



**CHAKANA**  
C O P P E R

**CHAKANA COPPER CORP.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2019**

**(EXPRESSED IN CANADIAN DOLLARS)  
(UNAUDITED)**

**MANAGEMENT'S COMMENTS ON  
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM  
FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the unaudited condensed interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of Chakana Copper Corp. (the "Corporation") have been prepared by and are the responsibility of the Corporation's management. The unaudited condensed interim financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgment based on information currently available.

The Corporation's independent auditor, D&H Group LLP, has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of the condensed consolidated interim financial statements by an entity's auditor.

**CHAKANA COPPER CORP.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS AT AUGUST 31, 2019 (UNAUDITED) AND MAY 31, 2019**

*(expressed in Canadian Dollars)*

	<b>August 31, 2019</b>	<b>May 31, 2019</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 5)	\$ 10,539,963	\$ 12,279,037
Prepaid and other current assets (Note 6)	245,677	247,727
	10,785,640	12,526,764
<b>Non-Current Assets</b>		
Exploration and evaluation assets (Note 7)	2,300,902	2,163,052
Property and Equipment (Note 8)	931,115	902,309
VAT receivable (Note 9)	395,715	412,162
<b>Total Assets</b>	<b>\$ 14,413,372</b>	<b>\$ 16,004,287</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Note 10)	\$ 1,019,449	\$ 526,094
<b>Total Liabilities</b>	<b>\$ 1,019,449</b>	<b>\$ 526,094</b>
<b>Shareholders' Equity</b>		
Common shares (Note 11)	29,974,224	29,974,224
Warrant reserve (Notes 12)	1,133,947	1,133,947
Stock options (Note 13)	1,524,713	1,512,084
Accumulated and other comprehensive loss	455,681	388,082
Deficit	(19,694,642)	(17,530,144)
	\$ 13,393,923	\$ 15,478,193
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 14,413,372</b>	<b>\$ 16,004,287</b>

Nature of Operations (Note 1)

Subsequent Event (Note 23)

**Approved on behalf of the Board of Directors**

/s/ Tom Wharton

Tom Wharton, Director

/s/ Darren Devine

Darren Devine, Director

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

**CHAKANA COPPER CORP.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2019 AND 2018 (UNAUDITED)**

*(expressed in Canadian Dollars)*

	<b>Three Months August 31, 2019</b>	<b>Three Months August 31, 2018</b>
<b>OPERATING EXPENSES</b>		
Consulting fees	\$ 56,699	\$ 57,463
Exploration and evaluation expenditures (Note 14)	1,579,048	1,930,646
Depreciation	24,853	22,870
General and administrative expenses	82,033	120,901
Investor relations	47,606	132,477
Legal and professional fees	13,970	15,857
Salaries and wages	146,737	190,011
Stock-based compensation (Note 13)	12,629	76,297
Travel and meals	13,382	27,945
<b>Operating Expenses</b>	<b>(1,976,957)</b>	<b>(2,574,467)</b>
<b>Other</b>		
Foreign exchange loss	(165,719)	(94,422)
Interest income	58,821	17,644
Misuse of funds (Note 15)	(80,643)	-
<b>Net Loss</b>	<b>\$ (2,164,498)</b>	<b>\$ (2,651,245)</b>
<b>Other Comprehensive Income (Loss)</b>		
Foreign currency translation	67,599	49,161
<b>Comprehensive Loss</b>	<b>\$ (2,096,899)</b>	<b>\$ (2,602,084)</b>
<b>Basic and diluted loss per share</b> (Note 16)	<b>\$ (0.02)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of shares outstanding (basic and diluted)</b> (Note 16)	<b>97,199,847</b>	<b>80,507,022</b>

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

**CHAKANA COPPER CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2019 AND 2018 (UNAUDITED)**

*(expressed in Canadian Dollars)*

	<b>Three months August 31, 2019</b>	<b>Three months August 31, 2018</b>
<b>Cash Flows used in Operating Activities</b>		
Net loss	\$ (2,164,498)	\$ (2,651,245)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation	24,853	22,870
Stock-based compensation	12,629	76,297
(Increase)/Decrease in prepaids and other current assets	2,051	215,014
Increase/(Decrease) in accounts payable and accrued liabilities	493,355	106,241
(Increase)/Decrease in value-added taxes receivable	16,446	-
	<u>(1,615,164)</u>	<u>(2,230,823)</u>
<b>Cash Flows used in Investing Activities</b>		
Purchase of equipment	(76,164)	(226,463)
Acquisition of exploration and evaluation assets	(164,766)	(96,063)
	<u>(240,930)</u>	<u>(322,526)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from exercise of warrants	-	17,290
	-	17,290
<b>Changes in cash during the period</b>	<u>(1,806,674)</u>	<u>(2,536,059)</u>
<b>Foreign exchange on cash</b>	<u>117,020</u>	<u>49,161</u>
<b>Cash – Beginning of the period</b>	<u>\$ 12,279,037</u>	<u>\$ 13,159,191</u>
<b>Cash– End of the period</b>	<u>\$ 10,539,963</u>	<u>\$ 10,672,293</u>

