



**CANDENTE  
COPPER CORP**

**Candente Copper Corp.  
Management's Discussion and Analysis  
For the year ended December 31, 2018**

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The following Management's Discussion and Analysis ("MD&A") focuses on significant factors that affected Candente Copper Corp. ("Candente Copper") and its subsidiaries (collectively, the "Company") during the relevant reporting period and to the date of this report. This MD&A contains a review and analysis of financial results for the year ended December 31, 2018 and identifies business risks that the Company faces and comments on financial resources required for development of the business.

This MD&A supplements but does not form part of the consolidated financial statements of the Company and notes thereto for the year ended December 31, 2018, and consequently should be read in conjunction with the afore-mentioned consolidated financial statements which are presented in accordance with International Financial Reporting Standards ("IFRS"). Information in this MD&A is current as of March 29, 2019.

All amounts, unless specifically identified as otherwise, both in the Company's consolidated financial statements and this MD&A are expressed in US dollars.

## **FORWARD-LOOKING STATEMENTS**

This MD&A contains certain "forward-looking information" which may include, but is not limited to, statements with respect to future events or future performance, management's expectations regarding the Company's growth, results of operations, estimated future revenues, requirements for additional capital, production costs and revenue, future demand for and prices of copper and precious metals, business prospects and opportunities. In addition, statements relating to mineral estimates or mineralized material of recoverable copper and precious metals are forward-looking information, as they involve implied assessment, based on certain estimates and assumptions, that the copper and precious metals can be profitably produced in the future. Such forward-looking information reflects management's current beliefs and is based on information currently available to management. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "predicts", "intends", "targets", "aims", "anticipates" or "believes" or variations (including negative or grammatical variations) of such words and phrases or may be identified by statements to the effect that certain actions "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. A number of known and unknown risks, uncertainties and other factors may cause the actual results or performance to materially differ from any future results or performance expressed or implied by the forward-looking information. Such factors include, among others, general business, economic, competitive, political and social uncertainties; development and/or exploration activities and the accuracy of probability simulations prepared to predict prospective mineral resources; changes in project parameters as plans continue to be refined; political instability or insurrection or war; labor force availability and turnover; delays in obtaining governmental approvals and permits or in the completion of development or construction activities or in the commencement of operations; as well as those factors discussed in the section entitled "Risks Factors" in this MD&A. These factors should be carefully considered, and readers of this MD&A should not place undue reliance on forward-looking information.

Although the forward-looking information contained in this MD&A is based upon what management believes to be reasonable assumptions, there can be no assurance that such forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. Such forward-looking information is made as of the date of this MD&A and, other than as required by



applicable securities laws, Candente Copper assumes no obligation to update or revise such forward-looking information to reflect new events or circumstances.

## **USE OF NON-GAAP MEASURES**

In this document, we refer to terms that do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS"). Our usage of these terms may vary from the usage adapted by other companies and they cannot be reconciled to comparable terms in the consolidated financial statements for the year ended December 31, 2018.

In this document and in the Company's consolidated financial statements, unless otherwise noted, all financial data is prepared in accordance with IFRS.

## **BUSINESS OVERVIEW**

Candente Copper is a Vancouver, Canada based mineral exploration company engaged in the acquisition, exploration and development of mineral rights interests. The Company is currently focused on the exploration and development of its Cañariaco porphyry copper project (the "Cañariaco Project"), which comprises the Cañariaco Norte and Cañariaco Sur deposits, as well as the Quebrada Verde prospect (collectively, the "Cañariaco Copper Project") located in Northern Peru. The Company also holds other early stage base metal properties located in Peru.

Cañariaco Norte is at the Feasibility Study stage of development. At Cañariaco Sur, a deposit has been identified but further drilling is required to delineate the size and grade of the deposit. The Quebrada Verde prospect has geochemical and geophysical anomalies as well as mineralization and alteration in favourable rock types typical of a porphyry copper-gold system which are currently untested by drilling.

In June 2018, the Company was advised that Anglo Pacific Group PLC has acquired the existing 0.5% net smelter return royalty over the Canariaco Copper Project from Entrée Resources Ltd.

In June 2018, the shareholders approved the adoption of the Deferred Share Unit Plan of the Company and authorized the issuance of up to 5,000,000 common shares of the Company from treasury to satisfy the obligations of the Company.

In July 2018, the Company extended the exercise period of a total of 5,407,663 outstanding share purchase warrants (the "Warrants") with an exercise price of \$0.15 issued pursuant to the private placement completed on July 29, 2016. The original expiry date was July 29, 2018 and the new expiration date is July 29, 2020. The Company did not extend the exercise period of 555,555 warrants held directly or indirectly by related parties and these warrants expired unexercised.

In July 2018, the Company issued 1,000,000 common shares pursuant to the exercise of 400,000 options at an exercise price of CDN\$0.05 and 600,000 options at an exercise price of CDN\$0.11 for gross proceeds of CDN\$86,000.

On August 2, 2018, the Company was advised that Amec Foster Wheeler Peru S.A. ("AMEC") had filed a request for recognition of debt with the Peruvian authority INDECOPI. AMEC registered a debt of \$883,596 owed to them by Canariaco Copper Peru S.A. ("Canariaco"). In October 2018, The Company entered into



an agreement with AMEC for the settlement of the trade liability. Pursuant to the agreement, the Company is required to issue 2,638,771 common shares of the Company and to make a series of payments to AMEC under two alternatives at the option of the Company as follows:

i)	Immediately upon signing	\$ 50,000
	December 15, 2018	100,000
	March 31, 2019	150,000
	June 30, 2019	150,000
	September 30, 2019	<u>150,000</u>
		\$600,000
	or	
ii)	Immediately upon signing	\$ 50,000
	December 15, 2018	100,000
	June 30, 2019	<u>375,000</u>
		\$525,000

As of the date of this report, the Company has paid \$150,000, and as further described below, has issued the 2,638,771 common shares required under either alternative.

In August 2018, the Company agreed to amend the terms of the payments due under the receivable for sale of a subsidiary as disclosed in Note 4 of the financial statements. The new repayment schedule will be \$20,000 per month, with an additional \$48,000 each fiscal quarter and a final payment of \$88,922 on March 24, 2019.

On August 20, 2018, the Company issued 710,986 common shares of the Company with a fair value of \$43,535 in settlement of the payable of \$65,080 to the former CFO. The Company recorded a gain on settlement of payables of \$21,545.

On February 25, 2019, the Company issued 2,638,771 common shares to AMEC to settle debt of \$141,750 in accordance with the debt settlement agreement to settle trade liabilities owed by the Company's subsidiary, Canariaco.

