



**CHAKANA**  
C O P P E R

**CHAKANA COPPER CORP.**

**MANAGEMENT DISCUSSION & ANALYSIS**

**FOR THE YEAR ENDED MAY 31, 2021**

**(EXPRESSED IN CANADIAN DOLLARS)**

**GENERAL**

This Management's Discussion and Analysis ("MD&A") of Chakana Copper Corp. (the "Corporation" or "Chakana") dated September 23, 2021, provides an analysis of the Corporation's financial results for the year ended May 31, 2021. The following information should be read in conjunction with the accompanying audited consolidated financial statements for the year ended May 31, 2021 with accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

All dollar figures are expressed in Canadian dollars unless otherwise stated. The Corporation's consolidated financial statements and MD&A are available on [www.sedar.com](http://www.sedar.com).

**CORPORATION OVERVIEW**

Chakana Copper Corp. was incorporated on May 2, 2011, under the laws of the province of British Columbia, Canada. The Corporation is a mineral exploration corporation listed on the TSX Venture Exchange ("TSX-V") under the symbol "PERU". The Corporation is currently engaged in the exploration and development of mineral properties, with prospects for copper, gold and silver in Peru.

The head office and principal address is 800 West Pender Street, Suite 1430, Vancouver, British Columbia, V6C 2V6, Canada. The records office of the Corporation is located at 1055 West Pender Street, Suite 1500, Vancouver, British Columbia, V6E 4V7, Canada.

The Corporation is currently advancing the Soledad Project near Aija, in the Ancash region of the highly prolific Miocene mineral belt of Peru. The Corporation's goal is to find and advance mineral projects to an economic resource within a single commodity cycle for further development by mid-tier and/or major mining companies. The Corporation looks for de-risked projects that have the characteristics of large above average grade mineral systems with significant upside potential. The Corporation employs the latest technological innovations to test the upside potential of projects with aggressively funded exploration programs.

**GENERAL OVERVIEW OF MARKET CONDITIONS**

During the period May 31, 2019 through to the date of this MD&A, copper prices have fluctuated between a low of US \$2.10 per pound and a high of US \$4.75 per pound closing at US \$4.25 per pound. During the same period, gold and silver prices started to appreciate, with gold trading between US \$1,275 per ounce and US \$2,029 per ounce, closing at US \$1,754 per ounce, and silver trading between US \$11 per ounce and US \$29 per ounce, closing at US \$22.60 per ounce. Since May 31, 2021 to the date of this report, gold and silver prices have come down from their highs with gold trading around US\$1,800 per ounce and silver between US\$25 and US\$ 26 per ounce while copper has been fluctuating around the US\$4.00 per pound price range.

Since the second half of 2019, base metal prices have increased significantly. These factors have created a positive environment for the resource and exploration sectors focused on these metals, and as a result, share prices of many junior/exploration stage companies have increased in value, allowing for new financing over this period. However, as a result of the global pandemic caused by COVID-19 many governments have mandated lockdowns affecting the ability of companies to continue with normal operations. As a result of the increase in precious metal prices combined with exploration success the market capitalization of the Corporation increased. However, during 2020 and 2021 a new wave of COVID-19 related to the "delta" variant has created pressure in the global markets including the resource sector. In addition, certain re-sell restrictions on the Company's common shares expired resulting in an over-hang of stock held by previous private placement subscribers. In management's opinion, these factors were the primary drivers in a decline to the Corporation's share price. As described above, the global pandemic has created significant volatility in copper, gold and silver prices since February 2020. If prices for these metals stay high or increases once the pandemic settles, this may release some pressure on the stock market resulting in increased share prices which may provide better opportunities for additional funding and consequently more operational activity in the precious metals or base metals exploration sector.

The current outbreak of COVID-19 and any future emergence and spread of similar pathogens could have an adverse impact on global economic conditions, which may adversely impact the Corporation's operations, and the operations of its suppliers, contractors and service providers, the ability to obtain financing and maintain necessary liquidity, and the ability to explore the Corporation's properties. The outbreak of COVID-19 and political upheavals in various countries have caused significant volatility in commodity prices. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time. Similarly, the Corporation cannot estimate whether or to what extent this outbreak and the potential financial

impact may extend to countries outside of those currently impacted. Travel bans and other government restrictions may also adversely impact the Corporation's operations and the ability of the Corporation to advance its projects. In particular, if any employees or consultants of the Corporation become infected with coronavirus or similar pathogens and/or the Corporation is unable to source necessary consumables or supplies, due to government restrictions or otherwise, it could have a material negative impact on the Corporation's operations and prospects, including the complete shutdown of one or more of its exploration programs. The situation is dynamic and changing day-to-day. As a result of these uncertainties, the Corporation implemented new work protocols for its employees and contractors incorporating Covid-19 prevention measures such as installation of a stand-alone camp on the project, individual dormitory accommodations, improved hygiene measures, use of masks and gloves, and mandatory social distancing. These measures have allowed the Corporation to continue operations including its drilling program.

