Annual Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars, unless otherwise stated)

KPMG LLP
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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, 2015 and December 31, 2014, the consolidated statements of 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 in our audits 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, 2015 and December 31, 2014, 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, 2015, had an accumulated deficit at December 31, 2015, 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

Chartered Professional Accountants

Vancouver, Canada
April 29, 2016

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 external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

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

VANCOUVER, BRITISH COLUMBIA

"William J. Boden" (signed)
William J. Boden
Interim Chief Financial Officer

VANCOUVER, BRITISH COLUMBIA

PANORO MINERALS LTD.

An Exploration Stage Company
Consolidated Balance Sheets
(Expressed in Canadian dollars, unless otherwise stated)
As at December 31, 2015 and 2014

	Note	2015	2014
Assets			
Current assets			
Cash and cash equivalents		$ 212,647	$ 7,838,816
Short-term investment		-	57,500
Marketable securities	*11*	2,000	10,000
Accounts and advances receivable		46,275	276,574
Prepaid expenses		40,925	85,962
Total current assets		301,847	8,268,852
Non-current assets			
Exploration and evaluation assets	*5*	67,626,162	64,929,329
Property and equipment	*6*	88,865	140,339
Total assets		$ 68,016,874	$ 73,338,520
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 1,384,373	$ 2,080,917
Total liabilities		1,384,373	2,080,917
Shareholders' equity			
Share capital	*7*	86,032,839	86,032,839
Share-based expense reserve		10,091,358	10,091,358
Accumulated other comprehensive loss		(8,000)	-
Deficit		(29,483,696)	(24,866,594)
Total shareholders' equity		66,632,501	71,257,603
Total liabilities and shareholders' equity		$ 68,016,874	$ 73,338,520

Going concern (note 2)
Subsequent events (notes 2 and 7)
Commitments and contingent receivable (note 10)

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

Approved on behalf of the Board:

"Luquman A. Shaheen" (signed) **"Christiaan F. Staargaard" (signed)**

PANORO MINERALS LTD.

An Exploration Stage Company
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2015 and 2014

	2015	2014
Expenses		
Salaries and fees	$ 1,190,074	$ 1,262,660
Directors' fees	76,317	88,375
Share-based expense (note 7(b))	-	520,869
Audit and tax	109,553	106,821
Consulting and recruitment	30,793	55,529
Legal expenses	74,239	89,389
Communications	94,022	130,391
Regulatory and transfer agent fees	74,829	109,385
Amortization (note 6)	16,614	19,320
Professional dues and training	22,739	26,816
Travel	75,218	157,029
Shareholder relations	89,030	205,873
Rent	243,747	176,717
Insurance	50,352	58,718
Office	71,748	90,056
	2,219,275	3,097,948
Interest income	(42,142)	(90,797)
Foreign exchange loss	173,104	117,039
Loss on marketable securities (note 11(a))	-	62,000
Impairment of exploration and evaluation costs (note 5)	2,266,865	-
Loss for the year	4,617,102	3,186,190
Other comprehensive (income) loss, net of tax:		
Unrealized loss on marketable securities (note 11(a))	8,000	-
Other than temporary impairment loss on marketable securities (note 11(a))	-	(32,000)
Total other comprehensive (income) loss	8,000	(32,000)
Comprehensive loss for the year	$ 4,625,102	$ 3,154,190
Loss per share, basic and fully diluted (note 14)	$ 0.02	$ 0.02
Weighted average number of common shares outstanding (note 14)	220,640,818	212,110,476

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

PANORO MINERALS LTD.

