

# TINKA RESOURCES LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2016

This discussion and analysis of financial position and results of operation is prepared as at January 24, 2017 and should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes for the years ended September 30, 2016 and 2015 of Tinka Resources Limited (the "Company" or "Tinka"). The following disclosure and associated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars.

### Forward-Looking Statements

Certain information in this MD&A may constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws (collectively, "Forward-Looking Statements"). All statements, other than statements of historical fact that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future are Forward-Looking Statements. Forward-Looking Statements are often, but not always, identified by the use of words such as "seek," "anticipate," "believe," "plan," "estimate," "expect," and "intend" and statements that an event or result "may," "will," "can," "should," "could," or "might" occur or be achieved and other similar expressions. Forward-Looking Statements are based upon the opinions and expectations of the Company based on information currently available to the Company. Forward-Looking Statements are subject to a number of factors, risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the Forward-Looking Statements including, among other things, the Company has yet to generate a profit from its activities; there can be no guarantee that the estimates of quantities or qualities of minerals disclosed in Tinka's public record will be economically recoverable; uncertainties relating to the availability and costs of financing needed in the future; successful completion of planned drill program; competition with other companies within the mining industry; the success of the Company is largely dependent upon the performance of its directors and officers and Tinka's ability to attract and train key personnel; changes in world metal markets and equity markets beyond Tinka's control; mineral reserves are, in the large part, estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized; production rates and capital and other costs may vary significantly from estimates; unexpected geological conditions; delays in obtaining or failure to obtain necessary permits and approvals from government authorities; community relations; all phases of a mining business present environmental and safety risks and hazards and are subject to environmental and safety regulation, and rehabilitation and restitution costs; and management of Tinka have experience in mineral exploration but may lack all or some of the necessary technical training and experience to successfully develop and operate a mine. Although Tinka believes that the expectations reflected in the Forward-Looking Statements, and the assumptions on which such Forward-Looking Statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on Forward-Looking Statements, as there can be no assurance that the plans, intentions or expectations upon which the Forward-Looking Statements are based will occur. Forward-Looking Statements herein are made as at the date hereof, and unless otherwise required by law, Tinka does not intend, or assume any obligation, to update these Forward-Looking Statements.

All of the Company's public disclosure filings, including its most recent management information circular, material change reports, press releases and other information, may be accessed via [www.sedar.com](http://www.sedar.com) or the Company's website [www.tinkaresources.com](http://www.tinkaresources.com) and readers are urged to review these materials, including the technical reports filed with respect to the Company's mineral properties.

### Company Overview

The Company is a junior mineral exploration company currently engaged in the acquisition and exploration of base and precious metals mineral properties located in Peru with the aim of developing them to a stage where they can be exploited at a profit or to arrange joint ventures whereby other companies provide funding for development and exploitation. The Company's activities have been focused on developing its 100% owned Ayawilca and Colquipucro Properties, located 40 kilometres northwest of Cerro de Pasco, Central Peru. During fiscal 2015 the Company completed a private placement financing to raise \$7,253,475. In November 2016 the Company completed a further

private placement financing of \$11,000,000. These funds have been allocated towards the exploration of the Colquipucro and Ayawilca projects and for general working capital. As of the date of this MD&A, the Company has not earned any production revenue, nor found any proven reserves on any of its properties. The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange (“TSXV”) as a Tier 1 issuer, under the symbol “TK”, on the Frankfurt Exchange under the symbol “TLD”, and on the OTC Pink under the symbol “TKRFF”.

## Exploration Projects, Peru

### Introduction

As of the date of this MD&A, Tinka owns 54 granted mining concessions covering 14,340 hectares at the Company’s flagship Ayawilca Property in the Pasco - Huanuco regions of Peru, held by its 100% owned subsidiary, Tinka Peru SAC. The Company also holds three applications covering 1,600 hectares at Ayawilca. In addition, Darwin Peru SAC (Tinka 100%) holds two granted mining concessions covering 2,000 hectares at the Rurimarac gold property located in the Ancash region of Peru.

The Ayawilca Property is the Company’s flagship project, located 200 kilometres northeast of Lima and 40 kilometres northwest of the Cerro de Pasco zinc-lead-silver mine. Ayawilca is located in the Andean mountain range at elevations of between 3,800 and 4,400 metres. The Zinc Zone resource at Ayawilca is a carbonate replacement style deposit hosted by Pucará limestone, typically at depths of between 150 - 200 metres from surface or deeper. Zinc occurs in carbonate rocks as sphalerite, in the form of either flat-lying sulphide ‘mantos’ ranging from 10 to 30 metres thick, or as vertical ‘chimneys’ spanning the thickness of the Pucará limestone (up to 200 metres thick). The zinc mantos are tens to hundreds of metres across. The zinc mineralization occurs together with indium (“In”) with lesser silver (“Ag”), and lead (“Pb”) in the form of galena.

