverable.

Where a potential impairment is indicated, assessments are performed for each CGU. To the extent that the exploration and evaluation expenditures are not expected to be recovered, the excess of the carrying value over the recoverable amount is recorded as a write-down in the consolidated statement of comprehensive loss in the period impairment indicators are identified. When a concession is returned to the government, costs directly attributable to the concession will be written off. Certain concessions within a CGU may be contiguous to other claims and therefore remain in exploration expenditures.

When the recoverable amount of a property is less than the carrying amount an impairment loss is recognized. Impairment losses relating to the CGUs can be reversed in future periods if circumstances change. The recoverable amount of a property is determined based on the fair value less costs to sell or value-in-use and based on plans to advance the property.

4. Significant accounting policies (continued)

(h) Property and equipment

Property and equipment is recorded at cost and is amortized using the declining-balance method at an annual rate of 20% for office equipment, 50% for computer software, and 30% for computer equipment, exploration equipment and vehicles. Leasehold improvements are amortized over the period of the lease. Amortization used in exploration and evaluation activities is classified within exploration expenditures.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statement of comprehensive loss.

(i) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and losses carried forward. Deferred tax assets and liabilities are measured using substantively enacted or enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the substantive enactment date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets that are recognized are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Value added taxes recoverable

The Company incurs Impuesto General a las Ventas ("IGV") in Perú (which is a Perúvian value-added tax). The Company has entered into an agreement with the Ministry of Energy and Mines to recover such amounts which relate to approved properties. IGV paid related to non-approved mineral property expenditures is only recoverable when future sales revenues are earned from the related mineral properties by offsetting the IGV otherwise payable at that time. As the IGV payments incurred on both approved and non-approved mineral property expenditures are uncertain of recovery, they have been included in mineral property exploration expenditures. Any future recoveries of these amounts are offset against the mineral property exploration expenditures.

4. Significant accounting policies (continued)

(k) Accounting for early deposit (See note 7)

Significant judgment was required in determining the appropriate accounting for the Agreement with Silver Wheaton that was entered into. The upfront cash deposits received from Silver Wheaton on future stream transactions have been accounted for as liabilities on the basis that the deposit amounts received could become repayable under certain circumstances. Amounts that could become immediately repayable in the event the Agreement is terminated by Silver Wheaton are reflected within current liabilities.

(l) Site restoration costs

Where necessary, the Company recognizes an estimate of the liability associated with a site restoration provision in the consolidated financial statements at the time the liability is incurred. Drill sites are remediated and restored on an ongoing basis. The estimated fair value of the site restoration provision is recorded as a current liability, with a corresponding increase in the carrying amount of the related asset. The site restoration provision asset is depreciated in a manner consistent with the underlying asset.

(m) Share-based expense

The Company has a stock option plan that is described in note 8(b). Share-based expenses are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based expense reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based expense reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from share-based expense reserve.

(n) Comprehensive income (loss)

Comprehensive income or loss is the change in shareholders' equity during a period from transactions and other events from non-owner sources. Gains and losses that would otherwise be recorded as part of net income or loss are presented in "other comprehensive income" until it is considered appropriate to recognize into net income or loss. The Company reports a consolidated statement of comprehensive loss and includes the account "accumulated other comprehensive loss" in the shareholders' equity section of the consolidated balance sheet.

4. Significant accounting policies (continued)

(o) Loss per share

The Company presents basic and diluted earnings per share ("EPS") for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year, adjusted for shares held by the Company. Diluted loss per share is calculated using the treasury stock method.

Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year.

(p) Financial instruments

All financial instruments are classified into one of the following five categories: fair value through profit and loss, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification.

(*i*) Held-to-maturity investments, 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 income or loss.

(*ii*) Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income or loss until the asset is removed from the balance sheet or an impairment loss is recognized when objective evidence exists to support the decline in fair value being other than temporary.

(*iii*) Fair value through profit and loss financial instruments are measured at fair value. All gains and losses are recognized in net income or loss in the period in which they arise.

(*iv*) All derivative financial instruments are classified as fair value through profit and loss financial instruments and are measured at fair value. All gains and losses are recognized in net income or loss in the period they arise.