**Supplemental cash flow information (Note 19)**

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

CHAKANA COPPER CORP.  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE THREE MONTHS ENDED AUGUST 31, 2019 (UNAUDITED)

*(Expressed in Canadian Dollars, except per share amounts)*

	Common Shares		Accumulated Other Comprehensive Loss	Warrant Reserve	Stock Option Reserve	Deficit	Total
	Shares	Amount					
<b>Balance – May 31, 2019</b>	97,199,847	\$ 29,974,224	\$ 388,082	\$ 1,133,947	\$ 1,512,084	\$ (17,530,144)	\$ 15,478,193
Net loss for the period		-	-	-	-	(2,164,498)	(2,164,498)
Other comprehensive loss for the period		-	67,599	-	-	-	67,599
Vesting of stock options		-	-	-	12,629	-	12,629
<b>Balance – August 31, 2019</b>	97,199,847	\$ 29,974,224	\$ 455,681	\$ 1,133,947	\$ 1,524,713	\$ (19,694,642)	\$ 13,393,923
<b>Restated Balance – May 31, 2018</b>	80,070,347	\$ 21,319,696	\$ 72,738	\$ 1,143,257	\$ 1,346,701	\$ (9,641,731)	\$ 14,240,661
Net loss for the period		-	-	-	-	(7,888,413)	(7,888,413)
Other comprehensive loss for the period		-	315,344	-	-	-	315,344
Vesting of stock options		-	-	-	165,383	-	165,383
Shares issued for:							
Cash	15,686,275	8,000,000	-	-	-	-	8,000,000
Share issuance costs		(80,072)	-	-	-	-	(80,072)
Acquisition of property (Note 7)	1,400,000	708,000	-	-	-	-	708,000
Warrant exercises (Note 12)	43,225	26,600	-	(9,310)	-	-	17,290
<b>Balance – May 31, 2019</b>	97,199,847	\$ 29,974,224	\$ 388,082	\$ 1,133,947	\$ 1,512,084	\$ (17,530,144)	\$ 15,478,193

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

## **1. Nature of Operations**

Chakana Copper Corp. (the "Corporation") was incorporated on May 2, 2011, under the laws of the province of British Columbia, Canada, and changed its name from Hadrian Resources Inc. on August 4, 2011 and changed its name to Chakana Copper Corp. on January 30, 2018. The Corporation is listed on the TSX Venture Exchange ("TSX-V") under the symbol "PERU". The Corporation is currently engaged in exploration of mineral properties, with its principal focus at this stage on the exploration of the Soledad copper-gold-silver project located in Central Peru (the "Soledad Project").

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

The Corporation is in the process of exploring and developing its mineral properties. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, successful permitting, the ability of the Corporation to obtain necessary financing to complete exploration and development, and upon future profitable production or proceeds from disposition of each mineral property. Furthermore, the acquisition of title to mineral properties is a complicated and uncertain process, and while the Corporation has taken steps in accordance with normal industry standards to verify its title to the mineral properties in which it has an interest, there can be no assurance that such title will ultimately be secured. The carrying amounts of mineral properties are based on costs incurred to date, and do not necessarily represent present or future values.

## **2. Basis of Preparation and Statement of Compliance**

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, these condensed interim consolidated financial statements do not include all of the information and footnotes required by IFRS for complete financial statements for year-end reporting process.

These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the Corporation's audited financial statements for the year ended May 31, 2019. The policies applied in these condensed interim consolidated financial statements are based on IFRS issued as of November 15, 2019, the date the Board of Directors approved the financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Corporation's consolidated financial statements for the year ended May 31, 2019.

## **3. Significant Accounting Judgements and Estimates**

The preparation of the Corporation's 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 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.