On February 25, 2019, the Company issued 1,837,692 common shares to Energold Drilling Peru S.A.C. to settle debt of \$98,718 in accordance with a debt settlement agreement entered into on January 11, 2019 to settle trade liabilities owed by the Company's subsidiary, Canariaco.

In March 2019, the Company completed a private placement financing, issuing 9,550,000 units at CDN\$0.05 per unit for gross proceeds of CDN\$477,500. Each unit consisted of one common share and one half of one common share purchase warrant whereby each whole warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.09 for a period of two years from the date of issuance. Finders' fees of \$3,000, 168,000 common shares and 84,000 warrants were issued in connection with the private placement.



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## **BOARD OF DIRECTOR AND MANAGEMENT CHANGES**

On March 7, 2018, Ms. Joanne Freeze, P. Geo., CEO and Director assumed the role of President of the Company following the resignation of Mr. Sean Waller P.Eng. Mr. Waller will remain as a member of the Board of Directors and will serve as a key technical advisor to the Cañariaco Copper Project in Peru.

On March 29, 2018, the Company announced that Mr. Paul H. Barry was re-appointed to the Board of Directors of Candente Copper as independent director. Mr. Barry had previously served as a Candente Copper director from January 2015 to February 2017.

Also, on March 29, 2018, the Company announced that Mr. Federico Luis Oviedo Vidal resigned from his position as independent director to pursue other opportunities.

On October 1, 2018, Mr. Mark Lotz was appointed Chief Financial Officer following the resignation of Mr. Alec Peck.

## **PROJECT SUMMARIES**

*The forward-looking information contained in this section is subject to the risk factors and assumptions contained in the section "Forward-Looking Statements" included with this MD&A. These factors are described under the heading "Risk Factors" and are Non-GAAP measures.*

### **Cañariaco Copper Project**

The Cañariaco Copper Project is an advanced stage porphyry copper exploration and development project located in Northern Peru. The Company's main focus is to conduct exploration for additional mineral deposits within the Cañariaco Copper Project and to progress development of the Cañariaco Norte Project through completion of a Feasibility Study.

The Company has a 100% interest in the mineral rights of the Cañariaco Copper Project.

Due to increasing costs (over time) for holding mineral rights, the Company allowed certain claims to lapse at the end of June 2016 such that the area covered by the Cañariaco Property has been reduced from 10,960 hectares to 7,029.5 hectares. This will not have any material impact on the project as no claims covering known mineralization were surrendered. The claims allowed to lapse had only covered ground which was considered exploration-worthy during initial exploration at Cañariaco Norte. Common industry practice for exploration companies is to rationalize property size to minimize holding costs by dropping non-core claims.

### **Mineral Resource Estimate for the Cañariaco Norte Project**

Mineral resource estimate for the Cañariaco Norte Project, as provided below, was prepared by AMEC Americas Ltd. ("AMEC"). A NI 43-101 Technical Report with effective date of November 8, 2010, and titled "Cañariaco Project, Lambayeque Department, Peru", was filed on December 15, 2010, with Canadian securities regulators in support of the resource statement.



**Table 1 - Mineral Resources at Various Copper Cut-off Grades:**

<b>Measured and Indicated Resource Summary</b>									
<b>Cu cut-off</b>	<b>tonnes (M)</b>	<b>Cu Eq*</b>	<b>Cu Eq**</b>	<b>Cu</b>	<b>Au (g/t)</b>	<b>Ag (g/t)</b>	<b>Contained Metal</b>		
							<b>Copper (B lbs)</b>	<b>Gold (M Ozs)</b>	<b>Silver (M Ozs)</b>
<b>0.30%</b>	<b>752.4</b>	<b>0.52%</b>	<b>0.49%</b>	<b>0.45%</b>	<b>0.07</b>	<b>1.9</b>	<b>7.533</b>	<b>1.669</b>	<b>45.237</b>
0.20%	1003.0	0.46%	0.44%	0.40%	0.06	1.7	8.941	2.065	56.102
0.14%	1106.2	0.44%	0.41%	0.38%	0.06	1.7	9.332	2.052	61.665
<b>Inferred Resource Summary</b>									
<b>0.30%</b>	<b>157.7</b>	<b>0.47%</b>	<b>0.44%</b>	<b>0.41%</b>	<b>0.06</b>	<b>1.8</b>	<b>1.434</b>	<b>0.304</b>	<b>8.932</b>
0.20%	293.3	0.38%	0.36%	0.33%	0.05	1.5	2.165	0.472	14.216
0.14%	419.4	0.32%	0.31%	0.28%	0.04	1.3	2.634	0.539	17.969

\*Copper equivalent grade including gold and silver values and based on 100% metal recoveries. Copper grade equivalent calculation.  $Cu Eq\% = (Cu\% + ((Au\ grade \times Au\ price) + (Ag\ grade \times Ag\ price)) / (22.0462 \times Cu\ price \times 31.0135\ g/t))$ .

\*\*Copper equivalent grade including gold and silver, metal recoveries (gold 55%; silver 50%) and smelter returns (copper 96.5%; gold 93%; silver 90%) applied. Copper grade equivalent calculation:  $Cu Eq\% = (Cu\% + ((Au\ grade \times Au\ price \times Au\ recovery \times Au\ smelter\ return\%) + (Ag\ grade \times Ag\ price \times Ag\ recovery \times Ag\ smelter\ return\%)) / (22.0462 \times Cu\ price \times 31.0135\ g/t \times Cu\ recovery \times Cu\ smelter\ return\%))$ .

This mineral resource estimate is based on 230 drill holes. Metal prices used by AMEC for the resource estimate were: copper \$2.50/lb, gold \$1,035/oz and silver \$17.25/oz.

In January 2011, AMEC completed a positive pre-feasibility study progress report for the Cañariaco Norte Project entitled "Cañariaco Norte Project, Prefeasibility Study Progress Report" (the "January 2011 Pre-Feasibility Study Progress Report"). In March 2011, AMEC completed a NI 43-101 Technical Report entitled "Cañariaco Project, Lambayeque Department, Peru, NI 43-101 Technical Report on Pre-Feasibility Study Progress Report", details of which are disclosed in the Company's Annual Information Form for the year ended December 31, 2011.

In November 2011, the Company completed a re-assessment of the Cañariaco Norte Project economics using the new Peruvian mining tax rates that became effective at that time. The after-tax NPV, IRR and payback period for the Cañariaco Norte Project were estimated to be \$912 million, 17.2% and 4.4 years respectively, using an averaged long-term copper price of \$2.25 per pound and a discount rate of 8%.