## HIGHLIGHTS

### Exploration developments

- In June 2020, the Corporation was granted final Peruvian Government approval on the initiation of activities for the Semi-detailed Environmental Impact Assessment covering the central part of the expanded Soledad Project. This permit allows the Corporation to expand and accelerate its exploration program into some of the highest priority areas that have demonstrated significant surface and geophysical anomalies that have not been previously drilled.
- On August 15, 2020, the Corporation recommenced its fully funded Phase 3b drill program to test multiple high-grade gold-enriched breccia pipe targets in the central part of the Soledad Project. These outcropping targets are in part defined by high-grade gold rock sample results. The targeted pipes demonstrate a number of surface characteristics consistent with previous results from other drilled breccia pipes at Soledad.
- On September 17, 2020, the Corporation provided drill results from the first three drill holes completed at the Paloma East target within the expanded Soledad Project in Ancash. Significant zones of mineralization were encountered in all three holes. Gold enrichment was noted in the top of two holes with intercepts with gold and silver and intercepts of gold and copper in the third hole.
- On October 8, 2020, the Corporation provided Surface Channel Sampling Results for two previously drilled tourmaline breccia pipes, H 1 and H 6, at its expanded Soledad Project in Ancash. All H 1 channel samples average 5.61 g/t gold and 62.2 g/t silver with maximum grades of 28.0 g/t gold and 1,230 g/t silver. All H 6 channel samples average 0.19 g/t gold and 34.6 g/t silver with maximum grades of 0.57 g/t gold and 132 g/t silver.
- On October 28, 2020, the Corporation reported drill results from four additional holes including 226 metres of 0.34 g/t gold, 0.36% copper, and 16.9 g/t silver (1.11 g/t Au-Eq) from 3 metres at Paloma East - Soledad Project, including 15 m of 2.26 g/t gold and 16.6 g/t silver (2.48 Au-Eq) from 21 m.
- On November 10, 2020, the Corporation announced new high-grade copper-gold-silver discovery at Paloma West - Soledad Project. The first three holes in Paloma West demonstrate very significant grades for copper and precious metals. Significant intervals of mineralization were encountered in all three holes, including 22.65 m of 2.81 g/t gold, 3.80% copper and 56.2 g/t silver (9.36 g/t Au-Eq) from 48 m.
- On December 3, 2020, the Corporation reported results of four additional holes at its Paloma West discovery, it reported it found additional intersections of 10.7 metres of 7.25 g/t Au, 10.2%Cu and 163.5 g/t Ag (24.99 g/t Au-Eq) from 32.4 metres at Paloma West - Soledad Project.
- On December 18, 2020, the Corporation reported results of four additional holes at its Paloma West discovery, it reported it found additional intersects 101.5 metres of 0.61 g/t Au, 0.91%Cu and 19.8 g/t Ag (2.26 g/t Au-Eq) from 32 metres at Paloma West - Soledad Project.
- On January 12, 2021, the Corporation reported intersects 126.2 metres of 0.31 g/t Au, 0.53% Cu and 34.6 g/t Ag (1.03% Cu-Eq; 1.57 g/t Au-Eq) from 92.8 metres at Hu Huancarama Breccia Complex - Soledad Project ("Huancarama").

By the end of 2020, field crews had completed 34 drill holes for 6,634 metres at three high priority targets, Paloma East, Paloma West and Huancarama as part of the Corporation's original 15,000-metre drill program.

- On January 25, 2021, the Corporation reported results for two additional drill holes from the recently announced discovery at the Huancarama, being an intersect of 120.4 metres of 0.51 g/t Au, 0.83% Cu and 34.6 g/t Ag (1.46% Cu-Eq; 2.23 g/t Au-Eq) from 101.3 metres.
- On February 9, 2021, the Corporation reported results for two additional drill holes with the highest-grade intercepts reported to date from the Huancarama. These holes complement the initial ten holes previously published on January 12, 2021, and January 25, 2021. These results included the highest-grade interval to date: 11 metres of 2.79 g/t Au, 4.04% Cu and 330.8 g/t Ag (13.30 g/t Au-Eq) within 93 metres of 1.63 g/t Au, 0.95% Cu and 129.2 g/t Ag (4.77 g/t Au-Eq) from 117 metres.
- On February 18, 2021, the Corporation reported adding a second drill rig to its Soledad Project, in order to accelerate both the exploration and resource drilling programs. It also expanded its drill program to 26,000 metres for the 2021 calendar year, with 16,000 metres of resource drilling for inclusion in the Corporation's Soledad maiden resource estimate expected late 2021. Resource drilling will focus on recent discoveries at Paloma East, Paloma West and Huancarama.
- On March 3, 2021, the Corporation extended mineralization 290 metres below surface at Huancarama.
- On March 24, 2021, the Corporation reported a discovery of a second high-grade breccia pipe within Huancarama. This new high-grade breccia pipe (Huancarama West) is located approximately 75m west of the previously announced Huancarama East discovery with intersects of 11 metres of 6.29 g/t Au and 92.8 g/t Ag (7.66 g/t Au-Eq) 14 metres below surface.
- On April 28, 2021, the Corporation reported drill results from eight exploration holes from Huancarama totaling 1,522.1 metres and five resource drill holes from Paloma East totaling 1,455.15 metres. The Corporation reported high-grade intersects of 125.0 metres of 0.63 g/t Au, 0.54% Cu, and 55.7 g/t Ag (1.43% Cu-eq) including 15.0m of 2.29 g/t Au, 1.27% Cu, and 248.6 g/t Ag (4.89% Cu-eq) at Huancarama.
- On May 25, 2021, the Corporation reported drill results from eleven in-fill holes totaling 2,873 metres from the Huancarama, Paloma East and Paloma West tourmaline breccia pipe at its Soledad project. Four holes were drilled through the Huancarama East breccia pipe. All four holes intersected mineralized breccia, consistent with previous exploration holes.

Five holes were drilled at Paloma East. Mineralization was encountered in all five drill holes over a vertical range from surface to approximately 200 metres depth. Two resource definition holes were drilled at Paloma West from a platform on the northeast side of the exposed breccia pipe and drilled to the southwest. High grade mineralization was intersected in both drill holes with depths ranging between approximately 20 metres to 80 metres below surface. Breccia in both pipes is open at depth and results presented are consistent with previously reported results.

- On July 27, 2021, the Corporation reported results from nine resources definition and exploration holes totaling 1,993.15 metres from the Soledad project. Three holes were drilled through the Huancarama East breccia pipe. All holes intersected mineralized breccia with depths ranging between 70 and 200 metres below surface. In Paloma West three holes were drilled to further define mineralization from surface to a depth of approximately 100 metres depth. The Breccia pipe demonstrates zoning with stronger gold and silver grades near surface and increasing copper grades with depth.
- On September 7, 2021 the Corporation reported significant intercepts at Breccia Pipe 1 ("BX 1"), including 46 meters of 5.64% copper 592.9 g/t Silver and 0.36 g/t Gold. At its Soledad project, the Corporation has completed to date resourced definition holes at BX 1; being 62 drill holes totaling 19,936 metres and a total of 259 diamond core holes for total of 60,225 metres.