### **3. Significant Accounting Judgements and Estimates (continued)**

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

- *Impairment of Exploration and Evaluation Asset*

The net carrying value of the exploration asset is reviewed regularly for conditions that suggest potential indications 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 judgement based on historical experience and expectations of the Corporation's ability to generate adequate financing. Significant judgements are 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 judgement 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 the Corporation's subsidiary, Chakana Resources S.A.C., is the U.S. 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 which determined the primary economic environment.

**CHAKANA COPPER CORP.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2019 AND 2018 (UNAUDITED)**  
*(expressed in Canadian Dollars)*

**4. Accounting Standards and Amendments Adopted**

*IFRS 16 - Leases*

The Company adopted all of the requirements of IFRS 16, effective June 1, 2019. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. There was no material impact on the Company's condensed consolidated interim financial statements upon the adoption of this new standard.

**5. Cash**

	<b>August 31, 2019</b>	<b>May 31, 2019</b>
Cash	\$ 1,039,963	\$ 2,779,037
Demand Deposit – GICs	9,500,000	9,500,000
	<b>\$ 10,539,963</b>	<b>\$ 12,279,037</b>

**6. Prepaid and Other Current Assets**

	<b>August 31, 2019</b>	<b>May 31, 2019</b>
Prepaid expenses and other current assets	\$ 245,677	\$ 247,727
	<b>\$ 245,677</b>	<b>\$ 247,727</b>

**7. Exploration and Evaluation Assets**

	<b>Condor Option</b>	<b>Aija Project</b>	<b>Total</b>
Balance – May 31, 2018 (Restated)	\$ 439,575	\$ 201,147	\$ 640,722
Acquisition costs	1,434,950	80,534	1,515,484
Foreign exchange on translation	5,586	1,260	6,846
Balance – May 31, 2019	\$ 1,880,111	\$ 282,941	\$ 2,163,052
Acquisition costs	98,384	66,382	164,766
Foreign exchange on translation	(16,005)	(10,911)	(26,916)
Balance – August 31, 2019	<b>\$ 1,962,490</b>	<b>\$ 338,412</b>	<b>\$ 2,300,902</b>

The Corporation's wholly-owned indirect subsidiary Chakana Resources S.A.C. holds (i) the option to acquire 100% ownership interest in the Soledad Project ("Condor Option"), (ii) holds an option to acquire 100% ownership interest in the adjacent Aija Project, Peru ("Aija Project"), and (iii) holds an option to acquire up to 100% ownership in other adjacent mineral concessions owned by Minera Barrick Misquichilca S.A. ("Barrick Option"). All three options are collectively referred to as the "Soledad Project." The Corporation is the operator of all related mineral exploration activities on these projects.

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

**(i) Soledad Project, Peru (“Condor Option”)**

On April 17, 2017, the Corporation entered into the Mining Assignment and Option Agreement with Minera Vertiente del Sol SAC (“MVS”) (the “Agreement”) a subsidiary of 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 Copper / Gold Project, Peru (the “Soledad Project”), subject to a 2% net smelter return royalty (“NSR”). The closing date for the Agreement was June 23, 2017.

The Corporation’s option to acquire 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 USD \$5,375,000, and completing 12,500 metres of drilling on the Soledad Project.

The Option exercise cash payments schedule are as follows:

<b>Installment</b>	<b>Date</b>	<b>Amount (in USD\$)</b>
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	75,000
8	June 23, 2020	100,000
9	December 23, 2020	150,000
10	June 23, 2021	200,000
11	December 23, 2021	4,625,000
<b>Total</b>		<b>\$ 5,375,000</b>

As at August 31, 2019, the Corporation has paid instalments 1 to 6, totalling USD \$225,000. The June 23, 2018 instalment was accompanied with the issuance of 500,000 shares of the Corporation (note 11).

Under the agreement, the Corporation may purchase from MVS 50% of the NSR, equal to a 1% NSR, for USD \$2,000,000 at any time.

Pursuant to the Assignment, the Corporation must complete 12,500 metres of exploration drilling at the Soledad Project.

As at August 31, 2019, the Corporation has drilled 29,113 metres and incurred \$10,142,847 of exploration expenditures on the Soledad Project, therefore meeting all of its drilling and work expenditure commitments under the Mining Assignment and Option Agreement.

**(ii) Aija Project, Peru (“Aija Project”)**

On March 20, 2018, the Corporation entered into an Option Agreement with an arms-length third party to acquire 100% of the rights and interest in the Aija Project (the “Aija Project”) subject to a 2% Net Smelter Royalty. 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 Condor Option.

