PANORO MINERALS LTD.

Annual Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Panoro Minerals Ltd.

Opinion

We have audited the consolidated financial statements of Panoro Minerals Ltd. (the "Company"), which comprise:

- the consolidated statements of financial position as at end of December 31, 2018 and December 31, 2017
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at end of December 31, 2018 and end of December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditors' Responsibilities for the Audit of the Financial Statements*"** section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to or audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company has no current sources of revenue, incurred a loss during the year ended December 31, 2018, had an accumulated deficit at December 31, 2018 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.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is John Milne.

Vancouver, Canada

April 29, 2019

PANORO MINERALS LTD.

Consolidated Balance Sheets
(Expressed in Canadian dollars, unless otherwise stated)
As at December 31, 2018 and 2017

	Note	2018	2017
Assets			
Current assets			
Cash and cash equivalents		$ 456,779	$ 5,430,379
Short-term investments		1,732,530	1,505,396
Marketable securities		1,667	1,500
Accounts and advances receivable		112,768	105,852
Prepaid expenses		30,820	36,113
Total current assets		2,334,564	7,079,240
Non-current assets			
Exploration and evaluation assets	5	77,483,504	73,316,972
Property and equipment	6	12,220	50,990
Total assets		$ 79,830,288	$ 80,447,202
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	11	$ 1,405,128	$ 2,250,023
Liabilities under Early Deposit Precious Metals Agreement	7	6,821,000	4,390,750
		8,226,128	6,640,773
Liabilities under Early Deposit Precious Metals Agreement	7	2,728,400	2,509,000
Total liabilities		10,954,528	9,149,773
Shareholders' equity			
Share capital	8(a)	94,000,125	93,008,107
Share-based expense reserve	8(b)	11,946,673	10,817,594
Accumulated other comprehensive loss		(8,333)	(8,500)
Deficit		(37,062,705)	(32,519,772)
Total shareholders' equity		68,875,760	71,297,429
Total liabilities and shareholders' equity		$ 79,830,288	$ 80,447,202

Going concern (Note 2)
Subsequent events (Notes 5 and 8(b))
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, 2018 and 2017

	2018	2017
Expenses		
Amortization (Note 6)	$ 17,068	$ 6,890
Audit and tax	114,719	106,884
Communications	73,679	73,481
Consulting	77,042	12,491
Conferences	33,374	7,724
Directors' fees	195,743	186,932
Financial consulting	115,970	116,559
Corporate development and shareholder relations	703,153	371,756
Legal	246,264	157,570
Office	40,614	53,968
Professional dues and training	9,692	3,585
Property evaluation	-	89,065
Regulatory and transfer agent	130,914	127,697
Rent and insurance	183,593	187,250
Salaries and benefits (Note 14)	957,430	954,433
Share-based expense (Note 8(b))	974,410	42,504
Travel	88,456	132,217
	3,962,121	2,631,006
Interest income	(13,170)	(21,386)
Foreign exchange loss (gain)	(125,243)	332,766
Change in fair value of Early Deposit Precious Metals Agreement financial liability	719,225	(330,250)
Gain on disposition of mineral property (Note 5)	-	(2,107,075)
	580,812	(2,125,945)
Loss for the year	4,542,933	505,061
Other comprehensive loss, net of tax:		
Unrealized loss on marketable securities (Note 12(a))	167	4,500
Comprehensive loss for the year	$ 4,543,100	$ 509,561
Loss per share, basic and fully diluted (Note 15)	$ 0.02	$ 0.00
Weighted average number of common shares outstanding (Note 15)	262,972,199	258,450,820