The Company has classified its financial instruments as follows:

Cash and cash equivalents, short-term investments, and accounts and advances receivable are classified as loans and receivables and are recorded at amortized cost.

4. Significant accounting policies (continued)

(p) Financial instruments (continued)

Marketable securities are classified as available-for-sale securities. Such securities are measured at fair market value in the consolidated financial statements with unrealized gains or losses recorded in other comprehensive income or loss. Fair values for marketable securities are estimated using quoted market prices in active markets, obtained from securities exchanges. At the time securities are sold or otherwise disposed of, gains or losses are included in net income or loss.

Accounts payable and accrued liabilities are classified as other financial liabilities and are initially carried at fair value and subsequently carried at their amortized cost.

In addition, the Company must disclose financial instruments carried at fair value, based on inputs used to value the Company's financial instruments. The hierarchy of inputs and description of inputs are disclosed in note 12(a).

Changes in valuation methods may result in transfers into or out of an investment's assigned level. Disclosure of the input levels of the Company's financial instruments has also been provided in note 12(a).

(q) IFRS standards adopted

There were no new standards effective January 1, 2016, that had a material impact on the Company's consolidated financial statements.

(r) IFRS standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2016, and have not been applied in preparing these consolidated financial statements. The following pronouncements are those that the Company considers most significant and are not intended to be a complete list of new pronouncements that may affect the consolidated financial statements.

4. Significant accounting policies (continued)

(r) IFRS standards issued but not yet effective (continued)

IFRS 9, *Financial Instruments ("IFRS 9")*

IFRS 9 was issued by the IASB on July 24, 2014, and will replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the 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 for liabilities is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income (loss) rather than in net income. IFRS 9 is effective for annual period beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact the standard is expected to have on its financial statements, but is not expected to have a significant impact.

IFRS 15, *Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018, and earlier application is permitted. Given the Company has no current sources of revenue, the adoption of this standard is not expected to have a material effect on the consolidated financial statements.

IFRS 16, Leases ("IFRS 16")

IFRS 16 eliminates the classification of leases as either operating or finance leases for a lessee. Under IFRS 16, all leases are considered finance leases and will be recorded on the balance sheet. The only exemptions to this classification will be for leases that are 12 months or less in duration or for leases of low-value assets. The requirement to record all leases as finance leases under IFRS 16 will increase assets and lease liabilities on an entity's financial statements. The standard requires lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. IFRS 16 is effective from January 1, 2019, and can be applied before that date if IFRS 15 – *Revenue from Contracts with Customers* is also applied.

4. Significant accounting policies (continued)

IFRS 16, Leases ("IFRS 16") (continued)

The Company does not expect the adoption of IFRS 16 will have a material effect on its financial statements given the extent of its current use of leases in the ordinary course of business.

5. Exploration and evaluation assets

The investment in and expenditures on mineral interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the confirmation of legal ownership of the properties, the attainment of successful production from the properties or from the proceeds of their disposal. Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title.

Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Antilla and Cotabambas are two properties held in Panoro Apurimac, SA in an advanced exploration stage. The eight other properties that are held in Panoro Apurimac, SA are Kusiorcco, Cochasayhuas, Checca, Promesa, Sancapampa, Humamantata, Anyo, and Morosayhuas and are all in various stages of exploration. All property interests are 100% held by the Company and there are no royalties payable to any third parties. The Company also holds the El Rosal property, which is held in Minera Panoro Perú, SAC. The Company no longer has a net smelter returns royalty interest in the Alicia property, as the Company that held the property abandoned its interest.

In order to reduce carrying costs on certain mineral projects, the Company performed a detailed review of its non-core properties at December 31, 2015, and determined that certain of the underlying mineral concessions would not be renewed. As the Company allowed its rights to explore these concessions to lapse, the capitalized exploration and evaluation costs associated with those concessions have been written off. For the year ended December 31, 2015, an impairment loss of $2,266,865 was recognized in the statement of comprehensive loss. No loss was recognized in the year ended December 31, 2016.

