PERUVIAN METALS CORP.

(formerly Duran Ventures Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 and 2017

(Expressed in Canadian dollars)

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Independent Auditor's Report

To the Shareholders of Peruvian Metals Corp.

Opinion

We have audited the financial statements of Peruvian Metals Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations, consolidated statements of loss and other comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2018 and, as of that date, the Company's current liabilities exceeded its current assets. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the

consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

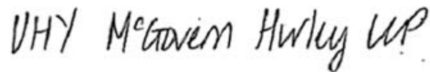
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Koko Yamamoto.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 24, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)
AS AT

	December 31, 2018 $	December 31, 2017 $
ASSETS		
CURRENT		
Cash	80,162	85,538
Marketable securities (Note 6)	25,000	70,000
Prepaid expenses and advances	16,881	11,696
Amounts receivable	72,270	67,944
Inventory	36,355	45,040
TOTAL CURRENT ASSETS	230,668	280,218
PROPERTY, PLANT AND EQUIPMENT (Note 7)	2,049,044	1,960,069
EXPLORATION AND EVALUATION ASSETS (Notes 8 and 14)	582,051	582,051
TOTAL ASSETS	2,861,763	2,822,338
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilites	891,545	781,777
Promissory notes and interest payable (Note 9)	168,054	203,941
Due to related parties (Note 10)	334,152	320,928
TOTAL CURRENT LIABILITIES	1,393,751	1,306,646
ASSET RETIREMENT AND RECLAMATION OBLIGATIONS (Note 11)	164,600	-
TOTAL LIABILITIES	1,558,351	1,306,646
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 12(a))	52,052,772	50,966,189
WARRANT RESERVE (Note 12(b))	199,328	629,539
SHARE-BASED PAYMENT RESERVE (Note 13)	107,032	112,028
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	(40,000)	5,000
DEFICIT	(50,753,497)	(50,079,918)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO SHAREHOLDERS	1,565,635	1,632,838
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTEREST	(262,223)	(117,146)
TOTAL SHAREHOLDERS' EQUITY	1,303,412	1,515,692
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,861,763	2,822,338

GOING CONCERN (Note 2)

COMMITMENTS AND CONTINGENCIES (Note 20)

SUBSEQUENT EVENT (Note 22)

APPROVED ON BEHALF OF THE BOARD:

Signed "*Steve Brunelle*", Director

Signed "*Jeffrey Reeder*", Director

See accompanying notes to the consolidated financial statements.

PERUVIAN METALS CORP. (formerly Duran Ventures Inc.)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31,

	2018	2017
	$	$
EXPENSES		
Plant start-up expenses (Note 16)	**558,657**	987,718
Exploration and evaluation expenditures (Note 14)	**149,678**	150,898
General and administrative (Note 17)	**557,147**	615,798
Impairment reversal of exploration and evaluation assets (Note 8)	**-**	(9,000)
Loss before the following:	**1,265,482**	1,745,414
Foreign exchange loss	**69,707**	987
Interest expense	**26,738**	24,681
Amortization	**5,900**	632
Realized gain on sale of marketable securities (Note 6)	**-**	(1,114)
NET LOSS FOR THE YEAR	**1,367,827**	1,770,600
NET LOSS FOR THE YEAR ATTRIBUTABLE TO:		
Non-controlling interest	**145,077**	147,515
Shareholders	**1,222,750**	1,623,085
	1,367,827	1,770,600
Loss per share - basic and diluted (Note 15)	**0.02**	0.03
Weighted average number of common shares Outstanding - basic and diluted	**69,823,478**	48,999,985

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF LOSS AND OTHER COMPREHENSIVE LOSS

(Expressed in Canadian dollars)

FOR THE YEARS ENDED DECEMBER 31,

	2018	2017
	$	$
Net loss for the year	**1,367,827**	1,770,600
Items that are or may be subsequently reclassifed to net loss:		
Unrealized loss (gain) on marketable securities	**45,000**	(6,114)
Reclassification of realized gain on marketable securities to net loss	**-**	1,114
Other comprehensive loss for the year	**1,412,827**	1,765,600
Total comprehensive loss attributable to:		
Non-controlling interest	**145,077**	147,515
Shareholders	**1,267,750**	1,618,085
	1,412,827	1,765,600

See accompanying notes to the consolidated financial statements.

PERUVIAN METALS CORP. (formerly Duran Ventures Inc.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

FOR THE YEARS ENDED DECEMBER 31

	Common Shares	Warrants						
	Amount	Reserve Amount	Share-based Payment Reserve	Accumulated Other Comp. Income	Deficit	Total	Non-Controlling Interest	Total Shareholders' Equity
	$	$	$	$	$	$	$	$
Balance, December 31, 2016	50,402,306	504,459	318,816	-	(48,749,621)	2,475,960	30,369	2,506,329
Shares and warrants issued for cash	434,144	132,356	-	-	-	566,500	-	566,500
Shares issued for cash - exercise of warrants	33,676	(7,276)	-	-	-	26,400	-	26,400
Shares issued for debt settlement	96,063	-	-	-	-	96,063	-	96,063
Share based payments	-	-	86,000	-	-	86,000	-	86,000
Value of options expired	-	-	(292,788)	-	292,788	-	-	-
Unrealized gain on marketable securities	-	-	-	6,114	-	6,114	-	6,114
Reclassification of gain on marketable securities	-	-	-	(1,114)	-	(1,114)	-	(1,114)
Net (loss)	-	-	-	-	(1,623,085)	(1,623,085)	(147,515)	(1,770,600)
Balance, December 31, 2017	50,966,189	629,539	112,028	5,000	(50,079,918)	1,632,838	(117,146)	1,515,692
Shares and warrants issued for cash	664,479	160,521	-	-	-	825,000	-	825,000
Warrants issued as finder's fee	-	7,582	-	-	-	7,582	-	7,582
Share issuance costs	(32,894)	(7,883)	-	-	-	(40,777)	-	(40,777)
Shares issued for cash - exercise of warrants	402,138	(95,388)	-	-	-	306,750	-	306,750
Shares issued for cash - exercise of options	52,860	-	(22,360)	-	-	30,500	-	30,500
Value of warrants expired	-	(495,043)	-	-	495,043	-	-	-
Value of options expired	-	-	(54,128)	-	54,128	-	-	-
Share based payments	-	-	71,492	-	-	71,492	-	71,492
Unrealized loss on marketable securities	-	-	-	(45,000)	-	(45,000)	-	(45,000)
Net (loss)	-	-	-	-	(1,222,750)	(1,222,750)	(145,077)	(1,367,827)
Balance, December 31, 2018	52,052,772	199,328	107,032	(40,000)	(50,753,497)	1,565,635	(262,223)	1,303,412