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, 2018 and 2017

	2018	2017
Cash provided by (used for):		
Operating activities:		
Loss for the year	$ (4,542,933)	$ (505,061)
Items not involving the use of cash:		
Amortization (Note 6)	17,068	6,890
Share-based expense (Note 8(b))	974,410	42,504
Change in fair value of Early Deposit Precious Metals Agreement financial liability	719,225	(330,250)
Foreign exchange loss (gains)	(141,486)	327,734
Gain on disposition of mineral property	-	(2,107,075)
	(2,973,716)	(2,565,258)
Changes in non-cash operating working capital:		
Accounts and advances receivable	6,916	(49,969)
Prepaid expenses	(5,293)	30,846
Accounts payable and accrued liabilities	(126,548)	-
Cash used in operating activities	(3,098,641)	(2,584,381)
Investing activities:		
Purchase of short-term investments	(2,628,360)	-
Redemption of short-term investments	2,401,226	2,336,751
Exploration and evaluation expenditures (Note 5)	(4,225,311)	(5,247,575)
Proceeds on mineral property disposition and assets	5,596	3,776,400
Recovery of value-added taxes (Note 5)	58,779	106,226
Purchase of equipment	(5,253)	(8,669)
Accounts payable and accrued liabilities	(718,347)	186,948
Cash provided by (used in) investing activities	(5,111,670)	1,150,081
Financing activities:		
Exercise of warrants and options	992,018	524,538
Precious Metals Purchase Agreement	1,930,425	1,943,100
Cash provided by financing activities	2,922,443	2,467,638
Effect of foreign exchange on cash held	157,134	(141,785)
Increase (decrease) in cash and cash equivalents	(5,130,734)	891,553
Cash and cash equivalents, beginning of year	5,430,379	4,538,826
Cash and cash equivalents, end of year	$ 456,779	$ 5,430,379

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, 2018 and 2017

	Number of shares	Share capital	Share-based expense reserve	Accumulated other comprehensive loss	Deficit	Total
Balance, December 31, 2016	258,148,765	$ 92,459,998	$ 10,798,661	$ (4,000)	$(32,014,711)	$ 71,239,948
Loss for the year	-	-	-	-	(505,061)	(505,061)
Other comprehensive loss	-	-	-	(4,500)	-	(4,500)
Stock option grant (note 8)	-	-	42,504	-	-	42,504
Stock options exercised (note 8)	277,200	79,009	(23,571)	-	-	55,438
Warrants exercised (note 8)	1,737,417	469,100	-	-	-	469,100
Balance, December 31, 2017	260,163,382	93,008,107	10,817,594	(8,500)	(32,519,772)	71,297,429
Loss for the year	-	-	-	-	(4,542,933)	(4,542,933)
Other comprehensive loss	-	-	-	167	-	167
Stock option grants(note 8(b))	-	-	1,129,079	-	-	1,129,079
Warrants exercised (note 8(c))	3,674,140	992,018	-	-	-	992,018
Balance, December 31, 2018	**263,837,522**	**$ 94,000,125**	**$ 11,946,673**	**$ (8,333)**	**$(37,062,705)**	**$ 68,875,760**

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

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 $4,542,933 for the year ended December 31, 2018 (2017 – $505,061). As at December 31, 2018, the Company has an accumulated deficit of $37,062,705 (2017 - $32,519,772), and a working capital deficiency of $5,891,564 (2017 – working capital of $438,467). 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.

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.

2. Going concern (continued)

The Company has received US$7,000,000 from Wheaton Metals (See Note 7), and will receive US$750,000 on a semi-annual basis if it meets the terms under which the funds will be advanced, up to US$14,000,000 pursuant to the Agreement.

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.

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, 2018.

The consolidated financial statements of the Company for the year ended December 31, 2018, were approved and authorized for issue by the Board of Directors on April 26, 2019.

(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.

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, 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.

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.

4. Significant accounting policies (continued)

(b) Basis of consolidation

The active subsidiaries of the Company at December 31, 2018, are as follows:

Name of subsidiary	Country of Incorporation	Principal activity
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 Holdings Ltd.	Canada	Holding company
Antilla Copper SA	Perú	Mineral exploration
Apurimac Copper SA	Perú	Mineral exploration
Promesa Copper SA	Perú	Mineral exploration
Alto Copper SA	Perú	Mineral exploration
Panoro Gold SA	Perú	Mineral exploration
Panoro Copper Royalties Ltd.	Canada	Royalty company
Panoro Pacific Minerals Inc.	Philippines	Holding company
Panoro Trading (Caymans) Ltd.	Cayman Islands	Project financing

The consolidated financial statements of the Company comprise the financial statements of the parent and its wholly-owned subsidiaries as at December 31, 2018. All intercompany transactions and balances have been eliminated on consolidation. The assets and liabilities of two foreign holding companies were absorbed by the parent company during the year.

(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.

4. Significant accounting policies (continued)

(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.

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.

4. Significant accounting policies (continued)

(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 are 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.

(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.

4. Significant accounting policies (continued)

(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.