Management now considers these long-term calculations on copper price to be inconsistent with current industry consensus. Furthermore, the Peruvian corporate tax rate was revised to 29.5% as of January 1, 2017. Given both factors mentioned, the Company has revised the November 2011 financial model to reflect the sensitivity of the project economics to an updated range of metal prices and the updated Peruvian corporate tax rate. The following sensitivity table shows that using copper prices ranging from \$2.25 to \$2.90 per pound, gold prices ranging from \$1,235.00 to \$1,500.00 per ounce, and a fixed silver price of \$18.00 per ounce, the after-tax NPV, IRR and payback periods are now estimated to range from: \$672 million to \$1,505 million; 14.3% to 21.1%; and 5.5 to 3.9 years respectively.





**Table 2 - Sensitivities (8% discount, after tax)**

Gold Price \$/oz	NPV / IRR	Copper Price \$/lb			
		\$2.25	\$2.50	\$2.75	\$2.90
\$1,235.00	<b>NPV \$M</b>	672	980	1,285	1,459
\$1,235.00	<b>IRR %</b>	14.3	16.9	19.4	20.8
\$1,500.00	<b>NPV \$M</b>	719	1,025	1,332	1,505
\$1,500.00	<b>IRR %</b>	14.7	17.3	19.8	21.1

AMEC FW - 4<sup>th</sup> Qtr 2010 Pre-production Capex - \$1.5 billion

AMEC FW – 2<sup>nd</sup> Qtr 2016 Long term pricing Cu \$2.90 / Au \$1,235 / Ag \$18

From April 2011 to June 2013, the Company engaged AMEC and Knight Piesold for certain aspects of a definitive Feasibility Study. During that time, metallurgical drilling was completed; 50% of geotechnical drilling was conducted; site layout, process plant, infrastructure and ancillary facilities design was well advanced; preliminary mine design was completed; and the Environmental and Social Impact study was approximately 80% completed. Since June 2013, all activities other than certain Community Engagement and Initiatives have been minimized in order to reduce corporate expenditures.

The Company has been reviewing recently revised regulations for permitting required to re-commence drilling at Cañariaco and has been advised that a recent change in Peruvian Government regulations may allow the Company to re-initiate drilling under the permit originally approved in August 2014. This is the result of a new Government regulation DL N°1394 (Sept 6, 2018) which has now given Environmental Certificates a validity period of up to 5 years. The company has requested confirmation from the Ministry of Energy and Mines (“MEM”) and the Mining Environment Affairs Office (“DGAAM”) that this Government regulation does apply to the Company's 2014 drilling permit.

This could significantly reduce the timeline for drilling to be re-initiated and would enable the Company to focus on a new Land Access Agreement with the Cañaris Community. In addition, it could allow the Ministry of Energy and Mines and the Ministry of Culture to start planning their Consulta Previa (“CP”) process for this area, which may also be required prior to drilling.

The Consulta Previa is the process of Free Prior Informed Consent (abiding by international human rights law), which establishes bottom up participation and consultation of stakeholders, including Indigenous Populations, prior to exploration or development on and around ancestral land. The Company's management and social team has held several meetings and participated in a workshop with the Ministry of Culture this year to better understand the CP process.

**Exploration activities for the year ended December 31, 2018**

There has been no exploration field activity for the reporting period.

**Don Gregorio**

The Don Gregorio property is located in northern Peru 140 km NNE of Chiclayo in the department of Cajamarca and approximately 40 km north of the Cañariaco Norte Project porphyry Cu-Au deposit (M & I resource at 0.3% Cu cut-off: 752Mt at 0.45% Cu, 0.07 g/t Au and 1.9 g/t Ag). A 100-hectare concession





at the south end of the property was sold in February 2015, and the property now consists of one mineral concession totaling 900 hectares.

On June 29th, 2017, the Company announced it had signed a Definitive Agreement ("DA") to option the Don Gregorio copper-gold ("Cu-Au") porphyry project, located in Jaen Province, Peru, to Plan B Minerals Corp. ("Plan B").

In accordance with the DA, Plan B has the right to earn a 60% interest in the Don Gregorio property from the Company by:

1. Making staged payments of \$500,000 to Candente Copper; and
2. Drilling 10,000 metres ("m") within 3 years of receiving drilling permits.

To date, the Company has received payments of \$100,000 with respect to this transaction. One-half of the aforementioned payments have been used to fund Candente Copper team's work in community engagement and agreements. The Company is to also receive \$100,000 on or before 30 days of receipt of drill permits for the first phase drill program, a further \$100,000 within 30 days of completing the first phase drill program (5,000m) and the final \$200,000 within 60 days of completing the second phase drill program (an additional 5,000m).

#### **Exploration activities for the year ended December 31, 2018**

The only field activities for the reporting period have been community engagement and geological reviews.

#### **Arikepay**

The Arikepay property is located in southern Peru, in the Department of Arequipa, 58 km south of the city of Arequipa and 45 km south of Freeport-McMoRan's Cerro Verde copper-molybdenum mine. The property consists of six mineral claims totalling 4,000 hectares. Prior to Candente Copper's acquisition of Arikepay, Phelps Dodge had completed 4 closely spaced drill holes, however the Company has never been able to acquire results from that program. In 2012, the Company completed about 800 km of helicopter-borne high-resolution magnetics and drilled 3,630m of Reverse Circulation (RC) drilling in 14 widely spaced holes and identified a porphyry copper-gold deposit.

On November 28, 2013, Cobriza Metals Peru, now a wholly owned subsidiary of the Company, entered into an option agreement with Compañía Minera Zahena S.A.C. ("Zahena") allowing them to earn up to a 100% interest in the Arikepay project (the "Option Agreement") for various work commitments, cash payments and an NSR. By March 2016, the Company had received \$250,000 in cash payments. On March 17, 2017, the Company announced that Zahena had elected to discontinue their option as drilling results did not meet their objectives. As a result, no further payments will be received from Zahena.

During the year ended December 31, 2018, the Company decided not to renew the claims for Arikepay and recorded an impairment of \$13,200 on the property.



**CONSOLIDATED OPERATING HIGHLIGHTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

<b>Operating Highlights</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>	<b>Change</b>
Mineral rights acquisition and surface access	\$ 142,255	\$ 138,619	\$ 3,636
Community engagement and initiatives	157,536	170,674	(13,138)
Exploration	3,802	1,243	2,559
Environmental health and safety	4,668	978	3,690
Project management and field support	203,180	170,620	32,560
Cost recoveries	(41,643)	(8,500)	(33,143)
Impairment	(13,200)	-	(13,200)
Royalty and option payments received	-	(105,921)	105,921
<b>Total mineral properties</b>	<b>\$ 456,598</b>	<b>\$ 367,713</b>	<b>\$ 88,885</b>

Below are mineral property costs incurred for the year ended December 31, 2018, compared with 2017:

- Community engagement and initiatives relate to the Company's community relations, communication and development programs. Total costs incurred for these programs for the year ended December 31, 2018, totaled \$157,536 compared to \$170,674 for 2017. The decrease is related to the payment of land access fees in the prior year.
- Project management and field support costs include costs related to the maintenance of the corporate and operational overhead structure in Peru. These costs include: salaries and wages of personnel in Lima, the Chiclayo and the Cañariaco Copper Project camp facility, communication, transportation, drill core and equipment storehouse facility, food, lodging and fuel costs. For the year ended December 31, 2018, these costs totalled \$203,180 compared with \$170,620 in 2017.
- Cost recoveries were \$41,643 for the year ended December 31, 2018, compared to \$8,500 for the prior year. Cost recoveries are costs reimbursed by Plan B in connection with their option agreement.
- Royalty and option payments received were \$Nil for the year ended December 31, 2018, compared to \$105,921 for the year ended December 31, 2017. In 2017, the Company received option payments in connection with its Don Gregorio property.



