# TINKA RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2014 AND 2013

*(Expressed in Canadian Dollars)*

D+H Group LLP
Chartered Accountants

# Independent Auditor's Report

To the Shareholders of Tinka Resources Limited

We have audited the accompanying consolidated financial statements of Tinka Resources Limited, which comprise the consolidated statements of financial position as at September 30, 2014 and September 30, 2013, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended September 30, 2014 and September 30, 2013, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained 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 financial position of Tinka Resources Limited as at September 30, 2014 and September 30, 2013, and its financial performance and its cash flows for the years ended September 30, 2014 and September 30, 2013 in accordance with International Financial Reporting Standards.

***"D&H Group LLP"***

**Chartered Accountants**

Vancouver, B.C.
January 21, 2015

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## TINKA RESOURCES LIMITED
### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
*(Expressed in Canadian Dollars)*

| | Note | September 30, 2014 $ | September 30, 2013 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | 5,838,547 | 1,653,410 |
| GST receivable | | 34,851 | 5,510 |
| Amounts receivable | | 7,503 | 2,765 |
| Prepaid expenses | | 29,414 | 33,978 |
| **Total current assets** | | 5,910,315 | 1,695,663 |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 66,565 | 68,884 |
| Exploration and evaluation assets | 6 | 13,722,113 | 10,103,010 |
| Deferred share issue costs | 7(b)(i) | - | 750 |
| **Total non-current assets** | | 13,788,678 | 10,172,644 |
| **TOTAL ASSETS** | | 19,698,993 | 11,868,307 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 8 | 420,104 | 255,031 |
| **TOTAL LIABILITIES** | | 420,104 | 255,031 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 7 | 32,997,206 | 21,843,670 |
| Share-based payments reserve | 7 | 3,834,525 | 3,275,237 |
| Share subscriptions received | 7(b)(i) | - | 242,240 |
| Deficit | | (17,552,842) | (13,747,871) |
| **TOTAL SHAREHOLDERS' EQUITY** | | 19,278,889 | 11,613,276 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 19,698,993 | 11,868,307 |

**Nature of Operations** - Note 1

**Events after the Reporting Period** - Note 13

These consolidated financial statements were approved for issue by the Board of Directors on January 21, 2015 and are signed on its behalf by:

| | |
|---|---|
| */s/ **Graham Carman*** | */s/ **Nick DeMare*** |
| Graham Carman | Nick DeMare |
| Director | Director |

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

# TINKA RESOURCES LIMITED
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
*(Expressed in Canadian Dollars)*

| | Note | Year Ended September 30 2014 $ | 2013 $ |
|---|---|---|---|
| **Expenses** | | | |
| Accounting and administration | 8 | 55,653 | 44,027 |
| Audit | | 30,015 | 34,924 |
| Corporate development | | 23,395 | 81,119 |
| Depreciation | | 3,135 | 977 |
| General exploration | | 19,569 | 11,326 |
| Investment conferences | | 15,289 | 14,104 |
| Investor relations | | 56,000 | 59,500 |
| Legal | | 111,181 | 51,977 |
| Management fees, severance and bonus | 8 | 536,667 | 120,000 |
| Office | | 97,291 | 90,351 |
| Professional fees | 8 | 119,616 | 144,511 |
| Regulatory | | 17,957 | 15,776 |
| Rent | 8 | 54,700 | 42,402 |
| Salaries, wages and benefits | | 285,004 | 284,775 |
| Shareholder costs | | 17,957 | 25,262 |
| Share-based compensation | 7(d), 8 | 545,858 | 1,422,755 |
| Transfer agent | | 13,563 | 10,985 |
| Travel and related | | 112,004 | 146,827 |
| | | 2,114,854 | 2,601,598 |
| **Loss before other items** | | (2,114,854) | (2,601,598) |
| **Other items** | | | |
| Interest income | | 23,267 | 16,837 |
| Foreign exchange gain (loss) | | 165,303 | (83,480) |
| Gain on disposal of property, plant and equipment | | - | 12,795 |
| Write-off of equipment | 5 | (861) | - |
| Impairment of exploration and evaluation assets | 6 | (1,877,826) | - |
| | | (1,690,117) | (53,848) |
| **Net loss and comprehensive loss for the year** | | (3,804,971) | (2,655,446) |
| **Loss per share - basic and diluted** | | $(0.04) | $(0.04) |
| **Weighted average number of common shares outstanding - basic and diluted** | | 86,607,212 | 75,112,958 |

## TINKA RESOURCES LIMITED
### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
*(Expressed in Canadian Dollars)*

**Year Ended September 30, 2014**

| | Share Capital | | | | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount $ | Share-Based Payments Reserve $ | Share Subscriptions Received $ | Deficit $ | Total Equity $ |
| **Balance at September 30, 2013** | 78,116,664 | 21,843,670 | 3,275,237 | 242,240 | (13,747,871) | 11,613,276 |
| Common shares issued for: | | | | | | |
| Acquisition | 6,131,094 | 1,961,950 | - | - | - | 1,961,950 |
| Cash - private placements | 31,603,971 | 9,314,226 | - | (242,240) | - | 9,071,986 |
| Cash - exercise of share options | 80,000 | 21,600 | - | - | - | 21,600 |
| Finder's fees | 91,000 | 18,018 | 7,007 | - | - | 25,025 |
| Share issue costs | - | (179,095) | 12,108 | - | - | (166,987) |
| Share-based compensation | - | - | 557,010 | - | - | 557,010 |
| Transfer on exercise of share options | - | 16,837 | (16,837) | - | - | - |
| Net loss | - | - | - | - | (3,804,971) | (3,804,971) |
| **Balance at September 30, 2014** | 116,022,729 | 32,997,206 | 3,834,525 | - | (17,552,842) | 19,278,889 |