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31,

	2018	2017
	$	$
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the year	**(1,367,827)**	(1,770,600)
Add items not requiring cash:		
Share based payments	**71,492**	86,000
Interest payable on promissory notes	**26,738**	24,681
Writedown of property development costs	**89,276**	-
Amortization	**5,900**	632
Realized gain on sale of marketable securities	-	(1,114)
Impairment reversal of exploration assets	**-**	(9,000)
Changes in non-cash operating working capital:		
(Increase) decrease in prepaid expenses and advances	**(5,185)**	45,807
(Increase) decrease in amounts receivable	**(4,326)**	16,156
Decrease in inventory	**8,685**	100,641
Increase in accounts payable and accrued liabilities	**109,768**	396,406
Increase in due to related parties	**13,224**	162,664
Cash flows from operating activities	**(1,052,255)**	(947,727)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(53,968)**	(52,895)
Net proceeds from plant comissioning revenue	**34,417**	59,143
Proceeds on sale of exploration and evaluation assets	**-**	100,000
Proceeds on sale of marketable securities	**-**	66,114
Cash flows from investing activities	**(19,551)**	172,362
FINANCING ACTIVITIES		
Promissory notes received	**15,000**	225,000
Repayment of promissory notes and interest	**(77,625)**	-
Issuance of private placement units for cash	**825,000**	566,500
Issue costs	**(33,195)**	-
Shares issued for cash - exercise of warrants	**306,750**	26,400
Shares issued for cash - exercise of options	**30,500**	-
Cash flows from financing activities	**1,066,430**	817,900
(Decrease) Increase in cash	**(5,376)**	42,535
Cash, beginning of the year	**85,538**	43,003
Cash, end of the year	**80,162**	85,538
Supplemental information		
Provision for asset retirement and reclamation obligations	**164,600**	**-**
Warrants issued as finder's fee	**7,582**	-
Marketable securities received for sale of assets	**-**	130,000
Common shares issued for debt	**-**	96,063

See accompanying notes to the consolidated financial statements.

1. GENERAL INFORMATION

Peruvian Metals Corp. ("Peruvian Metals" or "the Company") is a publicly listed company originally incorporated in British Columbia and subsequently continued in Ontario under the Canada Business Corporations Act. Effective September 5, 2018 the Company changed its name from Duran Ventures Inc. to Peruvian Metals Corp. The Company's common shares have been listed on the TSX Venture Exchange ("TSXVE") since July 4, 2007, and trade under the symbol "PER". The Company's shares were listed on the Risk Capital Segment of the Lima Stock Exchange (Segmento de Capital de Riesgo de la Bolsa de Valores de Lima) in Peru, from September 21, 2012 to November 6, 2018. The Company, directly and with exploration partners, is engaged in mineral processing and the exploration and development of mineral properties in Peru. The Company's principal office is located at 40 University Avenue, Suite 603, Toronto, Ontario, Canada M5J 1T1 and substantially all of the Company's corporate and administrative expenses are incurred in Canada.

2. GOING CONCERN

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation assets and property, plant and equipment and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. The Company's assets are subject to increases in taxes and royalties, renegotiation of contracts, expropriation, currency exchange fluctuations and political uncertainty.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing registration or regulations, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory, social and environmental requirements.

These consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The Company also had a loss during the year ended December 31, 2018 and a cumulative deficit and working capital deficiency as at December 31, 2018. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing or to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation. If the going concern assumption is not appropriate, material adjustments to the consolidated financial statements may be required.

3. BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company, which is incorporated in Canada under the Canada Business Corporations Act, and its wholly owned subsidiaries, Corongo Exploraciones SAC ("Corongo"), Empresa Querco SAC ("Querco"), Mamaniña Exploraciones SAC ("Mamaniña Exploraciones"), Hatum Minas SAC ("Hatum Minas"), Magellan Gold Peru SAC, and it's 80% owned subsidiary companies Minera Aguila de Ora SAC ("Madosac") and Insumos Y Minerales del Notre SRL ("Insumos"), all of which were incorporated in Peru. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through

3. BASIS OF CONSOLIDATION (continued)

the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. All inter-company balances and transactions have been eliminated. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

For non-wholly owned, controlled subsidiaries, the net assets attributable to outside equity shareholders are presented as "non-controlling interests" in the equity section of the consolidated statements of financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The Company has consistently applied the accounting policies used in preparation of these consolidated financial statements throughout all the periods presented. Significant accounting judgements and estimates used by management in the preparation of these consolidated financial statements are presented in Note 5.

The policies applied in these consolidated financial statements are based on the IFRS issued and effective as of December 31, 2018. These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 24, 2019.

(b) Basis of preparation

The consolidated financial statements are presented in Canadian dollars. The financial statements are prepared on the historical cost basis except for marketable securities which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

(c) Standards, Amendments and Interpretations Implemented in 2018

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments,* which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in both standards, the Company adopted these standards retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at January 1, 2018. There were no effects on opening balances at January 1, 2018 with respect to the adoption of these policies.

IFRS 9, *Financial Instruments*
IFRS 9 replaces International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss ("FVPL") or through other comprehensive income ("FVOCI"); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Standards, Amendments and Interpretations Implemented in 2018 (continued)

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

	Financial instrument classification	
	Under IAS 39	**Under IFRS 9**
Financial assets		
Cash	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Marketable securities	Available for sale	FVOCI
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Promissory notes and interest payable	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost

The Company adopted IFRS 9 retrospectively without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended December 31, 2017 was accounted for in accordance with the Company's previous accounting policy under IAS 39.

(d) Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not mandatory for accounting periods beginning on or after January 1, 2019 or later periods. Many are not applicable or do not have significant impact to the Company and have been excluded. They have not been early adopted in these consolidated financial statements, and management is evaluating these pronouncements to determine the impact on consolidated financial statements. In all cases the Company intends to apply these standards from application date as indicated below:

- IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

- IFRS 2 Share-based Payment

  IFRS 2 – Share-based Payment ("IFRS 2") was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2019.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Standards, Amendments and Interpretations Not Yet Effective (continued)

- IFRS 10 Consolidated Financial Statements

  IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

- IFRS 16 Leases

  IFRS 16 – Leases (“IFRS 16”) was issued by the IASB on January 13, 2016 and replaces IAS17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS16 states that upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

- IFRIC 23 Uncertainty Over Income Tax Treatments

  IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”) was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

There are no other IFRS or IFRIC Interpretations that are not yet effective that the Company expects to have a material impact on the consolidated financial statements.