An Exploration Stage Company
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2015 and 2014

	2015	2014
Cash provided by (used for):		
Operating activities:		
Loss for the year	$ (4,617,102)	$ (3,186,190)
Items not involving the use of cash:		
Amortization (note 6)	16,614	19,320
Loss on marketable securities (note 11(a))	-	62,000
Share-based expense (note 7(b))	-	520,869
Impairment of exploration and evaluation costs (note 5)	2,266,865	-
	(2,333,623)	(2,584,001)
Changes in non-cash operating working capital:		
Accounts and advances receivable	230,299	26,393
Prepaid expenses	45,037	28,207
Site restoration costs (note 15)	-	(45,000)
Cash used in operating activities	(2,058,287)	(2,574,401)
Investing activities:		
Redemption of short-term investments	57,500	-
Exploration and evaluation expenditures (note 5)	(5,178,886)	(7,246,316)
Recovery of value-added taxes	249,848	1,133,745
Accounts payable and accrued liabilities	(696,544)	589,087
Proceeds on disposal of equipment	200	-
Cash used in investing activities	(5,567,882)	(5,523,484)
Financing activities:		
Proceeds from exercise of options	-	64,000
Proceeds from issuance of shares	-	5,906,422
Cash provided by financing activities	-	5,970,422
Decrease in cash and cash equivalents	(7,626,169)	(2,127,463)
Cash and cash equivalents, beginning of year	7,838,816	9,966,279
Cash and cash equivalents, end of year	$ 212,647	$ 7,838,816

Supplementary cash flow information (note 16)

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

PANORO MINERALS LTD.

An Exploration Stage Company
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2015 and 2014

	Number of Shares	Share Capital	Share-Based Expense Reserve	Accumulated Other Comprehensive Loss	Deficit	Total
Balance, December 31, 2013	204,705,921	$ 80,012,052	$ 9,484,847	$ (32,000)	$(21,680,404)	$ 67,784,495
Loss for the year	-	-	-	-	(3,186,190)	(3,186,190)
Other comprehensive income	-	-	-	32,000	-	32,000
Stock option grant (note 7(b))	-	-	656,876	-	-	656,876
Exercise of stock options	400,000	114,365	(50,365)	-	-	64,000
Public offering (note 7)	13,800,000	5,182,159	-	-	-	5,182,159
Private placement (note 7)	1,734,897	724,263	-	-	-	724,263
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

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 $4,617,102 for the year ended December 31, 2015 (2014 – $3,186,190). As at December 31, 2015, the Company has an accumulated deficit of $29,483,696 (2014 - $24,866,594), and a working capital deficiency of $1,082,526 (2014 – working capital of $6,187,935).

Based on its financial position at December 31, 2015, the available funds are not adequate to meet requirements for the estimated operations, exploration and development expenditures in the next twelve-month period. These conditions indicate the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern (see subsequent event below).

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.

2. Going concern and subsequent event (continued)

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, obtaining mining licenses, and continued uncertainty in the exchange and commodity markets.

If the Company is unable to obtain adequate financing, the Company will be required to curtail operations, exploration, and development activities and there would be significant uncertainty whether the Company would continue as a going concern and realize its assets and settle its liabilities and commitments in the normal course of business.

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.

Subsequent event

The Company and its wholly-owned subsidiary entered into a definitive Early Deposit Precious Metals Purchase Agreement (the “Cotabambas Early Deposit Agreement”) signed on March 21, 2016, with Silver Wheaton (Caymans) Ltd. ("Silver Wheaton"), in respect of the Cotabambas project located in Perú.

The principal terms of the Cotabambas Early Deposit Agreement are such that Silver Wheaton will pay the Company upfront cash payments totalling US$140 million for 25% of the payable gold production and 100% of the payable silver production 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 over the life of the Company’s Cotabambas Project. On April 18, 2016, the Company received the first payment of US$1.0 million, pursuant to the terms of the agreement.

2. Going concern and subsequent event (continued)

Subsequent event (continued)

The Company is entitled to receive US$14.0 million spread over up to 9 years as an early deposit with payments to be used to fund expenses related to the Cotabambas Project. The financing includes provisions to accelerate these payments, whereby Silver Wheaton will pay an additional payment in 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, 2016to March 21, 2018, up to a maximum of US$3.5 million for all such offerings. The acceleration could result in total early deposit payments of up to US$7.0 million being made to the Company in the first two years of the agreement. The balance of the US$140.0 million is payable in instalments during construction of the Cotabambas Project.