**CONSOLIDATED OPERATING HIGHLIGHTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2018 AND 2017**

<b>Operating Highlights</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>	<b>Change</b>
Mineral rights acquisition and surface access	\$ (3,000)	\$ -	(3,000)
Community engagement and initiatives	23,884	92,687	(68,803)
Exploration	(373)	1,243	(1,616)
Environmental health and safety	-	978	(978)
Project management and field support	80,696	53,686	27,010
Impairment	(13,200)	-	(13,200)
Royalty and option payments received	-	31	(31)
<b>Total mineral properties</b>	<b>\$ 88,007</b>	<b>\$ 148,625</b>	<b>\$ (60,618)</b>

Below are mineral property costs incurred for the three months ended December 31, 2018, compared with the same period in 2017:

- Community engagement and initiatives relate to the Company's community relations, communication and development programs. Total costs incurred for these programs for the three months ended December 31, 2018, totaled \$23,884 compared to \$92,687 for the same period in 2017. The decrease is largely due to the payment of land access fees for several years in the prior year period.
- Project management and field support costs include costs related to the maintenance of the corporate and operational overhead structure in Peru. These costs include: salaries and wages of personnel in Lima, the Chiclayo and the Cañariaco Copper Project camp facility, communication, transportation, drill core and equipment storehouse facility, food, lodging and fuel costs. For the three months ended December 31, 2018, these costs totalled \$80,696 compared with \$53,686 for the same period in 2017.

**CONSOLIDATED FINANCIAL HIGHLIGHTS**

*Consolidated Financial Performance and Financial Position for the year ended December 31, 2018.*

<b>Consolidated Statements of Financial Position</b>			
	<b>December 31, 2018</b>	<b>December 31, 2017</b>	<b>Change</b>
Cash	\$ 7,882	\$ 392,453	\$ (384,571)
Mineral properties	\$ 63,226,793	\$ 62,790,239	\$ 436,554
Total Assets	\$ 64,258,989	\$ 64,648,190	\$ (389,201)
Share Capital	\$ 84,161,013	\$ 83,941,785	\$ 219,228



<b>Consolidated Statements of Loss</b>			
<b>Years Ended</b>			
	<b>December 31, 2018</b>	December 31, 2017	<b>Change</b>
Net loss	\$ 336,953	\$ 2,327,533	\$ (1,990,580)
Loss per share	\$ (0.00)	\$ (0.01)	\$ (0.01)
Interest income	\$ (79,716)	\$ (13,891)	\$ (65,825)
Gain on settlement of payables	\$ (94,518)	\$ -	\$ (94,518)
Gain on forgiveness of payable	\$ (13,892)	\$ -	\$ (13,892)
Loss on sale of subsidiary	\$ -	\$ 1,874,481	\$ (1,874,481)
Revaluation gain on discounted receivable	\$ (5,255)	\$ -	\$ (5,255)
Impairment of unproven mineral right interests	\$ (13,200)	\$ -	\$ (13,200)
Loss (gain) on foreign exchange	\$ 48,661	\$ (13,640)	\$ 62,301
Accounting, audit and tax advisory fees	\$ 56,346	\$ 55,278	\$ 1,068
Legal	\$ 34,009	\$ 38,985	\$ (4,976)
Management fees, office salaries and benefits	\$ 148,012	\$ 167,495	\$ (19,483)
Office, rent and miscellaneous	\$ 51,634	\$ 45,594	\$ 6,040
Regulatory and filing fees	\$ 32,669	\$ 45,971	\$ (13,302)
Share-based payments	\$ 69,311	\$ -	\$ 69,311
Shareholder communications	\$ 44,875	\$ 84,327	\$ (39,452)

Net loss for the year ended December 31, 2018, was \$336,953 compared to \$2,327,533 for the year ended December 31, 2017. The significant variances between the two years are described below:

- During the year ended December 31, 2017 there was a loss on the sale of the subsidiary Minera Candente Peru S.A. of \$1,874,481. There was no comparable event in the current year.
- During the year ended December 31, 2018, there was a gain on settlement of payables in the amount of \$94,518 compared to \$Nil for the prior year. On March 1, 2018, the Company issued 723,290 common shares of the Company with a fair value of \$61,911 in settlement of a trade payable of \$135,479 and on August 20, 2018, the Company issued 710,986 common shares of the Company with a fair value of \$43,535 in settlement of the payable of \$65,080 to the former CFO.
- During the year ended December 31, 2018, the Company recorded interest income of \$79,716 compared to \$13,891 for the year ended December 31, 2017. The increase in interest income is due to the current year amortization of the discount on the receivable for the sale of the subsidiary which completed in the fourth quarter of 2017.
- During the year ended December 31, 2018, there was a gain on forgiveness of payable of \$13,892 compared to \$Nil for the year ended December 31, 2017. This forgiveness was related to fees owing to the former CFO of the Company.



- During the year ended December 31, 2018, there was a loss on foreign exchange of \$48,661 compared to a gain of \$13,640 for the prior year due to the change in the value of the Peruvian Sol compared to the US dollar.
- During the year ended December 31, 2018, share-based payments were \$69,311 compared to \$Nil for the prior year due to the grant of 3,350,000 options in the current year.
- During the year ended December 31, 2018, shareholder communications were \$44,875 compared to \$84,327 for the year ended December 31, 2017. This decrease was due to the Company's attendance at additional conferences in 2017.