**Year Ended September 30, 2013**

| | Share Capital | | | | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount $ | Share-Based Payments Reserve $ | Share Subscriptions Received $ | Deficit $ | Total Equity $ |
| **Balance at September 30, 2012** | 70,422,899 | 16,609,518 | 2,153,851 | - | (11,092,425) | 7,670,944 |
| Common shares issued for: | | | | | | |
| Cash - private placements | 6,030,265 | 4,825,725 | - | - | - | 4,825,725 |
| Cash - exercise of share options | 1,635,000 | 430,400 | - | - | - | 430,400 |
| Cash - exercise of warrants | 28,500 | 28,500 | - | - | - | 28,500 |
| Share issue costs | - | (453,798) | 101,956 | - | - | (351,842) |
| Share-based compensation | - | - | 1,422,755 | - | - | 1,422,755 |
| Transfer on exercise of share options | - | 403,325 | (403,325) | - | - | - |
| Share subscriptions received | - | - | - | 242,240 | - | 242,240 |
| Net loss | - | - | - | - | (2,655,446) | (2,655,446) |
| **Balance at September 30, 2013** | 78,116,664 | 21,843,670 | 3,275,237 | 242,240 | (13,747,871) | 11,613,276 |

## TINKA RESOURCES LIMITED
### CONSOLIDATED STATEMENTS OF CASH FLOWS
*(Expressed in Canadian Dollars)*

| | Year Ended September 30, 2014 $ | Year Ended September 30, 2013 $ |
|---|---|---|
| **Operating activities** | | |
| Net loss for the year | (3,804,971) | (2,655,446) |
| Adjustments for: | | |
| Depreciation | 3,135 | 977 |
| Share-based compensation | 545,858 | 1,422,755 |
| Impairment of exploration and evaluation assets | 1,877,826 | - |
| Gain on disposal of property, plant and equipment | - | (12,795) |
| Write-off of equipment | 861 | - |
| | (1,377,291) | (1,244,509) |
| Changes in non-cash working capital items: | | |
| (Increase) decrease in GST receivable | (29,341) | 5,025 |
| Increase in amounts receivable | (4,738) | (1,780) |
| Decrease (increase) in prepaid expenses | 4,564 | (6,706) |
| Increase in accounts payable and accrued liabilities | 69,515 | 27,463 |
| | 40,000 | 24,002 |
| **Net cash used in operating activities** | (1,337,291) | (1,220,507) |
| **Investing activities** | | |
| Cash acquired on Acquisition | 23,566 | - |
| Advances to Darwin prior to Acquisition | (52,870) | - |
| Expenditures on exploration and evaluation assets | (3,400,642) | (4,499,571) |
| Additions to property, plant and equipment | - | (33,586) |
| Proceeds from disposal of property, plant and equipment | - | 12,795 |
| **Net cash used in investing activities** | (3,429,946) | (4,520,362) |
| **Financing activities** | | |
| Issuance of common shares | 9,093,586 | 5,284,625 |
| Share issue costs | (141,212) | (352,592) |
| Share subscriptions received | - | 242,240 |
| **Net cash generated from financing activities** | 8,952,374 | 5,174,273 |
| **Net change in cash** | 4,185,137 | (566,596) |
| **Cash at beginning of year** | 1,653,410 | 2,220,006 |
| **Cash at end of year** | 5,838,547 | 1,653,410 |

**Supplemental cash flow information** - See Note 12

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

## 1. Nature of Operations

Tinka Resources Limited (the "Company") was incorporated on September 15, 1987 under the provisions of the Company Act (British Columbia). The Company is listed and traded on the TSX Venture Exchange ("TSXV") under the symbol "TK". The Company's principal office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7 Canada.

The Company is a junior mineral exploration company currently engaged in the acquisition and exploration of precious and base metals on mineral properties located in Peru. On the basis of information to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the mineral resource interests is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. Mineral resource interests represent costs incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values.

As at September 30, 2014 the Company had cash of $5,838,547 and working capital in the amount of $5,490,211. These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business operations for the foreseeable future. The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to develop properties and to establish future profitable production. To date the Company has not earned significant revenues and is considered to be in the exploration stage. The Company's operations are funded from equity financings which are dependent upon many external factors and may be difficult to impossible to secure or raise when required. Management considers that the Company has sufficient financial resources to maintain its core operations and existing mineral resource interests for the next twelve months. The Company will require additional equity financing to continue exploration and drilling activities on its mineral property interests in Peru and to fund ongoing corporate and administrative costs. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future.

## 2. Basis of Preparation

***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") and interpretations of the IFRS Interpretations Committee ("IFRIC").

***Basis of Measurement***

The Company's consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value.

***Details of the Group***

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

*(Expressed in Canadian Dollars)*

## 2. Basis of Preparation (continued)

As at September 30, 2014 and 2013 the subsidiaries of the Company are as follows:

| Company | Location | Ownership Interest September 30, 2014 | Ownership Interest September 30, 2013 |
|---|---|---|---|
| Darwin Resources Corp. | Canada | 100% | 0% |
| Tinka Resources S.A.C. (Peru) | Peru | 100% | 100% |
| Darwin Peru S.A.C. | Peru | 100% | 0% |

See also Note 4.

## 3. Summary of Significant Accounting Policies

***Critical Judgments and Sources of Estimation Uncertainty***

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical Judgments*

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

(i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

(ii) Management is required to assess the functional currency of each entity of the Company. 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.

