
TINKA RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016

(Expressed in Canadian Dollars)



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, 2017 and September 30, 2016, 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, 2017 and September 30, 2016, 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, 2017 and September 30, 2016, and its financial performance and its cash flows for the years ended September 30, 2017 and September 30, 2016 in accordance with International Financial Reporting Standards.

Vancouver, B.C.
January 19, 2018

"D&H Group LLP"

Chartered Professional Accountants

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

	Note	September 30, 2017 \$	September 30, 2016 \$
ASSETS			
Current assets			
Cash		6,036,919	1,765,069
GST receivable		10,916	2,691
Amounts receivable		13,021	5,073
Prepaid expenses		<u>100,960</u>	<u>61,096</u>
Total current assets		<u>6,161,816</u>	<u>1,833,929</u>
Non-current assets			
Property, plant and equipment	4	30,635	23,123
Exploration and evaluation assets	5	<u>28,862,723</u>	<u>21,925,011</u>
Total non-current assets		<u>28,893,358</u>	<u>21,948,134</u>
TOTAL ASSETS		<u>35,055,174</u>	<u>23,782,063</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	<u>512,666</u>	<u>142,149</u>
TOTAL LIABILITIES		<u>512,666</u>	<u>142,149</u>
SHAREHOLDERS' EQUITY			
Share capital	6	53,486,789	40,137,096
Share-based payments reserve	6	5,198,982	4,457,243
Deficit		<u>(24,143,263)</u>	<u>(20,954,425)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>34,542,508</u>	<u>23,639,914</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>35,055,174</u>	<u>23,782,063</u>

Events after the Reporting Period - Note 12

These consolidated annual financial statements were approved for issue by the Board of Directors on January 19, 2018 and are signed on its behalf by:

/s/ Graham Carman
Graham Carman
Director

/s/ Nick DeMare
Nick DeMare
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	
		2017 \$	2016 \$
Expenses			
Accounting and administration	7(b)	64,964	57,762
Audit		36,720	32,640
Corporate development		53,277	42,823
Depreciation		6,298	7,897
General exploration		78,719	28,349
Investment conferences		48,422	45,298
Investor relations		75,000	10,000
Legal		76,020	11,433
Management fees	7(a)	290,003	220,000
Office		166,875	109,479
Professional fees	7	284,711	225,912
Regulatory		22,952	13,197
Rent	7	57,868	43,341
Salaries, wages and benefits		316,644	360,109
Shareholder costs		25,779	25,075
Share-based compensation	6(d)	1,263,716	93,294
Transfer agent		23,460	6,129
Travel and related		184,390	147,797
		<u>3,075,818</u>	<u>1,480,535</u>
Loss before other items		<u>(3,075,818)</u>	<u>(1,480,535)</u>
Other items			
Interest income		87,281	33,422
Foreign exchange loss		(134,397)	(54,848)
Impairment of exploration and evaluation assets	5	<u>(65,904)</u>	<u>(208,908)</u>
		<u>(113,020)</u>	<u>(230,334)</u>
Net loss and comprehensive loss for the year		<u>(3,188,838)</u>	<u>(1,710,869)</u>
Loss per share - basic and diluted		<u>\$(0.01)</u>	<u>\$(0.01)</u>
Weighted average number of common shares outstanding - basic and diluted		<u>201,634,876</u>	<u>149,807,322</u>

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

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

Year Ended September 30, 2017					
Share Capital					
	Number of Shares	Amount \$	Share-Based Payments Reserve \$	Deficit \$	Total Equity \$
Balance at September 30, 2016	149,807,322	40,137,096	4,457,243	(20,954,425)	23,639,914
Common shares issued for:					
- private placement	55,000,000	11,000,000	-	-	11,000,000
- share options exercised	6,475,000	2,128,250	-	-	2,128,250
- warrants exercised	705,000	254,531	-	-	254,531
Share issue costs	-	(766,616)	211,551	-	(555,065)
Transfer on exercise of share options	-	733,528	(733,528)	-	-
Share-based compensation	-	-	1,263,716	-	1,263,716
Net loss	-	-	-	(3,188,838)	(3,188,838)
Balance at September 30, 2017	211,987,322	53,486,789	5,198,982	(24,143,263)	34,542,508