(e) Share-based payments

The share option plan allows employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value is estimated at the grant date and each tranche is recognized on a graded vesting basis over the period during which the options vest. The fair value of the options granted is estimated using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized in profit and loss is adjusted to reflect the actual number of share options that are expected to vest.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Share-based payments (continued)

Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

The offset to the recorded cost is to share-based payments reserve.

Upon expiry of share options, the recorded value is transferred to deficit from share-based payment reserve.

(f) Income taxes

Income tax for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

Deferred taxes

Deferred income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities.

Deferred income tax assets and liabilities are measured using income tax rates in effect for the period in which those temporary differences are expected to be recovered or settled based on the tax rates that have been enacted or substantively enacted by the end of the reporting period. The effect on deferred income tax assets and liabilities of a change in income tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current tax

This is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end adjusted for amendments to tax payable with regards to previous years.

(g) Exploration and evaluation assets and expenditures

Exploration and evaluation expenditures are expensed as incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination. Exploration and evaluation expenditures include the costs of acquiring licenses and costs associated with exploration and evaluation activity. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment

Property, plant and equipment is carried at cost, less accumulated amortization and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the assets to a working condition for their intended use, the initial estimate of the rehabilitation provisions, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Costs associated with the commissioning of new assets, in the period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues. Where an item of property, plant and equipment or mine properties comprises significant components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Amortization is determined at rates which will reduce original cost to estimated residual value over the expected useful life of each asset. Amortization of the plant will commence when the commissioning is complete and it is available for its intended use.

(i) Impairment of non-financial assets

At each reporting date the carrying amounts of the Company's property, plant and equipment and exploration and evaluation assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of operations for the period.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets. This generally results in the Company evaluating its non-financial assets on a geographical or license basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGUs) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(j) Foreign currencies

The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar. The Company's foreign subsidiaries are considered extensions of the parent company. Monetary assets and liabilities are translated to Canadian dollars at the rate in effect at the reporting date. Non-monetary items are translated at historical rates. Revenue and expenses are translated at the average exchange rate for the period. The resulting gain or loss is included in the consolidated statement of operations.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial assets and liabilities

Accounting policy under IFRS 9 applicable from January 1, 2018

Financial assets

Initial recognition and measurement
Non-derivative financial assets within the scope of IFRS 9 are classified and measured as “financial assets at fair value”, as either FVPL or FVOCI, and “financial assets at amortized costs”, as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company’s business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. Accounts receivable held for collection of contractual cash flows are measured at amortized cost.

Subsequent measurement – financial assets at amortized cost
After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Subsequent measurement – financial assets at FVPL
Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of loss. The Company does not measure any financial assets at FVPL.

Subsequent measurement – financial assets at FVOCI
Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company measures its marketable securities at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the consolidated statements of loss when the right to receive payments is established.

Derecognition
A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial assets and liabilities (continued)

Impairment of financial assets
The Company's only financial assets subject to impairment are accounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Financial liabilities

Initial recognition and measurement
Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities and promissory notes and interest payable, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value.

Subsequent measurement – financial liabilities at amortized cost
After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of loss.

<u>Accounting policy under IAS 39 applicable prior to January 1, 2018</u>

The accounting policy under IAS 39 for the comparative information presented in respect of financial assets and liabilities, excluding derivative instruments related to hedging activities, was similar to the accounting policy adopted in 2018, with the following exceptions:

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

The Company's financial assets and liabilities include cash, marketable securities, amounts receivable, accounts payable and accrued liabilities, promissory notes and interest payable, and due to related parties.

The Company has designated its cash and amounts receivable as loans and receivables, which are measured at amortized cost. Marketable securities have been classified as available-for-sale ("AFS") and are recorded at their fair values with changes in fair value included in other comprehensive loss until the asset is removed from the statement of financial position or until impairment is assessed as other than temporary. Regular purchases and sales of financial assets are recognized on the trade-date, the date on which the Company commits to purchase or sell the asset. Accounts payable and accrued liabilities, promissory notes and interest payable, and due to related parties are classified as other financial liabilities, which are measured at amortized cost.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial assets and liabilities (continued)

Transaction costs associated with FVTPL financial assets and financial liabilities are expensed as incurred, while transaction costs associated with all other financial assets and other financial liabilities are included in the initial carrying amount of the asset or the liability.

Fair values are determined directly by reference to published price quotations in an active market. Changes in the fair value of these instruments are reflected in other comprehensive loss and included in shareholders' equity on the consolidated statement of financial position. All other non-derivative financial instruments were recorded at amortized cost, subject to impairment reviews.

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2018 and 2017, the Company had marketable securities that were classified as Level 1.

(l) Impairment of financial assets

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimate future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(m) Decommissioning and restoration provisions

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged to profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. Changes in closure and reclamation estimates are accounted for as a change in the corresponding capitalized costs. Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred, most of which are incurred at the end of the life of the mine.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Decommissioning and restoration provisions (continued)

Other provisions and liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash flow and timing can be reliably estimated.

(n) Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders after adjusting for non-controlling interests, for the period by the weighted average number of common shares outstanding in the period. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. In the Company's case, diluted loss per share is the same for the years ended December 31, 2018 and 2017 as basic loss per share as the effects of including all outstanding options and warrants would be anti-dilutive.

(o) Joint arrangements

A portion of the Company's exploration activities may be conducted jointly with others wherein the Company enters into agreements that provide for specified percentage interests in mineral properties. Joint arrangement accounting is applied by the Company only when the parties have earned their respective interests and enter into formal comprehensive agreements for ownership and exploration participation. The Company was not party to any joint ventures or joint operations during the years ended December 31, 2018 and 2017.

(p) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues, incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The Company operates in one business segment, mineral processing and exploration and two geographical segments, Peru and Canada, during the years ended December 31, 2018 and 2017.