Tin (“Sn”) mineralization occurs within a separate resource, immediately underneath the Zinc Zone mantos at Central Ayawilca. Tin is hosted as cassiterite (tin oxide) within massive pyrrhotite (iron sulphide) mantos lying at the base of the Pucará limestone. The Tin Zone manto has a thickness of 10 - 15 metres and is up to 300 metres across. Cassiterite is accompanied by minor chalcopyrite (copper sulphide) and stannite (tin copper sulphide).

The Colquipucro Silver resource on the Ayawilca Property lies two kilometres north of the Zinc Zone. Colquipucro is hosted by Goyllar Group quartz sandstone. Silver at Colquipucro occurs from surface to a depth of approximately 80 metres, within a number of fracture zones and disseminated within the weathered quartz sandstones.

### Mineral Resources

In May 2016, Tinka announced a resource update for its 100%-owned Ayawilca Zinc Zone sulphide deposit, which now consists of 18.8 million tonnes grading 8.2% zinc equivalent (ZnEq) at a cut-off grade of 5% ZnEq using a zinc price of US \$1.0/lb, as referred to in Table 1. The Company announced its first Tin Zone resource consisting of 5.4 million tonnes grading 0.89% tin equivalent (SnEq) at a cut-off grade of 0.45% SnEq, as referred to in Table 2. Both of the Mineral Resources are in accordance with the NI 43-101 Inferred Mineral Resource category at a cut-off grade equivalent to approximately US \$60/t, as estimated by Roscoe Postle Associates Inc. (RPA) of Toronto, Canada (see [News Release dated May 25, 2016](#)).

**Table 1 - Ayawilca Deposit Inferred Mineral Resources - Zinc Zone**

| ZnEq % Cut-off | Tonnage (Mt) | ZnEq % Grade | Zinc % | Lead % | Indium g/t | Silver g/t |
|----------------|--------------|--------------|--------|--------|------------|------------|
| 3              | 22.3         | 7.5          | 5.5    | 0.2    | 67         | 13         |
| 4              | 20.9         | 7.8          | 5.6    | 0.2    | 70         | 14         |
| 5              | 18.8         | 8.2          | 5.9    | 0.2    | 74         | 15         |
| 6              | 13.1         | 9.4          | 6.6    | 0.2    | 93         | 16         |
| 7              | 9.5          | 10.4         | 7.2    | 0.2    | 110        | 17         |

**Notes:**

1. Mineral Resources are reported above a cut-off grade of 5% ZnEq or approximately US \$60 per tonne NSR value.
2. The ZnEq grade was based on estimated metallurgical recoveries, assumed metal prices and smelter terms, which include payable factors, treatment charges, penalties, and refining charges. Metal price assumptions were: US \$1.00/lb Zn, US \$500/kg In, US

\$20/oz Ag, and US \$1.00/lb Pb. Metal recovery assumptions were: 90% Zn, 75% In, 50% Ag, and 75% Pb. The NSR value for each block was calculated using the following NSR factors: US \$11.88 per % Zn, US\$ 4.16 per % Pb, US \$0.30 per gram In, and US \$0.28 per gram Ag.

3. The zinc equivalent (ZnEq.%) value was calculated using the following formula:  

$$\text{ZnEq.(\%)} = [\text{Zn(\%)} * \text{US } \$11.88 + \text{Pb(\%)} * \text{US } \$4.16 + \text{In(g/t)} * \text{US } \$0.30 + \text{Ag(g/t)} * \text{US } \$0.28] / \text{US } \$11.88$$

**Table 2 - Ayawilca Deposit Inferred Mineral Resources - Tin Zone**

| SnEq % Cut-off | Tonnage (Mt) | SnEq % Grade | Tin % | Copper % | Silver g/t |
|----------------|--------------|--------------|-------|----------|------------|
| 0.25           | 5.7          | 0.87         | 0.73  | 0.30     | 18         |
| 0.35           | 5.6          | 0.87         | 0.74  | 0.31     | 18         |
| 0.45           | 5.4          | 0.89         | 0.76  | 0.31     | 18         |
| 0.55           | 3.8          | 1.06         | 0.91  | 0.36     | 18         |
| 0.65           | 3.2          | 1.15         | 1.00  | 0.36     | 18         |