(iii) Management is required to assess impairment in respect of intangible exploration and evaluation assets. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

Management has determined that impairment indicators were present in respect of certain exploration and evaluation assets and, as a result, an impairment test was performed. See also Note 6.

(iv) Although, the Company takes steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

**3. Summary of Significant Accounting Policies** (continued)

*Estimation Uncertainty*

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

(i) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

(ii) The assessment of any impairment of evaluation and exploration assets, and property, plant and equipment is dependent upon estimates of the recoverable amount that take into account factors such as reserves, economic and market conditions and the useful lives of assets. In fiscal 2014, as a result of this assessment, management carried out an impairment test on the Company's Suriloma property and an impairment charge of $1,877,826 was made.

***Cash and Cash Equivalents***

Cash includes cash in bank and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution. At September 30, 2014 and 2013, the Company did not have any cash equivalents.

***Amounts Receivable***

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Receivables are classified as loans and receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

***Accounts Payable and Accrued Liabilities***

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities initially at fair value and subsequently measured at amortized cost using the effective interest method.

***Exploration and Evaluation Assets***

The Company is in the exploration stage with respect to its investment in exploration and evaluation assets and, accordingly, follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological and geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farmout of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

**3. Summary of Significant Accounting Policies** (continued)

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

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

The Company also accounts for foreign value added taxes as part of deferred costs. These amounts are treated as a reduction in the carrying costs of exploration and evaluation assets as they are recovered.

All capitalized exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditure is not expected to be recovered, it is charged to the results of operations.

***Property, Plant and Equipment***

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property, plant and equipment are depreciated annually on a straight-line basis over the estimated useful life of the assets, at a rate of between 20% and 25% for office furniture and equipment and vehicles.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income or loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

The Company compares the carrying value of property, plant and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant

***Impairment of Assets***

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**3. Summary of Significant Accounting Policies** (continued)

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

***Decommissioning Provision***

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at September 30, 2014 and 2013 the Company does not have any decommissioning obligations.

***Financial Instruments***

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss.

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Cash is classified as fair value through profit or loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. At September 30, 2014 and 2013 the Company has not classified any financial assets as available-for-sale.

Transaction costs associated with fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. At September 30, 2014 and 2013 the Company has not classified any financial liabilities as fair value through profit or loss.

**3. Summary of Significant Accounting Policies** (continued)

***Share Capital***

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

***Equity Financing***

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company adopted a residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in the private placements is determined by the closing quoted bid price on the price reservation date, if applicable, or the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

***Share-Based Payment Transactions***

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. Expected volatility is based on available historical volatility of the Company's share price. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

***Current and Deferred Income Taxes***

The tax expense comprises current and deferred tax. Tax is recognized in the statement of comprehensive loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

*Current Income Tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**3. Summary of Significant Accounting Policies** (continued)

*Deferred Income Tax*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

***Loss Per Share***

Basic loss per share is computed by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the “if converted” method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

***Foreign Currency Translation***

*Functional and Presentation Currency*

The financial statements of the Company’s subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary’s functional currency. Each subsidiary’s functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive loss presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive loss.

*Foreign Currency Transactions*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive loss.

**3. Summary of Significant Accounting Policies** (continued)

***Adoption of Accounting Standards and Interpretations***

The Company has adopted the following new accounting standards and interpretations effective October 1, 2013. These changes were made in accordance with the applicable transitional provisions and had no impact on the financial statements.

(i) IFRS 10 Consolidated Financial Statements. IFRS 10 defines a single concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of a parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

(ii) IFRS 11 Joint Arrangements. IFRS 11 focuses on the rights and obligations of an arrangement rather than its legal form, as is currently the case. The standard distinguishes between joint operations, where the joint operator accounts for the assets, liabilities, revenues, and expenses relating to its involvement, and joint ventures, which must be accounted for using the equity method.

(iii) IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint operations, joint ventures, associates and unconsolidated structured entities.

(iv) IFRS 13 Fair Value Measurement. IFRS 13 is a new standard that applies to both financial and non-financial items measured at fair value. It defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. Previously, a variety of fair value techniques and disclosures were possible under the requirements of separate applicable IFRSs.

***Accounting Standards and Interpretations Issued but Not Yet Adopted***

As at the date of these financial statements, the following standards have not been applied in these financial statements:

(i) IFRS 9 Financial Instruments; tentatively effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 prohibits reclassifications except in rare circumstances when the entity's business model changes. The new standard removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract to be classified in its entirety at either amortized cost or fair value.

(ii) IFRS 15 Revenue from Contracts with Customers; is effective for annual periods beginning on or after January 1, 2017. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.

Management is currently assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

*(Expressed in Canadian Dollars)*

## 4. Darwin Acquisition

On April 16, 2014 the Company, Darwin Resources Corp. ("Darwin") and Sentient Global Resources Fund IV, LP ("Sentient") entered into a binding term sheet (the "Agreement") whereby the Company agreed to acquire, through a statutory plan of arrangement (the "Arrangement"), all of the outstanding common shares of Darwin. Under the terms of the Arrangement Darwin's shareholders would receive one common share of Tinka for each 5.5 common shares of Darwin. In addition, all outstanding Darwin options and warrants were to be adjusted and exchanged for Company options and warrants with the same exchange ratio. Sentient and its affiliates also agreed to participate in a private placement financing of the Company. See also Note 7(b)(ii).