(q) Inventory

The cost of ore stockpiles is comprised of the cost to purchase such stockpiles along with the costs incurred to transport the stockpiles to the Company's plant. Production costs include the cost of materials, labour, production overheads and depreciation to the applicable stage of processing. Substantially all of the Company's inventory at December 31, 2018 and 2017 is comprised of ore stockpiles purchased by the Company to be processed.

Provisions are recorded to reduce the carrying amount of inventory to net realizable value to reflect changes in grades, quantity or other economic factors and to reflect current intentions for the use of redundant or slow-moving items. Provisions for redundant and slow-moving items are made by reference to specific items of inventory. The Company reverses write-downs where there is subsequent increase in net realizable value and where the inventory is still on hand.

Spare parts, stand-by and servicing equipment held are generally classified as inventories. Major capital spare parts and stand-by equipment (insurance spares) are classified as a component of property, plant and equipment.

All of the inventory at December 31, 2018 and 2017 was carried at cost. Inventory in the amount of $45,041 was recognized as an expense during the year ended December 31, 2018 (2017 - $145,681).

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Assets' carrying values and impairment charges
  In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Capitalization of exploration and evaluation costs
  Management has determined that capitalized exploration and evaluation costs have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 8 for details of capitalized exploration and evaluation costs.

- Mineral reserve estimates
  The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

- Impairment of exploration and evaluation assets
  While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include but are not limited to estimates of the discounted future pre-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

- Estimation of decommissioning and restoration costs and the timing of expenditure
  Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

- Income, value added, withholding and other taxes
The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transaction and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

- Share-based payments
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Contingencies
See Notes 2 and 20.

6. MARKETABLE SECURITIES

As at December 31, 2018, the Company's marketable securities consist of 500,000 common shares (December 31, 2017 – 500,000 common shares) of Tartisan Nickel Corp. (formerly Tartisan Resources Corp.) ("Tartisan") (see Note 8). The fair value of the listed available for sale investment has been determined directly by reference to published price quotations in an active market.

During the year ended December 31, 2018, the Company sold nil common shares of Tartisan for a gain of $Nil (2017 – 500,000 common shares for a gain of $1,114).

7. PROPERTY, PLANT AND EQUIPMENT

Cost	Office furniture and equipment	Computer equipment	Vehicles and field equipment	Plant	Total
	$	$	$	$	$
Balance at December 31, 2016	29,582	28,591	15,148	1,959,697	2,033,018
Additions	-	-	-	52,895	52,895
Plant commissioning revenue	-	-	-	(59,143)	(59,143)
Balance at December 31, 2017	29,582	28,591	15,148	1,953,449	2,026,770
Additions	-	-	28,089	190,479	218,568
Plant commissioning revenue	-	-	-	(34,417)	(34,417)
Writedown of property development costs	-	-	-	(89,276)	(89,276)
Balance at December 31, 2018	29,582	28,591	43,237	2,020,235	2,121,645

Amortization and impairment	Office furniture and equipment	Computer equipment	Vehciles and field equipment	Plant	Total
	$	$	$	$	$
Balance at December 31, 2016	29,582	27,621	8,866	-	66,069
Additions	-	324	308	-	632
Balance at December 31, 2017	29,582	27,945	9,174	-	66,701
Additions	-	324	5,576	-	5,900
Balance at December 31, 2018	29,582	28,269	14,750	-	72,601

Carrying amounts	Office furniture and equipment	Computer equipment	Field equipment	Plant	Total
	$	$	$	$	$
At December 31, 2017	-	646	5,974	1,953,449	1,960,069
At December 31, 2018	-	322	28,487	2,020,235	2,049,044

As at December 31, 2018 and December 31, 2017, the plant is not yet in commercial production. Therefore no amortization has been taken on this asset.

The net book value of the Company's property, plant and equipment at December 31, 2018 by geographic location is as follows: Canada - $Nil (December 31, 2017 - $Nil), and Peru $2,049,044 (December 31, 2017 - $1,960,069).

8. EXPLORATION AND EVALUATION ASSETS

	December 31, 2016	Impairment reversal	Sale of Assets	December 31, 2017	December 31, 2018
	$	$	$	$	$
Peru					
Hatum Minas Properties	803,051	9,000	(230,000)	582,051	582,051
Total Exploration Properties	803,051	9,000	(230,000)	582,051	582,051

8. EXPLORATION AND EVALUATION ASSETS (continued)

Hatum Minas Properties

As at December 31, 2018 and 2017, the Hatum Minas Properties include the Panteria porphyry copper project (the "Panteria Project"). Title to the Hatum Minas Properties is held by the Company's wholly-owned Peruvian subsidiary, Hatum Minas.

On March 23, 2017, the Company sold the Don Pancho property to Tartisan for cash consideration of $50,000 and 500,000 shares of Tartisan valued at $60,000 as at the date received, based on the quoted market price of the shares. Peruvian Metals will also receive an additional 500,000 shares of Tartisan as certain project milestones are achieved by Tartisan, and will retain a 2% net smelter royalty ("NSR") in the Don Pancho Project of which half (1%) can be purchased by Tartisan for US$500,000.

On April 12, 2017, the Company sold the Ichuña property to Tartisan for cash consideration of $50,000 and 500,000 shares of Tartisan valued $70,000 as at the date received, based on the quoted market price of the shares. Peruvian Metals will also receive an additional 500,000 shares of Tartisan as certain project milestones are achieved by Tartisan, and will retain a 2% NSR in the Ichuña project of which half (1%) can be purchased by Tartisan for US$500,000.

As at December 31, 2018 and 2017, the balance of the exploration and evaluation assets relates to the Panteria Project.

See Exploration and Evaluation Expenditures (Note 14).

9. PROMISSORY NOTES AND INTEREST PAYABLE

During the year ended December 31, 2018, the Company issued promissory notes of $15,000 (2017 - $225,000) and repaid a total of $77,625 in principal and interest (2017 - $45,740). The promissory notes are due on demand and bear interest at an annual rate of 18%. As at December 31, 2018, the Company had promissory notes payable outstanding of $146,701 (December 31, 2017 - $180,000) and interest payable of $21,353 (December 31, 2017 - $ 23,941), of which $61,659 of principal (December 31, 2017 - $80,000) and $8,814 of interest payable (December 31, 2017 - $13,979) was due to an officer and a director of the Company. (See Note 10).

10. RELATED PARTY TRANSACTIONS

Related parties include officers of the Company, the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including the directors of the Company. The remuneration of key management personnel of the Company for the years ended December 31, 2018 and 2017 were as follows.