(k) Accounting for Early Deposit on Precious Metals Purchase Agreement (See note 7)

Significant judgment was required in determining the appropriate accounting for the Early Deposit Precious Metals Purchase Agreement (the “Wheaton PMPA”) with Wheaton Precious Metals International Ltd. (“Wheaton Metals”). The upfront cash deposits received from future stream transactions have been accounted for as financial liabilities, with the resulting foreign exchange gains and losses recorded through the statements of loss and comprehensive loss, on the basis that the deposit amounts received could become repayable under certain circumstances. Amounts that could become immediately repayable in the event the Early Deposit Precious Metals Purchase Agreement is terminated are reflected within current liabilities.

4. Significant accounting policies (continued)

(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.

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.

(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.

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)

(o) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) 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.

(p) Financial instruments

Effective January 1, 2018, the Company adopted *IFRS 9 – Financial Instruments.* This standard replaces IAS 39, *Financial Instruments: Recognition & Measurement*. The new standard introduces changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss model" for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Most of the requirement in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is substantially unchanged.

The adoption of this standard did not have an impact on the measurement of the Company's financial instruments in the Company's consolidated financial statements; however, additional disclosures have been provided.

The following are the new accounting policies for financial instruments under IFRS 9.

<u>Non-derivative financial assets</u>

The Company classifies its financial assets in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets at FVTPL – Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses from changes in the fair value of the asset held at FVTPL are included in the income in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

Financial assets at FVTOCI – Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following derecognition of the investment.

4. Significant accounting policies (continued)

(p) Financial instruments (continued)

Financial assets at amortized cost – Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost leas any impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the income statement.

Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

Financial liabilities

The Company measures all its financial liabilities (other than Liabilities under the Wheaton PMPA, which is measured at fair value through profit or loss), as subsequently measured at amortized cost. Financial liabilities are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(Expressed in Canadian dollars, unless otherwise stated)

4. Significant accounting policies (continued)

Financial liabilities (continued)

The Company completed an assessment of its financial instruments as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	Original classification under IAS 39	New Classification under IFRS 9
Cash and cash equivalents	Loans and receivables – amortized cost	Amortized cost
Short-term investments	Loans and receivables – amortized cost	Amortized cost
Marketable securities	Available for sale	FVTOCI
Accounts and advances receivable	Loans and receivables – amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other liabilities – amortized cost	Amortized cost
Liabilities under Wheaton PMPA	FVTPL	FVTPL

(q) IFRS standards adopted

There were no new standards effective January 1, 2018, that had a material impact on the Company's consolidated financial statements except for the adoption of IFRS 9 as described at Note 3(p).

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 did not have a material effect on the consolidated financial statements.

4. Significant accounting policies (continued)

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2018, 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.

(r) IFRS standards issued but not yet effective

IFRS 16*, Leases ("IFRS 16")*

In January 2016, the IASB issued IFRS 16 which replaces IAS 17, Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low-value assets. Lessor accounting remains similar to current accounting practice. The standard is adopting this standard effective January 1, 2019.

The Company went through the process of reviewing contracts and identifying those that might be relevant under the new standard. Specific leases identified for further review included office and warehouse leases. Based on the assessment of the standard, the Company estimates that it will recognize the right-of-use lease assets and related liabilities for existing operating leases of approximately $233,000.

The Company plans to apply a modified retrospective approach upon adoption of IFRS 16. Under the modified retrospective approach, the Company will recognize the right of use assets and lease liabilities as at January 1, 2019 and will not restate comparative information. The Company will recognize the cumulative effect of initially applying the standard as an adjustment to equity at the date of application."

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.

5. Exploration and evaluation assets (continued)

Antilla and Cotabambas are two of the Company's properties that were held in Panoro Apurimac, SA in an advanced exploration stage. The Company's seven other properties that were held in Panoro Apurimac, SA are 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 mineral property interests of Antilla, Cochasayhuas, Checca, Promesa, Sancapampa, humamantata, Anyo and Morsayhuras have been transferred to other wholly-owned direct and indirect subsidiaries of the Company that were created to hold the various mineral property interests during the year ended December 31, 2018. The Company also holds the El Rosal property, which is held in Minera Panoro Perú, SAC.