**Notes:**

1. Mineral Resources are reported above a cut-off grade of 0.45% SnEq or approximately US \$60 per tonne NSR value.
2. The SnEq grade was based on estimated metallurgical recoveries, assumed metal prices and smelter terms, which include payable factors, treatment charges, penalties, and refining charges. Metal price assumptions were: US \$9/lb Sn, US \$3/lb Cu, and US \$20/oz Ag. Metal recovery assumptions were: 85% Sn, 75% Cu, and 50% Ag. The NSR value for each block was calculated using the following NSR factors: US \$130.36 per % Sn, US \$41.26 per % Cu, and US \$0.28 per gram Ag.
3. The tin equivalent (Sn Eq.%) value was calculated using the following formula:  

$$\text{Sn Eq.(\%)} = [\text{Sn(\%)} * \text{US } \$130.36 + \text{Cu(\%)} * \text{US } \$41.26 + \text{Ag(g/t)} * \text{US } \$0.28] / \text{US } \$130.36$$

The Ayawilca drill database includes 27,248 metres in 74 diamond drill holes. Readers are encouraged to read the technical report entitled “Technical Report on the Mineral Resource Estimate for the Ayawilca Property Department of Pasco, Peru”, dated June 29, 2016 which can be found under the Company’s profile on SEDAR at <http://www.sedar.com> or on the Company’s website at [NI 43-101 Technical Report Tinka Resources Ltd.](http://www.tinkaresources.com)

The Mineral Resource estimate for the Colquipucro silver zone are described in the 2016 NI 43-101 report ([NI 43-101 Technical Report](http://www.tinkaresources.com)) but remain unchanged from the 2015 resource estimate. Indicated Mineral Resources at Colquipucro are estimated to be 7.4 million tonnes at an average grade of 60 g/t Ag containing 14.3 million ounces of Ag, as referred to in Table 3. Inferred Mineral Resources are estimated to total 8.5 million tonnes at an average grade of 48 g/t Ag containing 13.2 million ounces of Ag. Mineral Resources are reported within a preliminary pit shell generated in Whittle software at a cut-off of 15 g/t Ag. The “High grade lenses” have a cut-off grade of 60 g/t Ag. The drill database for Colquipucro includes 8,003 m in 45 drill holes.

**Table 3 - Colquipucro Silver Mineral Resources as of May 25, 2016**

| Classification/Zone    | Tonnage (Mt) | Ag (g/t)  | Ag (Moz)    |
|------------------------|--------------|-----------|-------------|
| <b>Indicated</b>       |              |           |             |
| High grade lenses      | 2.9          | 112       | 10.4        |
| Low grade halo         | 4.5          | 27        | 3.9         |
| <b>Total Indicated</b> | <b>7.4</b>   | <b>60</b> | <b>14.3</b> |
| <b>Inferred</b>        |              |           |             |
| High grade lenses      | 2.2          | 105       | 7.5         |
| Low grade halo         | 6.2          | 28        | 5.7         |
| <b>Total inferred</b>  | <b>8.5</b>   | <b>48</b> | <b>13.2</b> |

**Notes:**

1. Mineral Resources are reported within a preliminary pit shell and above a cut-off grade of 15 g/t Ag for the Low Grade Halo and 60 g/t Ag for the High Grade Lenses.
2. The cut-off grade is based on a price of US \$24/oz Ag.

**Qualified Person - Mineral Resources:** The Mineral Resources have been estimated by Mr. David Ross, P.Geo., an employee of RPA and independent of Tinka. By virtue of his education and relevant experience, Mr. Ross is a “Qualified Person” for the purpose of National Instrument 43-101. The Mineral Resources have been classified in accordance with CIM Definition Standards for Mineral Resources and Mineral Reserves (May, 2014).

### Metallurgical Test Work

In October 2016, Tinka completed initial metallurgical flotation tests of zinc sulphide samples from West Ayawilca. The test work showed that the zinc sulphide mineralization is amenable to industry standard flotation processing. Zinc recoveries of 98% were produced in first pass (rougher) flotation tests from two typical grade composites. A zinc concentrate grade of 52% Zn was achieved in second pass (cleaner) flotation. Indium recoveries were similar to the zinc. The tests were carried out by SGS Peru under the supervision of Transmin Consultants of Lima, Peru.