	Years Ended December 31	
	2018	2017
	$	$
Aggregate compensation	**304,052**	323,839

10. RELATED PARTY TRANSACTIONS (continued)

As at December 31, 2018, a balance of $404,625 (December 31, 2017 - $414,907) was due to certain officers and directors of the Company. Of this amount $70,473 (December 31, 2017 - $93,979) relates to outstanding promissory notes and interest (See Note 9); $287,853 (December 31, 2017 - $247,522) relates to unpaid compensation; $30,000 (December 31, 2017 - $60,000) relates to non-interest bearing advances, and $16,299 (December 31, 2017 - $13,406) relates to reimbursable expenses incurred in the normal course of business.

Certain directors and officers of the Company subscribed for 2,710,000 units in connection with the 2018 Offering as disclosed in Note 12 (a)(iv).

Certain directors and officers of the Company subscribed for 7,490,000 units in connection with the 2017 Offering as disclosed in Note 12 (a)(iii). See also Note 12(a)(ii).

During the year ended December 31, 2018 the Company repaid a total of $77,625 (2017 - $Nil) of promissory note principal and interest to related parties of the Company, and issued promissory notes of $15,000 (2017 - $100,000) to related parties. (See Note 9)

A total of 1,500,000 stock options were granted to related parties under the Company’s share option plan during the year ended December 31, 2018 (2017 – Nil).

11. ASSET RETIREMENT AND RECLAMATION OBLIGATIONS

The Company’s operations are governed by laws and regulations covering the protection of the environment. The Company will implement progressive measures for rehabilitation work to be carried out during the operation, closing and follow-up work upon closing of the Aguila Norte processing plant; consequently, the Company accounted for its asset retirement obligations for the plant using best estimates of future costs, based on information available at the reporting date. These estimates are subject to change following modifications to laws and regulations or as new information becomes available.

The Company received its final environmental permit for the Aguila Norte Plant in February 2018 and set up a provision for the asset retirement and reclamation obligations. As at December 31, 2018, the estimated undiscounted cash flow required to settle the asset retirement obligation for Aguila Norte Plant and its related tailings pond is $200,000 and is projected to be disbursed no earlier than 2023. A 5% discount rate and 2% inflation rate were used to evaluate this provision.

	$
Balance, December 31, 2017 and 2016	-
Additions to asset retirement and reclamation obligations	164,600
Balance, December 31, 2018	164,600

12. CAPITAL STOCK AND WARRANT RESERVE

a) Authorized, Issued and Outstanding Shares

Authorized - unlimited number of common shares with no par value,
- 100,000,000 preferred shares with no par value

A summary of common shares outstanding as at December 31, 2018 and 2017 and changes during the periods then ended are presented below:

	Shares #	Amount $
Balance, December 31, 2016	45,848,330	50,402,306
Exercise of warrants (i)	176,000	26,400
Allocation from warrant reserve	-	7,276
Issued for settlement of debt (ii)	1,067,367	96,063
Issued in private placement (iii)	11,330,000	434,144
Balance, December 31, 2017	58,421,697	50,966,189
Issued in private placement (iv)	16,500,000	825,000
Allocation to warrant reserve	-	(160,521)
Share issuance costs	-	(32,894)
Exercise of warrants (v)	4,047,000	306,750
Allocation from warrant reserve	-	95,388
Exercise of stock options (vi)	610,000	30,500
Allocation from share-based payment reserve	-	22,360
Balance, December 31, 2018	79,578,697	52,052,772

(i) During the year ended December 31, 2017, a total of 176,000 warrants were exercised at $0.15 per share for gross proceeds of $26,400.

(ii) On May 30, 2017, the Company issued 1,067,367 common shares on settlement of debt amounting to $96,063. A total of 631,888 of the foregoing common shares were issued to an officer of the Company for an aggregate settlement of $56,870.

(iii) During the year ended December 31, 2017, the Company completed a non-brokered private placement financing (the "2017 Offering"). In total the 2017 Offering consisted of 11,330,000 units for aggregate gross proceeds to the Company of $566,500. Each unit consisted of one common share and one half common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one additional common share at an exercise price of $0.075 for a period of two years from the closing of each tranche of the 2017 Offering. In the event that the closing sale price of the common shares on the TSXVE is greater than $0.15 per share for a period of 20 consecutive trading days at any time after the date that is four months and one day after the closing of the 2017 Offering, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company (see Note 10).

(iv) In July 2018, the Company completed a non-brokered private placement financing (the "2018 Offering"). In total the 2018 Offering consisted of 16,500,000 units for aggregate gross proceeds to the Company of $825,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share at an exercise price of $0.10 for a period of two years from the closing of each tranche of the 2018 Offering. In the event that the closing sale price of the common shares on the TSXVE is greater than $0.20 per share for a period of 20 consecutive trading days at any time after the date that is four months and one day after the closing of the 2018 Offering, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company. In connection with the 2018 Offering finder's fees of $28,320 in cash were paid and 446,400 finders warrants were issued (see Note 10).

12. CAPITAL STOCK AND WARRANT RESERVE (continued)

a) Authorized, Issued and Outstanding Shares (continued)

(v) During the year ended December 31, 2018, a total of 4,004,000 warrants were exercised at $0.075 per share for gross proceeds of $300,300, and 43,000 warrants were exercised at $0.15 per share for gross proceeds of $6,450.

(vi) During the year ended December 31, 2018, a total of 610,000 stock options were exercised at $0.05 per share for proceeds of $30,500.

b) Share Purchase Warrants

A summary of warrants outstanding as at December 31, 2018 and 2017, and changes during the years then ended are presented below:

	Warrants	Amount	Weighted average exercise price
	#	$	$
Balance, December 31, 2016	12,338,921	504,459	0.15
Issued in private placements (i)	5,665,000	132,356	0.075
Exercised	(176,000)	(7,276)	0.15
Balance, December 31, 2017	17,827,921	629,539	0.11
Issued in private placements (ii)	16,500,000	152,638	0.10
Issued as finder's fee	446,400	7,582	0.05
Exercised	(4,047,000)	(95,388)	0.075
Expired	(12,119,921)	(495,043)	0.15
Balance, December 31, 2018	18,607,400	199,328	0.10

(i) As a result of the 2017 Offering the Company issued 5,665,000 common share purchase warrants (valued at $132,356) with an exercise price of $0.075. The fair value of the common share purchase warrants issued in the 2017 Offering was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: expected dividend yield 0%, expected volatility 149%, risk free interest rate of 0.99%, expected life of two years, and a share price of $0.075. Volatility is based on the historical trading activity of the Company's shares.