On December 28, 2017, the Company entered into an agreement with a subsidiary of Hudbay Minerals Inc. ("Hudbay"), whereby Hudbay acquired the Company's concessions comprising the Kusiorcco Property. Pursuant to the terms of the agreement with Hudbay, the Company received US$3.0 million ($3.8 million) which has been recorded as proceeds and the Company will receive four further milestone payments to be made by Hudbay as follows: US$500,000 upon the execution of agreements with local communities and surface titleholders necessary for Hudbay to access and carry out a drill program on the project (received subsequent to December 31, 2018); US$500,000 upon completion of Hudbay's first drill hole on the project; US$500,000 upon completion of Hudbay's fifth drill hole on the project; and US$500,000 upon completion of Hudbay's tenth drill hole on the project. If all of the above milestones are not achieved within five years of the acquisition, Hudbay will either pay the Company the remaining milestone payments or return the Kusiorcco mining concessions to the Company, free and clear of all encumbrances. The Company also retains a 2.0% net smelter returns royalty ("NSR") from mineral production on the project. Hudbay has the option to buy back one-half of the 2% NSR (reducing the NSR to 1%) for US$2.0 million within five years of the acquisition, and for US$5.0 million thereafter.

On October 2, 2018, the Company signed an earn-in agreement (the "Earn-in Agreement") with Japan Oil, GAS and Metals National Corporation ("JOGMEC") relating to the Humamantata property. Under the terms of the Earn-in Agreement, JOGMEC is committed to fund a minimum of US$3.0 million in exploration expenditures and fees by the end of the third anniversary of the agreement, with a minimum spend of $1.0 million per each annum, after which it will have earned the right to earn a 49% interest in the property.

JOGMEC has the option to earn an additional 11% interest in the Humamantata property (for a total of 60%) by spending an additional US$5.0 million in the three years following its completion of the initial funding commitments) with a minimum spend of $1.0 million per each annum.

JOGMEC can withdraw from can withdraw from the agreement with no retained interest after having met a minimum spend of US$1.0 million.

Management of the property will be carried out jointly by both the Company and JOGMEC, with the Company acting as the operator of the property.

(Expressed in Canadian dollars, unless otherwise stated)

5. Exploration and evaluation assets (continued)

The Company performs an ongoing review of its non-core properties, and based on the analysis of the properties, there were no indicators of impairment. No losses were recognized in the years ended December 31, 2018 and 2017.

Exploration and evaluation expenditures during 2018 are as follows:

	Antilla	Cotabambas	Other	Total
Acquisition costs:				
Balance, December 31, 2017 and 2018	$ 7,319,722	$ 4,925,035	$ 1,136,413	$13,381,170
Exploration expenditures incurred in 2018:				
Amortization	-	26,955	-	26,955
Assays and sampling	2,904	134,744	-	137,648
Camp and site costs	105,680	511,433	53,658	670,771
Community relations	128,853	373,007	315	502,175
Drilling	-	507,334	-	507,334
Engineering and studies	114,582	224	-	114,806
Environmental, health, safety	3,843	162,716	1,645	168,204
Geology	29,213	541,511	-	570,724
Geophysics	-	150,721	-	150,721
Legal	49,862	6,587	8,154	64,603
Metallurgy	160,307	-	-	160,307
Recording and concession fees	207,143	211,071	522,127	940,341
Recovery of value-added taxes	(1,007)	(57,772)	-	(58,779)
Share-based expense	-	154,669	-	154,669
Travel	4,081	48,807	3,165	56,053
Incurred during the year	805,461	2,772,007	589,064	4,166,532
Capitalized exploration expenditures at December 31, 2017	9,044,387	41,995,619	8,895,796	59,935,802
Capitalized exploration expenditures at December 31, 2018	9,849,848	44,767,626	9,484,860	64,102,334
Total exploration and evaluation assets at December 31, 2018	**$17,169,570**	**$49,692,661**	**$10,621,273**	**$77,483,504**

Salaries and benefits allocation included above:	Antilla	Cotabambas	Other	Total
Camp and site costs	$ 97,419	$ 176,397	$ 45,112	$ 318,928
Community relations	17,099	224,433	-	241,532
Engineering and technical	1,605	224	-	1,829
Environmental. health, safety	59	26,357	-	26,416
Geology and sampling	29,213	541,511	-	570,724
	145,395	968,922	45,112	1,159,429

(Expressed in Canadian dollars, unless otherwise stated)

5. Exploration and evaluation assets (continued)

Exploration and evaluation expenditures during 2017 are as follows:

	Antilla	Cotabambas	Other	Total
Acquisition costs:				
Balance, December 31, 2016	$ 7,319,722	$ 4,925,035	$ 2,301,064	$14,545,821
Less disposition of the Kusiorcco Property	-	-	(1,164,651)	(1,164,651)
Balance, December 31, 2017	7,319,722	4,925,035	1,136,413	13,381,170
Exploration expenditures incurred in 2017:				
Amortization	-	11,487	204	11,691
Assays and sampling	329	232,111	-	232,440
Camp and site costs	5,984	454,127	4,469	464,580
Community relations	34,182	568,078	140	602,400
Drilling	-	1,685,043	-	1,685,043
Engineering studies	55,520	337	-	55,857
Environmental	6,506	342,150	109	348,765
Geology	6,990	525,704	3,817	536,511
Geophysics	-	145,940	-	145,940
Legal	11,332	3,972	10,463	25,767
Recording and concession fees	213,788	320,181	552,666	1,086,634
Recovery of value-added taxes	(732)	(91,446)	(14,048)	(106,226)
Travel	4,320	59,118	200	63,638
Incurred during the year	338,219	4,256,802	558,020	5,153,041
Capitalized exploration expenditures at December 31, 2016	8,706,168	37,738,817	8,842,451	55,287,436
	9,044,387	41,995,619	9,400,471	60,440,477
Disposition of capitalized exploration expenditures related to the Kusiorcco property	-	-	(504,675)	(504,675)
Capitalized exploration expenditures at December 31, 2017	9,044,387	41,995,619	8,895,796	59,935,802
Total exploration and evaluation assets at December 31, 2017	**$16,364,109**	**$46,920,654**	**$10,032,209**	**$73,316,972**

Salaries and benefits allocation included above:	Antilla	Cotabambas	Other	Total
Camp and site costs	$ 1,061	$ 179,723	$ 634	$ 181,418
Community relations	33,263	209,113	-	242,376
Engineering	10,862	336	-	11,198
Environmental	249	42,871	-	43,120
Geology	6,848	492,520	3,817	503,185
Assays and sampling	-	143	-	143
	52,283	924,706	4,451	981,440

(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, 2018	$ 149,847	$ 120,765	$ 112,071	$ 94,704	$ 477,387
Additions during the year	5,253	-	-	-	5,253
Balance at December 31, 2018	155,100	120,765	112,071	94,704	482,640
Accumulated amortization:					
Balance at January 1, 2018	127,643	100,977	103,073	94,704	426,397
Amortization for the year	16,086	18,939	8,998		44,023
Balance at December 31, 2018	143,729	119,916	112,071	94,704	470,420
Net book value:					
December 31, 2018	$ 11,371	$ 849	$ -	$ -	$ 12,220

	Computer and office furnishings	Equipment	Vehicles	Leasehold improvements	Total
Cost:					
Balance at January 1, 2017	$ 142,,671	$ 119,272	$ 112,071	$ 94,704	$ 468,718
Additions during the year	7,176	1,493	-	-	8,669
Balance at December 31, 2017	149,847	120,765	112,071	94,704	477,387
Accumulated amortization:					
Balance at January 1, 2017	120,067	93,827	99,218	94,704	407,816
Amortization for the year	7,576	7,150	3,855	-	18,581
Balance at December 31, 2017	127,643	100,977	103,073	94,704	426,397
Net book value:					
December 31, 2017	$ 22,204	$ 19,788	$ 8,998	$ -	$ 50,990

Amortization of $26,955 for the year ended December 31, 2018 (2017 - $11,691) 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 Wheaton Precious Metals International Ltd. ("Wheaton Metals"), (formerly Silver Wheaton (Caymans) Ltd.), 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 Wheaton Metals terminates the Agreement. The principal terms of the Agreement are such that Wheaton Metals 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 Wheaton Metals from the Company's Cotabambas Project in Perú. In addition, Wheaton Metals 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 Wheaton Metals, 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 Wheaton Metals. 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 Wheaton Metals 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. The Company has received US$2.0 million from Wheaton Metals pursuant to 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 Wheaton Metals elect to proceed with the Agreement. Wheaton Metals 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. Wheaton Metals can elect to be repaid in cash or shares, with the deferral of cash payments under certain conditions for up to two years. If Wheaton Metals 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. Wheaton Metals 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 Wheaton Metals.

(Expressed in Canadian dollars, unless otherwise stated)

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, 2018, the Company had received a total of US$7.0 million under the Early Deposit, including an accelerated payment of US$2.0 million after the successful completion of a private placement in August 2016.

8. Share capital

(a) Authorized:

Unlimited common shares without par value.