Please refer to news releases on [www.sedar.com](http://www.sedar.com) and the Corporation's website at [www.chakanacopper.com](http://www.chakanacopper.com). For the Corporation's drilling results details.

#### Financing

- On February 10, 2021, the Corporation closed its first tranche of a non-brokered private placement of 14,186,000 common shares at a price of \$0.50 per share for gross proceeds of \$7,093,000.

- On March 11, 2021, the Corporation closed its second tranche of the non-brokered private placement of 3,874,516 common shares at a price of \$0.50 for gross proceeds of \$1,937,258. The Corporation intends to use the net proceeds of the private placement for the accelerated exploration and development of the Corporation's high-grade copper-gold-silver Soledad Project located in the Ancash region of Peru and for general working capital and administrative purposes.

#### Corporate matters

- On April 22, 2021 Douglas Silver joined Chakana as Chairman and Director of the Corporation replacing Mr. Doug Kirwin who stepped down from the Board of Directors.
- On July 10, 2020, the Corporation granted stock options to certain of its directors, officers and consultants to purchase up to 2,050,000 common shares. Each option is exercisable to acquire one common share at a price of \$0.40 until July 10, 2025.
- On April 22, 2021, the Corporation granted 3,600,000 incentive stock options to directors, officers and consultants. Each option may be exercised on or before April 22, 2026 at a price of \$0.50.

#### **EXPLORATION AND EVALUATION EXPENDITURES**

The Corporation is engaged in investigation, evaluation, exploration, and development of mineralized precious and base metal properties and related activities in Peru. The Corporation's wholly owned indirect subsidiary, Chakana Resources S.A.C., holds: (i) the option to acquire a 100% ownership interest in the Soledad Project ("Condor Option") and owns a net smelter return royalty ("NSR") on the Soledad Project; (ii) holds an option to acquire a 100% ownership interest in the adjacent Aija Project ("Aija Project"); and (iii) holds an option to acquire up to a 100% ownership in other adjacent mineral concessions owned by Minera Barrick Misquichilca S.A. ("Barrick") (the "Barrick Option"). All three options are collectively referred as the "Soledad Project". The Corporation is the operator of all related mineral exploration activities on these projects.

#### **Selected Annual Information**

The following table sets forth selected financial information for the fiscal year ended May 31, 2021, comparable fiscal year ended May 31, 2020, and fiscal year ended May 31, 2019. The selected financial information set out below has been derived from the audited annual financial statements and accompanying notes, in each case prepared in accordance with IFRS. The selected financial information set out below may not be indicative of the Corporation's future performance. The following discussion should be read in conjunction with the audited financial statements.

	2021	2020	2019
Total revenue	\$ —	\$ —	\$ —
Net loss for the fiscal year	(8,512,696)	(5,613,345)	(7,888,413)
Loss per share, basic and fully diluted <sup>(1)</sup>	(0.09)	(0.06)	(0.06)
Total assets	13,191,670	10,794,843	16,004,287
Total non-current financial liabilities	194,432	—	—

<sup>(1)</sup> Diluted loss per common share is equivalent to the basic loss per common share as the effects of outstanding warrants and options disclosed are anti-dilutive for all periods presented.

#### **Results of Operations**

Acquisition costs of the Soledad Project are as follows:

	Condor Option		Aija Project		Total
Balance – May 31, 2019	\$	1,880,111	\$	282,941	\$ 2,163,052
Acquisition costs		212,072		180,698	392,770
Foreign exchange on translation		3,680		3,135	6,815
Balance – May 31, 2020	\$	2,095,863	\$	466,774	\$ 2,562,637
Acquisition costs		330,034		237,912	567,946
Foreign exchange on translation		(238,601)		(101,142)	(339,743)



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Balance – May 31, 202	\$	2,187,296	\$	603,544	\$	2,790,840
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During the year ended May 31, 2021 and May 31, 2020, the Corporation incurred exploration and evaluation expenditures as follows:

	Year ended May 31	
	2021	2020
Drilling	\$ 2,560,911	\$ 752,285
Exploration support and administration	1,240,293	1,131,379
Field operations and consumables	715,468	714,452
Geological consultants	180,107	241,310
Sampling and geological costs	449,302	173,657
Travel	226,831	196,114
	\$ 5,372,912	\$ 3,209,197

**SUMMARY OF QUARTERLY RESULTS**

Key financial information for the three months ended May 31, 2021, as well as the most recently preceding seven quarters is summarized as follows:

	May 31, 2021	February 28, 2021	November 30, 2020	August 31, 2020
Current Assets	\$ 8,904,769	\$ 9,642,901	\$ 4,716,496	\$ 6,420,439
Current Liabilities	\$ 1,288,798	\$ 790,059	\$ 605,452	\$ 272,452
Total Assets	\$ 13,191,670	\$ 13,559,092	\$ 8,340,893	\$ 9,822,906
Total Liabilities	\$ 1,483,230	\$ 790,059	\$ 605,452	\$ 272,452
Operating Expenses	\$ (2,940,351)	\$ (2,016,903)	\$ (2,029,145)	\$ (1,409,750)
Net Loss	\$ (3,162,022)	\$ (2,074,339)	\$ (2,000,965)	\$ (1,275,370)
Loss per Share	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.01)