(Expressed in Canadian dollars, unless otherwise stated)

5. Exploration and evaluation assets (continued)

Exploration and evaluation expenditures and impairments during the years presented are as follows:

	Antilla	Cotabambas	Other	Total
Acquisition costs:				
Balance, December 31, 2015 and 2016	$ 7,319,722	$ 4,925,035	$ 2,301,064	$14,545,821
Exploration expenditures incurred in 2016:				
Amortization	-	21,879	87	21,966
Camp and site cost	2,808	283,529	3,223	289,560
Community relations	1,957	944,022	-	945,979
Environmental	-	9,392	70	9,462
Geology	-	173,323	-	173,323
Legal	3,489	2,069	94	5,652
Metallurgy	1,903	-	-	1,903
Preliminary economic assessment	112,895	9,476	-	122,371
Recording fees and taxes	177,639	64,047	628,361	870,047
Recovery of taxes paid	(9,997)	(305,509)	(34,902)	(350,408)
Share-based expense	-	104,154	-	104,154
Travel	618	12,468	-	13,086
Incurred during the year	291,312	1,318,850	596,933	2,207,095
Capitalized exploration expenditures at December 31, 2015	8,414,856	36,419,967	8,245,518	53,080,341
Capitalized exploration expenditures at December 31, 2016	8,706,168	37,738,817	8,842,451	55,287,436
Total exploration and evaluation assets at December 31, 2016	**$16,025,890**	**$42,663,852**	**$11,143,515**	**$69,833,257**

Salaries and benefits allocation:	Antilla	Cotabambas	Other	Total
Camp	$ -	$ 146,060	$ -	$ 146,060
Community relations	-	85,654	-	85,654
Geology	-	173,323	-	173,323
	-	405,037	-	405,037

(Expressed in Canadian dollars, unless otherwise stated)

5. Exploration and evaluation assets (continued)

	Antilla	Cotabambas	Other	Total
Acquisition costs:				
Balance, December 31, 2014	$7,158,343	$4,925,035	$2,833,476	$14,916,854
Capitalized value-added tax	161,379	-	-	161,379
Write-down of acquisition costs	-	-	(532,412)	(532,412)
Balance, December 31, 2015	7,319,722	4,925,035	2,301,064	14,545,821
Exploration expenditures incurred in 2015:				
Amortization	-	34,533	125	34,658
Camp and site costs	34,933	639,949	65,394	740,276
Community relations	2,349	1,075,796	60,499	1,138,644
Environmental	1,116	460,229	27,067	488,412
Geology	118,576	504,769	152,374	775,719
Geophysical	-	299,678	124,007	423,685
Legal	18,124	14,643	1,079	33,846
Preliminary economic assessment	28,051	309,626	-	337,677
Recording fees and taxes	95,264	62,443	456,239	613,946
Recovery of taxes paid	(18,849)	(230,999)	-	(249,848)
Sampling	61	33,882	17,104	51,047
Topography and surveys	-	72,069	248,379	320,448
Travel	3,357	60,106	30,346	93,809
Incurred during the year	282,982	3,336,724	1,182,613	4,802,319
Capitalized exploration expenditures at December 31, 2014	8,131,874	33,083,243	8,797,358	50,012,475
	8,414,856	36,419,967	9,979,971	54,814,794
Impairment loss during the year	-	-	(1,734,453)	(1,734,453)
Capitalized exploration expenditures at December 31, 2015	8,414,856	36,419,967	8,245,518	53,080,341
Total exploration and evaluation assets at December 31, 2015	**$15,734,578**	**$41,345,002**	**$10,546,582**	**$67,626,162**

Salaries and benefits allocation:	Antilla	Cotabambas	Other	Total
Camp	$ 13,820	$ 190,447	$ 11,074	$215,341
Community relations	-	205,175	-	205,175
Environmental	1,116	168,631	6,501	176,249
Geology	4,312	398,781	141,463	544,556
Geophysical	-	23,285	3,545	26,829
Preliminary economic assessment	11,801	188,833	-	200,634
Sampling	61	11,678	-	11,739
	31,110	1,186,830	162,583	1,380,523

(Expressed in Canadian dollars, unless otherwise stated)