The US$14.0 million in payments will be sufficient for the Company's minimum working capital for the foreseeable future.

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, 2015.

The consolidated financial statements of the Company for the year ended December 31, 2015, were approved and authorized for issue by the Board of Directors on April 26, 2016.

(b) Functional and reporting currency

The functional and reporting currency of the Company and all of its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. 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. 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.

3. Basis of presentation (continued)

(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, and provision for closure and reclamation, 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.

(d) Use of judgments

Significant areas requiring judgment relate to the determination of functional currency as disclosed in note 2(b) and the criteria applicable to 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.

In concluding the Company is a going concern, management considers funds on hand at year end, planned expenditures and strategic objectives in its assessment. Due to the nature of its business, management increases or decreases 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 tax payments due in June of each year.

3. Basis of presentation (continued)

(e) Comparative figures

Certain comparative figures have been restated to conform to the current year's financial statement presentation.

4. Significant accounting policies

(a) Basis of consolidation

The subsidiaries of the Company at December 31, 2015, 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 Pacific	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, 2015. All intercompany transactions and balances have been eliminated on consolidation.

(b) 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.

The assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Canadian dollars at the exchange rates at the dates of the transactions.

4. Significant accounting policies (continued)

(c) 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. 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 is recorded on an accrual basis.

(d) 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 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.

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.

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.

4. Significant accounting policies (continued)

(e) 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 CGU 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 area of interest. 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.

(f) 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.

4. Significant accounting policies (continued)

(g) 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.

(h) 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.

(i) Site restoration costs

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.

4. Significant accounting policies (continued)

(j) Share-based expense

The Company has a stock option plan that is described in note 7(a). 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.

(k) 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.

(l) 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.

4. Significant accounting policies (continued)

(m) 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.

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 11(a).

(Expressed in Canadian dollars, unless otherwise stated)

4. Significant accounting policies (continued)

(m) Financial instruments (continued)

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 11.

(n) IFRS standards adopted

As of January 1, 2015, the Company adopted the new and amended IFRS pronouncements in accordance with transitional provisions outlined in the respective standards.

IFRS 2 (Amendment)	*Share-based Payment*
IFRS 3 (Amendment)	*Business Combinations*
IFRS 8 (Amendment)	*Operating Segments*
IFRS 13 (Amendment)	*Fair Value Measurement*
IAS 16 (Amendment)	*Property, Plant and Equipment*
IAS 19 (Amendment)	*Employee Benefits*
IAS 24 (Amendment)	*Related Party Disclosures*
IAS 38 (Amendment)	*Intangible Assets*
IAS 40 (Amendment)	*Investment Property*
IAS 37 (Amendment)	*Levies*

There were no new standards effective January 1, 2015, that had a material impact on the Company's consolidated financial statements.

(o) 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, 2015, 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)

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

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

The final version of IFRS 9 was issued by the IASB on July 24, 2014, and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018, with early adoption permitted, and must be applied retrospectively with some exemptions permitted. The Company does not expect the adoption of IFRS 9 to have a material effect on its consolidated financial statements.

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

On May 28, 2014, the IASB issued IFRS 15. The new standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced, which may affect the amount and/or timing of revenue recognized.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. 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.

4. Significant accounting policies (continued)

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

Amendments to IAS 1, Presentation of Financial Statements (“IAS 1”)

On December 18, 2014, the IASB issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

IFRS 16, Leases (“IFRS 16”)

On January 13, 2016, the IASB published a new standard, IFRS 16, *Leases,* eliminating the current dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded patter of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is evaluating the impact of adopting this standard on its consolidated financial statements.

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.