	May 31, 2020	February 29, 2020	November 30, 2019	August 31, 2019
Current Assets	\$ 6,815,408	\$ 7,612,318	\$ 8,736,439	\$ 10,785,640
Current Liabilities	\$ 339,068	\$ 353,615	\$ 410,263	\$ 1,019,449
Total Assets	\$ 10,794,843	\$ 11,484,646	\$ 12,433,122	\$ 14,413,372
Total Liabilities	\$ 339,068	\$ 353,615	\$ 410,263	\$ 1,019,449
Operating Expenses	\$ (829,646)	\$ (952,239)	\$ (1,477,790)	\$ (2,039,072)
Net Loss	\$ (796,550)	\$ (1,198,970)	\$ (1,453,327)	\$ (2,164,498)
Loss per Share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MAY 31, 2021**

Total operating expenses for three months ended May 31, 2021 were \$2,940,351 (2020 - \$891,631). The significant expenditures for the current quarter were as follows:

- Exploration and evaluation expenditures were \$2,131,760 during the three months ended May 31, 2021 (2020 - \$402,720), inclusive of drilling expenses of \$1,268,016 (2020 - \$2,820). Increase in drilling expenses were a result of the Corporation recommencing and expanding its drill program as it obtained the required drill permits. Exploration support and administration of \$337,888 (2020 - \$238,980), field expenses of \$225,601 (2020 - \$68,588), Geological consulting fees of \$39,781 (2020 - \$67,506) and sampling and geological costs of \$204,488 (2020 - \$3,067) and transportation expenses of \$55,986 (2020 - \$21,759) all increased due to increased in its drilling activity.
- Consulting expenses were \$51,843 and salaries and wage expenses were \$68,552 during the three months ended May 31, 2021, compared to \$65,888 consulting expenses and \$99,516 salaries and wages for the three months ended May 31, 2020. The reduction in salaries and wages is due to a reduction of employee count in the current period compared to the prior period.



- General and administrative expenses were \$88,110 during the three months ended May 31, 2021, compared to \$60,493 during the three months ended May 31, 2020. The increase in general and administrative expenses was primarily due to the increase in operating activities by the Corporation.
- During the three months ended May 31, 2021, the Corporation incurred \$26,796 of legal and professional fees (2020 - \$14,235). These expenses remained relatively consistent year to year.
- Stock-based compensation expenses were \$446,531 during the three months ended May 31, 2021 (2020 - \$179,236). Increased stock-based compensation expense realized during the three months ended May 31, 2021 is the result of amortization of share-based expense from stock options granted during the period.
- Investor relations expense were \$98,678 (2020 – \$36,133) an increased of \$62,546 due to an increase in marketing and promotions campaigns and attending online conferences and interviews during the current period to promote the Corporation.
- During the three months ended May 31, 2021 the Corporation had a loss on exchange of \$141,972 mostly due to the loss on US cash held at May 31, 2021 as the US dollar dropped to \$1.20 year end.

As a result of the foregoing, the Corporation recorded a net loss of \$3,162,022 during the three months ended May 31, 2021 (May 31, 2020 - \$815,078).

#### **RESULTS OF OPERATIONS FOR THE YEAR ENDED MAY 31, 2021**

Total operating expenses for the year ended May 31, 2021 were \$8,396,149 (2020 - \$5,298,747). The significant expenditures were as follows:

- Exploration and evaluation expenditures were \$5,372,912 during the year ended May 31, 2021 (2020 - \$3,209,197), inclusive of drilling expenses of \$2,560,911 (2020 - \$752,285). Increase in drilling expenses were a result of the Corporation recommencing its drill program as it obtained the required drill permits. Exploration support and administration of \$1,240,293 (2020 - \$1,131,379), field expenses of \$715,468 (2020 - \$714,452), transportation expenses of \$226,831 (2020 - \$196,114), geological consulting fees \$180,107 (2020 - \$241,310) and sampling and geological costs of \$449,302 (2020 - \$173,657) all increased due to increased in its drilling activity.
- Consulting expenses were \$238,552 and salaries and wages were \$291,495 during the year ended May 31, 2021, compared to \$270,636 consulting expense and \$437,004 salaries and wages for the year ended May 31, 2020. The reduction in salaries and wages is due to a reduction of employee count in the current period compared to the prior period.
- General and administrative expenses were \$370,773 during the year ended May 31, 2021, compared to \$572,631 during the year ended May 31, 2020. The reduction in general and administrative expenses was primarily due a reduction in general for administrative activities along with a reduction of wages and salaries while the Corporation dedicates its resources to exploration activities. Travel and meals expenses were \$1,650 during the year ended May 31, 2021 (2020 - \$117,168) the reduction being mainly due to COVID restrictions.
- During the year ended May 31, 2021, the Corporation incurred \$156,639 of legal and professional fees (2020 - \$139,904). These expenses remained relatively consistent year to year.
- Stock-based compensation and investor relations expenses were \$1,468,895 and \$393,516, respectively, during the year ended May 31, 2021 (2020 - \$254,393 and \$195,292, respectively). Increase in stock-based compensation expense is the result of amortization of share-based expense from stock options granted during the period as well as amortization of previously granted options. Investor relations expense increased during the year ended May 31, 2021 due to an increase in ongoing marketing and promotions campaigns, online conferences and interviews.
- During the year ended May 31, 2021 the Corporation had a loss on exchange of \$224,307 (2020 – \$401,470) mostly due to the loss on US cash held at May 31, 2021 as the US dollar dropped to \$1.20 at year end vs the Peruvian Sole

As a result of the foregoing, the Corporation recorded a net loss of \$8,512,696 during the year ended May 31, 2021 (2020 - \$5,613,345).

#### SUMMARY OF MINERAL PROPERTIES

##### (i) Soledad Project, Peru (the “Condor Option”)

On April 17, 2017, the Corporation entered into a Mining Assignment and Option Agreement (the Condor Option) with Minera Vertiente del Sol S.A.C., a Peruvian subsidiary of TSX-V-listed Condor Resources Inc. (“Condor”), pursuant to which the Corporation has the sole and exclusive option to acquire 100% of the rights and interests in the Soledad Project, subject to a 2% NSR.