Two composite samples (7.1% and 10.0% Zn, respectively) were prepared from quarter-core samples of typical zinc mineralization from West Ayawilca. Industry standard flotation techniques using accepted reagents and three stages of open-cycle cleaner flotation tests produced saleable zinc concentrate grades, with attractive indium credits. Summary of the composites, rougher concentrate recoveries and cleaner concentrate recoveries are shown in Tables 4 and 5. Cleaner tests were conducted by 'open cycle', meaning recoveries were lower than would be achieved under 'closed cycle' tests. These metallurgical results are considered positive initial test results.

**Table 4. Summary of composite samples grades from West Ayawilca**

| Composite Grade | Zn (%) | Ag (g/t) | In (g/t) | Pb (%) |
|-----------------|--------|----------|----------|--------|
| AAFC-01         | 7.1    | 12       | 22       | 0.09   |
| AAFC-02         | 10.0   | 12       | 121      | 0.07   |

**Table 5. Recoveries of zinc concentrates for West Ayawilca composites**

| Composite Grade | Rougher Concentrate Grade     |          |          | Rougher Recovery     |        |        |
|-----------------|-------------------------------|----------|----------|----------------------|--------|--------|
|                 | Zn (%)                        | Ag (g/t) | In (g/t) | Zn (%)               | Ag (%) | In (%) |
| AAFC-01         | 32.9                          | 40.9     | 95.2     | 98.7                 | 78.5   | 94.6   |
| AAFC-02         | 40.3                          | 33.2     | 471      | 98.5                 | 73.2   | 97.4   |
| Composite Grade | 3rd Cleaner Concentrate Grade |          |          | 3rd Cleaner Recovery |        |        |
|                 | Zn (%)                        | Ag (g/t) | In (g/t) | Zn (%)               | Ag (%) | In (%) |
| AAFC-01         | 50.8                          | 55.4     | 152      | 64.5                 | 45.1   | 63.9   |
| AAFC-02         | 51.7                          | 37.1     | 591      | 57.6                 | 37.2   | 55.6   |

### Discovery of High-Grade Zinc at Pucarumi

In December 2016, Tinka announced the discovery of a new zinc prospect at "Pucarumi", 7 kilometres northwest of the Ayawilca inferred zinc resource and within the existing mining claims. High-grade mineralization grading up to 19% zinc and 8% lead occurs at Pucarumi in two subparallel surface horizons in Cretaceous limestones, over a strike length of 1.5 kilometres. Channel sampling returned grades ranging from 0.2% Zn to 19.0% Zn from 61 samples over an average width of 1.5 to 2.0 metres in mineralized Chulec Formation limestone. Field work at the area is continuing.

Prospecting for other new areas of zinc mineralization within the Company's 150 km<sup>2</sup> mining claim package at Ayawilca is being carried out currently. This work includes the field checking of magnetic anomalies identified by the recent airborne magnetic survey completed in July 2016.

### Permitting & Upcoming Drill Program

During September 2016, the Company signed up to four year access agreements with three local communities covering surface rights over extensions of the zinc resource. The modified Environmental Impact Assessment (EIA) was approved during November 2016, with the second EIA approved during December. The two modified EIAs will allow the Company to drill from up to 79 drill platforms in land owned by the communities of San Juan de Yanacochoa and Huarautambo, as well as 85 drill platforms on land owned by the community of San Pedro de Pillao. The new permits will cover an area approximately three times the size of previous drill permitted area. Tinka continues its preparations for the upcoming drill program at Ayawilca, which is expected to commence in late January or early February 2017, once the final approval to initiate activities is granted by the authorities. The Company is planning a 10,000 metre drill program which will initially focus on testing resource extensions of West Ayawilca, where the highest grade zinc resources occur and where mineralization remains open along strike and down dip. Other untested targets will be drilled within two kilometres of the resource from April 2017 onwards, including Zone 3 and Chaucha.

### Rurimarac Gold Property

The Rurimarac gold property (including Tinka Nueve) is located in the Department of Ancash in central Peru. The property consists of two, 100% owned, mining concessions covering 2,000 hectares (Tinka Nueve and Rurimarac 1).

The principal target at Rurimarac lies beneath an outcropping zone of oxide gold mineralization. Previous sampling in 65 pit and trench samples up to 1 metre deep ranged in grade from 0.1 g/t to 39 g/t gold, with an average grade of 5.1 g/t gold. A single drill hole by Tinka intersected 6 metres grading 3.3 g/t gold from 60 metres depth in a fault zone in 2009.

Tinka is continuing to review options to move this project forward, with farm-out options being considered.

### **Qualified Person**

The qualified person for the Company's projects, Dr. Graham Carman (FAUSIMM), President and CEO of the Company, has reviewed and approved the technical information in this MD&A.