Panoro Apurimac S.A., Perú

Antilla and Cotabambas are two Panoro Apurimac properties in an advanced exploration stage. The remaining nine properties that are held in Panoro Apurimac are Kusiorcco, Cochasayhuas, Checca, Alicia, Promesa, Sancapampa, Humamantata, Anyo, and Morosayhuas and are all in various stages of exploration. The Company also holds an interest in the Alicia property. All properties are 100% held by the Company and there are no royalties payable to any third parties.

(Expressed in Canadian dollars, unless otherwise stated)

5. Exploration and evaluation assets (continued)

In order to reduce carrying costs on certain mineral projects, the Company performed a detailed review of its non-core properties and determined that certain of the underlying mineral concessions would not be renewed. As the Company intends to forego its rights to explore these concessions, 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 has been recognized in the statement of comprehensive loss (2014 – nil).

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

	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	21,113	449,502	54,320	524,935
Community relations	2,349	870,621	60,499	933,469
Environmental	-	291,598	20,556	312,154
Geology	114,264	105,988	10,911	231,163
Geophysical	-	276,393	120,462	396,855
Legal	18,124	14,643	1,079	33,846
Preliminary economic assessment	16,250	120,793	-	137,043
Recording fees and taxes	95,264	62,443	456,239	613,946
Recovery of taxes paid	(18,849)	(230,999)	-	(249,848)
Salaries and wages	31,110	1,186,830	162,583	1,380,523
Sampling	-	22,204	17,114	39,318
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	54,814,795
Impairment loss during the year	-	-	(1,734,453)	(1,734,454)
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**

(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
Exploration expenditures incurred in 2014:				
Amortization	-	44,423	178	44,601
Camp	55,450	470,556	18,172	544,178
Community relations	9,480	779,245	2,745	791,470
Drilling	-	146,048	-	146,048
Environmental	15,235	403,594	44,398	463,227
Geology	18,281	114,053	3,873	136,207
Legal	54,914	21,080	154	76,148
Metallurgical testing	-	426,732	-	426,732
Preliminary economic assessment	312,611	694,935	-	1,007,546
Recording fees and taxes	69,258	217,751	472,033	759,042
Recovery of taxes paid	(43,756)	(1,052,818)	(37,171)	(1,133,745)
Salaries and wages	261,062	1,797,401	97,439	2,155,902
Sampling	33,688	84,404	10,390	128,482
Share-based expense	-	136,007	-	136,007
Site restoration costs	5,886	18,857	-	24,743
Topography and surveys	94,935	395,772	-	490,707
Travel	21,901	58,227	15,756	95,884
Incurred during the year	908,945	4,756,267	627,967	6,293,179
Capitalized exploration expenditures at December 31, 2013	7,222,929	28,326,976	8,169,391	43,719,296
Capitalized exploration expenditures at December 31, 2014	8,131,874	33,083,243	8,797,358	50,012,475
Total exploration and evaluation assets at December 31, 2014	**$15,290,217**	**$38,008,278**	**$11,630,834**	**$64,929,329**

(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, 2015	$ 169,696	$ 119,622	$ 112,071	$ 94,704	$ 496,093
Additions during the year	-	-	-	-	-
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
Depreciation 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

	Computer and office furnishings	Equipment	Vehicles	Leasehold Improvements	Total
Cost:					
Balance at January 1, 2014	$ 169,696	$ 119,622	$ 112,071	$ 94,704	$ 496,093
Additions during the year	-	-	-	-	-
Disposals during the year	-	-	-	-	-
Balance at December 31, 2014	169,696	119,622	112,071	94,704	496,093
Accumulated amortization:					
Balance at January 1, 2014	117,592	45,457	74,604	54,180	291,833
Depreciation for the year	14,221	22,250	11,240	16,210	63,921
Disposals during the year	-	-	-	-	-
Balance at December 31, 2014	131,813	67,707	85,844	70,390	355,754
Net book value:					
December 31, 2014	$ 37,883	$ 51,915	$ 26,227	$ 24,314	$ 140,339

Amortization totaling $34,658 for the year ended December 31, 2015 (2014 - $44,601) relates to exploration and evaluation expenditures and has been capitalized to the exploration and evaluation assets (note 5).