The Corporation’s option to acquire 100% of the rights and interests in the Soledad Project is exercisable by issuing 500,000 common shares by June 23, 2018 (issued), making aggregate cash payments of US \$5,375,000 and incurring work expenditures on the Soledad Project (which have been met). During the year ended May 31, 2021, the Corporation renegotiated the payment schedule

The Condor Option exercise cash payments schedule is as follows:

Installment	Date		Amount (in US \$)
1	February 2017 (paid)	\$	10,000
2	Upon signing the Agreement on April 17, 2017 (paid)		15,000
3	December 23, 2017 (paid)		25,000
4	June 23, 2018 (paid)		50,000
5	December 23, 2018 (paid)		50,000
6	June 23, 2019 (paid)		75,000
7	December 23, 2019 (paid)		75,000
8	June 23, 2020 (paid)		100,000
9	December 23, 2020 (paid)		150,000
10	June 23, 2021 (paid subsequent to May 31, 2021)		200,000
11	December 23, 2021		200,000
12	April 23, 2022		4,425,000
Total		\$	5,375,000

As at the date of this MD&A, the Corporation has paid instalments 1 to 10, totalling US \$750,000. The June 23, 2018 instalment was accompanied with the issuance of 500,000 shares of the Corporation valued at \$330,000.

On March 18, 2019, the Corporation purchased a 1% NSR on the Soledad Project for \$369,902 (US \$275,000) and 900,000 common shares valued at \$378,000. As a result of the Corporation purchasing the NSR, the Condor Option was amended to reflect a reduction of the NSR from 2% to 1%, with the Corporation having the right to repurchase 50% of the NSR (or 0.5% NSR) for US \$1,000,000 subsequent to exercising the Condor Option. If the Corporation does not exercise the Condor Option, Condor has the right to purchase 50% of the NSR (or 0.5% NSR) for US \$1,000,000. The amendment to the Condor Option also eliminated Chakana’s pre-production royalty payment obligations.

Pursuant to the Condor Option, the Corporation must complete 12,500 metres of exploration drilling at the Soledad Project. As at May 31, 2021, the Corporation has drilled over 12,500 metres on the Soledad Project, therefore meeting all of its drilling commitments under the Condor Option.

The Soledad project is located in Ancash province of central Peru, approximately 260 kilometres north-northwest of Lima and 35 kilometres south of Barrick’s Pierina mine. The Soledad project is part of the Ticapampa-Aija Mining District in the Cordillera Negra, a region with a long history of exploration and mining.

Previous exploration identified numerous high-grade quartz-tourmaline-sulfide breccia pipes that crop out at surface. Whereas the mineralization hosted in the breccia pipes is impressive in terms of grade and vertical extent, previous explorers were focused on a blind mineralized porphyry target inferred to be the source of the breccia mineralization. Chakana is focused on testing the breccia pipes to determine if they host economic mineralization.



The breccia pipes are principally hosted in the Calipuy group volcanic rocks, consisting of andesite flows, tuff and rhyolite with a composite thickness of over 2,000 m. A secondary host is granodiorite that intrudes the volcanic rocks. A 16,000 metres drill program was initiated on August 16, 2016, designed to determine the geometry of several previously drilled pipes, determine the true grade profile by drilling across the pipes, define an initial inferred resource on two of the pipes and test a number of targets across the property.

- **Geophysics:** Both down-hole and surface electromagnetic surveys and a ground magnetics survey were completed within the portions of the Soledad Project where breccia pipes were known or expected based upon soil sampling and geological modeling. This work identified conductive features, some of which yielded additional sulfide mineralization while others remain untested.
- **Geological Modeling:** The Corporation utilizes specialized consultants and exploration software in order to track results and then model results daily in 3-D. This permits a tighter control on drill hole directions while permitting real-time discussions between Peru-based staff and officers or consultants based around the world.
- **Soil Geochemical and Outcropping Rock Sampling** has been completed over the most prospective portions of the Soledad Project. Results have been integrated into our modeling and have yielded both new targets and extensions to known zones.

Please refer to news releases on [www.sedar.com](http://www.sedar.com) and the Corporation's website at [www.chakanacopper.com](http://www.chakanacopper.com) for the Corporation's drilling results details.

#### (ii) Aija Project, Peru

On March 20, 2018, the Corporation entered into an Option Agreement (the "Aija Option") with an arm's length third-party, pursuant to which the Corporation has the option to acquire 100% of the rights and interest in the Aija Project subject to a 2% NSR. During the year ended May 31, 2021, the Corporation renegotiated the payment schedule. The Aija Project includes 3 principal concessions and 7 smaller parcels within one of the principal concessions, totalling in aggregate 574.71 hectares. These concessions are contiguous with the southern boundary of the Soledad Project.

The Corporation's option to acquire 100% of the rights and interests in the Aija Project is exercisable by making aggregate cash payments of US \$2,300,000 as follows:

Installment	Date	Amount (in US \$)
1	Upon execution of Letter of Intent on October 3, 2017 (paid)	\$ 75,000
2	Upon close of Definitive Agreement on August 1, 2018 (paid)	75,000
3	February 1, 2019 (paid)	50,000
4	August 1, 2019 (paid)	50,000
5	February 1, 2020 (paid)	75,000
6	November 1, 2020 (paid)	75,000
7	May 1, 2021 (paid)	100,000
8	November 1, 2021	100,000
9	May 1, 2022	100,000
10	November 1, 2022	100,000
11	May 1, 2023	1,500,000
Total		\$ 2,300,000

As at the date of this MD&A, the Corporation has paid instalments 1 to 7, totalling US \$500,000.

Under the terms of the Aija Option, the vendor is entitled to a 2% NSR. The Corporation may repurchase the 2% NSR at any time for US \$2,000,000. There are no drilling or work expenditure commitments under the Aija Option.