**CHAKANA COPPER CORP.**  
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2019 AND 2018 (UNAUDITED)  
*(expressed in Canadian Dollars)*

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

The Option exercise cash payments schedule is as follows:

Installment	Date	Amount (in USD\$)
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	\$ 75,000
6	August 1, 2020	\$ 75,000
7	February 1, 2021	\$ 100,000
8	August 1, 2021	\$ 100,000
9	February 1, 2022	\$ 100,000
10	August 1, 2022	\$ 100,000
11	February 1, 2023	\$ 1,500,000
<b>Total</b>		<b>\$ 2,300,000</b>

Under the terms of the Option, the third-party is entitled to a 2% NSR which the Corporation may purchase all of the 2% NSR at any time for USD \$2,000,000. There are no drilling or work expenditure commitments under the Option.

**(iii) Barrick Option Agreement (“Barrick Option”)**

On July 11, 2018, Mineral Barrick Misquichilca S.A. (“Barrick”) granted the Corporation an option to acquire a 100% interest in three concessions adjoining the southern extent of the Aija Project (“Barrick Option”). Under terms of the agreement, the Corporation has 5 years to complete a minimum of 2,000 m of drilling and produce a Preliminary Economic Assessment report compliant with National Instrument 43-101. Upon exercise of the option, Barrick will retain a 2% NSR subject to the Corporation’s right to purchase 50% of the royalty for USD \$2,000,000.

Barrick will have a one-time right to re-acquire a 70% interest in the concessions within 120 days of exercising the option 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 then not made by Barrick within 7 years of the Back-in Closing Date, Barrick will make pre-royalty payments of USD \$75,000 per year until a production decision is made for a maximum of 5 years (USD \$375,000). If the Corporation does not contribute its share of project costs its interest will be diluted until 10%, upon which its interest will be converted to a 2% NSR with Barrick retaining a right to purchase 50% of the royalty for USD \$2,000,000.

**CHAKANA COPPER CORP.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2019 AND 2018 (UNAUDITED)**  
*(expressed in Canadian Dollars)*

**8. Property and Equipment**

	<b>Equipment</b>	
<b>Cost</b>		
<b>As at May 31, 2019</b>	\$	1,012,258
Additions		76,164
Disposals		-
Foreign exchange on translation		(24,971)
<b>As at August 31, 2019</b>	<b>\$</b>	<b>1,063,451</b>
<b>Accumulated depreciation</b>		
<b>As at May 31, 2019</b>	\$	(109,949)
Depreciation		(24,853)
Disposals		-
Foreign exchange on translation		2,466
<b>As at August 31, 2019</b>	<b>\$</b>	<b>(132,336)</b>
<b>Net Book Value</b>		
<b>As at May 31, 2019</b>	\$	902,309
<b>As at August 31, 2019</b>	<b>\$</b>	<b>931,115</b>

**9. VAT Receivable**

	<b>August 31,</b>		<b>May 31,</b>	
	<b>2019</b>		<b>2019</b>	
VAT receivable	\$	395,715	\$	412,162
	\$	395,715	\$	412,162

**10. Accounts Payable and Accrued Liabilities**

	<b>August 31,</b>		<b>May 31,</b>	
	<b>2019</b>		<b>2019</b>	
Accounts Payable	\$	906,646	\$	405,297
Accrued Liabilities		112,803		120,797
	\$	1,019,449	\$	526,094

**11. Share Capital**

(a) *Authorized Share Capital*

The Corporation is authorized to issue an unlimited number of common shares without par value. As at August 31, 2019, 12,885,750 common shares held in escrow to be released over a 16 month period.

(b) *Issued Capital*

During the three months ended August 31, 2019, no common shares were issued by the Corporation.

During the year ended May 31, 2019, the Corporation issued common shares as follows:

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**FOR THE THREE MONTHS ENDED AUGUST 31, 2019 AND 2018 (UNAUDITED)**  
*(expressed in Canadian Dollars)*

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**11. Share Capital (continued)**

- On May 13, 2019 the Corporation completed a private placement of 15,686,275 common shares of at a price of \$0.51 for gross proceeds of \$8,000,000. In connection to the private placement, the Corporation recorded \$72,249 of share issuance costs related to the legal costs of completing the private placement.
- On April 17, 2019, the Corporation issued 900,000 common shares at a fair value of \$0.42 per share as required in connection to the acquisition of a 1% NSR royalty on the Soledad project (note 7). The Corporation recorded \$7,822 of share issuance costs in relation to the issuance of the common shares for the acquisition.
- On June 19, 2018, the Corporation issued 500,000 common shares at a fair value of \$0.66 per share in connection with the Soledad Property option payment (note 7).
- On June 7, 2018, the Corporation issued 43,225 common shares on the exercise of warrants at an exercise price of \$0.40 for gross proceeds of \$17,290.