Year Ended September 30, 2016					
Share Capital					
	Number of Shares	Amount \$	Share-Based Payments Reserve \$	Deficit \$	Total Equity \$
Balance at September 30, 2015	149,807,322	40,137,096	4,363,949	(19,243,556)	25,257,489
Share-based compensation	-	-	93,294	-	93,294
Net loss	-	-	-	(1,710,869)	(1,710,869)
Balance at September 30, 2016	149,807,322	40,137,096	4,457,243	(20,954,425)	23,639,914

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

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

	<u>Year Ended September 30.</u>	
	<u>2017</u>	<u>2016</u>
	\$	\$
Operating activities		
Net loss for the year	(3,188,838)	(1,710,869)
Adjustments for:		
Depreciation	6,298	7,897
Share-based compensation	1,263,716	93,294
Impairment of exploration and evaluation assets	65,904	208,908
Changes in non-cash working capital items:		
GST receivable	(8,225)	(725)
Amounts receivable	(7,948)	6,004
Prepaid expenses	(39,864)	(16,325)
Accounts payable and accrued liabilities	<u>2,396</u>	<u>2,220</u>
Net cash used in operating activities	<u>(1,906,561)</u>	<u>(1,409,596)</u>
Investing activities		
Expenditures on exploration and evaluation assets	(7,005,126)	(3,733,961)
VAT recovered	373,150	-
Additions to property, plant and equipment	<u>(17,329)</u>	<u>(4,246)</u>
Net cash used in investing activities	<u>(6,649,305)</u>	<u>(3,738,207)</u>
Financing activities		
Issuance of common shares	13,382,781	-
Share issue costs	<u>(555,065)</u>	<u>-</u>
Net cash generated from financing activities	<u>12,827,716</u>	<u>-</u>
Net change in cash	4,271,850	(5,147,803)
Cash at beginning of year	<u>1,765,069</u>	<u>6,912,872</u>
Cash at end of year	<u>6,036,919</u>	<u>1,765,069</u>

Supplemental cash flow information - See Note 11

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

TINKA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(Expressed in Canadian Dollars)

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 exploration and 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, 2017 the Company had working capital in the amount of \$5,649,150. 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. 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. Although management considers that the Company has adequate resources to maintain its core operations and planned exploration programs on its existing exploration and evaluation assets for the next twelve months, the Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. 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. These consolidated financial statements do not reflect any adjustments related to conditions that occurred subsequent to September 30, 2017.

See also Note 12.

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.

The subsidiaries of the Company are as follows:

<u>Company</u>	<u>Location of Incorporation</u>	<u>Ownership Interest</u>
Darwin Resources Corp.	Canada	100%
Tinka Resources S.A.C.	Peru	100%
Darwin Peru S.A.C.	Peru	100%

TINKA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(Expressed in Canadian Dollars)

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 consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated 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 consolidated 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.
- (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.
- (v) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimate of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized to the extent of the amount expected to be utilized. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. Details of these can be found in Note 8.

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) Depreciation expense is allocated based on assumed useful life of property, plant and equipment. Should the useful life differ from the initial estimate, an adjustment would be made in the statement of operations.

TINKA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
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3. Summary of Significant Accounting Policies (continued)

- (ii) The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.
- (iii) 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.
- (iv) 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 2017 management determined that impairment indicators were present in respect of certain of its exploration and evaluation assets and, as a result, impairment charge of \$65,904 (2016 - \$208,908) was made. See Note 5. Management has concluded that there were no impairment indicators with respect to other exploration and evaluation assets and property, plant and equipment.

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, 2017 and 2016, 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

TINKA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

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.

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 an 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.

TINKA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

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, 2017 and 2016 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, 2017 and 2016 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, 2017 and 2016 the Company has not classified any financial liabilities as fair value through profit or loss.

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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 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.

TINKA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

Deferred 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 loss per share.

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.