**Consolidated Financial Performance for the three months ended December 31, 2018**

*For a summary of selected information for each of the last eight quarters please refer to Appendix A.*

<b>Consolidated Statements of Loss</b>			
<b>Three Months Ended</b>			
	<b>December 31, 2018</b>	<b>December 31, 2017</b>	<b>Change</b>
Net loss	\$ 192,425	\$ 2,125,631	\$ (1,933,206)
Loss per share	\$ 0.00	\$ (0.01)	\$ (0.01)
Loss on sale of subsidiary	\$ -	\$ 1,874,481	\$ (1,874,481)
Impairment of unproven mineral right interests	\$ 13,200	\$ -	\$ 13,200
Loss on foreign exchange	\$ 20,720	\$ 111,173	\$ (90,453)
Interest income	\$ (13,066)	\$ (13,891)	\$ 825
Accounting, audit and tax advisory fees	\$ 14,419	\$ 11,692	\$ 2,727
Legal	\$ 20,419	\$ 16,256	\$ 4,163
Management fees, office salaries and benefits	\$ 34,388	\$ 41,208	\$ (6,820)
Office, rent and miscellaneous	\$ 14,001	\$ 12,718	\$ 1,283
Regulatory and filing fees	\$ 17,512	\$ 29,023	\$ (11,511)
Share-based payments	\$ 55,153	\$ -	\$ 55,153
Shareholder communications	\$ 8,171	\$ 34,290	\$ (26,119)

Net loss for the three months ended December 31, 2018, was \$192,425 compared to \$2,125,631 for the three months ended December 31, 2017. The significant variances between the two periods are described below:

- During the quarter ended December 31, 2017 there was a loss on the sale of the subsidiary Minera Candente Peru S.A. of \$1,874,481 compared to \$Nil for the three months ended December 31, 2018, as no subsidiaries were disposed of in the current quarter.
- During the quarter ended December 31, 2018, there was a loss on foreign exchange of \$20,720 compared to \$111,173 for the same period in the prior year to the change in the value of the Peruvian Sol compared to the US dollar.



- During the three months ended December 31, 2018, share-based payments were \$55,153 compared to \$Nil for the prior year quarter due to the grant of 3,050,000 options in the fourth quarter of 2018.
- During the quarter ended December 31, 2018, shareholder communications were \$8,171 compared to \$34,290 for the fourth quarter of 2017. This decrease was due to the Company's attendance at additional conferences in 2017.
- During the quarter ended December 31, 2018, regulatory and filing fees were \$17,512 compared to \$29,023 for the three months ended December 31, 2017. This decrease was related to the payment of several years of Peruvian filing fees in the prior year quarter.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's capital resources include existing cash of \$7,882, trade and other receivables of \$558,358 and a receivable for sale of a subsidiary of \$260,003. Given the protracted global resource sector slowdown, the Company has significantly reduced expenditures and is focusing primarily on initiatives that benefit the community and maintain the Company's presence in the Cañariaco Copper Project area.

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. As at December 31, 2018, the Company had incurred \$34.2 million cumulative losses since inception.

In March 2019, the Company completed a private placement financing, issuing 9,550,000 units at CDN\$0.05 per unit for gross proceeds of CDN\$477,500. Each unit consisted of one common share and one half of one common share purchase warrant whereby each whole warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.09 for a period of two years from the date of issuance.

On February 25, 2019, the Company issued 2,638,771 common shares to AMEC to settle debt of \$141,750 in accordance with the debt settlement agreement to settle trade liabilities owed by the Company's subsidiary, Canariaco.

On February 25, 2019, the Company issued 1,837,692 common shares to Energold Drilling Peru S.A.C. to settle debt of \$98,718 in accordance with a debt settlement agreement entered into on January 11, 2019 to settle trade liabilities owed by the Company's subsidiary, Canariaco.

In January 2019, the Company received a loan of \$100,000 from a director. The loan is unsecured, non-interest bearing and is due on demand.

On August 20, 2018, the Company issued 710,986 common shares of the Company with a fair value of \$43,535 in settlement of a payable of \$65,080 to the former CFO. The Company recorded a gain on settlement of payables of \$21,545.

On July 9, 2018, 1,000,000 stock options at a weighted average exercise price of CDN \$0.09 per share were exercised for proceeds of \$65,664.



On March 1, 2018, the Company issued 723,290 common shares of the Company with a fair value of \$61,911 in settlement of a trade payable of \$135,479. The Company recorded a gain on settlement of payables of \$73,568.

### **SHARE CAPITAL**

As at the date of this report, the Company had 194,230,868 common shares outstanding.

As at the date of this report, the Company had 9,554,500 outstanding share options and 16,057,552 outstanding warrants.

### **COMMITMENTS**

In July 8, 2012, the Company signed a land use agreement with the community of San Juan de Cañaris, by which the community authorized the Company to use the land for exploration purposes for three years. The Company had committed 1,500,000 soles (\$550,000) to fund sustainable development programs subject to specific project approval by the parties. The Company also committed to issue 1,000,000 shares of the Company to the community upon the earlier of the commencement of the construction phase of the Cañariaco Copper Project or the transfer of at least 51% of the Cañariaco Copper Project to a third-party.

### **OFF BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off-balance sheet arrangements.

### **PROPOSED TRANSACTIONS**

The Company continues to review potential transactions, but as of the date of this MD&A, none have been approved by the Board of Directors.

### **RELATED PARTY TRANSACTIONS**

The Company's related parties consist of companies owned by executive officers and directors and Companies with common officers and directors. The following is a list of the related parties that the Company entered into trading transactions with:

- Ridley Rocks Inc. – Management and exploration fees.
- SW Project Management – Former president, project management and engineering fees.
- Michael Thicke Geological Consulting Inc. – Exploration fees.
- Candente Gold Corp. – Shared expenses with a company related by common directors and management.
- Lotz CPA Inc. – Financial services, fees thereto.





Key management compensation:

Key management consists of the Company's directors, executive officers and senior management. Compensation includes amounts paid to these individuals and companies they control.

	<b>Years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Salaries and fees	\$ 84,528	\$ 135,940
Share-based payments	51,516	-
	<b>\$ 136,044</b>	<b>\$ 135,940</b>

The Company does not remunerate the directors of the Company unless its market capitalization is greater than \$75 million. No directors' fees were paid during the year ended December 31, 2018 or 2017.

Included in salaries and fees is \$37,835 (2017 - \$57,393) which was capitalized to unproven mineral right interests.

On August 20, 2018, the Company issued 710,986 common shares of the Company with a fair value of \$43,535 in settlement of a payable of \$65,080 to the former CFO. The Company recorded a gain on settlement of payables of \$21,545.

During the year ended December 31, 2018, the former CFO forgave fees owed to him in the amount of \$13,892 (2017 – \$Nil).

During the year ended December 31, 2018, two directors and an officer advanced amounts totaling \$93,601 to the Company. The advances are unsecured, non-interest bearing and are due on demand. The advances are included in trade payables and accrued liabilities.