**12. Warrants**

Details regarding warrants issued and outstanding are summarized as follows:

	Weighted Average exercise price	Number of shares issued or issuable on exercise
Balance – May 31, 2019	\$0.57	1,626,066
Expiry of warrants	\$0.40	(417,376)
Balance – August 31, 2019	\$0.63	1,208,690

The expiry of warrant are as follows:

Grant Date	Expiry Date	Number of warrants issued	Weighted Average Exercise Price
November 7, 2017	November 7, 2019	277,865	\$0.50
January 29, 2018	January 29, 2020	539,825	\$0.50
March 23, 2018	March 23, 2020	391,000	\$0.90
		1,208,690	\$0.63

**13. Stock Options**

The Corporation adopted a stock option plan (the “Plan”) whereby it can grant stock options to directors, officers, employees, and consultants of the Corporation. The maximum number of common shares that may be reserved for issuance under the Plan is limited to 10% of the issued common shares of the Corporation at any time.

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*(expressed in Canadian Dollars)*

**13. Stock Options (continued)**

The changes in incentive stock options outstanding are summarized as follows:

	<b>Weighted average exercise price</b>	<b>Number of shares issued or issuable on exercise</b>
Balance – May 31, 2018 and August 31, 2018	\$0.46	4,010,000
Balance – May 31, 2019 and August 31, 2019	\$0.46	4,010,000

During the year ended May 31, 2018, the Corporation granted 4,285,000 incentive stock options to employees, consultants, and directors. Of the 4,285,000 incentive stock options, 3,860,000 may be exercised within 5 years from the date of grant at a price of \$0.40 per common share and 425,000 options may be exercised within 5 years from the date of grant at the price of \$0.94 per common share.

The fair value of options have been estimated using the Black-Scholes Option Pricing Model, assuming a risk-free interest rate ranging from 1.57% to 1.96% per annum, an expected life of options of 5 years, an expected volatility ranging from 112.26% to 121.93%, and no expected dividends.

Incentive stock options outstanding and exercisable August 31, 2019 are summarized as follows:

<b>Exercise Price</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number of Shares Issuable on Exercise</b>	<b>Weighted Average Remaining Life (Years)</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Shares Issuable on Exercise</b>	<b>Weighted Average Exercise Price</b>
\$0.40	3,585,000	3.04	\$0.40	3,585,000	\$0.40
\$0.94	425,000	3.58	\$0.94	212,500	\$0.94
	4,010,000	3.10	\$0.46	3,797,500	\$0.43

Stock options at an exercise price of \$0.40 and \$0.94 expire September 14, 2022, and March 29, 2023 respectively.

**14. Exploration and Evaluation Expenditures**

The Corporation incurred exploration and evaluation expenditures for the three months ended August 31, 2019 and 2018 as follows:

	<b>August 31, 2019</b>	<b>August 31, 2018</b>
Drilling	\$ 307,935	\$ 266,322
Exploration support and administration	610,835	933,209
Field operations and consumables	418,372	269,202
Geological consultants	64,057	54,828
Sampling and geological costs	87,005	353,584
Transportation	90,844	53,502
	<b>\$ 1,579,048</b>	<b>\$ 1,930,646</b>

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*(expressed in Canadian Dollars)*

**15. Misused Funds**

	<b>Three months August 31, 2019</b>	<b>Three months August 31, 2019</b>
Misused funds	\$ 80,643	\$ -
	<b>\$ 80,643</b>	<b>\$ -</b>

Subsequent to May 31, 2019, management discovered that an employee had misused \$569,698 of Corporation's funds for personal benefit. The employee directed unauthorized cash payments to be made, which were supported by falsified supporting documentation. Management has reviewed the payments and determined that \$120,169 of these transactions relates to the nine months ended May 31, 2018, \$368,886 relates to the year ended May 31, 2019, and \$80,643 relates to the period from June 1, 2019 to September 18, 2019, the termination date of the employee.

On October 4, 2019, the Corporation signed a settlement agreement pursuant to which 4,000,000 of the common shares of the Corporation, owned by a former employee of the Corporation, were relinquished as compensation for misuse 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 share purchase options, issued September 17, 2017, have been cancelled.