6. Property and equipment

	Computer and office furnishings	Equipment	Vehicles	Leasehold improvements	Total
Cost:					
Balance at January 1, 2016	$ 139,410	$ 119,272	$ 112,071	$ 94,704	$ 465,457
Additions during the year	3,261	-	-	-	3,261
Balance at December 31, 2016	142,671	119,272	112,071	94,704	468,718
Accumulated amortization:					
Balance at January 1, 2016	113,350	82,933	93,711	86,598	376,592
Amortization for the year	6,717	10,894	5,507	8,106	31,224
Balance at December 31, 2016	120,067	93,827	99,218	94,704	407,816
Net book value:					
December 31, 2016	$ 22,604	$ 25,445	$ 12,853	$ -	$ 60,902

	Computer and office furnishings	Equipment	Vehicles	Leasehold improvements	Total
Cost:					
Balance at January 1, 2015	$ 169,696	$ 119,622	$ 112,071	$ 94,704	$ 496,093
Disposals during the year	(30,286)	(350)	-	-	(30,636)
Balance at December 31, 2015	139,410	119,272	112,071	94,704	465,457
Accumulated amortization:					
Balance at January 1, 2015	131,813	67,707	85,844	70,390	355,754
Amortization for the year	11,626	15,576	7,867	16,208	51,277
Disposals during the year	(30,089)	(350)	-	-	(30,439)
Balance at December 31, 2015	113,350	82,933	93,711	86,598	376,592
Net book value:					
December 31, 2015	$ 26,060	$ 36,339	$ 18,360	$ 8,106	$ 88,865

Amortization totaling $21,966 for the year ended December 31, 2016 (2015 - $34,568) relates to exploration and evaluation expenditures and has been capitalized to the exploration and evaluation assets (note 5).

7. Early Deposit Precious Metals Agreement

On March 21, 2016, the Company entered into a precious metals purchase agreement (the "Agreement") with Silver Wheaton (Caymans) Ltd. ("Silver Wheaton"), in respect of the Cotabambas project located in Perú. The term of the Agreement continues in effect for 20 years and automatically renews for successive ten-year periods until Silver Wheaton terminates the Agreement.

The principal terms of the Agreement are such that Silver Wheaton will pay the Company upfront cash payments totaling US$140.0 million (the "Deposit") for 25% of the payable gold production and 100% of the payable silver production (decreasing to 16.67% of the payable gold production and 66.67% of the payable silver production after a certain production volume has been delivered to Silver Wheaton) from the Company's Cotabambas Project in Perú. In addition, Silver Wheaton will make production payments to the Company of the lesser of the market price and US$450 per payable ounce of gold and US$5.90 per payable ounce of silver delivered to Silver Wheaton, increasing annually by 1%, four years after commencement of commercial production, over the life of the Company's Cotabambas Project. Any excess of the market price and the fixed payments will be credited against the Deposit until the Deposit is nil. If by the expiry of the term of the Agreement the Company has not delivered enough production to reduce the Deposit to nil, the uncredited balance will be repaid to Silver Wheaton.

The Agreement provides for the Company to receive US$14.0 million of the Deposit (the "Early Deposit") prior to the Company completing a feasibility study on the Cotabambas project. Payments under the Early Deposit total US$2.0 million in the first year and instalments of US$750,000 semi-annually thereafter until the full US$14.0 million has been advanced. The Early Deposit also includes provisions to accelerate a portion of the remaining payments, whereby Silver Wheaton will accelerate payment of an amount equal to the amount of funds raised in any offering of equity securities for the purpose of exploration of the Cotabambas project during the period January 27, 2016, to March 21, 2018, up to a maximum of US$3.5 million for all such offerings. Under the Early Deposit provisions the Company must meet certain minimum working capital requirements.

The balance of US$126.0 million is payable in instalments during construction of the Cotabambas Project, should Silver Wheaton elect to proceed with the Agreement.

Silver Wheaton may terminate the Agreement at any point up to 90 days following delivery of a feasibility study on the Cotabambas project upon giving the Company three months' notice, in which case all Early Deposit amounts advanced less US$2.0 million will become repayable. Silver Wheaton can elect to be repaid in cash or shares, with the deferral of cash payments under certain conditions for up to two years. If Silver Wheaton elects to terminate the Agreement and be repaid with cash, interest will accrue at prime plus 8% per annum if repayment has not been made within two years of notice of termination. Silver Wheaton may also terminate the Agreement at different points during the term of the Agreement if certain production delays occur, in which case the uncredited deposit will be repayable to Silver Wheaton.