Amounts due to and from related parties are unsecured, non-interest bearing and due on demand. Trade payables and accrued liabilities at December 31, 2018, included \$357,347 due to related parties (December 31, 2017 – \$425,394). Trade and other receivables at December 31, 2018, included \$549,935 (December 31, 2017 - \$591,508) due from Candente Gold Corp., a company with common officers and directors.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Company's significant accounting policies are summarized in Note 3 of its consolidated financial statements. The preparation of consolidated financial statements in accordance with IFRS requires management to select accounting policies and make estimates and judgments that may have a significant impact on the consolidated financial statements. The Company regularly reviews its estimates, however; actual amounts could differ from the estimates used and, accordingly, materially affect the results of operations.



(a) Critical accounting estimates

I. Estimated useful lives

Management estimates the useful life of equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors could cause significant changes in the estimated useful lives of the Company's equipment in the future.

ii. Valuation of share-based payments and warrants

When options and warrants are issued, the Company calculates estimated fair value using a Black-Scholes valuation model, which may not reflect the actual fair value on exercise. The Company uses historical Company stock prices and estimated dividend yield rates to arrive at the inputs that are used in the valuation model to calculate the fair value of the option or warrant

iii. Income taxes

Determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable income in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each applicable jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize a deferred tax asset could be materially impacted.

(b) Critical accounting judgments

i. Unproven mineral right interest

Unproven mineral right interest includes the cost of acquiring licenses, exploration, analyses, project administration, drilling, community relations, sustainable development programs, environmental, health and safety. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist, the rights of tenure are current, and it is considered probable that the costs will be recouped through successful development and exploitation of the known deposit. Management is required to exercise significant judgment in determining the timing of the determination of the technical and economic feasibility of the unproven mineral right interest. The Company considers both external and internal sources of information in assessing whether there are any indicators that unproven mineral right interest are impaired. Based upon the Company having no intention of abandoning the Cañariaco Copper Project, the Company's assessment of its market capitalization and the Company's assessment of the fair value based on in-situ mineral content and other fair value less costs to sell measures, management has determined that there is no impairment charge as at December 31, 2018.



ii. Rehabilitation and environmental provisions

The Company has accounted for material rehabilitation and environmental provisions that existed as of the period end based on facts and circumstances that existed at December 31, 2018. The Company reviews facts and circumstances surrounding its exploration program, existing laws and compliance, contracts and other policies on an ongoing basis. A material restoration obligation involves a number of estimates relating to timing, type of costs and associated contract negotiations, and review of potential methods and technical advancements. At this time rehabilitation and environmental obligations pertain to the reclamation of exploration drill sites, access paths, and other areas at the Cañariaco Copper Project site that may have been impacted by the drilling activities.

**NEW ACCOUNTING STANDARDS AND INTERPRETATIONS**

Financial Instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilize a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application.

The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of reserves on January 1, 2018.

Measurement

Financial assets and liabilities at amortized cost



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Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of comprehensive loss in the period in which they arise.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve-month expected credit losses. The Company shall recognize in the consolidated statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of comprehensive loss.

Accounting Standards Issued But Not Yet Applied

Leases

On January 13, 2016, the IASB published a new standard, IFRS 16, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. The new standard also requires qualitative disclosures along with specific quantitative disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company continues to assess the impact of adopting this standard on its consolidated financial statements.

Other accounting pronouncements with future effective dates are either not applicable or are not expected to have a material impact on the Company's consolidated financial statements.



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## **FINANCIAL RISK, FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT**

The Company is exposed to certain financial risks in the normal course of its operations:

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The liquidity position of the Company is managed to ensure sufficient liquid funds are available to meet financial commitments in a timely and cost-efficient manner. The Company's management continually reviews the liquidity position including cash flow forecasts to determine the forecasted liquidity position and maintain appropriate liquidity levels. The Company plans to make payments of trade payables, which are either past due or due within the next 12 months and commitments from its current working capital and future sources of equity financing. Liquidity risk is considered to be high.

### **Currency risk**

Currency risk is the risk that arises on financial instruments that are denominated in a foreign currency, i.e. in a currency other than the functional currency in which they are measured. The Company operates internationally and is exposed to risks from foreign currency rates. The functional currencies of the Company's subsidiaries are the United States and Canadian dollars and certain of the subsidiaries' transactions are denominated in Nuevo Soles. The Company does not enter into any foreign exchange contracts to mitigate this risk. The Company and its subsidiaries do not have significant transactions or hold significant cash denominated currencies other than their functional currencies. Therefore, the risk is considered minimal.

### **Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. Cash is deposited in highly rated corporations and the credit risk associated with these deposits is low. Of the trade and other receivables balance as at December 31, 2018, \$549,935 is due from Candente Gold Corp, a related party. At December 31, 2018, Candente Gold Corp's assets are in the exploration stage and the Company does not have sufficient cash or cash flows to pay the amount due. Management considers that this receivable is recoverable. Credit risk associated with this receivable is considered moderate.

The Company also has a receivable of \$260,003 associated with the sale of Minera Candente which is payable over a period of 17 months. The purchaser has missed the last 4 payments, for a total of \$88,000, as at December 31, 2018. Management considers that this receivable is recoverable, and that credit risk associated with this receivable is moderate.

As at December 31, 2018, the Company's maximum exposure to credit risk is the carrying value of its cash and receivables.

### **Financial Instruments**

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.



Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short-term profit taking.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. Unrealized gains and losses on the fair value of such assets are recognized in other comprehensive income whereas impairment losses and foreign exchange gains and losses on such assets are recorded in the statement of loss.

The Company has classified its cash and trade and other receivables as loans and receivables. Trade payables and accrued liabilities are classified as other financial liabilities.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of an instrument is considered to determine whether impairment has arisen.

### **Capital management**

The Company's capital structure is comprised of working capital (current assets minus current liabilities) and equity. The Company's objectives when managing its capital structure is to, maintain financial flexibility to preserve the Company's access to capital markets and its ability to meet its financial obligations.

The Company's corporate office is responsible for capital management. This involves the use of corporate forecasting models, which facilitate analysis of the Company's financial position including cash flow forecasts to determine future capital management requirements. In preparing its budgets and corporate forecasting models, the Company considers operating commitments imposed by its subsidiaries and the stability of the global capital markets. Capital management is undertaken to safeguard a secure, cost-effective supply of funds to ensure the Company's operating and capital expenditure requirements are met. The total capital being managed by the Company as of December 31, 2018 and 2017, is as follows:

		<b>As at December 31, 2018</b>		<b>As at December 31, 2017</b>
Total working capital deficiency	\$	<b>(1,184,071)</b>	\$	(841,621)
Total equity		<b>62,793,190</b>		63,002,414
<b>Total capital</b>	<b>\$</b>	<b>61,609,119</b>	<b>\$</b>	<b>62,160,793</b>

There were no changes in the Company's approach to capital management during the period and the Company is not subject to any restrictions on its capital.





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### **Fair value hierarchy**

The consolidated statements of financial position carrying amounts for cash, trade and other receivables and trade payables, approximate fair value due to their short-term nature. The receivable for sale of subsidiary is measured at fair value using the effective interest method.