(ii) As a result of the 2018 Offering the Company issued 16,500,000 common share purchase warrants valued at $152,638) with an exercise price of $0.10 and 446,400 finder's warrants with an exercise price of $0.05. The fair value of the common share purchase warrants and finder's warrants issued in the 2018 Offering was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: expected dividend yield 0%, expected volatility 85-88%, risk free interest rate of 2%, expected life of two years, and a share price of $0.04. Volatility is based on the historical trading activity of the Company's shares.

12. CAPITAL STOCK AND WARRANT RESERVE (continued)

b) Share Purchase Warrants (continued)

(iii) The following warrants are outstanding as at December 31, 2018:

Expiry date	Number of warrants outstanding #	Exercise price $	Weighted average remaining contractual life (years)
August 22, 2019	1,000,000	0.075	0.64
November 22, 2019	661,000	0.075	0.89
July 6, 2020	9,140,000	0.10	1.51
July 6, 2020	374,400	0.05	1.51
July 19, 2020	7,360,000	0.10	1.55
July 19, 2020	72,000	0.05	1.55
	18,607,400		1.46

13. SHARE-BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

The Company has adopted a share option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The terms and conditions of the options are determined by the Board of Directors.

The aggregate number of share options shall not exceed 10% of the issued and outstanding common shares of the Company, and if any option granted under the Plan expires or terminates for any reason in accordance with the terms of the Plan without being exercised, that option shall again be available for the purpose of the Plan. In addition, the exercise price of options granted under the Plan shall not be lower than the exercise price permitted by the TSXVE, and all options granted under the plan will have a term not to exceed five years after issuance. All options currently issued and outstanding vested 100% on the date of grant.

A summary of the status of the Plan as at December 31, 2018 and 2017, and changes during the years ended on those dates is presented below:

	Number of options #	Weighted average exercise price $
Balance, December 31, 2016	628,570	0.87
Issued	1,600,000	0.10
Expired	(578,570)	(0.89)
Balance, December 31, 2017	1,650,000	0.10
Issued	3,000,000	0.05
Exercised	(610,000)	(0.05)
Expired/terminated	(565,000)	(0.15)
Balance, December 31, 2018	3,475,000	0.06

13. SHARE-BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN (continued)

As at December 31, 2018, the Company had outstanding share options issued to directors, officers, employees and consultants of the Company as follows:

Date of Grant	Options outstanding #	Options vested #	Exercise price $	Expiry date
November 28, 2018	1,000,000	1,000,000	0.05	November 28, 2019
August 1, 2018	250,000	250,000	0.05	August 1, 2020
August 28, 2018	1,500,000	1,500,000	0.05	August 28, 2020
April 27, 2017	625,000	625,000	0.10	April 27, 2022
June 28, 2017	100,000	100,000	0.10	June 28, 2022
	3,475,000	3,475,000		

The weighted average remaining contractual life of options issued and outstanding as at December 31, 2018 was 2.21 years (December 31, 2017 – 3.9 years).

The grant date fair value of the options granted was estimated using the Black-Scholes option pricing model, using the following weighted average assumptions:

	2018	2017
Risk-free interest rate	2%	1%
Expected life (years)	1 - 2	5.0
Expected volatility	89% - 113%	199%
Expected rate of forfeiture	nil	nil
Expected dividend yield	nil	nil
Share price	$0.05	$0.10

Volatility is based on the historical trading activity of the Company's shares.

14. EXPLORATION AND EVALUATION EXPENDITURES

During the year ended December 31, 2018, the Company had net exploration and evaluation expenditures of $149,678 (2017 – $150,898).

Panteria Project

The Company holds a 100% interest in the Panteria Project located in south central Peru. Title to the concessions comprising this project is held by Hatum Minas. On March 11, 2016, the Company entered into an option agreement (the "Agreement") on its Panteria Project with Minera Antares Peru SAC – a wholly owned subsidiary of First Quantum Minerals Ltd. (collectively "FQM").

Under the terms of the Agreement, commencing from the date that FQM has obtained all necessary permits to initiate exploration mining activities (received July 24, 2017) FQM can conduct due diligence studies for up to 18 months before proceeding to earn up to 80% of the project by delineation of a resource greater than 1 million tonnes of copper equivalent and making a series of staged payments over 5 years. If FQM proceeds to a decision to mine they have the option to buy the remaining 20% equity from Peruvian Metals for US $0.02 per lb of copper equivalent based on 20% of delineated reserves. Peruvian Metals will retain a 0.5% NSR. The Agreement outlines an exploration and development schedule divided into 3 stages:

14. EXPLORATION AND EVALUATION EXPENDITURES (continued)

Stage 1: Peruvian Metals will assign all exploration rights to FQM and FQM will contract Peruvian Metals' community relations team in order to obtain community approval as a pre-requisite for the environmental permit (DIA). FQM will have the rights to carry out due diligence studies over a period of 18 months subsequent to receiving the aforementioned necessary permits to initiate exploration mining activities.

Stage 2: FQM may earn an 80% interest in the project by defining a mineral resource, and reporting the resource in compliance with National Instrument 43-101, in excess of 1 million tonnes of copper equivalent within 5 years and making a series of escalating payments with a maximum cumulative total of US $500,000 (First Option).

Stage 3: FQM will be granted a second option to purchase Peruvian Metals' remaining 20% interest by carrying out additional technical/feasibility studies and declaring a "decision to mine". The purchase amount will be calculated by applying a value of US$0.02 per pound of copper equivalent to 20% of reserves. Peruvian Metals will also be paid a NSR of 0.5% on all metal production from any subsequent mining operation (capped annually at US$15 million) except in the case where FQM elects not to exercise the Second Option and Peruvian Metals contributes its proportion of project development and construction costs. Peruvian Metals' 20% interest will be free-carried through to a decision to mine.

Mansa Musa Project
The Mansa Musa Gold Project (previously known as Minasnioc Gold Project) concessions ("Mansa Musa") are located in the Department of Huancavelica, approximately 300 kilometres southeast of Lima. Title to Mansa Musa is held by Querco.