The Corporation has completed detailed soil and rock sampling, geological mapping, surface electromagnetic surveys and ground magnetics surveys within the portions of the Aija Project where breccia pipes were known or expected based upon soil sampling and geological modeling. Results are encouraging with the identification of nine confirmed breccia pipes within the option.. The Corporation met with numerous delays in acquiring permits to do this work, largely as a result of inconsistent records at different government ministries. During the year 2021, after receiving the required permits the Company commenced its drilling program which have provided very encouraging results.

Please refer to news releases on [www.sedar.com](http://www.sedar.com) and the Corporation's website at [www.chakanacopper.com](http://www.chakanacopper.com) for the Corporation's drilling results details.

### (iii) Barrick Option Agreement

On July 11, 2018, Barrick granted the Corporation an option (the "Barrick Option") to acquire a 100% interest in three concessions adjoining the southern extent of the Aija Project. Under terms of the Barrick Option, the Corporation has five years to complete a minimum of 2,000 metres of exploration drilling and produce a Preliminary Economic Assessment report compliant with National Instrument 43-101 *Standards of Disclosure for Mineral Projects*. Upon exercise of the Barrick Option, Barrick will retain a 2% NSR subject to the Corporation's right to purchase 50% of the NSR (1%) for US \$2,000,000.

Barrick will have a one-time right to reacquire a 70% interest in the concessions within 120 days of exercising the option (the "Back-In Closing Date") by paying the Corporation three times the aggregate amount of exploration expenditures incurred since the execution date and cancelling the 2% NSR. If a production decision is not made within seven years of the Back-in Closing Date, Barrick will make pre-royalty payments of US \$75,000 per year until a production decision is made for a maximum of five years (US \$375,000). If the Corporation does not contribute its share of project costs their interest will be diluted to 10%, upon which their interest will be converted to a 2% NSR with Barrick's right to purchase 50% of the royalty for US \$2,000,000.

The Corporation has completed detailed soil and rock sampling, geological mapping, surface electromagnetic surveys and ground magnetics surveys within the portions of the Barrick Option concessions where breccia pipes were known or expected based upon soil sampling and geological modeling. Results are encouraging with the identification of seven confirmed breccia pipes within the Barrick Option concessions. The Corporation is working on surface access and modifying the EIAsd permit to allow drilling in this area. The Corporation has met with numerous delays due to COVID-19 in acquiring surface access and permits to do this work.

### CAPITAL STRUCTURE

As of the date of this MD&A, the Corporation has 111,410,363 (May 31, 2021 - 111,410,363) common shares, nil common share purchase warrants, and 10,010,000 (May 31, 2021 - 10,010,000) stock options issued and outstanding.

#### *Issued Capital*

During the year ended May 31, 2021, the Corporation issued common shares as follows:

- On February 10, 2021 the Corporation completed the first tranche of a non-brokered private placement of 14,186,000 common shares of at a price of \$0.50 for gross proceeds of \$7,093,000.
- On March 17, 2021 the Corporation completed the second and final tranche of a non-brokered private placement of 3,874,516 common shares of at a price of \$0.50 for gross proceeds of \$1,937,258. In connection to the private placement, the Corporation recorded \$342,211 of share issuance costs related to finders' fees, legal and other costs of completing the private placement.
- During the year ended May 31, 2021, the Corporation issued 150,000 common shares on the exercise of options at an exercise price of \$0.20 for gross proceeds of \$30,000.

During the year ended May 31, 2020, no common shares were issued by the Corporation.

- On October 4, 2019, the Corporation signed a settlement agreement with a former employee to return to treasury for cancellation 4,000,000 common shares of the Corporation as reimbursement for misappropriated funds and related loss to the Corporation. These shares represent 100% of the former employee's shareholding in the Corporation. These 4,000,000 common shares were cancelled on November 14, 2019. A reduction of \$1,233,509 in share capital has been recorded against deficit within shareholders' equity. This amount was calculated as a reduction of average share capital cost at the time the shares were cancelled and this amount far exceeded the value of the misappropriated funds.

The following incentive stock options were outstanding at May 31, 2021:

Expiry Date	Exercise Price	2021	2020
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September 14, 2022	\$0.40	2,235,000	2,235,000
February 5, 2023	\$0.20	700,000	700,000
March 29, 2023	\$0.94	200,000	300,000
December 12, 2024	\$0.20	1,225,000	1,425,000
July 10, 2025	\$0.40	2,050,000	-
April 22, 2026	\$0.50	3,600,000	-
<b>Total outstanding options</b>	<b>\$0.41</b>	<b>10,010,000</b>	<b>4,660,000</b>
<b>Total exercisable options</b>	<b>\$0.39</b>	<b>5,853,750</b>	<b>3,203,750</b>

During the year ended May 31, 2020 the Corporation granted 2,175,000 incentive stock options to employees and consultants. Of the 2,175,000 incentive stock options, 1,475,000 may be exercised within 5 years from the date of grant at a price of \$0.20 per common share and 700,000 options may be exercised within 3 years from the date of grant at the price of \$0.20 per common share.

During the year ended May 31, 2021 the Corporation granted 5,650,000 incentive stock options to employees and consultants exercisable for a period of 5 years from the date of grant. Of the 5,650,000 incentive stock options, 2,050,000 are exercisable at a price of \$0.40 per common share and 3,600,000 are exercisable at a price of \$0.50 per common share.

#### **CAPITAL RESOURCES**

The Corporation defines capital as consisting of shareholders' equity and cash. The Corporation manages its capital structure to maximize its financial flexibility by making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Corporation does not presently utilize any quantitative measures to monitor its capital, but rather relies on the expertise of the Corporation's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is reasonable.

As at May 31, 2021, the Corporation is not subject to any externally imposed capital requirements or debt covenants. There was no change to the Corporation's approach to capital management during the year ended May 31, 2021.

#### **LIQUIDITY**

The Corporation's objective in managing liquidity risk is to maintain sufficient liquidity in order to meet operational and investing requirements at any point in time. The Corporation has historically financed its operations primarily through the sale of share capital by way of private placements.