7. Early Deposit Precious Metals Agreement (continued)

Following a change of control, subject to certain conditions, the Company has a one-time option to repurchase 50% of the precious metals stream with a payout based on the greater of: (i) a minimum fixed return (ii) a return based on appreciation of precious metals prices over the term of the Agreement and (iii) a return based on appreciation of the share price of the Company over the term of the agreement.

At December 31, 2016, the Company had received a total of US$4.0 million under the Early Deposit, including the two initial scheduled payments and an accelerated payment of US$2.0 million after the successful completion of the private placement in August 2016 (note 8).

Subsequent to year-end, the Company received the third scheduled semi-annual payment of US$750,000. The third scheduled payment made by Silver Wheaton resulted in security agreements being completed between the Company and Silver Wheaton for all advances after the first US$2.0 million received by the Company. Additional accelerated payments totaling US$1.5 million may be received if the Company is able to raise that amount of funds in an offering of equity securities prior to March 21, 2018.

8. Share capital

(a) Authorized: Unlimited common shares without par value.

Issued and outstanding:

258,148,765 common shares (December 31, 2015 – 220,640,818 common shares)

On June 20, 2016, the Company issued 790,130 common shares to Macquarie Capital Markets Canada Ltd. ("Macquarie"), pursuant to a Financial Advisory Services Agreement between the Company and Macquarie dated January 27, 2016. Macquarie acted as financial advisor to the Company in connection with the Agreement. The shares issued to Macquarie comprise a portion of the fees due to Macquarie and the number of shares issued was at an average deemed price of $0.1326 per share, based on the average discounted market price of the Company's shares on April 15 and May 30, 2016, being the dates immediately before which the Company announced the receipt of the two early deposit payments under its agreement with Silver Wheaton. Under IFRS, the shares have been recorded at $52,401. The shares were subject to a hold period expiring October 18, 2016. The Company has agreed to pay a fee to Macquarie in an amount equal to 6% of the payments up to, but not including, the final payment to be received by the Company from Silver Wheaton due to construction at the Cotabambas project. The Company has the option to pay the fee to Macquarie by making a payment of 4% in cash and 4% in common shares, up until March 21, 2017. Thereafter, the fee will be payable in cash. The fees must be paid from funds other than those received pursuant to the Agreement. All fees related to proceeds received up to December 31, 2016, have been paid.

(Expressed in Canadian dollars, unless otherwise stated)

8. Share capital (continued)

Private placement

On August 26, 2016, the Company completed a non-brokered private placement of 36,717,817 units (the "Units") at a price of $0.18 per unit for gross proceeds of $6,609,207. Share issue costs of $234,449, including a finder's fee of 6% on a portion of the proceeds were paid, for net proceeds of $6,374,758. Each Unit consists of one common share of the Company and one-half of a non-transferable common share purchase warrant (a "Warrant"), or 18,358,905 Warrants. Each whole Warrant will entitle the holder thereof to purchase one common share at an exercise price of $0.27 for a period of 24 months from the date of closing.

(b) Stock options

Stock options to purchase common shares have been granted to directors, employees, contractors and consultants at exercise prices determined by reference to the market value on the date of the grant.

The number of shares available for options to be granted under the Company's rolling stock option plan is 10% of the number of shares outstanding (the "Plan"), as amended, at the Annual General Meeting held on June 21, 2016. Options granted under the Plan vest immediately or over a period of time at the discretion of the Board of Directors.

A summary of the Company's stock options as at December 31, 2016, and for the year ended December 31, 2016, are as follows:

	Number of Options	Weighted average exercise price
Balance, December 31, 2014	15,475,000	$ 0.56
Expired, unexercised during the year	(2.325,000)	$ 0.30
Balance, December 31, 2015	13,150,000	$ 0.60
Granted during the year	8,325,000	$ 0.20
Expired, unexercised, during the year	(5,250,000)	$ 0.54
Balance, December 31, 2016	16,225,000	$ 0.42

During the year ended December 31, 2016, the Company granted 8,325,000 stock options to officers, directors, employees and consultants at an exercise price of $0.20, which are exercisable for a period of five years. The total fair value of the options granted in the year was $707,303, using the Black-Scholes method with the following assumptions - a volatility of 68%, an expected option life of 3.8 years, a risk free interest rate of 0.6%, and an expected dividend yield of 0%. Of the total granted, $104,154 was capitalized to mineral property interests and the remaining $603,149 was recognized as share-based expense for the year. Of the options granted during the year, 7,725,000 stock options expire on November 10, 2021, and 600,000 options expire on December 26, 2021.