### **Selected Financial Data**

The following selected financial information is derived from the audited annual consolidated financial statements of the Company.

|                                    | Year Ended September 30, |             |             |
|------------------------------------|--------------------------|-------------|-------------|
|                                    | 2016<br>\$               | 2015<br>\$  | 2014<br>\$  |
| <b>Operations:</b>                 |                          |             |             |
| Revenues                           | Nil                      | Nil         | Nil         |
| Expenses                           | (1,480,535)              | (1,965,194) | (2,114,854) |
| Other items                        | (230,334)                | 274,480     | (1,690,117) |
| Net loss                           | (1,710,869)              | (1,690,714) | (3,804,971) |
| Loss per share - basic and diluted | (0.01)                   | (0.01)      | (0.04)      |
| Dividends per share                | Nil                      | Nil         | Nil         |
| <b>Balance Sheet:</b>              |                          |             |             |
| Working capital                    | 1,691,780                | 6,419,711   | 5,490,211   |
| Total assets                       | 23,782,063               | 25,808,464  | 19,698,993  |
| Total long-term liabilities        | Nil                      | Nil         | Nil         |

The following selected financial information is derived from the unaudited condensed consolidated interim financial statements of the Company.

|                                   | Fiscal 2016            |                       |                       |                       | Fiscal 2015            |                       |                       |                       |
|-----------------------------------|------------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
|                                   | Sept. 30<br>2016<br>\$ | Jun. 30<br>2016<br>\$ | Mar. 31<br>2016<br>\$ | Dec. 31<br>2015<br>\$ | Sept. 30<br>2015<br>\$ | Jun. 30<br>2015<br>\$ | Mar. 31<br>2015<br>\$ | Dec. 31<br>2014<br>\$ |
| <b>Operations:</b>                |                        |                       |                       |                       |                        |                       |                       |                       |
| Revenues                          | Nil                    | Nil                   | Nil                   | Nil                   | Nil                    | Nil                   | Nil                   | Nil                   |
| Expenses                          | (283,858)              | (445,266)             | (310,627)             | (440,784)             | (363,747)              | (821,367)             | (365,039)             | (415,041)             |
| Other items                       | (176,247)              | 9,310                 | (50,377)              | (13,020)              | 134,370                | (5,172)               | 99,574                | 45,708                |
| Net loss and comprehensive loss   | (460,105)              | (435,956)             | (361,004)             | (453,804)             | (229,377)              | (826,539)             | (265,465)             | (369,333)             |
| Loss per share -basic and diluted | (0.01)                 | (0.00)                | (0.00)                | (0.00)                | (0.00)                 | (0.01)                | (0.00)                | (0.00)                |
| Dividends per share               | Nil                    | Nil                   | Nil                   | Nil                   | Nil                    | Nil                   | Nil                   | Nil                   |
| <b>Balance Sheet:</b>             |                        |                       |                       |                       |                        |                       |                       |                       |
| Working capital                   | 1,691,780              | 2,692,830             | 3,661,246             | 4,520,484             | 6,419,711              | 8,807,814             | 2,500,327             | 3,313,893             |
| Total assets                      | 23,782,063             | 24,193,242            | 24,614,226            | 25,167,499            | 25,808,464             | 25,737,199            | 19,010,500            | 19,251,893            |
| Total long-term liabilities       | Nil                    | Nil                   | Nil                   | Nil                   | Nil                    | Nil                   | Nil                   | Nil                   |

## Results of Operations

### *Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015*

During the three months ended September 30, 2016 (the “Q4/2016”) the Company reported a net loss of \$460,105, compared to a net loss of \$229,377 for the three months ended September 30, 2015 (the “Q4/2015”), an increase in loss of \$230,728. The increase in loss is mainly attributed to:

- (i) an increase of \$11,345 in corporate development expense, from \$500 during Q4/2015 to \$11,845 during Q4/2016. During Q4/2016 the Company participated in more campaigns;
- (ii) an increase of \$10,000 in investor relations. During Q4/2016 the Company engaged Alpha Advisory Services Inc. (“Alpha”) to provide investor relations services at a monthly fee of \$5,000. During Q4/2016 the Company was billed a total of \$10,000 by Alpha; and
- (iii) during Q4/2016 the Company recognized an impairment expenses of \$208,908 to exploration and evaluation assets. No impairment expense was considered necessary during Q4/2015.