In December 2015 the Company entered into an agreement with a private Peruvian mining company (the "Optionee") whereby the Optionee could earn a 100% interest in Mansa Musa by paying Peruvian Metals US$50,000 (received $69,200) and US$700,000 ($904,190) by December 2017, subject to the Optionee receiving approval from the local Mansa Musa community. The Optionee terminated the option agreement in September 2017 and the property was returned to Peruvian Metals.

Effective December 31, 2017, the Company entered into an option agreement (the "Mansa Musa Agreement") on Mansa Musa with IAMGOLD Peru S.A., a wholly owned subsidiary of IAMGOLD Corporation (collectively "IAMGOLD").

The Mansa Musa Agreement between the companies is comprised of three options. On signing the Mansa Musa Agreement IAMGOLD paid Peruvian Metals US $50,000 (CAD $64,930) and subsequently signed the access rights agreement with the local community and enter into the First Option period effective May 2018.

Upon entering into the First Option IAMGOLD has the right to earn a 60% interest in Mansa Musa over a 4 year period. As a condition of the First Option IAMGOLD must carry out sufficient drilling to determine a resource estimate and issue a Preliminary Economic Assessment prepared in accordance with National Instrument 43-101 standards (the "PEA") demonstrating a minimum gold resource of 300,000 ounces. During the term of the First Option IAMGOLD will be also required to make payments to Peruvian Metals totaling US $500,000 as follows:

On entering First Option:	US $ 75,000 (paid)
First Anniversary of entering the First Option	US $100,000
Second Anniversary of entering the First Option	US $100,000
Third Anniversary of entering the First Option	US $100,000
Fourth Anniversary of entering the First Option	US $125,000

14. EXPLORATION AND EVALUATION EXPENDITURES (continued)

The Second Option will allow IAMGOLD to earn an additional 10% (total of 70%) in Mansa Musa over 4 years by completing a prefeasibility study in accordance with NI 43-101 standards (the "PFS"). The PFS must have a Measured and Indicated Resource of at least 1 million ounces of gold. Should IAMGOLD fail to produce the PFS as specified above it will still maintain its 60% interest in the Property.

Within 10 days of IAMGOLD vesting in the Second Option, if Peruvian Metals requests and IAMGOLD agrees, IAMGOLD will enter a Third Option in which it can increase its ownership in Mansa Musa to 75% (the "Third Option") by arranging financing for Peruvian Metals' 25% share of exploration, feasibility and mine development and construction costs. The financing will be done at Libor plus 8%.

Huachocolpa Properties

The Company holds a 100% interest in the Huachocolpa Properties, which consist of contiguous and non-contiguous mining concessions in the Department of Huancavelica, approximately 260 kilometres southeast of Lima. Title to the Huachocolpa Properties is held by Corongo.

Don Pancho Project

During the year ended December 31, 2017, the Company sold its 100% interest in the Don Pancho silver lead zinc project. (See Note 8).

Ichuña Project

During the year ended December 31, 2017, the Company sold its 100% interest in the Ichuña copper/silver project. (See Note 8).

15. LOSS PER SHARE

a) Basic

Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares in issue during the period.

	Year ended December 31, **2018**	2017
Net loss for the year	**$ 1,222,750**	$ 1,623,085
Weighted average number of common shares outstanding	**69,823,478**	48,999,985
Loss per share	**$ 0.02**	$ 0.03

b) Diluted

Diluted loss per common share is equal to the basic loss per common share for the years ended December 31, 2018 and 2017 as all of the stock options and warrants outstanding are anti-dilutive.

16. PLANT START-UP EXPENSES

	Years ended December 31	
	2018	2017
	$	$
Salaries and management fees	**209,977**	597,064
Office and general	**149,283**	252,159
Geological and laboratory	**16,844**	44,532
Professional fees	**17,326**	4,055
Rent and utilities	**26,453**	29,355
Vehicles and equipment rentals	**49,498**	60,553
Writedown of property development costs	**89,276**	-
	558,657	987,718

17. GENERAL AND ADMINISTRATIVE

	Years ended December 31	
	2018	2017
	$	$
Management and consulting fees	**198,750**	159,942
Share based payments	**71,492**	86,000
Accounting and administration	**13,834**	141,648
Shareholder relations and filing fees	**104,564**	89,993
Professional fees	**76,255**	61,086
Travel	**52,509**	30,425
Insurance	**17,334**	20,589
Rent	**20,400**	20,400
Telephone and communication	**2,009**	5,715
	557,147	615,798

18. FINANCIAL RISK FACTORS

The Company may be exposed to risks of varying degrees of significance that could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below. There have been no significant changes in the risks, objectives, policies and procedures from the previous period.

a) Credit risk management

Credit risk relating to cash and amounts receivable arises from the possibility that any counterparty to an instrument fails to perform. The Company does not feel there is significant counterparty risk that could have an impact on the fair value of cash and receivables.

b) Liquidity risk

The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its capital, development and exploration expenditures. The Company ensures that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

18. FINANCIAL RISK FACTORS (continued)

b) Liquidity risk (continued)

Cash includes cash on hand and balances with banks. The deposits are held in a Canadian chartered bank or a financial institution controlled by a Canadian chartered bank.

As of December 31, 2018, the Company had a cash balance of $80,162 (2017 - $85,538) to settle current liabilities of $1,393,751 (2017 - $1,306,646). The Company's other current assets consist of marketable securities of $25,000 (2017 - $70,000), amounts receivable of $72,270 (2017 - $67,944), prepaid expenses and advances of $16,881 (2017 - $11,696) and inventory of $36,355 (2017 - $45,040). See Note 22.

c) Market risk

At the present time, the Company does not hold any interest in a mining property that is in production. The Company's viability and potential success depends on its ability to develop, exploit, and generate revenue from the development of mineral deposits. Revenue, cash flow, and profits from any future mining operations in which the Company is involved will be influenced by precious and/or base metal prices and by the relationship of such prices to production costs. Such prices can fluctuate widely and are affected by numerous factors beyond the Company's control.

The Company is exposed to the price risk associated with the change in the market value of its marketable securities. The Company closely monitors equity prices to determine the appropriate course of action to take. A 1% change in the quoted market price of the marketable securities would result in a $250 change to the Company's net loss for the year ended December 31, 2018.

d) Foreign exchange risk

The Company's financings are in Canadian dollars. Certain of the Company's transactions with its subsidiaries are incurred in foreign currencies and are therefore subject to gains or losses due to fluctuations in exchange rates.