(Expressed in Canadian dollars, unless otherwise stated)

8. Share capital (continued)

Year of expiry	Number of options	Weighted average exercise price
2017	4,650,000	$ 0.85
2019	3,250,000	$ 0.36
2021	8,325,000	$ 0.20
	16,225,000	$ 0.42

The weighted average life of exercisable options outstanding as at December 31, 2016, is 3.2 years (December 31, 2015 – 1.8 years).

(c) Share purchase warrants

At December 31, 2016, there were 18,358,905 share purchase warrants (See private placement above), exercisable at $0.27 until August 26, 2018. At December 31, 2015, there were 1,638,000 agents' warrants outstanding, with an exercise price of $0.55, which expired, unexercised on March 14, 2016.

9. Income taxes

As at December 31, 2016, no deferred tax assets are recognized on the following temporary differences as it is not probable that sufficient future taxable profit will be available to realize such assets:

	2016	2015
Exploration and evaluation assets	$ 1,590,480	$ 1,683,934
Tax losses carried forward	5,493,481	5,195,166
Other	212,590	320,453
Unrecognized deferred tax assets	$ 7,296,551	$ 7,199,553

The Company has non-capital losses of approximately $15.9 million (2015 - $15.1 million) and $5.4 million (2015 - $5.6 million) to reduce future income tax in Canada and Perú, respectively.

The losses in Canada expire between 2017 and 2036 and the losses in Perú expire between 2017 and 2021.

(Expressed in Canadian dollars, unless otherwise stated)

9. Income taxes (continued)

The provision for income taxes differs from the amount calculated using the combined Canadian federal and provincial statutory income tax rates of 26.0% (2015 – 26.0%) as follows:

	2016	2015
Expected tax recovery	$ (658,064)	$ (1,200,448)
Other differences	569,429	670,045
Tax rate variation	(8,363)	(42,561)
Deferred income tax assets not recognized	96,998	572,964
	$	$

10. Related party transactions

The Company entered had no transactions with directors and officers and/or companies controlled by directors or officers in common with the Company during the years ended December 31, 2016, and 2015. There were no balances due to or receivable from officers and directors at December 31, 2016, and 2015.

11. Commitments and contingent receivable

Commitments

The Company has the following commitments:

	2017	2018	2019	2020	2021	Total
Office lease (Vancouver)	$ 53,866	$ 55,448	$ 58,613	$ 60,195	$ 30,098	$ 258,220
Office leases (Perú)	$ 65,974	$ -	$ -	$ -	$ -	$ 65,974
Warehouses (3)	$ 29,444	$ 3,813	$ -	$ -	$ -	$ 33,257
Accounts payable and accrued liabilities	$1,268,038	$ -	$ -	$ -	$ -	$1,268,038
Community agreement accrual	$ 795,038	$ -	$ -	$ -	$ -	$ 795,038
Community agreement, other commitments	$ 367,232	$ 13,923	$ -	$ -	$ -	$ 381,155

11. Commitments and contingent receivable (continued)

Vigencias (or recording fees) of US$3 per hectare are not commitments, but rather the annual payments required to maintain mineral concessions in good standing with the Perúvian government. The actual payment made in 2016 for the 2015 year was $613,946 (2015 - $759,042 relating to the 2014 year). The ultimate amount to be paid is based on a formula relating to exploration costs incurred, offset against the basic fee and penalty. After the 6th year, an annual penalty must be paid per hectare, starting at US$6 per hectare, until after 12 years, the additional fee increases to US$20 per hectare. The penalties are reduced, based on exploration activity on the concessions, and the reduction is determined each year by the Perúvian government. The Company estimates the annual costs to be approximately $870,047 for the 2016 year and is payable by June of fiscal 2017. This balance is higher than the payment made in fiscal 2016, due to the lower exploration expenses incurred in fiscal 2016.