As at May 31, 2021, the Corporation had cash and cash equivalents of \$8,675,790 and working capital of \$7,615,971.

Cash used in operating activities was \$5,755,750 during the year ended May 31, 2021. The cash used in operating activities is for exploration and evaluation expenditures.

Cash used in investing activities was \$687,409 during the year ended May 31, 2021 and was primarily related to purchases of equipment and option payments related to the Corporation's properties.

Cash received from financing activities was \$8,709,670 during the year ended May 31, 2021 and was related to a private placement and the exercise of options.

The development of the Corporation in the future will depend on the Corporation's ability to obtain additional financings. In the past, the Corporation has relied on the sale of equity securities to meet its cash requirements. Future developments, in excess of funds on hand, will depend on the Corporation's ability to obtain financing through joint venturing of projects, debt financing, equity financing or other means. There can be no assurances that the Corporation will be successful in obtaining any such financing or in joint venturing its property; failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of the Corporation's properties.

**OUTLOOK**

The Corporation plans to conduct further exploration on its exploration projects. Further exploration and corporate costs are expected to be funded through future equity financing. As of the date of this MD&A, the Corporation has approximately \$6.3 million in cash and cash equivalents. Exploration will continue to focus on mineralization hosted in tourmaline breccia pipes. Surface exploration over the northern half of the property has largely been completed and drill targets have been defined. On August 15, 2021 the Corporation was granted the necessary permits and commenced its planned drilling program which consists of approximately 15,000 additional metres drilled into high priority breccia pipe targets in this area. The goal of this drilling, combined with previous drilling, is to produce the first mineral resource estimate for the Soledad project in 2021. Metallurgical studies will be completed to complement the resource estimate, and additional surface exploration work will continue on the south half of the Soledad project to define additional drill targets which will be tested once permits for this area are obtained. Based on the level of exploration activity, the Corporation will continue its community relations and development program in the areas close to the Soledad project.

**RELATED PARTY TRANSACTIONS**

The Corporation's related parties include officers and directors and companies related by way of directors or shareholders in common.

During the year ended May 31, 2021 and May 31, 2020, the Corporation paid and/or accrued the following fees to key management personnel:

- During the year ended May 31, 2021, the Corporation incurred \$258,401 (2020 - \$268,005) of consulting fees from David Kelley, the Corporation's CEO.
- During the year ended May 31, 2021, the Corporation incurred \$nil (2020 - \$63,000) of consulting fees from Skanderbeg Financial Advisors Inc., a company controlled by Kevin Ma, the former CFO of the Corporation.
- The Corporation is party to a consulting agreement with a firm for which Xavier Wenzel works to provide services as the Corporation's Chief Financial Officer as well as financial consulting services, accounting and bookkeeping services to the Corporation for \$8,500 per month. For the year ended May 31, 2021, the total fees incurred under this agreement are \$102,000 (2020 - \$34,000)
- During the year ended May 31, 2021, the Corporation incurred \$12,000 (2020 - \$12,000) consulting expense from John Black a director of the Corporation. As of May 31, 2021, the amount of \$38,000 (May 31, 2020 - \$26,000) was owed to John Black, which is included in accounts payable and accrued liabilities. The amount owed is non-interest-bearing, unsecured and due on demand.
- During the year ended May 31, 2021, the Corporation incurred \$60,000 (2020 - \$55,000) consulting expense from Chelmer Consulting Corp. a company controlled by Darren Devine, a director of the Corporation. As of May 31, 2021, the amount of \$5,250 (May 31, 2020 - \$5,250) was owed to Chelmer Consulting Corp., which is included in accounts payable and accrued liabilities. The amount owed is non-interest-bearing, unsecured and due on demand.
- During the year ended May 31, 2021, the Corporation incurred \$71,380 (2020 - \$80,416) consulting expense from Douglas Kirwin a former director and consultant of the Corporation. As of May 31, 2020, the amount of \$nil (May 31, 2020 - \$6,893) was owed to Douglas Kirwin.
- During the year ended May 31, 2021, the Corporation incurred \$12,000 (2020 - \$27,000) consulting expense from Tom Wharton a director of the Corporation. As of May 31, 2021, the amount of \$5,000 (May 31, 2020 - \$5,000) was owed to Tom Wharton, which is included in accounts payable and accrued liabilities. The amount owed is non-interest-bearing, unsecured and due on demand.

**OFF BALANCE SHEET ARRANGEMENTS**

The Corporation currently has no off-balance sheet arrangements.

**FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels.

The hierarchy is as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- 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 or indirectly.
- Level 3 fair value measurements are those derived from inputs that are unobservable inputs for the asset or liability.

The fair value of cash under the fair value hierarchy is measured using Level 1 inputs. The Corporation considers that the carrying amount of all its financial assets and financial liabilities recognized at amortized cost in the consolidated financial statements approximates their fair value due to the demand nature or short-term maturity of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

**FINANCIAL RISK FACTORS**

The Corporation's risk exposure and the impact on the Corporation's financial instruments are summarized below:

*Credit Risk*

Credit risk is the risk of potential loss to the Corporation if the counterparty to a financial instrument fails to meet its contractual obligations. The Corporation's credit risk is primarily attributable to its liquid financial assets, including cash and receivables. The Corporation limits exposure to credit risk on liquid financial assets through maintaining its cash with high credit quality financial institutions.

*Liquidity Risk*

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation currently settles its financial obligations with cash. The ability to do this relies on the Corporation raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. The Corporation is exposed to liquidity risk.

*Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation has no interest-bearing debt. The Corporation's sensitivity to interest rates is minimal.

*Foreign Currency Risk*

Foreign currency risk is the risk on fluctuation of currency related to monetary items with a settlement currency other than Canadian dollars. The functional currency of Chakana is the Canadian dollar and the functional currency of the subsidiary is the US dollar. The Corporation is exposed to foreign currency risk on fluctuations related to cash, receivables, prepayments and accrued liabilities that are denominated in US dollars and Canadian dollars. The Corporation has not used derivative instruments to reduce its exposure to foreign currency risk nor has it entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations.