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3. Summary of Significant Accounting Policies (continued)

Accounting Standards and Interpretations Issued but Not Yet Effective

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

- (i) The completed version of IFRS 9, *Financial Instruments*, was issued in July 2014. The completed standard provides for revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard. This final version of IFRS 9 will be effective for periods beginning on or after January 1, 2018, with early adoption permitted.
- (ii) IFRS 15, *Revenue from Contracts with Customers*, outlines the principles for recognizing revenue from contracts with customers. The new standard establishes a new five-step model for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard is effective for annual periods beginning on or after January 1, 2018, and is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.
- (iii) IFRS 16, *Leases*, specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019.

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

4. Property, Plant and Equipment

	Office Furniture and Equipment \$	Vehicles \$	Total \$
Cost:			
Balance at September 30, 2015	94,631	101,141	195,772
Additions	4,246	-	4,246
Balance at September 30, 2016	98,877	101,141	200,018
Additions	17,329	-	17,329
Balance at September 30, 2017	116,206	101,141	217,347
Accumulated Depreciation:			
Balance at September 30, 2015	(65,813)	(90,139)	(155,952)
Depreciation	(10,842)	(10,101)	(20,943)
Balance at September 30, 2016	(76,655)	(100,240)	(176,895)
Depreciation	(8,916)	(901)	(9,817)
Balance at September 30, 2017	(85,571)	(101,141)	(186,712)

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4. Property, Plant and Equipment (continued)

	Office Furniture and Equipment \$	Vehicles \$	Total \$
Carrying Value:			
Balance at September 30, 2016	<u>22,222</u>	<u>901</u>	<u>23,123</u>
Balance at September 30, 2017	<u>30,635</u>	<u>-</u>	<u>30,635</u>

5. Exploration and Evaluation Assets

	<u>September 30, 2017</u>			<u>September 30, 2016</u>		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$
Colquipucro	338,330	7,758,030	8,096,360	338,330	7,427,994	7,766,324
Ayawilca	457,785	17,754,478	18,212,263	310,088	11,653,857	11,963,945
Other	<u>-</u>	<u>2,554,100</u>	<u>2,554,100</u>	<u>7,392</u>	<u>2,187,350</u>	<u>2,194,742</u>
	<u>796,115</u>	<u>28,066,608</u>	<u>28,862,723</u>	<u>655,810</u>	<u>21,269,201</u>	<u>21,925,011</u>

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5. Exploration and Evaluation Assets (continued)	Colquipucro \$	Ayawileca \$	Other \$	Total \$
Balance at September 30, 2015	<u>7,673,029</u>	<u>9,025,503</u>	<u>2,099,426</u>	<u>18,797,958</u>
Exploration costs				
Assays	-	30,168	-	30,168
Camp costs	4,372	234,497	-	238,869
Community relations	16,786	471,587	-	488,373
Consulting	29,758	29,758	-	59,516
Depreciation	177	12,869	-	13,046
Drilling	-	692,422	-	692,422
Environmental	6,672	350,448	-	357,120
Exploration site	5,806	87,020	-	92,826
Field equipment	-	9,373	-	9,373
Fuel	8,660	29,289	-	37,949
Geological	-	264,054	-	264,054
Geophysics	3,547	266,267	-	269,814
Metallurgical test work	-	5,425	-	5,425
Salaries	5,463	218,617	-	224,080
Software and database management	7,880	7,880	-	15,760
Transportation	4,174	42,940	-	47,114
VAT incurred	-	-	304,224	304,224
	<u>93,295</u>	<u>2,752,614</u>	<u>304,224</u>	<u>3,150,133</u>
Acquisition costs				
Concession payments	-	185,828	-	185,828
Impairment	-	-	(208,908)	(208,908)
Balance at September 30, 2016	<u>7,766,324</u>	<u>11,963,945</u>	<u>2,194,742</u>	<u>21,925,011</u>
Exploration costs				
Camp costs	3,833	720,133	-	723,966
Community relations	185,540	596,283	-	781,823
Depreciation	-	3,519	-	3,519
Drilling	59,663	4,112,161	-	4,171,824
Environmental	46,043	282,271	-	328,314
Geological	20,676	293,251	-	313,927
Geophysics	5,355	6,032	-	11,387
Metallurgical test work	-	75,977	-	75,977
Software and database management	8,926	8,925	-	17,851
Topography	-	2,069	-	2,069
VAT incurred	-	-	798,412	798,412
VAT recovered	-	-	(373,150)	(373,150)
	<u>330,036</u>	<u>6,100,621</u>	<u>425,262</u>	<u>6,855,919</u>
Acquisition costs				
Concession payments	-	147,697	-	147,697
Impairment	-	-	(65,904)	(65,904)
Balance at September 30, 2017	<u>8,096,360</u>	<u>18,212,263</u>	<u>2,554,100</u>	<u>28,862,723</u>