7. Share capital

Authorized – unlimited common shares without par value.

During the year ended December 31, 2015, the Company did not complete any forms of equity financing.

On July 16, 2014, the Company completed a short-form prospectus equity financing of 13,800,000 common shares of the Company at a price of $0.42 per common share for gross proceeds of $5,796,000. The total share issue costs related to the financing were $613,841 including a cash commission received by the underwriters equal to 6% ($347,760) of the gross proceeds of the offering and were recognized directly in shareholders' equity as a reduction in share capital. Commission paid and other transaction costs are recognized as a reduction in share capital.

Pursuant to a subscription agreement dated June 30, 2011, between HudBay Minerals Inc. ("Hudbay") and the Company, HudBay was granted a pre-emptive right to participate in any future equity financings undertaken by the Company, if and for so long as HudBay holds at least 5% of the issued and outstanding common shares of the Company. The pre-emptive right permits HudBay to maintain its equity ownership in the Company (on a non-diluted basis) after the completion of an equity financing as it existed prior thereto. Concurrent with the short-form prospectus financing noted above, the Company completed a private placement with Hudbay on July 16, 2014. A total of 1,734,897 common shares of the Company were issued and sold at a price of $0.42 per common share for gross proceeds of $728,657. The total share issue costs related to Hudbay's private placement were $4,994. Commission paid and other transaction costs were recorded as a reduction of share capital.

(a) Stock options outstanding

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 common shares outstanding (the "Plan") as amended, at the Annual General Meeting held on June 23, 2015. Options granted under the Plan vest immediately or over a period of time at the discretion of the Board of Directors.

(Expressed in Canadian dollars, unless otherwise stated)

7. Share capital (continued)

(a) Stock options outstanding (continued)

A summary of the status of the Company's stock options as at December 31, 2015 and 2014, and changes during the years are as follows:

	Number of Options	Weighted average exercise price
Outstanding at January 1, 2014	13,050,000	$ 0.62
Granted	3,875,000	0.36
Expired, unexercised	(1,050,000)	0.68
Exercised	(400,000)	0.16
Outstanding at December 31, 2014	15,475,000	0.56
Expired, unexercised	(2,325,000)	0.30
Outstanding at December 31, 2015	13,150,000	$ 0.60

The following summarizes information about stock options outstanding and exercisable at December 31, 2015:

Year of expiry	Number of options	Weighted average exercise price
2016	3,950,000	0.50
2017	5,450,000	0.85
2019	3,750,000	0.36
	13,150,000	$ 0.60

Each option can be exercised for one common share of the Company. The weighted average life of exercisable options outstanding as at December 31, 2015, is 1.8 years (2014 – 2.5 years).

Subsequent to December 31, 2015, 400,000 options exercisable at $0.35 per share, 300,000 options exercisable at $0.85 per share and 200,000 options exercisable at $0.50 per share, each with an expiry date of January 29, 2016, expired unexercised.

(Expressed in Canadian dollars, unless otherwise stated)

7. Share capital (continued)

(b) Share-based expense

During the year ended December 31, 2015, no stock options were granted to directors, officers and employees of the Company.

On February 14, 2014, the Company granted 3,575,000 stock options to directors, officers, and employees of the Company at an exercise price of $0.35 per share, which may be exercised for a period of up to five years. The stock options vested immediately. The total fair value of the options granted was $589,365, using the Black-Scholes Option Pricing Model. Of this total, $136,007 was capitalized to exploration and evaluation assets.