### *Year Ended September 30, 2016 Compared to Year Ended September 30, 2015*

During the year ended September 30, 2016 (“fiscal 2016”), the Company reported a net loss of \$1,710,869 (\$0.01 per share), compared to a net loss of \$1,690,714 (\$0.01 per share) for the year ended September 30, 2015 (“fiscal 2015”), an increase in loss of \$20,155.

Expenses decreased by \$484,659, from \$1,965,194 during fiscal 2015 to \$1,480,535 during fiscal 2016. Specific expenses of note are as follows:

- (i) during fiscal 2016 the Company was billed \$32,100 (2015 - \$39,225) for accounting and administration services provided by Chase Management Ltd. (“Chase”) a private company owned by Mr. Nick DeMare, the Chief Financial Officer (“CFO”) and a director of the Company. In addition, the Company was billed \$4,020 (2015 - \$4,020) by Chase for office space provided;
- (ii) during fiscal 2016 the Company expensed \$225,912 (2015 - \$275,273) for professional fees, of which:
  - \$148,112 (2015 - \$174,063) was attributed to directors and officers of the Company;
  - \$19,345 (2015 - \$34,241) was reimbursement to a public company with certain common directors for shared personnel, office and other costs; and
  - \$58,455 (2015 - \$66,969) was billed by various parties for financial advisory services.

The Company also capitalized \$114,168 (2015 - \$96,843) for professional fees to exploration and evaluation assets. See also “Transactions with Related Parties”;

- (iii) share-based compensation of \$63,229 (2015 - \$466,678) was recorded during fiscal 2016 relating to the granting of 1,180,000 (2015 - 5,470,000) share options. During fiscal 2016 the Company also recorded share-based compensation of \$30,065 (2015 - \$60,336) on the vesting of stock options which were previously granted;
- (iv) during fiscal 2016 the Company incurred \$10,000 (2015 - \$17,000) for investor relations services. On July 25, 2016 the Company engaged Alpha to provide investor relations services, at a monthly fee of \$5,000. During fiscal 2016 the Company was billed a total of \$10,000 by Alpha. During fiscal 2015 the Company paid \$17,000 to an investor relations service provider for services to June 2015.
- (v) audit fees of \$32,640 (2015 - \$32,808) were incurred for the Company’s year-end financial statements;
- (vi) corporate development expense increased by \$27,803, from \$15,020 during fiscal 2015 to \$42,823 during fiscal 2016. During fiscal 2016 the Company participated in more campaigns;

- (vii) investment conference expenses increased by \$21,293, from \$24,005 during fiscal 2015 to \$45,298 during fiscal 2016. During fiscal 2016 the Company participated in more investment conferences in North America and Europe; and
- (viii) legal expenses decreased by \$56,723, from \$68,156 during fiscal 2015 to \$11,433 during fiscal 2016. Legal expenses incurred during fiscal 2015 were mainly related to the additional organizational matters arising from the Darwin acquisition. Legal expenses incurred during fiscal 2016 were limited to corporate general matters.

During fiscal 2016 the Company recorded interest income, from cash held, of \$33,422 compared to \$53,214 during fiscal 2015, a decrease of \$19,792. The decrease is due to lower levels of cash held throughout fiscal 2016 compared to fiscal 2015.

During fiscal 2016 the Company completed the drilling program at the Ayawilca Project and incurred a total of \$3,335,961 (2015 - \$5,075,845) for exploration expenditures and concession payments, comprising \$2,938,442 (2015 - \$3,555,189) on the Ayawilca Project, \$93,295 (2015 - \$1,226,587) on the Colquipucro Project, and \$304,224 (2015 - \$547,110) for other concessions and IVA tax in Peru. During fiscal 2016 the Company recorded an impairment charge of \$208,908 relating to certain concessions and associated costs incurred in Peru.

During fiscal 2015 the Company made applications and received recoveries of \$260,803 VAT tax in Peru. Subsequent to September 30, 2016 the Company received a VAT recovery of \$373,150. See also "Exploration Projects".

The carrying costs of the Company's exploration and evaluation assets are as follows:

|             | As at September 30, 2016 |                                  |                   | As at September 30, 2015 |                                  |                   |
|-------------|--------------------------|----------------------------------|-------------------|--------------------------|----------------------------------|-------------------|
|             | Acquisition Costs<br>\$  | Deferred Exploration Costs<br>\$ | Total<br>\$       | Acquisition Costs<br>\$  | Deferred Exploration Costs<br>\$ | Total<br>\$       |
| Colquipucro | 338,330                  | 7,427,994                        | 7,766,324         | 338,330                  | 7,334,699                        | 7,673,029         |
| Ayawilca    | 310,088                  | 11,653,857                       | 11,963,945        | 124,260                  | 8,901,243                        | 9,025,503         |
| Other       | 7,392                    | 2,187,350                        | 2,194,742         | 7,762                    | 2,091,664                        | 2,099,426         |
|             | <u>655,810</u>           | <u>21,269,201</u>                | <u>21,925,011</u> | <u>470,352</u>           | <u>18,327,606</u>                | <u>18,797,958</u> |