The following provides a description of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash and investments fall under Level 1.

There were no transfers between levels during the year.

### **INTERNAL CONTROLS OVER FINANCIAL REPORTING (“ICFR”)**

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect the additions to and dispositions of the assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and the Company's receipts and expenditures are made only in accordance with authorization of management and the Company's directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual or interim financial statements.

Any system of internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

An evaluation of the design effectiveness of the Company's internal controls over financial reporting was conducted as of December 31, 2018, by the Company's management. Based on this evaluation, the Company's CEO and CFO have concluded that the design, disclosure controls, procedures and the effectiveness of the Company's internal controls over financial reporting was and is effective. The Board of Directors is ultimately responsible for ensuring that the internal control of financial reporting is effective and has been overseeing the Company's Management in this regard.





There were no changes in the Company's internal control over financial reporting during the year ended December 31, 2018, that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

## **RISK FACTORS**

The Company is subject to a number of significant risks due to the nature and the current stage of its business and the effect of worldwide economic conditions. Exploration of unproven mineral right interest involves a high degree of technical, financial and social risk. While discovery of a mineral deposit may result in substantial rewards, few exploration properties are ultimately developed into producing mines. Major expenditures may be required to establish resources and reserves by drilling, constructing mining and process facilities, developing metallurgical processes and extracting base and precious-metals. It is impossible to ensure that the current exploration programs of the Company will result in profitable commercial mining operations.

Risk factors that should be taken into account in assessing the Company's activities and any investment in the Company include, but are not limited to, those listed below. Any one or more of these risk factors could have a material impact on the financial condition of the Company. This information, by its nature, is not all-inclusive and risk factors that have not been listed could have a material impact on the future financial condition of the Company.

### **Economic conditions may prevent the Company from obtaining the capital required to continue operations**

The Company's ability to continue operations is contingent on its ability to obtain additional financing. Equity market conditions, funding environments and the price of the Company's common shares may make it dilutive and difficult to raise funds by the sale of the Company's shares. An investment in the shares of a junior resource company is considered to be a high-risk investment. In the past, the Company has been successful in raising capital for its exploration and development activities; however, there is no assurance that financing will be available to the Company in future periods.

### **History of Losses**

The Company incurred a net loss for the year ended December 31, 2018, of \$336,953 and is expected to generate losses while it continues to be an exploration and development-stage company. The Company anticipates significant expenditures for its mineral exploration programs. The Cañariaco Norte Project has a 43-101 compliant mineral resource and has received a NI 43-101 Technical Report entitled "Cañariaco Project, Lambayeque Department, Peru, NI 43-101 Technical Report on Pre-feasibility Study Progress Report". In addition, Feasibility level studies commenced in April 2011, with AMEC as the lead engineering consultant. Having said this, most exploration projects do not result in the discovery of commercially productive mineral reserves and are ultimately expensed in full. The Company could in fact be required to report net losses into the foreseeable future.

The long-term profitability of the Company's operations will be in part directly related to the success of its exploration programs, which are affected by numerous factors including the cost of such programs, the amount of mineral resources or reserves discovered and fluctuations in the price of any minerals produced.



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## **Dilution**

The Company does not generate any revenues from production and may not have sufficient financial resources to undertake by itself all of its planned exploration, feasibility and development programs. The Company has limited financial resources and has financed its operations primarily through the sale of securities such as common shares. The Company assesses various options for financing however the Company may need to continue its reliance on the sale of such securities for future financing, resulting in potential dilution to the Company's existing shareholders. The amount of additional funds required will depend largely on the success of the Company's exploration programs and extent of future development activities.

Further exploration programs will depend on the Company's ability to obtain additional financing which may not be available under favorable terms, if at all. If adequate financing is not available, the Company may not be able to commence or continue with its exploration and development programs or to meet minimum expenditure requirements to prevent the full or partial loss of its mineral properties.

## **No Known Mineral Reserves**

The Company's mineral properties are in the exploration stage and although one property, the Cañariaco Norte Project, has established 43-101 compliant mineral resources, it is without known mineral reserves. Although the Company may discover mineral reserves through its exploration programs, commercial production may not be warranted due to insufficient quantities or unfavourable economic conditions.

In the event a mineral reserve is discovered, substantial expenditures are required to develop the mineral reserve for production including facilities for mining, processing, infrastructure and transportation. The marketability of any minerals discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately predicted, such as global economic conditions, mineral markets and mineral pricing, global smelting and refining availability, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Depending on the price of minerals produced, the Company may determine that it is not warranted to commence or continue commercial production.

## **Title to Mineral Properties**

The Company believes it has diligently investigated title to all of its mineral properties and, to the best of its knowledge, title to all properties are in good standing. However, the properties may be subject to prior unregistered agreements or transfers, which may affect the validity of the Company's ownership of such properties.

Although the Company has exercised due diligence with respect to title to properties in which it has a material interest, title to such properties may be challenged or impugned in the future. The Company makes a search of mining records in accordance with mining industry practices to confirm that it has acquired satisfactory title to its properties but does not obtain title insurance with respect to such properties. The possibility exists that title to one or more of its properties, particularly title to undeveloped properties, might be defective because of errors or omissions in the chain of title, including defects in conveyances and defects in maintaining such claims. Should a defect in title be discovered by or disclosed to the Company, all reasonable steps would be taken to perfect title to the particular claims in question. The Company is not aware of any material defect in the title to its mineral properties.



A claim on any of the Company's mineral properties, especially if commercially productive mineral resources or reserves are located, could adversely affect the Company's long-term profitability as it may preclude entirely the economic development of a mineral property. Also, such a claim may affect the Company's current operations due to the potential costs, time and efforts of defending against such claims.

### **Key Personnel**

The Company is dependent on a relatively small number of key personnel, the loss of any of whom could have an adverse effect on the operations of the Company. The Company's success is dependent to a great degree on its ability to attract and retain qualified management personnel. The loss of such key personnel, through incapacity or otherwise, may require the Company to seek and retain other qualified personnel and could compromise the pace and success of its exploration activities. The Company does not maintain key person insurance in the event of a loss of any such key personnel. Also, certain management personnel of the Company are officers and/or directors of other publicly-traded companies and may devote only part of their time to the Company.

Additionally, the Company has relied on and is expected to continue relying upon consultants and others for exploration and development expertise. In the event a commercial mineral deposit is discovered on any of the Company's properties, the Company will likely continue to require the expertise of such consultants and others for the development and operation of a producing mine.