The Company has an office lease in Lima and three warehouses in Cusco, and an office lease in Vancouver, Canada.

Contingent receivable

In 2007, the Company entered into a Purchase and Sale Agreement (“Mindoro Agreement”) with Mindoro Resources Ltd., and its subsidiaries (collectively, “Mindoro”), a publicly traded company, in respect of the Surigao Project in the Philippines, which was written off in the year ended December 31, 2007. Further to the Mindoro Agreement, Mindoro was required to make four cash installment payments to the Company, two of which totaling $2,000,000 in cash and shares were received in fiscal 2007. At the time of disposition, the likelihood of the nickel laterite prospect going into production was unknown, and the final two payments were not recorded as a receivable. The nickel laterite prospect has commenced production, but the ability of Mindoro to make the payments is uncertain and is not probable at this time; and therefore, the Company will record any proceeds from Mindoro in operations when received.

In accordance with the Mindoro Agreement, the two payments were to be made as follows:

(a) $500,000 on the fifteenth business day following the loading on board a ship or other conveyance for transport to a purchaser of an aggregate one million wet metric tonnes of nickel laterite, which became due on August 28, 2015, and was not paid by Mindoro to the Company; and

(b) $500,000 on the first anniversary of the loading on board a ship or other conveyance for transport to a purchaser or treatment facility of an aggregate one million wet metric tons of nickel laterite, or August 28, 2016, which was also not paid by Mindoro to the Company.

(Expressed in Canadian dollars, unless otherwise stated)

12. Financial instruments and capital management

(a) Fair value of financial instruments

As at December 31, 2016, the carrying values of the Company's financial instruments by category are as follows:

	Held for trading	Loans and receivables	Available for sale	Financial liabilities	Carrying value	Fair Value
Financial assets:						
Cash and cash equivalents	$ -	$4,538,826	$ -	$ -	$4,538,826	$4,538,826
Short-term investments	-	4,028,097	-	-	4,028,097	4,028,097
Marketable securities	-	-	6,000	-	6,000	6,000
Accounts and advances receivable	-	55,883	-	-	55,883	55,883
Total financial assets	-	8,622,806	6,000	-	8,628,806	8,628,806
Financial liabilities:						
Accounts payable and accrued liabilities	-	-	-	2,063,076	2,063,076	2,063,076
Precious Metals Purchase Agreement	-	-	-	5,286,900	5,286,900	5,286,900
Total financial liabilities	-	-	-	7,349,976	7,349,976	7,349,976

(a) Fair value of financial instruments

At December 31, 2016, the Company held 100,000 common shares in Montan Mining Corp., at a book value of $10,000 and a fair value of $6,000 (2015 - $2,000). These shares have been recognized at fair value in the consolidated balance sheet with gains or losses on revaluation recognized in other comprehensive income (loss).

IFRS 13 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Marketable securities are determined based on a market approach reflecting the closing price of each particular security at the reporting date. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security. As a result, these financial assets have been included in Level 1 of the fair value hierarchy. Marketable securities are reflected on the balance sheet at fair value and are valued using Level 1 inputs.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, for substantially the full contract term.

The Company has no financial assets or liabilities included in Level 2 of the fair value hierarchy.

12. Financial instruments and capital management (continued)

(a) Fair value of financial instruments (continued)

Level 3: Inputs for the financial asset or liability are not based on observable market data.

The Company has no financial assets or liabilities included in Level 3 of the fair value hierarchy.

(b) Capital management

Credit risk

The Company manages its credit risk through its counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its bank accounts and short-term investments, and accounts and advances receivable. Bank accounts and short-term investments are primarily with Canadian Schedule 1 banks and Banco de Credito in Perú. The Company has accounts and advances receivable primarily related to IGV receivable from the Perúvian government. The total of cash and cash equivalents, short-term investments and accounts and advances receivable of $8,622,806 (2015 - $258,922) represent the maximum credit exposure.

Liquidity risk

The Company manages its liquidity risk by ensuring that there is sufficient liquidity in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash and cash equivalents are primarily invested in bank accounts, bankers' acceptances, and Guaranteed Investment Certificates ("GIC"), which are available on demand. The Company's cash and cash equivalents are not invested in any asset backed commercial paper.