On July 23, 2014, the Company granted 300,000 stock options to a director, with an exercise price of $0.42 per share, which may be exercised for a period of up to five years. The stock options vested immediately. The fair value of the options, as determined by the Black-Scholes Option Pricing Model, was $67,511, was recorded as share-based expense during the year.

The fair value of stock options granted in the year ended December 31, 2014, were estimated using the Black-Scholes Option Pricing Model, with the following assumptions: a risk-free interest rate of 1.25%; expected dividend yield of 0.0%, expected stock price volatility of 79% and an expected life in years of 3.43 to 3.57.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these input assumptions can materially affect the fair value estimate.

(c) Share purchase warrants

At December 31, 2015 and 2014, the Company had outstanding warrants to purchase an aggregate of 1,638,000 common shares as follows:

Expiry Date		Exercise Price	Outstanding at Dec 31, 2014	Issued	Exercised	Expired	Outstanding at Dec 31, 2015
March 14, 2016	Agents' Warrants	0.55	1,638,000	-	-	-	1,638,000*

*The agents' warrants expired unexercised on March 14, 2016.

(Expressed in Canadian dollars, unless otherwise stated)

8. Income taxes

As at December 31, 2015, 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:

	2015	2014
Exploration and evaluation assets	$ 1,683,934	$ 1,523,791
Tax losses carried forward	5,195,166	4,677,965
Other	320,453	424,834
Unrecognized deferred tax assets	$ 7,199,553	$ 6,626,590

The Company has non-capital losses of approximately $15.1 million (2014 - $14.1 million) and $5.6 million (2014 - $3.9 million) to reduce future income tax in Canada and Perú, respectively.

The losses in Canada expire between 2016 and 2035 and the losses in Perú expire between 2016 and 2019.

The provision for income taxes differs from the amount calculated using the combined Canadian federal and provincial statutory income tax rates of 26.0% (2014 – 26.0%) as follows:

	2015	2014
Expected tax recovery	$ (1,200,448)	$ (812,290)
Other differences	670,045	887,438
Tax rate variation	(42,561)	254,541
Deferred income tax assets not recognized	572,964	(329,689)
	$ -	$ -

(Expressed in Canadian dollars, unless otherwise stated)

9. Related party transactions

The Company entered into the following transactions with directors and officers and/or companies controlled by directors or officers in common with the Company. All services provided are considered to be in the normal course of business and the transactions have been recorded at their exchange amounts, which were agreed to by the Company and the related parties.

	Years ended December 31, 2015	2014
Equipment and exploration supplies purchased from a company controlled by a director	$ -	$ 185
Services provided by a company controlled by a director	-	769
	$ -	$ 954

10. Commitments and contingent receivable

Commitments

The Company has the following commitments:

	2016	2017	2018	2019	2020	Total
Office lease (Vancouver)	$ 67,788	$ 58,666	$ 60,248	$ 63,413	$ 64,995	$ 315,109
Office leases (Perú)	$ 114,594	$ 68,002	$ -	$ -	$ -	$ 182,596
Warehouses	$ 32,553	$ 22,884	$ 1,622	$ -	$ -	$ 57,060
Accounts payable and accrued liabilities	$1,384,373	$ -	$ -	$ -	$ -	$ -

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 2015 for the 2014 year was US$631,759 (2014 - US$647,258 relating to the 2013 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 US$478,636 for the 2015 year and is payable by June of fiscal 2016. This balance is lower than the payment made in fiscal 2015, after the reduction in the concessions held by the Company as disclosed in note 5.

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

(Expressed in Canadian dollars, unless otherwise stated)

10. Commitments and contingent receivable (continued)

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 are 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.