On July 24, 2014 the Company completed the Arrangement and acquired all of the issued and outstanding common shares of Darwin, under which the Company issued 6,131,094 common shares with a fair value of $1,961,950. The Company also granted 474,500 share options, exercisable at $1.375 per share expiring June 19, 2015, and 342,367 warrants, exercisable at $0.77 per share expiring November 27, 2015, in exchange for Darwin share options and warrants. The fair values of the share options and warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: risk-free interest rate of 1.01% to 1.04%; estimated volatility of 70.04% to 74.11%; expected life of 0.91 years to 1.35 years; expected dividend yield of 0%; and estimated forfeiture rate of 0%. The values assigned to the options and warrants were $1,542 and $9,610, respectively.

The Company incurred $106,488 for legal, filing and other costs associated with the transactions conducted pursuant to the Arrangement.

The Acquisition was accounted for as an acquisition of the net assets of Darwin, as follows:

| | $ |
|---|---|
| Common shares issued | 1,961,950 |
| Share options granted | 1,542 |
| Warrants issued | 9,610 |
| Advances to Darwin prior to Acquisition | 52,870 |
| Costs incurred | 106,488 |
| Acquisition cost | 2,132,460 |

The Acquisition cost was generally allocated to the individual identifiable assets and liabilities on the basis of their relative fair value at the date of purchase. The results of operations were recorded from the effective date of purchase.

Cost of the net assets acquired consists of:

| | $ |
|---|---|
| Net working capital deficiency | (39,573) |
| Property, plant and equipment | 31,910 |
| Exploration and evaluation assets | 2,140,123 |
| Net assets acquired | 2,132,460 |

*(Expressed in Canadian Dollars)*

## 5. Property, Plant and Equipment

| **Cost**: | **Office Furniture and Equipment $** | **Vehicles $** | **Total $** |
|---|---|---|---|
| Balance at September 30, 2012 | 65,319 | 112,750 | 178,069 |
| Additions | 4,922 | 28,664 | 33,586 |
| Disposals | - | (51,590) | (51,590) |
| Balance at September 30, 2013 | 70,241 | 89,824 | 160,065 |
| Acquired on Acquisition | 20,593 | 11,317 | 31,910 |
| Write-off | (3,039) | - | (3,039) |
| Balance at September 30, 2014 | 87,795 | 101,141 | 188,936 |
| **Accumulated Depreciation**: | | | |
| Balance at September 30, 2012 | (37,866) | (74,245) | (112,111) |
| Depreciation | (8,204) | (22,456) | (30,660) |
| Disposals | - | 51,590 | 51,590 |
| Balance at September 30, 2013 | (46,070) | (45,111) | (91,181) |
| Depreciation | (9,694) | (23,674) | (33,368) |
| Write-off | 2,178 | - | 2,178 |
| Balance at September 30, 2014 | (53,586) | (68,785) | (122,371) |
| **Carrying Value**: | | | |
| Balance at September 30, 2013 | 24,171 | 44,713 | 68,884 |
| Balance at September 30, 2014 | 34,209 | 32,356 | 66,565 |

## 6. Exploration and Evaluation Assets

| | **September 30, 2014** | | | **September 30, 2013** | | |
|---|---|---|---|---|---|---|
| | **Acquisition Costs $** | **Deferred Exploration Costs $** | **Total $** | **Acquisition Costs $** | **Deferred Exploration Costs $** | **Total $** |
| Colquipucro | 278,289 | 6,168,153 | 6,446,442 | 207,167 | 5,564,170 | 5,771,337 |
| Ayawilca | 78,352 | 5,391,962 | 5,470,314 | 23,984 | 3,064,414 | 3,088,398 |
| Other | - | 1,805,357 | 1,805,357 | - | 1,243,275 | 1,243,275 |
| | 356,641 | 13,365,472 | 13,722,113 | 231,151 | 9,871,859 | 10,103,010 |

*(Expressed in Canadian Dollars)*

**6. Exploration and Evaluation Assets** (continued)

| | Colquipucro $ | Ayawilca $ | Suriloma $ | Other $ | Total $ |
|---|---|---|---|---|---|
| **Balance at September 30, 2012** | 4,312,791 | 407,939 | - | 749,108 | 5,469,838 |
| **Exploration costs** | | | | | |
| Assays | 47,206 | 137,652 | - | - | 184,858 |
| Camp costs | 64,254 | 170,901 | - | - | 235,155 |
| Community relations | 55,725 | 61,853 | - | - | 117,578 |
| Consulting | 4,331 | 11,305 | - | - | 15,636 |
| Depreciation of property, plant and equipment | 10,349 | 19,334 | - | - | 29,683 |
| Drilling | 522,871 | 991,882 | - | - | 1,514,753 |
| Exploration site | 71,960 | 152,193 | - | - | 224,153 |
| Field equipment | 93,254 | 128,754 | - | - | 222,008 |
| Fuel | 37,864 | 181,793 | - | - | 219,657 |
| Geological | 116,477 | 234,788 | - | - | 351,265 |
| Salaries | 366,124 | 235,423 | - | - | 601,547 |
| Transportation | 25,112 | 327,006 | - | - | 352,118 |
| Travel | 6,343 | 3,591 | - | - | 9,934 |
| VAT incurred | - | - | - | 494,167 | 494,167 |
| | 1,421,870 | 2,656,475 | - | 494,167 | 4,572,512 |
| **Acquisition costs** | | | - | | |
| Surface right payments | 36,676 | 23,984 | - | - | 60,660 |
| **Balance at September 30, 2013** | 5,771,337 | 3,088,398 | - | 1,243,275 | 10,103,010 |
| **Exploration costs** | | | | | |
| Assays | 37,943 | 63,384 | - | - | 101,327 |
| Camp costs | 55,155 | 153,534 | - | - | 208,689 |
| Community relations | 15,409 | 128,273 | - | - | 143,682 |
| Consulting | 2,400 | 12,447 | - | - | 14,847 |
| Depreciation of property, plant and equipment | 6,026 | 24,207 | - | - | 30,233 |
| Drilling | 36,461 | 947,429 | - | - | 983,890 |
| Environmental | 8,037 | 10,559 | - | - | 18,596 |
| Exploration site | 47,595 | 174,924 | - | - | 222,519 |
| Field equipment | 14,302 | 90,774 | - | - | 105,076 |
| Fuel | 17,446 | 148,800 | - | - | 166,246 |
| Geological | 66,292 | 181,648 | - | - | 247,940 |
| Geophysics | - | 54,766 | - | - | 54,766 |
| Salaries | 281,513 | 135,277 | - | - | 416,790 |
| Transportation | 13,061 | 198,516 | - | - | 211,577 |
| Travel | 2,343 | 3,010 | - | - | 5,353 |
| VAT incurred | - | - | - | 316,841 | 316,841 |
| VAT recovery | - | - | - | (17,056) | (17,056) |
| | 603,983 | 2,327,548 | | 299,785 | 3,231,316 |
| **Acquisition costs** | | | | | |
| Acquired on Acquisition (Note 4) | - | - | 1,877,826 | 262,297 | 2,140,123 |
| Concession payments | 71,122 | 54,368 | - | - | 125,490 |
| | 71,122 | 54,368 | 1,877,826 | 262,297 | 2,265,613 |
| **Impairment** | - | - | (1,877,826) | - | (1,877,826) |
| **Balance at September 30, 2014** | 6,446,442 | 5,470,314 | - | 1,805,357 | 13,722,113 |