Issued and outstanding:

263,837,522 common shares (December 31, 2017 – 260,163,382 common shares)

(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 22, 2017. 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, 2018, and for the year ended December 31, 2018, are as follows:

	Number of Options	Weighted average exercise price
Balance, December 31, 2016	16,225,000	$ 0.42
Granted during the year	600,000	$ 0.20
Expired, unexercised, during the year	(4,650,000)	$ 0.85
Exercised during the year	(277,200)	$ 0.20
Balance, December 31, 2017	11,897,800	$ 0.24
Granted during the year	7,300,000	$ 0.34
Balance, December 31, 2018*	19,197,800	$ 0.28

*All options at December 31, 2018 are outstanding and exercisable.

(Expressed in Canadian dollars, unless otherwise stated)

8. Share capital (continued)

During the year ended December 31, 2018, the Company granted 7,300,000 stock options to directors, officers, senior management and employees at an exercise price of $0.34, which are exercisable for a period of five years, and vested immediately. The total fair value of the stock options granted in the year was $1,129,079, using the Black-Scholes method with the following assumptions - a volatility of 68%, an expected option life of 2.92 years, a risk free interest rate of 1.90%, and an expected dividend yield of 0%. The total value recorded of $1,129,079 was recognized as share-based expense for the year, of which $154,669 was capitalized to exploration costs on the Cotabambas mineral property interest. The stock options granted during the year expire on March 13, 2023. Subsequent to the year ended December 31, 2018, 2,950,000 stock options exercisable at $0.35, expired unexercised.

Year of expiry	Number of options	Weighted average exercise price
2019	3,250,000	$ 0.36
2021	8,047,800	$ 0.20
2022	600,000	$ 0.20
2023	7,300,000	$ 0.34
	19,197,800	$ 0.28

(c) The weighted average life of exercisable options outstanding as at December 31, 2018, is 3.0 years (December 31, 2017 – 3.1 years).

(d) Share purchase warrants

At December 31, 2017, there were 16,621,488 share purchase warrants exercisable at $0.27 until August 26, 2018. During the year ended December 31, 2018, 3,674,140 share purchase warrants were exercised to provide $992,018 to the treasury. The remaining 12,947,348 share purchase warrants expired, unexercised.

(Expressed in Canadian dollars, unless otherwise stated)

9. Income taxes

The Company's recognized net deferred tax assets and liabilities as at December 31, 2018, are as follows:

	2018	2017
Deferred tax assets		
Mineral properties	$ 470,137	$ -
Non-capital losses	116,191	19,389
	$ 586,328	$ 19,389
Deferred tax liabilities		
Mineral properties	$ (479,678)	$ (5,969)
Intercompany loan	(106,650)	(13,420)
Total income tax expense (recovery)	(586,328)	(19,389)
Net deferred tax assets (liabilities)	$ -	$ -

As at December 31, 2018, 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:

	2018	2017
Exploration and evaluation assets	$ 10,634,357	$ 6,134,095
Tax losses carried forward	20,515,817	19,605,544
Other	221,095	393,350
Unrecognized deductible temporary differences	$ 31,371,269	$ 26,132,989

The Company has non-capital losses of approximately $18.7 million (2017 - $18.1 million) and $1.5 million (2017 - $1.6 million) to reduce future income tax in Canada and Perú, respectively. The losses in Canada expire between 2026 and 2038 and the losses in Perú expire between 2019 and 2022.

The provision for income taxes differs from the amount calculated using the Canadian federal and provincial statutory income tax rates of 27.0% (2017 – 26.0%) as follows:

	2018	2017
Expected tax recovery	$ (1,226,592)	$ (131,316)
Permanent and other differences	421,082	529,949
Foreign exchange	(987,720)	266,029
Others	(72,466)	(58,709)
Change in tax rate	241,650	(550,039)
Deferred income tax assets not recognized	1,624,045	(55,914)
	$ -	$ -

(Expressed in Canadian dollars, unless otherwise stated)

10. Related party transactions

During 2018, the Company purchased $14,926 (2017 - $22,573) in geological supplies from a private company controlled by a director of a subsidiary of the Company, and also acquired $Nil (2017 - $3,148) from a company affiliated with a director of the Company. The Company had no other transactions with directors and officers and/or companies controlled by directors or officers in common with the Company during the years ended December 31, 2018, and 2017, and there were no balances payable or receivable to or from any officers and directors of the Company.