### **Industry Operating Hazards and Risks**

Mineral exploration and development involve many risks, including location of commercially productive mineral resources or reserves, which may not occur even with a combination of experience, knowledge and careful evaluation. The operations in which the Company has a direct or indirect interest may be subject to some or all of the hazards and risks normally incidental to resource companies, any of which could result in work stoppages. Fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides social disruptions, political instability and the inability to obtain suitable or adequate machinery, equipment or labour are some of the industry operating risks involved in the development and operation of mines and the conduct of exploration programs. Other risks include injury or loss of life, severe damage to or destruction of property, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. The occurrence of any of these operating risks and hazards may have an adverse effect on the Company's financial condition and operations and may incur legal liability.

Although the Company will, when appropriate, secure liability insurance in an amount which it considers appropriate, the nature of these risks is such that liabilities might exceed policy limits, the liability and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that may have a material adverse effect upon its financial condition and operations.

### **Government Regulations and Political Climate**

Mineral exploration on the Company's properties are affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law reform; (iii) tax laws (iv) restrictions on production, price controls, and tax increases; (v) maintenance of claims; (vi) tenure; and (vii) expropriation of property through nationalization, requisition or confiscation. Any mineral exploration activities conducted by the Company, including commencement of production,



require permits from governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in development and/or production and other schedules as a result of the need to comply with applicable laws, regulations and permits. All permits required for the conduct of exploration, development and mining operations, including the construction of mining facilities, may not be obtainable by the Company on reasonable terms, which would have an adverse effect on any mining project the Company might undertake. Additionally, failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining exploration, development or operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

To the best of the Company's knowledge, the Company is and will continue to operate in compliance with applicable legal and environmental regulations and social requirements. However, amendments to current governmental laws and regulations affecting mining companies, or the more stringent application thereof, or shifts in political conditions or attitudes could adversely affect the Company's operations including the potential to curtail or cease exploration programs or to preclude entirely the economic viability of a mineral property. The extent of future changes to governmental laws and regulations cannot be predicted or quantified, but it should be assumed that such laws and regulations will become more stringent in the future. Generally, new laws and regulations will result in increased compliance costs, including costs and time and effort for obtaining permits, and increased delays or fines resulting from loss of permits or failure to comply with the new requirements.

### **Social Climate**

Social acceptance to operate during the various stages of a mining project is an integral part of operating such that lack thereof provides a very real risk during the exploration, exploitation and closure stages of mine development. In addition, the fact that the means and tools to manage social acceptance are not an exact science adds to the level of risk.

The Company has established corporate social responsibility policies and programs that include:

Regular communication with various members of the Community regarding their concerns and needs as well as our activities and objectives.

Social and sustainable development projects and alliances with local and international non-governmental organizations ("NGOs") that are committed to improving the lives of families in under-developed regions.

The Company considers these initiatives as a foundation for building a positive and mutually beneficial long-term relationship with the various stakeholders in the Cañariaco Copper Project.



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## **Environmental Liability**

Although the Company is not aware of any formal claims for damages related to any impact that its activities have had on the environment, it may become subject to such claims in the future. An environmental claim could adversely affect the Company's business due to the high costs of defending against such claims and its impact on senior management's time.

The Company conducts exploration activities in Peru. Such activities are subject to various laws, rules and regulations governing the protection of the environment. All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed properties and a heightened degree of responsibility for companies and their officers, directors and employees.

The Company is committed to compliance with all environmental regulations currently applicable, nevertheless environmental hazards may exist on the Company's mineral properties, which are not known to the Company at present, that have been caused by previous or existing owners or operators.

Environmental regulations may change in the future which could adversely affect the Company's activities including the potential to curtail or cease exploration programs or to preclude entirely the economic development of a mineral property. The extent of any future changes to environmental regulations cannot be predicted or quantified, but it should be assumed that such regulations will become more stringent in the future. Generally, new regulations will result in increased compliance costs, including costs for obtaining permits, delays or fines resulting from loss of permits or failure to comply with the new regulations.

## **Fluctuations in Metal Prices**

Although the Company does not hold any known mineral reserves, its future revenues, if any, are expected to be in large part derived from the future mining and sale of base and precious metals or interests related thereto. The prices of these commodities have fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the Company's control including international economic and political conditions, expectations of inflation, international currency exchange rates, interest rates, global or regional consumptive patterns, speculative activities, levels of supply and demand, increased production due to other new mine developments and improved mining and production methods, availability and costs of metal substitutes, metal stock levels maintained by producers and others and inventory carrying costs. The effect of these factors on the price of base and precious metals, and therefore the economic viability of the Company's operations, cannot be accurately predicted.

Depending on the price obtained for any minerals produced, the Company may determine that it is impractical to commence or continue commercial production.

## **Cyber Security Risks**

As the Corporation continues to increase its dependence on information technologies to conduct its operations, the risks associated with cyber security also increase. The Corporation relies on management information systems and computer control systems. Business and supply chain disruptions, plant and utility outages and information technology system and network disruptions due to cyber-attacks could seriously



harm its operations and materially adversely affect its operation results, Cyber security risks include attacks on information technology and infrastructure by hackers, damage or loss of information due to viruses, the unintended disclosure of confidential information, the issue or loss of control over computer control systems, and breaches due to employee error. The Corporation's exposure to cyber security risks includes exposure through third parties on whose systems it places significant reliance for the conduct of its business. The Corporation has implemented security procedures and measures in order to protect its systems and information from being vulnerable to cyber-attacks. The Corporation believes these measures and procedures are appropriate. To date, it has not experienced any material impact from cyber security events. However, it may not have the resources or technical sophistication to anticipate, prevent, or recover from rapidly evolving types of cyber-attacks. Compromises to its information and control systems could have severe financial and other business implications

Additional information, including the Company's most recent Annual Information Form, is available on SEDAR at <http://www.sedar.com>





APPENDIX A

*Summary of quarterly financial results*

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net income (loss)	(192,425)	(73,812)	(86,482)	15,766	(2,125,631)	(110,059)	(112,014)	20,171
Earnings (Loss) Per Share Attributable to Shareholders Basic and Diluted	(0.00)	(0.00)	(0.00)	0.00	(0.01)	(0.00)	(0.00)	\$ 0.00

*Selected annual information*

	Consolidated Statements of Financial Position		
	December 31, 2018	December 31, 2017	December 31, 2016
Cash	\$ 7,882	\$ 392,453	\$ 335,781
Mineral properties	\$ 63,226,793	\$ 62,790,239	\$ 64,788,587
Total assets	\$ 64,258,989	\$ 64,648,190	\$ 66,108,498
Share capital	\$ 84,161,013	\$ 83,941,785	\$ 82,951,197
	Year ended Consolidated Statements of Loss		
	December 31, 2018	December 31, 2017	December 31, 2016
Net loss	\$ (336,953)	\$ (2,327,533)	\$ (430,135)
Loss per share attributable to shareholders, basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.00)