## 6. Exploration and Evaluation Assets (continued)

*Colquipucro and Ayawilca Projects*

On May 27, 2004 the Company entered into an agreement (the "Sierra Alliance Agreement") with Sierra Peru Pty Ltd. ("Sierra") pursuant to which the Company staked a number of prospects in Peru. As at September 30, 2014 the Colquipucro and Ayawilca projects comprise a total of 50 mineral claims in the Province of Daniel Alcides Carrion, Peru.

Under the terms of the Sierra Alliance Agreement the Company will be required to issue 500,000 common shares to Sierra in the event that a positive feasibility study is prepared on either of the Colquipucro or Ayawilca projects. Sierra also retains a right to a 1% net smelter return royalty ("NSR") from any production from the Colquipucro and Ayawilca projects. The NSR can be purchased at any time for US $1,000,000.

*Suriloma Property*

On completion of the Acquisition, the Company held three option agreements to earn a 100% undivided interest in three mineral claims (the "Suriloma Property") located in the Department of La Libertad of northern Peru. Pursuant to the option agreements the Company could earn its 100% interest in the Suriloma Property by making option payments totalling US $800,000. In August 2014 the Company determined to terminate the option agreements and, accordingly, recorded an impairment charge of $1,877,826 to exploration and evaluation assets.

*Other*

As at September 30, 2014 the Company also holds 11 granted concessions in Peru.

Expenditures incurred by the Company in Peru are subject to Peruvian Value Added Tax ("VAT"). The VAT is included in exploration and evaluation assets as incurred. Under Peruvian law VAT paid can be used in the future to offset amounts resulting from VAT charged on sales. Under certain circumstances and subject to approval from tax authorities a Company can apply for early refund of VAT prior to generating sales. During fiscal 2014 the Company made application and received a recovery of $17,056 (2013 - $nil), which has been credited against capitalized costs. As at September 30, 2014 the Company has total VAT recoverable of $1,543,060 (2013 - $1,243,275).

## 7. Share Capital

(a) *Authorized Share Capital*

The Company's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Reconciliation of Changes in Share Capital*

During fiscal 2014 the Company completed private placement financings as follows:

(i) non-brokered private placement financing of 2,769,480 units at a price of $0.50 per unit for gross proceeds of $1,384,740. Each unit consisted of one common share of the Company and one-half of one share purchase warrant. Each whole warrant is exercisable to purchase an additional common share at a price of $0.75 for a period of one year, with 789,740 warrants expiring on October 8, 2014 and 595,000 warrants expiring on November 28, 2014.

**7. Share Capital** (continued)

The Company paid its agents cash commissions totalling $48,850 and issued 1,500 compensation warrants and 119,000 compensation options. The compensation warrants have the same terms and conditions as the private placement warrants. The compensation options have the same terms and conditions as the private placement units. The fair values of the compensation warrants and the compensation options have been estimated using the Black-Scholes option pricing model. The assumptions used were: a risk-free interest rate of 0.99%; expected volatility of 53.40% - 55.25%; an expected life of one year; a dividend yield of 0%; and an expected forfeiture rate of 0%. The values assigned to the compensation warrants and compensation options were $69 and $12,039, respectively.

The 119,000 compensation options remained outstanding at September 30, 2014.

The Company incurred $9,208 for legal and filing costs.

As at September 30, 2013 the Company had received $242,240 on account of the private placement and incurred $750 share issue costs relating to the private placement; and

(ii) as part of the Arrangement, the Company agreed to undertake a private placement of 28,834,491 units of the Company at a price of $0.275 per unit for gross proceeds of $7,929,485. Each unit was comprised of one common share and one-half of one share purchase warrant, with each whole warrant exercisable to acquire an additional common share at a price of $0.365 for a period of 24 months from closing.

On May 1, 2014 the Company completed the first tranche of the private placement and issued 1,818,182 units to Sentient for gross proceeds of $500,000. Concurrently with the closing of the Arrangement, the Company completed the second tranche of the Private Placement financing under which the Company issued a further 27,016,309 units for gross proceeds of $7,429,485, of which Sentient purchased a further 19,512,727 units.