11. Commitments and contingent receivable

Commitments

The Company has the following commitments:

	2019	2020	2021	2022	2023	Total
Office lease (Vancouver)	$ 66,831	$ 68,518	$ 34,429	$ -	$ -	$ 169,778
Office leases (Perú)	$ 132,625	$ 78,702	$	$ -	$ -	$ 211,327
Warehouses (3)	$ 30,911	$ 2,674	$ -	$ -	$ -	$ 33,585
Accounts payable and accrued liabilities	$1,362,473	$ -	$ -	$ -	$ -	$1,362,473
Community agreement accrual	$ 34,105	$ -	$ -	$ -	$ -	$ 34,105

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 2018 for the 2017 year was $1,072,520 (2017 - $861,597 relating to the 2016 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 $1,264,307 for the 2018 year and is payable by June of fiscal 2019. This balance is higher than the payment made in fiscal 2018 for the 2017 year, due to increases in penalties which increase on a statutory basis from US$6 per hectare to US$20 per hectare the longer the claims are held with no commercial production. Commencing in 2019 vigencia payments will also increase by an annual inflation adjustment to be determined by the government.

The Company has an office lease in Lima and three warehouses in Cusco, and an office lease in Vancouver, Canada. The leases for the warehouses are renewed annually.

11. 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, totalling $2,000,000 in cash and shares which 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 totalling $1.0 million were not recorded as a receivable. The nickel laterite prospect had some 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, but no payments have been received.

The sum of $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 $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.

12. Financial instruments and capital management

(a) Fair value of financial instruments

The fair values of the Company's cash and cash equivalents, short-term investments, accounts receivable and accounts payable and other payables approximate their carrying values because of the short-term nature of these instruments.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, interest rate risk and commodity and equity price risk. At December 31, 2017, the Company held 33,333 common shares in Fidelity Mining Corp. (formerly Montan Mining Corp.), at a book value of $10,000 and a fair value of $1,667 (2017 - $1,500). 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.

12. Financial instruments and capital management

(a) Fair value of financial instruments

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. Liabilities under the Early Deposit Precious Metals Agreement are valued using Level 2 inputs.

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 $2,293,527 (2017 - $7,041,627) 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.

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.

(Expressed in Canadian dollars, unless otherwise stated)

12. Financial instruments and capital management (continued)

Foreign currency risk (continued)

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.

As at December 31, 2018, 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, 2018		December 31, 2017	
	PEN	**US$**	**PEN**	**US$**
Cash	S/. 20,648	$1,581,737	S/. 25,938	$5,497,870
Accounts and advances receivable	175,192	9,653	191,145	-
Accounts payable and accrued liabilities	(156,130)	(897,384)	(286,915)	(1,577,160)
Precious Metals Purchase Agreement	-	(7,000,000)	-	(5,500,000)
Net exposure	S/. (39,710)	$(6,305,994)	S/. (69,832)	$(1,579,290)
Canadian dollars	$ (16,051)	$(8,602,637)	$ (27,039)	$(1,981,219)

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 $1,605 (2017 - $2,704) 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 $860,264 (2017 - $198,122) 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.

(Expressed in Canadian dollars, unless otherwise stated)

12. Financial instruments and capital management (continued)

Financial management

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.

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.

	2018	2017
Perú	$ 7,462	$ 36,434
Canada	4,758	14,556
	$ 12,220	$ 50,990

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 twelve individuals in 2018 and 2017.

Details of key management personnel compensation is as follows:

	2018	2017
Salary, fees and benefits	$ 1,185,952	$ 1,177,324
Share-based compensation	989,881	42,504
	$ 2,175,833	$ 1,219,828

(Expressed in Canadian dollars, unless otherwise stated)

15. Basic and diluted loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2018, was based on the loss attributable to common shareholders of $4,542,933 (2017 - $505,061) and the weighted average number of common shares outstanding of 262,972,199 (2017 – 258,450,820) respectively. For the years ended December 31, 2018 and 2017, 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.

	2018	**2017**
Issued common shares, beginning of year	260,163,382	258,148,765
Effect of warrants and options issued	2,808,817	302,055
Weighted average number of common shares, end of year	262,972,199	258,450,820

16. Supplementary cash flow information

	2018	**2017**
Non-cash activities:		
Amortization capitalized to exploration and evaluation assets	$ 26,955	$ 11,691
Share-based expense capitalized to exploration and evaluation assets	154,669	-