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5. Exploration and Evaluation Assets (continued)

Colquipucro and Ayawilca Projects

As at September 30, 2017 the Colquipucro and Ayawilca projects comprise a total of 59 mineral claims granted or under application in the Province of Daniel Alcides Carrion, Peru.

The Company is required to issue 500,000 common shares to Sierra Peru Pty Ltd. (“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.

Other

During fiscal 2016 the Company recorded an impairment charge of \$208,908 relating to certain concessions and associated costs incurred in Peru. During fiscal 2017 the Company wrote-off \$65,904 exploration costs attributed to the Rurimarac Property 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 also apply for early refund of VAT prior to generating sales. During fiscal 2017 the Company received a VAT recovery of \$373,150.

6. 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) *Equity Financings*

(i) During fiscal 2017 the Company completed a private placement financing of 55,000,000 common shares at a price of \$0.20 per shares for gross proceeds of \$11,000,000. The Company paid finders’ fees totalling \$368,566 and issued 1,842,829 finders’ warrants. Each finders’ warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 per share, for a period of two years. The fair value of the finders’ warrants has been estimated using the Black-Scholes option pricing model. The assumptions used were: a risk-free interest rate of 0.54%; expected volatility of 112.01%; an expected life of 2 years; a dividend yield of 0%; and an expected forfeiture rate of 0%. The value assigned to the underlying finders’ warrants was \$211,551.

The Company incurred \$186,499 legal and filing costs associated with the private placement.

Directors of the Company and family members purchased 300,000 shares for \$60,000.

(ii) During fiscal 2016 the Company did not complete any financings.

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6. Share Capital (continued)

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's warrants outstanding at September 30, 2017 and 2016 and the changes for the years ended on those dates is as follows:

	2017		2016	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	25,338,444	0.38	40,143,556	0.37
Issued	1,842,829	0.20	-	-
Exercised	(705,000)	0.36	-	-
Expired	-	-	<u>(14,805,112)</u>	0.37
Balance, end of year	<u>26,476,273</u>	0.36	<u>25,338,444</u>	0.38

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at September 30, 2017:

Number	Exercise Price \$	Expiry Date
12,251,097	0.30	November 29, 2017
1,842,829	0.20	November 7, 2018
<u>12,382,347</u>	0.45	May 29, 2020
<u>26,476,273</u>		

See also Note 12.

(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 2017 the Company granted share options to purchase 6,293,750 (2016 - 1,180,000) common shares and recorded compensation expense of \$1,202,650 (2016 - \$63,229). In addition the Company also recorded share-based compensation of \$61,066 (2016 - \$30,065) on the vesting of share options which were previously granted.

The fair value of share options granted and vested during fiscal 2017 and 2016 has been estimated using the Black-Scholes option pricing model using the following assumptions:

	<u>2017</u>	<u>2016</u>
Risk-free interest rate	0.51% - 1.36%	0.51% - 1.01%
Estimated volatility	72.71% - 112.38%	72.60% - 113.82%
Expected life	2 years - 3 years	1 year - 3 years
Expected dividend yield	0%	0%
Expected forfeiture rate	0%	0%

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6. Share Capital (continued)

The weighted average fair value of all share options granted and vested, using the Black-Scholes option pricing model, during fiscal 2017 was \$0.25 (2016 - \$0.06) 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, 2017 and 2016 and the changes for the years ended on those dates, is as follows:

	2017		2016	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	10,860,000	0.33	10,915,000	0.37
Granted	6,293,750	0.35	1,180,000	0.25
Exercised	(6,475,000)	0.33	-	-
Expired	<u>(150,000)</u>	0.32	<u>(1,235,000)</u>	0.65
Balance, end of year	<u>10,528,750</u>	0.34	<u>10,860,000</u>	0.33

The following table summarizes information about the share options outstanding and exercisable at September 30, 2017:

Number	Exercise Price \$	Expiry Date
390,000	0.30	April 20, 2018
3,385,000	0.35	June 12, 2018
108,750	0.20	November 23, 2018
430,000	0.25	November 24, 2018
200,000	0.25	July 25, 2019
5,340,000	0.325	February 2, 2020
175,000	0.46	June 12, 2020
<u>500,000</u>	0.65	August 28, 2020
<u>10,528,750</u>		

See also Note 12.

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7. 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 2017 and 2016 the following amounts were incurred with respect to the Company's Chief Executive Officer ("CEO"), Vice-President of Exploration ("VPE") and Chief Financial Officer ("CFO") as follows:

	2017 \$	2016 \$
Management fees - CEO	290,003	220,000
Professional fees - CFO	30,000	30,000
Professional fees - VPE	254,708	190,280
Share-based compensation	<u>305,669</u>	<u>30,065</u>
	<u>880,380</u>	<u>470,345</u>

During fiscal 2017 the Company expensed \$290,003 (2016 - \$220,000) to management fees, \$152,857 (2016 - \$106,112) to professional fees and \$305,669 (2016 - \$30,065) for share-based compensation. In addition the Company capitalized \$131,851 (2016 - \$114,168) to exploration and evaluation assets.

(b) *Transactions with Other Related Parties*

(i) During fiscal 2017 and 2016 the following amounts were incurred with respect to the Company's non-management current and former directors of the Company:

	2017 \$	2016 \$
Professional fees	86,294	61,345
Share-based compensation	<u>375,760</u>	<u>29,956</u>
	<u>462,054</u>	<u>91,301</u>

As at September 30, 2017, \$9,000 (2016 - \$8,337) remained unpaid and has been included in accounts payable and accrued liabilities.

(ii) During fiscal 2017 the Company incurred a total of \$39,050 (2016 - \$32,100) 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 (2016 - \$4,020) for rent. As at September 30, 2017, \$7,670 (2016 - \$6,170) remained unpaid and has been included in accounts payable and accrued liabilities.

During fiscal 2017 the Company also recorded \$15,337 (2016 - \$nil) for share-based compensation for share options granted to Chase.

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8. 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:

	2017 \$	2016 \$
Deferred income tax assets (liabilities):		
Losses available for future periods	9,827,300	8,582,400
Tax basis of property, plant and equipment in excess of net book value	6,200	5,500
Net book value of exploration and evaluation assets in excess of tax basis	(7,161,100)	(5,185,500)
Other	186,800	99,800
	<u>2,859,200</u>	<u>3,490,500</u>
Valuation allowance for deferred income tax assets	<u>(2,859,200)</u>	<u>(3,490,500)</u>
Net deferred income tax assets	<u>-</u>	<u>-</u>

The recovery of income taxes shown in the consolidated 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:

	2017 \$	2016 \$
Income tax rate reconciliation		
Combined federal and provincial income tax rate	<u>26.0%</u>	<u>26.0%</u>
Expected income tax recovery	(829,100)	(444,800)
Permanent differences	264,700	(11,500)
Effect of different income tax rates in Peru and Canada	25,000	33,500
Change in valuation allowance	<u>539,400</u>	<u>422,800</u>
Actual income tax recovery	<u>-</u>	<u>-</u>

As at September 30, 2017 the Company has non-capital losses of approximately \$9,542,300 (2016 - \$8,309,800), capital losses of approximately \$329,100 (2016 - \$329,100) and tax pools of approximately \$1,089,300 (2016 - \$769,300) carried forward for Canadian income tax purposes and are available to reduce Canadian taxable income in future years. The non-capital losses expire commencing 2026 through 2037. The capital losses and tax pools can be carried forward indefinitely.