The Company also issued to a finder 91,000 units, each unit having the same terms as the units issued under the Private Placement. The units were recorded at a fair value of $25,025. The fair value of the underlying warrants to the finder's units has been estimated using the Black-Scholes option pricing model. The assumptions used were: a risk-free interest rate of 1.09%; expected volatility of 66.86%; an expected life of two years; a dividend yield of 0%; and an expected forfeiture rate of 0%. The value assigned to the underlying warrants to the finder's units was $7,007.

The Company incurred $83,904 for filing fees and legal costs.

During fiscal 2013 the Company completed private placement financings as follows:

(i) 3,000,000 units at $0.75 per unit for gross proceeds of $2,250,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant was exercisable at a price of $1.00 per common share which expired on June 21, 2014.

The Company paid the agent a cash commission of $146,850 and issued 235,000 compensation options. The compensation options entitled the agent to purchase 235,000 units at an exercise price of $0.75 per unit which expired on December 21, 2013. The $48,500 fair value assigned to the compensation options has been estimated using the Black-Scholes option pricing model. The assumptions used were: a risk-free interest rate of 1.04%; expected volatility of 69.40%; an expected life of one year; a dividend yield of 0%; and an expected forfeiture rate of 0%.

The Company incurred $17,170 for legal and filing costs; and

*(Expressed in Canadian Dollars)*

**7. Share Capital** (continued)

(ii) 3,030,265 units at a price of $0.85 per unit for gross proceeds of $2,575,725. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable at a price of $1.25 per common share expiring November 14, 2014.

The Company paid the agent a cash commission of $165,538 and issued 194,750 compensation options. The compensation options entitles the agent to purchase 194,750 units at an exercise price of $0.85 per unit, expiring November 14, 2014. The exercise price and term of the underlying warrants to the units issuable upon the exercise of the compensation options are the same as the warrants issued under the private placement. In addition, the Company paid a finder a cash commission of $6,375 and issued 7,500 finder warrants, each finder warrant having the same term and conditions as the warrants issued under the private placement. The fair values of the compensation options and finder's warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: a risk-free interest rate of 0.95%; expected volatility of 65.26%; an expected life of eighteen months; a dividend yield of 0%; and an expected forfeiture rate of 0%. The values assigned to the compensation options and finder's warrants were $52,224 and $1,232 respectively.

The 194,750 compensation options remained outstanding at September 30, 2014.

The Company incurred filing and legal fees of $15,909 for the private placement.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at September 30, 2014 and 2013 and the changes for the years ended on those dates is as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Number | Weighted Average Exercise Price $ | Number | Weighted Average Exercise Price $ |
| Balance, beginning of year | 2,994,133 | 1.13 | - | - |
| Issued on private placements | 15,848,985 | 0.40 | 3,022,633 | 1.13 |
| Issued on Acquisition (Note 4) | 342,367 | 0.77 | - | - |
| Exercised | - | - | (28,500) | 1.00 |
| Expired | (1,471,500) | 1.00 | - | - |
| Balance, end of year | 17,713,985 | 0.48 | 2,994,133 | 1.13 |

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at September 30, 2014:

| Number | Exercise Price $ | Expiry Date |
|---|---|---|
| 791,240 | 0.75 | October 8, 2014 |
| 1,522,633 | 1.25 | November 14, 2014 |
| 595,000 | 0.75 | November 28, 2014 |
| 342,367 | 0.77 | November 27, 2015 |
| 909,091 | 0.365 | May 1, 2016 |
| 13,553,654 | 0.365 | July 24, 2016 |
| 17,713,985 | | |

*(Expressed in Canadian Dollars)*

**7. Share Capital** (continued)

The weighted average remaining contractual life of the outstanding warrants at September 30, 2014 was 1.51 years.

See also Notes 4 and 13.

(d) *Share Option Plan*

The Company has established a rolling share option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of five years.

During fiscal 2014 the Company granted share options to purchase 4,875,000 (2013 - 3,040,000) common shares and recorded compensation expense of $509,143 (2013 - $1,383,172). In addition the Company also recorded share-based compensation of $nil (2013 - $39,583) on the vesting of share options which were previously granted.

The fair value of share options granted and vested during fiscal 2014 and 2013 is estimated using the Black-Scholes option pricing model using the following assumptions:

| | 2014 | 2013 |
|---|---|---|
| Risk-free interest rate | 1.01% - 1.31% | 0.97% - 1.31% |
| Estimated volatility | 62.26% - 73.73% | 48.96% - 95.23% |
| Expected life | 3 years | 0.5 years - 3 years |
| Expected dividend yield | 0% | 0% |
| Expected forfeiture rate | 0% | 0% |

The weighted average fair value of all share options granted and vested, using the Black-Scholes option pricing model, during fiscal 2014 was $0.10 (2013 - $0.50) per option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's share options.

A summary of the Company's share options at September 30, 2014 and 2013 and the changes for the years ended on those dates, is as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Number of Options Outstanding | Weighted Average Exercise Price $ | Number of Options Outstanding | Weighted Average Exercise Price $ |
| Balance, beginning of year | 6,185,000 | 0.73 | 5,080,000 | 0.43 |
| Granted | 4,875,000 | 0.34 | 3,040,000 | 1.01 |
| Granted on Acquisition (Note 4) | 474,500 | 1.375 | - | - |
| Exercised | (80,000) | 0.27 | (1,635,000) | 0.26 |
| Expired | (830,000) | 0.60 | - | - |
| Forfeited | (125,000) | 0.60 | (300,000) | 1.02 |
| Balance, end of year | 10,499,500 | 0.57 | 6,185,000 | 0.73 |