**16. Loss Per Share**

The following table sets forth the computation of basic and diluted loss per common share for the three months ended August 31, 2019 and 2018:

	<b>August 31, 2019</b>	<b>August 31, 2018</b>
<b>Numerator</b>		
Net loss for the period	\$ (2,164,498)	\$ (2,651,245)
<b>Denominator</b>		
Basic – weighted average number of common shares outstanding	97,199,847	80,507,022
Effect of dilutive securities	-	-
Diluted – adjusted weighted average number of common shares outstanding	97,199,847	80,507,022
<b>Loss Per Share – Basic and Diluted</b>	<b>\$(0.02)</b>	<b>\$(0.03)</b>

## **17. Financial Instruments**

### **Fair value**

The Corporation's financial instruments consisted of cash and cash equivalents. The fair values of cash and cash equivalents approximate their carrying values because of their current nature.

### **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation's primary exposure to credit risk is on its cash and short-term investments which are being held in bank accounts. The cash and short-term investments are deposited in bank accounts held with one major bank in Canada so there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Corporation has secondary exposure to risk on its sales tax receivables. The risk is minimal since it is recoverable from the Canadian government.

### **Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the Corporation's functional currency. The Corporation only operates in Canada and is therefore not exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

### **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Corporation's exposure to interest rate risk relates to its ability to earn interest income on cash at variable rates. The risk is minimal.

### **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 has a planning and budgeting process in place to help determine the funds required to support the Corporation's normal operating requirements on an ongoing basis. The Corporation attempts to ensure there is sufficient access to funds to meet on-going business requirements, taking into account its current cash position and potential funding sources. Liquidity risk is assessed as low.

## **18. Management of Capital**

The Corporation's primary objectives in capital management are to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the development of the Soledad and Aija Projects. Capital is comprised of the Corporation's shareholders' equity. The Corporation manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. To maintain or adjust its capital structure, the Corporation may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

## **19. Supplemental Cash Flow Information**

The Corporation did not make any cash payments for income taxes during the three months ended August 31, 2019.

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**20. Segmented Information**

The Corporation operates in one reportable segment, the exploration and development of unproven exploration and evaluation assets. The Corporation's primary exploration and evaluation assets are located in Peru and its corporate assets, comprising mainly of cash, are located in Canada. The Corporation is in the exploration stage and has no reportable segment revenues or operating results.

The Corporation's total assets are segmented geographically as follows:

	Canada		Peru		Total
<b>As at August 31, 2019</b>					
Current Assets	\$ 10,278,573	\$	507,067	\$	10,785,640
Equipment	-		931,115		931,115
Exploration an evaluation Assets	-		2,300,902		2,300,902
VAT receivable	-		395,715		395,715
	\$ 10,278,573	\$	4,134,799	\$	14,413,372
<b>As at May 31, 2019</b>					
Current Assets	\$ 12,294,975	\$	231,789	\$	12,526,764
Equipment	-		902,309		902,309
Exploration an evaluation Assets	-		2,163,052		2,163,052
VAT receivable	-		412,162		412,162
	\$ 12,294,975	\$	3,709,312	\$	16,004,287

**21. Related Party Disclosures**

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

**(a) Key Management Personnel Compensation**

During the three months ended August 31, 2019 and 2018, the Corporation paid and/or accrued the following fees to key management personnel:

	August 31, 2019		August 31, 2018
<b>Fees</b>			
Management	\$ 84,783	\$	84,175
Directors	40,800		38,563
	\$ 125,583	\$	122,738

**(b) Due to Related Parties**

As at August 31, 2019 the Corporation has the following amounts due to related parties:

	August 31, 2019		May 31, 2019
Management	\$ -	\$	-
Directors	31,898		33,014
	\$ 31,898	\$	33,014

**22. Commitments under Operating Leases**

The Corporation leases various premises under operating leases which expire from January 31, 2020 to July 31, 2020. The Corporation is obligated to make \$171,337 in minimum lease payments under the premise leases in the fiscal year ending May 31, 2020.

**23. Subsequent Event**

- a) On October 4, 2019, the Corporation signed a settlement agreement pursuant to which 4,000,000 of the common shares of the Corporation, owned by a former employee of the Corporation, were relinquished as compensation for misuse 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 share purchase options, issued September 17, 2017, have been cancelled.
- b) On November 7, 2019, 277,865 share purchase warrants exercisable at \$0.50 per warrant expired without being exercised.