As at December 31, 2018, the Company had cash balances of $13,275 (US $9,731) (2017 - $62,725 (US$52,867)) in U.S. dollars, and $17,088 (S/. 42,277) (2017 - $11,502 (S/. 29,706) in Peruvian New Sol ("PNS"); and accounts payable of $650,688 (S/.1,609,817) (2017 – $509,376 (S/.1,315,537)) in PNS.

Sensitivity to a plus or minus 5% change in the foreign exchange rate would have affected the net loss by approximately $1,200 for the year ended December 31, 2018 based on the net foreign currency monetary assets as at December 31, 2018.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposure associated with the Company's foreign currency-denominated cash balances.

The Company utilizes foreign exchange forward contracts to manage foreign exchange risks from time to time, at the determination of management.

e) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company's cash balances earn interest at fixed rates over the next three to twelve months. It is management's opinion that the Company is not exposed to significant interest rate risk. The Company has no interest bearing debt.

18. FINANCIAL RISK FACTORS (continued)

e) Interest rate risk (continued)

A sensitivity analysis has determined that an interest rate fluctuation of 1% would not have resulted in significant fluctuation in the interest expense during the year ended December 31, 2018.

f) Fair value of financial assets and liabilities

The book values of the cash, amounts receivable, accounts payable and accrued liabilities, promissory notes and interest payable and due to related parties approximate their respective fair values due to the short-term nature of these instruments.

The fair values together with the carrying amounts shown in the statement of financial position are as follows:

	Carrying amount	Fair Value	Carrying amount	Fair Value
	As at December 31, 2018		As at December 31, 2017	
	$	$	$	$
Cash	80,162	80,162	85,538	85,538
Marketable securties	25,000	25,000	70,000	70,000
Amounts receivable	72,270	72,270	67,944	67,944
Accounts payable and accrued liabilities	(891,545)	(891,545)	(781,777)	(781,777)
Due to related parties	(334,152)	(334,152)	(320,928)	(320,928)
Promissory notes and interest payable	(168,054)	(168,054)	(203,941)	(203,941)

19. CAPITAL RISK MANAGEMENT

The Company defines capital as shareholders' equity which at December 31, 2018 was $1,303,412 (2017 - $1,515,692). The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support its exploration, development and operation activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral properties and maximize shareholder returns. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing bank indebtedness or equity issues, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets. As at December 31, 2018 and 2017, the Company had no bank debt.

Management reviews its capital management approach on an ongoing basis. There were no significant changes in the Company's approach to capital management during the years ended December 31, 2018 and 2017. The Company and its subsidiaries are not subject to externally imposed capital requirements other than Policy 2.5 of the TSXVE, which requires adequate working capital or financial resources to maintain operations and cover general and administrative expenses for a period of 6 months.

As of December 31, 2018, the Company may not be compliant with the policies of the TSXVE. The impact of this violation is not known and is ultimately dependent on the direction of the TSXVE.

20. COMMITMENTS AND CONTINGENCIES

Lease agreements
The Company is party to an operating lease agreement for office space with annual lease payments, before sub-lease income, of $21,600, expiring on August 31, 2019.

The Company's subsidiary, Madosac, has annual office rental obligations of US$20,400 ($26,300).

Management compensation
The Company has agreed to pay management compensation of total minimum annual payments of $300,000.

Environmental matters
The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Legal proceedings
The Company is, from time to time, involved in various claims and legal proceedings. The Company cannot reasonably predict the likelihood or outcome of these activities. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reasons thereof, will have a material effect on the financial condition or future results of operations. As at December 31, 2018 and December 31, 2017, no amounts have been accrued related to such matters.

21. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2017 - 26.5%) were as follows:

	2018 $	2017 $
(Loss) before income taxes	(1,367,827)	(1,770,600)
Expected income tax (recovery) based on statutory rate	(362,000)	(467,000)
Adjustments:		
Share-based payments	19,000	23,000
Expenses not deductible for tax purposes	(6,000)	75,000
Other	115,000	7,000
Effect of tax rates in foreign jurisdictions	-	(27,000)
Foreign exchange	16,000	114,000
Tax benefits not recognized	218,000	275,000
Income tax (recovery)	-	-

21. INCOME TAXES (continued)

b) Deferred Income Tax

The tax effects of temporary differences that give rise to deferred income tax assets and liabilities approximate the following:

Recognized deferred tax assets and liabilities:

	2018 $	2017 $
Non-capital loss carry-forwards	-	2,650
Investment in marketable securities	-	(2,650)
Deferred income tax liability	-	-

Unrecognized Deferred Tax Assets

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2018 $	2017 $
Non-capital loss carry-forwards - Canada	16,463,000	15,830,000
Non-capital loss carry-forwards - Peru	10,010,000	10,022,000
Share issue costs - Canada	40,000	20,000
Exploration and evaluation assets - Canada	4,996,000	5,006,000
Exploration and evaluation assets - Peru	-	4,000
Marketable securities - Canada	35,000	-
Other - Canada	131,000	131,000
Other - Peru	-	31,000
Total	31,675,000	31,044,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

c) Tax Loss Carry-Forwards

As at December 31, 2018, the Company had resources pools of approximately $4,996,000 in Canada, which under certain circumstances, may be utilized to reduce taxable income of future years. The Company has approximately $16,463,000 of non-capital losses in Canada and approximately S/. 25,853,000 ($10,010,000) of non-capital losses in Peru, which can be used to reduce taxable income in future years. If not utilized, the non-capital losses in Canada and Peru will expire as follows:

21. INCOME TAXES (continued)

c) Tax Loss Carry-Forwards (continued)

Year of Expiry	Canada Amount $	Peru Amount S/.	Peru Amount $
2019	-	1,214,000	470,000
2020	-	1,142,000	442,000
2021	-	3,474,000	1,345,000
2026	147,000	-	-
2027	2,077,000	-	-
2028	463,000	-	-
2029	4,433,000	-	-
2030	1,008,000	-	-
2031	740,000	-	-
2032	1,593,000	-	-
2033	812,000	-	-
2034	1,604,000	-	-
2035	919,000	-	-
2036	1,149,000	-	-
2037	723,000	-	-
2038	795,000	-	-
Indefinite	-	20,023,000	7,753,000
	16,463,000	25,853,000	10,010,000

22. SUBSEQUENT EVENT

Subsequent to December 31, 2018, a total of 1,000,000 stock options were exercised for gross proceeds to the Company of $50,000.