*(Expressed in Canadian Dollars)*

**7. Share Capital** (continued)

The following table summarizes information about the share options outstanding and exercisable at September 30, 2014:

| Number | Exercise Price $ | Expiry Date |
|---|---|---|
| 1,170,000 | 0.55 | January 26, 2015 |
| 474,500 | 1.375 | June 19, 2015 |
| 1,555,000 | 0.50 | August 3, 2015 |
| 30,000 | 0.50 | September 20, 2015 |
| 100,000 | 0.58 | September 28, 2015 |
| 370,000 | 0.30 | January 11, 2016 |
| 1,725,000 | 1.00 | January 11, 2016 |
| 400,000 | 1.10 | January 11, 2016 |
| 20,000 | 0.40 | February 20, 2017 |
| 2,125,000 | 0.37 | August 5, 2017 |
| 2,530,000 | 0.30 | August 5,2017 |
| 10,499,500 | | |

The weighted average remaining contractual life of the outstanding share options at September 30, 2014 was 1.78 years.

During fiscal 2014 the Company repriced share options previously granted to purchase 370,000 common shares, from an exercise price of $1.00, to a revised exercise price of $0.30 per share. All other terms remained the same. The fair value of share options repriced is estimated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.04%; estimated volatility of 70.09%; expected life of 1.44 years; expected dividend yield of 0%; estimated forfeiture rate of 0%. The value assigned to the re-priced share options was $36,715.

See also Notes 4 and 13.

*(e) Escrow Shares*

As at September 30, 2014, 123,257 common shares of the Company (2013 - nil) were held in escrow. See also Note 13.

*(Expressed in Canadian Dollars)*

## 8. Related Party Disclosures

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

(a) *Transactions with Key Management Personnel*

During fiscal 2014 and 2013 the following amounts were incurred with respect to the Company's current and former Chief Executive Officer ("CEO"), Vice-President of Exploration ("VPE") and Chief Financial Officer ("CFO"):

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Management fees - current CEO | 36,667 | - |
| Bonus - current CEO | 160,000 | - |
| Management fees - former CEO | 100,000 | 120,000 |
| Severance - former CEO | 240,000 | - |
| Professional fees - CFO | 20,000 | 15,000 |
| Professional fees - VPE | 108,000 | 81,000 |
| Share-based compensation | 220,092 | 664,428 |
| | 884,759 | 880,428 |

The Company has expensed $804,059 (2013 - $826,028) key management compensation to operations and capitalized $80,700 (2013 - $54,400) to exploration and evaluation assets.

As at September 30, 2014, $11,500 (2013 - $10,500) remained unpaid and has been included in accounts payable and accrued liabilities.

(b) *Transactions with Other Related Parties*

(i) During fiscal 2014 and 2013 the following amounts were incurred with respect to non-management officers and directors:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Professional fees | 28,000 | 21,000 |
| Share-based compensation | 120,772 | 403,298 |
| | 148,772 | 424,298 |

As at September 30, 2014, $7,000 (2013 - $8,000) remained unpaid and has been included in accounts payable and accrued liabilities.

(ii) During fiscal 2014 the Company incurred a total of $42,450 (2013 - $34,800) with Chase Management Ltd. ("Chase"), a private corporation owned by the CFO of the Company, for accounting and administrative services provided by Chase personnel, excluding the CFO, and $4,020 (2013 - $4,345) for rent. As at September 30, 2014, $8,870 (2013 - $2,270) remained unpaid and has been included in accounts payable and accrued liabilities.

(c) The Company shares personnel, office and other costs with public companies with certain common directors. During fiscal 2014 the Company incurred $28,619 (2013 - $16,426) for expenses and $2,601 (2013 - $nil) for apartment rent in Peru with the public companies. As at September 30, 2014, $6,459 (2013 - $675) remained unpaid and has been included in accounts payable and accrued liabilities.

*(Expressed in Canadian Dollars)*

## 9. Income Taxes

The income tax effects of temporary differences and unused tax losses that give rise to significant components of deferred income tax assets and liabilities are as follows:

| | 2014 $ | 2013 $ |
|---|---|---|
| Deferred income tax assets (liabilities): | | |
| Losses available for future periods | 5,910,600 | 3,592,600 |
| Tax basis of property, plant and equipment in excess of net book value | 5,200 | 4,800 |
| Net book value of exploration and evaluation assets in excess of tax basis | (2,904,500) | (2,494,900) |
| Other | 158,200 | 111,300 |
| | 3,169,500 | 1,213,800 |
| Valuation allowance for deferred income tax assets | (3,169,500) | (1,213,800) |
| | - | - |

The recovery of income taxes shown in the statements of comprehensive loss and deficit differ from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

| | 2014 $ | 2013 $ |
|---|---|---|
| Income tax rate reconciliation | | |
| Combined federal and provincial income tax rate | 26.00% | 25.75% |
| Expected income tax recovery | (989,300) | (663,100) |
| Permanent differences | 93,200 | 318,300 |
| Effect of income tax rate changes | (68,000) | 22,900 |
| Effect of different income tax rates in Peru and Canada | 21,400 | 15,000 |
| Change in valuation allowance | 942,700 | 306,900 |
| | - | - |

As at September 30, 2014 the Company has non-capital losses of approximately $7,072,600 (2013 - $4,099,900), capital losses of approximately $329,100 and tax pools of approximately $999,600 (2013 - $983,700) carried forward for Canadian income tax purposes and are available to reduce Canadian taxable income in future years. The non-capital losses expire commencing 2015 through 2034. The capital losses and tax pools can be carried forward indefinitely.

The Company also has non-capital losses of approximately $13,572,400 (2013 - $8,422,100) for Peruvian income tax purposes, which are available for application against future taxable income. These non-capital losses expire commencing December 31, 2014 through December 31, 2019.