Exploration and evaluation activities incurred during fiscal 2016 and fiscal 2015 are as follows:

|                                      | Colquipucro<br>\$ | Ayawilca<br>\$   | Other<br>\$      | Total<br>\$       |
|--------------------------------------|-------------------|------------------|------------------|-------------------|
| <b>Balance at September 30, 2014</b> | <u>6,446,442</u>  | <u>5,470,314</u> | <u>1,805,357</u> | <u>13,722,113</u> |
| <b>Exploration costs</b>             |                   |                  |                  |                   |
| Assays                               | 23,146            | 181,224          | -                | 204,370           |
| Camp costs                           | 46,219            | 122,799          | -                | 169,018           |
| Community relations                  | 88,998            | 84,166           | -                | 173,164           |
| Consulting                           | 60,950            | 60,950           | -                | 121,900           |
| Depreciation                         | 5,728             | 17,236           | -                | 22,964            |
| Drilling                             | 229,812           | 1,447,792        | -                | 1,677,604         |
| Environmental                        | 13,313            | 13,490           | -                | 26,803            |
| Exploration site                     | 48,722            | 282,864          | -                | 331,586           |
| Field equipment                      | 2,879             | 120,339          | -                | 123,218           |
| Fuel                                 | 35,139            | 158,097          | -                | 193,236           |
| Geological                           | 57,410            | 182,535          | -                | 239,955           |
| Geophysics                           | 59,519            | 242,335          | -                | 301,854           |
| Metallurgical test work              | -                 | 2,916            | -                | 2,916             |
| Salaries                             | 428,356           | 396,286          | -                | 824,642           |
| Software and database management     | 23,756            | 23,756           | -                | 47,512            |
| Transportation                       | 39,561            | 168,151          | -                | 207,712           |
| Travel                               | 3,028             | 4,345            | -                | 7,373             |

|                                      | Colquipucro<br>\$ | Ayawilca<br>\$    | Other<br>\$      | Total<br>\$       |
|--------------------------------------|-------------------|-------------------|------------------|-------------------|
| VAT incurred                         | -                 | -                 | 547,110          | 547,110           |
| VAT recovered                        | -                 | -                 | (260,803)        | (260,803)         |
|                                      | <u>1,166,546</u>  | <u>3,509,281</u>  | <u>286,307</u>   | <u>4,962,134</u>  |
| <b>Acquisition costs</b>             |                   |                   |                  |                   |
| Concession payments                  | 60,041            | 45,908            | 7,762            | 113,711           |
| <b>Balance at September 30, 2015</b> | <u>7,673,029</u>  | <u>9,025,503</u>  | <u>2,099,426</u> | <u>18,797,958</u> |
| <b>Exploration costs</b>             |                   |                   |                  |                   |
| 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>  |
| <b>Acquisition costs</b>             |                   |                   |                  |                   |
| Concession payments                  | -                 | 185,828           | -                | 185,828           |
| <b>Impairment</b>                    | -                 | -                 | (208,908)        | (208,908)         |
| <b>Balance at September 30, 2016</b> | <u>7,766,324</u>  | <u>11,963,945</u> | <u>2,194,742</u> | <u>21,925,011</u> |

### *Financings*

The Company did not complete any equity financings during fiscal 2016. In November 2016 the Company completed an equity financing for \$11,000,000. See also “Financial Condition / Capital Resources”.

During fiscal 2015 the Company completed a non-brokered private placement financing of 33,737,093 units at a price of \$0.215 per unit for gross proceeds of \$7,253,475. The funds were used to advance the Company’s exploration efforts at Ayawilca and Colquipucro, Peru, and for general working purposes.

### **Financial Condition / Capital Resources**

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. As at September 30, 2016 the Company had working capital in the amount of \$1,691,780. In November 2016 the Company completed a private placement financing and issued a total of 55,000,000 common shares for gross proceeds of \$11,000,000. The Company plans to use the net proceeds from the financing to fund the 2017 drilling program at the Company’s Ayawilca Project in Peru, as well as for other exploration expenditures, corporate purposes and general working capital. Management considers that the Company has sufficient funds to maintain ongoing corporate overhead and field expenses, conduct a 10,000 metre drill program and metallurgical tests in 2017 and continue ongoing exploration activities on its existing mineral projects. Exploration activities may change as a result of ongoing results and recommendations or the Company may acquire additional properties which may entail significant exploration commitments. While the Company has been successful in securing financings in the past, there is material uncertainty it will be able to do so in the future.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## Proposed Transactions

The Company has no proposed transactions.

## Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Examples of significant estimates made by management include estimating the fair values of financial instruments, valuation allowances for deferred income tax assets and assumptions used for share-based compensation. Actual results may differ from those estimates.

A detailed summary of all the Company's significant accounting policies is included in Note 3 to the September 30, 2016 annual consolidated financial statements.

## Changes in Accounting Policies

There are no changes in accounting policies.

## Transactions with Related Parties

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 2016 the Company has recognized a total of \$470,345 (2015 - \$683,232) for compensation with respect to the Company's CEO (Dr. Carman), the Company's current VP Exploration (Mr. Alvaro Fernandez-Baca), former VP Exploration (Mr. John Nebocat), and the Company's CFO (Mr. Nick DeMare) as follows:

|   | 2016           | 2015           |
|---|----------------|----------------|
|   | \$             | \$             |
| Management fees - Dr. Carman                  | 220,000        | 220,000        |
| Professional fees - Mr. DeMare                | 30,000         | 30,000         |
| Professional fees - Mr. Fernandez-Baca        | 190,280        | 72,906         |
| Professional fees - Mr. Nebocat               | -              | 120,000        |
| Share-based compensation - Dr. Carman         | 15,457         | 172,194        |
| Share-based compensation - Mr. DeMare         | -              | 26,425         |
| Share-based compensation - Mr. Fernandez-Baca | 14,608         | 41,707         |
|   | <u>470,345</u> | <u>683,232</u> |

The Company has expensed \$220,000 (2015 - \$220,000) to management fees, \$106,112 (2015 - \$126,063) to professional fees and \$30,065 (2015 - \$240,326) for share-based compensation. In addition the Company capitalized \$114,168 (2015 - \$96,843) to exploration and evaluation assets.

### (b) *Transactions with Other Related Parties*

(i) During fiscal 2016 and 2015 the following amounts were incurred for professional services provided by non-management current and former directors of the Company (Messrs. David Henstridge, Mary Little and William Lee) and the Corporate Secretary (Ms. Mariana Bermudez):

|   | 2016          | 2015           |
|---|---------------|----------------|
|   | \$            | \$             |
| Professional fees - Mr. Henstridge (current director) | 24,000        | 24,000         |
| Professional fees - Ms. Little (current director)     | 12,000        | -              |
| Professional fees - Mr. Lee (former director)         | 6,000         | 24,000         |
| Share-based compensation - Mr. Henstridge             | -             | 26,425         |
| Share-based compensation - Ms. Little                 | 29,956        | -              |
| Share-based compensation - Mr. Lee                    | -             | 26,425         |
| Share-based compensation - Ms. Bermudez               | -             | 26,425         |
|   | <u>71,956</u> | <u>127,275</u> |

As at September 30, 2016, \$8,000 (2015 - \$2,000) remained unpaid.

- (ii) During fiscal 2016 the Company incurred a total of \$32,100 (2015 - \$39,225) with Chase, a private corporation owned by Mr. DeMare, for accounting and administrative services provided by Chase personnel, excluding Mr. DeMare, and \$4,020 (2015 - \$4,020) for rent. As at September 30, 2016, \$6,170 (2015 - \$5,470) remained unpaid.
- (c) The Company shared personnel, office and other costs with a public company Mawson Resources Limited ("Mawson"). Mr. DeMare and Mr. Henstridge are also directors of Mawson. During fiscal 2016 the Company incurred \$19,345 (2015 - \$34,241) for expenses. As at September 30, 2016, \$337 (2015 - \$3,960) remained unpaid.

### **Risks and Uncertainties**

The Company competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral concessions, claims and other interests, as well as for the recruitment and retention of qualified employees.

The Company is in compliance with all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company's mineral properties are located in Peru and consequently the Company is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations relating to the mining industry.

### **Outstanding Share Data**

The Company's authorized share capital is unlimited common shares with no par value. As at January 24, 2017, there were 204,807,322 issued common shares, 27,181,273 warrants outstanding exercisable at prices ranging from \$0.20 to \$0.45 per share and 10,868,750 share options outstanding, at exercise prices ranging from \$0.20 to \$0.40 per share.