## **BUSINESS RISKS AND UNCERTAINTIES**

Additional information on risks and uncertainties relating to Chakana's business is provided in Remo Resources Inc.'s ("Remo") Filing Statement dated December 4, 2017 under the heading **Risk Factors**. This Filing Statement is accessible under the Corporation's profile at [www.sedar.com](http://www.sedar.com).

## **CONTRACTUAL OBLIGATIONS**

The Corporation leases various premises that expire from May 2021 to June 2026. The Corporation is obligated to make \$56,900 in minimum lease payments under the premise leases in the fiscal year ending May 31, 2022.

## **CONTINGENCIES**

Subsequent to May 31, 2021, a former employee who had the role of community relations manager for the Company's subsidiary filed a claim against the Company alleging he suffered an injury while working with the Company and is seeking compensation for damages of up to US\$390,000. The former employee was employed during 2019 and has provided no evidence such injury occurred while employed by the Company nor if such injury was a direct result of his employment. The Company believes the claim is without merit and intends to vigorously defend its position. A hearing is scheduled for November 4, 2021. As the outcome of this claim is uncertain no amount has been accrued for any potential loss under this complaint.

## **SETTLEMENT AGREEMENT**

On October 4, 2019, the Corporation signed a settlement agreement pursuant to which 4,000,000 common shares of the Corporation, owned by a former employee of the Corporation, were relinquished as compensation for misappropriation of funds by the former employee. These 4,000,000 shares were cancelled on November 14, 2019. Additionally, as a result of the former employee's termination for cause, 1,000,000 stock options, issued September 17, 2017, have been cancelled.

## **CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the Corporation's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of income and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes may differ significantly from these estimates.

Areas requiring a significant degree of judgment relate to the recoverability and measurement of deferred tax assets and liabilities, the ability to continue as a going concern and the capitalization of development costs. Actual results may differ from those estimates and judgments. Areas requiring a significant degree of estimation include allowances for doubtful accounts.

Judgments that have the most significant effect on the amounts recognized in the Corporation's consolidated financial statements are as follows

- *Exploration and Evaluation Assets*

The net carrying value of each mineral property is reviewed regularly for conditions that suggest potential indications of impairment. This review requires significant judgment. Factors considered in the assessment of asset impairment include, but are not limited to, whether there has been a significant adverse change in the legal, regulatory, accessibility, title, environmental or political factors that could affect the property's value; whether there has been an accumulation of costs significantly in excess of the amounts originally expected for the property's acquisition, development or cost of holding; and whether exploration activities produced results that are not promising, such that no more work is being planned in the foreseeable future.

- *Going Concern*

The assessment of the Corporation's ability to continue as a going concern involves critical judgment based on historical experience and expectations of the Corporation's ability to generate adequate financing. Significant judgment is used in the Corporation's assessment of its ability to continue as a going concern.



- *Value-added Tax Receivable*

The Corporation has a signed agreement with the Peruvian Ministry of Energy and Mines to receive a refund on value-added taxes for certain exploration related expenditures incurred by the Corporation in Peru, prior to the Corporation generating sales. These value-added tax receivables are subject to review by the Peruvian tax authorities. Management is required to assess the likelihood of approval for the expenditures filed for refund and collectability of the value-added tax receivables from the Peruvian Ministry of Energy and Mines.

- *Income Taxes*

Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward.

The determination of the ability of the Corporation to utilize tax loss carry-forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Corporation. Management is required to assess whether it is probable that the Corporation will benefit from these prior losses and other deferred tax assets. Change in economic conditions, metal prices and other factors could result in revision to the estimates of the benefits to be realized or the timing of utilizing the losses.

- *Functional Currency*

The functional currency for each of the Corporation's subsidiary is the US dollar – the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Corporation reconsiders the functional currency of its entities if there is a change in events and conditions that determined the primary economic environment.

#### **SIGNIFICANT ACCOUNTING POLICIES**

The Corporation's significant accounting policies are summarized in Note 3 to the audited consolidated financial statements for the year ended May 31, 2021.

#### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This MD&A contains certain statements that may be deemed "forward-looking statements", including statements regarding developments in the Corporation's operations in future periods, adequacy of financial resources, and future plans and objectives of the Corporation. All statements in this document, other than statements of historical fact, which address events or developments that the Corporation expects to occur, are forward-looking statements. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential", "interprets" and similar expressions, or events or conditions that "will", "would", "may", "could" or "should" occur. Forward-looking statements in this document include statements regarding future exploration programs, liquidity and effects of accounting policy changes.

Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploration success, continued availability of capital and financing, inability to obtain required regulatory or governmental approvals, and general economic, market or business conditions including but not limited to the impact of the COVID-19 pandemic, see General Overview of Market Conditions on Page 2 of this MD&A. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Readers are cautioned not to place undue reliance on this forward-looking information.

Forward-looking statements are based on the beliefs, estimates and opinions of the Corporation's management on the date the statements are made. The Corporation undertakes no obligation to update these forward-looking statements in the event that management's beliefs, estimates, opinions or other factors should change except as required by law.

These statements are based on a number of assumptions including, among others, assumptions regarding general business and economic conditions, the timing of the receipt of regulatory and governmental approvals for the



**CHAKANA COPPER CORP.  
FOR THE YEAR ENDED MAY 31, 2021  
(EXPRESSED IN CANADIAN DOLLARS)**

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transactions described herein, the ability of the Corporation and other relevant parties to satisfy stock exchange and other regulatory requirements in a timely manner, the availability of financing for the Corporation's transactions and exploration and development programs on reasonable terms, and the ability of third-party service providers to deliver services in a timely manner. The foregoing list of assumptions is not exhaustive. Events or circumstances could cause results to differ materially.