Contractual commitments that the Company is obligated to pay in future years are disclosed in note 11. Accounts payable and accrued liabilities require payment within one year.

Market risk

The significant market risks to which the Company is exposed are foreign currency risk and interest rate risk.

Foreign currency risk

The Company maintains its financial statements in Canadian dollars. The Company is exposed to foreign currency fluctuations to the extent mineral interests, exploration expenditures and operating expenses incurred by the Company are not denominated in Canadian dollars.

The Company does not use derivatives or other instruments to manage the foreign currency risk. The Company's operations in Perú make it subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. The Company's operating results and cash flows are affected to varying degrees by changes in the Canadian dollar exchange rate vis-a-vis the Perúvian Nuevo Sol and the US Dollar. The Company purchases foreign currencies as the need arises in order to fund its exploration activities. Corporate expenditures are primarily incurred in Canadian and US dollars.

(Expressed in Canadian dollars, unless otherwise stated)

12. Financial instruments and capital management (continued)

(b) Capital management (continued)

As at December 31, 2016, the Company's significant exposures to foreign currency risk, based on balance sheet carrying values, were to the Perúvian Nuevo Sol and the US Dollar, as follows:

	December 31, 2016		December 31, 2015	
	PEN	**US$**	**PEN**	**US$**
Cash	S/. 6,736	$6,149,183	S/. 36,616	$ 55,952
Accounts and advances receivable	25,409	14,000	29,990	11,214
Accounts payable and accrued liabilities	(62,361)	(707,691)	(580,348)	(717,382)
Precious Metals Purchase Agreement	-	(5,286,900)	-	-
Net exposure	S/. (30,216)	$ 168,592	S/. (513,742)	$ (650,216)
Canadian dollars	$ (12,089)	$ 226,368	$ (197,277)	$ (899,899)

The following sensitivity analysis assumes all other variables remain constant and are based on the above net exposures. A 10% appreciation or depreciation of the Perúvian Nuevo Sol vis-a-vis the Canadian Dollar would result in a $1,209 (2015 - $20,837) increase or decrease, respectively, in net loss and shareholders' equity. A 10% appreciation or depreciation of the US Dollar vis-a-vis the Canadian Dollar would result in a $22,637 (2015 -$89,990) increase or decrease, respectively).

Interest rate risk

The Company's cash and cash equivalents and short-term investments earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to changes in short-term rates.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders. The Company is not subject to any externally imposed capital requirements.

(Expressed in Canadian dollars, unless otherwise stated)

13. Segmented disclosures

The Company has one operating segment, mineral exploration. All of the Company's exploration and evaluation assets are located in Perú and are disclosed in note 5. Property and equipment are distributed geographically as follows.

	2016	2015
Perú	$ 45,422	$ 69,699
Canada	15,480	19,166
	$ 60,902	$ 88,865

c

14. Key management personnel compensation

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes the Company's directors and members of the senior management group, and consisted of ten individuals (2015 - ten individuals).

Details of key management personnel compensation is as follows:

	2016	2015
Salary, fees and benefits	$ 740,651	$ 1,001,066
Share-based expense	679,670	-
	$ 1,420,321	$ 1,001,066

15. Basic and diluted loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2016, was based on the loss attributable to common shareholders of $2,531,015 (2015 - $4,617,102) and the weighted average number of common shares outstanding of 233,836,566 (2015 – 220,640,818) respectively. For the years ended December 31, 2016 and 2015, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options and warrants (see note 8) on loss per share would be anti-dilutive. Anti-dilutive instruments have not been included in the determination of fully-diluted loss per share.

	2016	2015
Issued common shares, beginning of year	220,640,818	220,640,818
Effect of shares issued for services rendered	419,960	-
Effect of private placement	12,775,788	-
Weighted average number of common shares, end of year	233,836,566	220,640,818

(Expressed in Canadian dollars, unless otherwise stated)

16. Supplementary cash flow information

	2016	2015
Non-cash activities:		
Amortization capitalized to exploration and evaluation assets	$ 21,966	$ 34,658
Common shares issued for services rendered	52,401	-
Finder's fee deducted from private placement	181,435	-
Share-based expense capitalized to exploration and evaluation assets	104,154	-
	$ 359,956	$ 34,658