The Company also has non-capital losses of approximately \$24,169,500 (2016 - \$21,406,200) for Peruvian income tax purposes, which are available for application against future taxable income. These non-capital losses expire commencing December 31, 2017 through December 31, 2022.

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

9. Segmented Information

Substantially all of the Company's operations are in one industry, the exploration for base and precious metals. Management reviews the financial results according to expenditures by property. 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.

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9. Segmented Information (continued)

	September 30, 2017		
	Corporate Canada \$	Mineral Operations Peru \$	Total \$
Current assets	6,056,505	105,311	6,161,816
Exploration and evaluation assets	-	28,862,723	28,862,723
Property, plant and equipment	6,019	24,616	30,635
	<u>6,062,524</u>	<u>28,992,650</u>	<u>35,055,174</u>
	September 30, 2016		
	Corporate Canada \$	Mineral Operations Peru \$	Total \$
Current assets	1,751,140	82,789	1,833,929
Exploration and evaluation assets	-	21,925,011	21,925,011
Property, plant and equipment	3,707	19,416	23,123
	<u>1,754,847</u>	<u>22,027,216</u>	<u>23,782,063</u>

10. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

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

Financial Instrument	Category	September 30, 2017 \$	September 30, 2016 \$
Cash	FVTPL	6,036,919	1,765,069
Amounts receivable	Loans and receivables	13,021	5,073
Accounts payable and accrued liabilities	Other financial liabilities	(512,666)	(142,149)

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.

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.

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10. Financial Instruments and Risk Management (continued)

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, 2017				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	6,036,919	-	-	-	6,036,919
Amounts receivable	13,021	-	-	-	13,021
Accounts payable and accrued liabilities	(512,666)	-	-	-	(512,666)

	Contractual Maturity Analysis at September 30, 2016				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	1,765,069	-	-	-	1,765,069
Amounts receivable	5,073	-	-	-	5,073
Accounts payable and accrued liabilities	(142,149)	-	-	-	(142,149)

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.

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10. Financial Instruments and Risk Management (continued)

(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 also maintains a US Dollar bank account with a Canadian bank. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. At September 30, 2017, 1 Canadian Dollar was equal to 2.50 Peruvian Nuevo Soles and 0.80 US Dollar.

Balances are as follows:

	Peruvian Nuevo Soles	US Dollars	CDN \$ Equivalent
Cash	228,965	2,088,547	2,694,020
Amounts receivable	31,443	-	12,018
Accounts payable and accrued liabilities	<u>(623,787)</u>	<u>(195,131)</u>	<u>(478,756)</u>
	<u>(363,379)</u>	<u>1,893,416</u>	<u>2,227,282</u>

Based on the net exposures as of September 30, 2017 and, assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Peruvian Nuevo Soles and US Dollar would result in an increase or decrease of approximately \$202,000.

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.

11. Supplemental Cash Flow Information

Non-cash activities conducted by the Company during fiscal 2017 and 2016 are as follows:

	2017 \$	2016 \$
Operating activities		
Depreciation	3,519	13,046
Accounts payable and accrued liabilities	<u>368,121</u>	<u>(411,046)</u>
	<u>371,640</u>	<u>(398,000)</u>
Investing activity		
Exploration and evaluation assets	<u>(371,640)</u>	<u>398,000</u>

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11. Supplemental Cash Flow Information (continued)

	2017	2016
	\$	\$
Financing activities		
Share-based payment reserves	(521,977)	-
Share issue costs	(211,551)	-
Transfer on exercise of share options	<u>733,528</u>	<u>-</u>
	<u>-</u>	<u>-</u>

12. Events After the Reporting Period

Subsequent to September 30, 2017:

- (i) the Company issued 12,667,347 common shares for gross proceeds of \$3,797,079 on the exercise of warrants and options; and
- (ii) warrants to purchase 18,750 common shares of the Company, at an exercise price of \$0.30 per share, expired without exercise.