11. Financial instruments and capital management

(a) Fair value of financial instruments

As at December 31, 2015, 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	$ -	$212,647	$ -	$ -	$212,647	$212,647
Marketable securities	-	-	2,000	-	2,000	2,000
Accounts and advances receivable	-	46,275	-	-	46,275	46,275
Total financial assets	-	258,922	2,000	-	260,922	260,922
Financial liabilities:						
Accounts payable and accrued liabilities	-	-	-	1,384,373	1,384,373	1,384,373
Total financial liabilities	-	-	-	1,384,373	1,384,373	1,384,373

11. Financial instruments and capital management (continued)

(a) Fair value of financial instruments (continued)

At December 31, 2015, the Company held 100,000 common shares in Montan Mining Corp., formerly Strait Minerals Ltd. ("Strait"), at a book value of $10,000 (2014 - $72,000) and a fair value of $2,000 (2014 - $10,000). 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). The excess of cost over fair value of these marketable securities was $62,000 at December 31, 2014 and was included as a loss in the consolidated income statement as the decline in value was considered to be other than temporary.

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.

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.

11. Financial instruments and capital management (continued)

(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 account and advances receivable of $258,922 (2014 - $8,172,890) 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, with the exception of a GIC (2015 -$Nil) (2014 - $57,500) which was maintained as security for corporate credit cards. The Company’s cash is not invested in any asset backed commercial paper. The corporate credit cards were cancelled during 2015.

Contractual commitments that the Company is obligated to pay in future years are disclosed in note 10. 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)

11. Financial instruments and capital management (continued)

(b) Capital management (continued)

As at December 31, 2015, 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, 2015		December 31, 2014	
	PEN	**US$**	**PEN**	**US$**
Cash	S/. 36,616	$ 55,952	S/. 846,500	$ 147,424
Accounts and advances receivable	29,990	11,214	454,621	19,227
Accounts payable and accrued liabilities	(580,348)	(717,382)	(1,081,837)	(1,247,626)
Net exposure	S/.(513,742)	$ (650,216)	S/. .219,284	$ (1,080,975)

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 $20,837 (2014 - $8,548) 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 an $89,990 (2014 -$125,404) increase or decrease, respectively, in net loss and shareholders' equity.

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)

12. 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.

	2015	2014
Perú	$ 69,699	$ 107,502
Canada	19,166	32,837
	$ 88,865	$ 140,339

13. 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 (2014 - ten individuals).

Details of key management personnel compensation is as follows:

	2015	2014
Salary, fees and benefits	$ 1,001,066	$ 1,096,197
Share-based expense	-	413,711
	$1,001,066	$1,509,908

14. Basic and diluted loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2015, was based on the loss attributable to common shareholders of $4,617,102 (2014 - $3,186,190) and the weighted average number of common shares outstanding of 220,640,818 (2014 – 212,110,476) respectively. For the years ended December 31, 2015 and 2014, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options and warrants (see note 7) on loss per share would be anti-dilutive. Anti-dilutive instruments have not been included in the determination of fully-diluted loss per share.

(Expressed in Canadian dollars, unless otherwise stated)

14. Basic and diluted loss per share (continued)

	2015	2014
Issued common shares, beginning of year	220,640,818	204,705,921
Effect of options exercised	-	254,247
Effect of public offering /private placement	-	7,150,308
Weighted average number of common shares, end of year	220,640,818	212,110,476

15. Site restoration costs

The Company has an obligation to undertake restoration and rehabilitation work when environmental disturbance is caused by exploration activities. Drill sites are remediated and restored on an ongoing basis. The Company is continuously restoring the land as holes are drilled and, therefore, there is no undiscounted cash flow prepared. All costs recognized as restoration costs at year-end will be completed in the next fiscal year.

	2015	2014
Balance, beginning of year	$ -	$ 45,000
Additional disturbances during the year	-	24,743
Restoration work performed during the year	-	(69,743)
Balance, end of year	$ -	$ -

16. Supplementary cash flow information

	2015	2014
Non-cash activities:		
Amortization capitalized to exploration and evaluation assets	$ 34,658	$ 44,601
Share-based expense capitalized to exploration and evaluation assets	-	136,007
	$ 34,658	$ 180,608