Future income tax benefits which may arise as a result of these losses have not been recognized in the financial statements as their realization is unlikely.

*(Expressed in Canadian Dollars)*

## 10. Segmented Information

Substantially all of the Company's operations are in one industry, the exploration for precious metals. Management reviews the financial results according to expenditures by property. As at September 30, 2014 the Company's mineral properties are located in Peru and its corporate assets are located in Canada. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating results.

| | September 30, 2014 | | |
|---|---|---|---|
| | Corporate Canada $ | Mineral Operations Peru $ | Total $ |
| Current assets | 5,785,666 | 124,649 | 5,910,315 |
| Exploration and evaluation assets | - | 13,722,113 | 13,722,113 |
| Property, plant and equipment | 941 | 65,624 | 66,565 |
| | 5,786,607 | 13,912,386 | 19,698,993 |

| | September 30, 2013 | | |
|---|---|---|---|
| | Corporate Canada $ | Mineral Operations Peru $ | Total $ |
| Current assets | 1,591,417 | 104,246 | 1,695,663 |
| Exploration and evaluation assets | - | 10,103,010 | 10,103,010 |
| Property, plant and equipment | 2,713 | 66,171 | 68,884 |
| Deferred share issued costs | 750 | - | 750 |
| | 1,594,880 | 10,273,427 | 11,868,307 |

## 11. Financial Instruments and Risk Management

***Categories of Financial Assets and Financial Liabilities***

Financial instruments are classified into one of the following four categories: fair value through profit or loss ("FVTPL"); held-to-maturity investments; loans and receivables; and available-for-sale. The carrying values of the Company's financial instruments are classified into the following categories:

| Financial Instrument | Category | September 30, 2014 $ | September 30, 2013 $ |
|---|---|---|---|
| Cash | FVTPL | 5,838,547 | 1,653,410 |
| Amounts receivable | Loans and receivables | 7,503 | 2,765 |
| Accounts payable and accrued liabilities | Other liabilities | (420,104) | (255,031) |

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

*(Expressed in Canadian Dollars)*

**11. Financial Instruments and Risk Management** (continued)

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for amounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The Company's fair value of cash under the fair value hierarchy is measured using Level 1 inputs.

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

*Credit Risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and amounts receivable is remote.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

| | Contractual Maturity Analysis at September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Less than 3 Months $ | 3 - 12 Months $ | 1 - 5 Years $ | Over 5 Years $ | Total $ |
| Cash | 5,838,547 | - | - | - | 5,838,547 |
| Amounts receivable | 7,503 | - | - | - | 7,503 |
| Accounts payable and accrued liabilities | (420,104) | - | - | - | (420,104) |

| | Contractual Maturity Analysis at September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Less than 3 Months $ | 3 - 12 Months $ | 1 - 5 Years $ | Over 5 Years $ | Total $ |
| Cash | 1,653,410 | - | - | - | 1,653,410 |
| Amounts receivable | 2,765 | - | - | - | 2,765 |
| Accounts payable and accrued liabilities | (255,031) | - | - | - | (255,031) |

**11. Financial Instruments and Risk Management** (continued)

*Market Risk*

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

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash bear floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

(b) Foreign Currency Risk

The Company has operations in Canada and Peru which are subject to foreign currency fluctuations. The Company's operating expenses are incurred in Canadian Dollars and Peruvian Nuevo Soles and the fluctuation of the Canadian dollar in relation to other currencies will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. At September 30, 2014, 1 Canadian Dollar was equal to 2.58 Peruvian Nuevo Soles.

Balances are as follows:

| | Peruvian Nuevo Soles | CDN $ Equivalent |
|---|---|---|
| Cash | 286,673 | 111,102 |
| Amounts receivable | 19,359 | 7,503 |
| Accounts payable and accrued liabilities | (742,103) | (287,608) |
| | (436,071) | (169,003) |

Based on the net exposures as of September 30, 2014 and, assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Peruvian Nuevo Soles would result in an increase or decrease of approximately $15,500.

*Capital Management*

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital and cash. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

*(Expressed in Canadian Dollars)*

## 12. Supplemental Cash Flow Information

Non-cash activities conducted by the Company during fiscal 2014 and 2013, are as follows:

| | 2014 $ | 2013 $ |
|---|---|---|
| Operating activities | | |
| Depreciation | 30,233 | 29,683 |
| Increase in accounts payable and accrued liabilities | 95,558 | 103,918 |
| | 125,791 | 133,601 |
| Investing activities | | |
| Property, plant and equipment on Acquisition | (31,910) | - |
| Increase in exploration and evaluation assets expenditures | (2,066,983) | (133,601) |
| | (2,098,893) | (133,601) |
| Financing activities | | |
| Common shares issued for Acquisition | 1,961,950 | - |
| Common shares issued for finder's fee | 18,018 | - |
| Transfer on exercise of share options | 16,837 | 403,325 |
| Share-based payment reserves | 13,430 | (301,369) |
| Share issue costs | (37,133) | (101,956) |
| | 1,973,102 | - |

## 13. Events after the Reporting Period

Subsequent to September 30, 2014:

(i) share options to purchase 136,350 common shares of the Company expired without exercise;

(ii) the Company granted share options to a consultant to purchase 350,000 common shares of the Company, exercisable at $0.30 per share, expiring October 20, 2017;

(iii) the Company cancelled share options to purchase 1,813,155 common shares of the Company at exercise prices ranging from $1.00 to $1.375;

(iv) warrants to purchase 2,908,873 common shares of the Company expired without exercise; and

(v) the 123,257 common shares of the Company were released from escrow.