INDICO

RESOURCES LTD.

**(An Exploration Stage Company)**

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**(Unaudited – Prepared by Management)**

**(Expressed in Canadian Dollars)**

## Nine Months Ended February 28, 2017 and February 29, 2016


**Corporate Head Office**

Suite 507 – 837 West Hastings Street
Vancouver, British Columbia
V6C 3N6
Tel: 604-691-7462

## NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these Condensed Interim Consolidated Financial Statements.

**INDICO RESOURCES LTD.**
(An Exploration Stage Company)
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

**February 28, 2017 and February 29, 2016** **Page**

INDEX

**Condensed Interim Consolidated Financial Statements**

**INDICO RESOURCES LTD.**
(An Exploration Stage Company)
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

| | February 28, 2017 | May 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | $ 3,499 | $ 2,385 |
| Accounts receivable | 1,951 | 2,511 |
| Prepaid expenses | 2,933 | 16,694 |
| Assets held for sale (note 3) | 4,743,219 | 4,757,043 |
| | 4,751,602 | 4,778,633 |
| **Property and equipment** | 521 | 672 |
| | $ 4,752,123 | $ 4,779,305 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 694,767 | $ 180,024 |
| Due to related parties (note 7) | 1,164,725 | 1,256,960 |
| Loans payable (notes 5 and 7) | 1,274,650 | 1,200,288 |
| Liabilities associated with assets held for sale (note 3) | 1,609,316 | 1,370,678 |
| | 4,743,458 | 4,007,950 |
| **Shareholders' equity** | | |
| Share capital (note 6) | 30,664,353 | 30,664,353 |
| Share-based payments reserve | 3,003,949 | 3,003,949 |
| Deficit | (33,659,637) | (32,896,947) |
| | 8,665 | 771,355 |
| | $ 4,752,123 | $ 4,779,305 |

**Approved on behalf of the Directors:**

| | | | |
|---|---|---|---|
| *"Robert Parsons"* | Director | *"Robert Baxter"* | Director |
| Robert Parsons | | Robert Baxter | |

**INDICO RESOURCES LTD.**
(An Exploration Stage Company)
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

| | Three months ended February 28, 2017 | Three months ended February 29, 2016 | Nine months ended February 28, 2017 | Nine months ended February 29, 2016 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Consulting fees (notes 6 and 7) | $ 94,000 | $ 102,750 | $ 365,559 | $ 784,773 |
| Depreciation | 50 | 72 | 151 | 216 |
| Investor relations (note 6) | 75 | 1,740 | 2,952 | 6,188 |
| Listing and filing fees | 6,281 | 9,295 | 14,215 | 20,594 |
| Office | 9,576 | 28,088 | 38,753 | 77,445 |
| Professional fees (note 6) | 10,117 | 9,952 | 65,507 | 35,970 |
| Travel | - | 12,435 | 18,302 | 22,166 |
| | (120,099) | (164,332) | (505,439) | (947,352) |
| Foreign exchange gain (loss) | 5,177 | (4,671) | (4,789) | (26,767) |
| **Net loss and comprehensive loss from continuing operations** | (114,922) | (169,003) | (510,228) | (974,119) |
| **Net income (loss) and comprehensive loss from discontinued operations** (note 3) | 11,975 | (168,922) | (252,462) | (634,687) |
| **Net loss for the period** | $ (102,947) | $ (337,925) | $ (762,690) | $ (1,608,806) |
| **Basic and diluted loss per common share** (note 11) | (0.00) | (0.00) | (0.00) | (0.01) |
| **Weighted average number of common shares outstanding** | 147,003,489 | 147,003,489 | 147,003,489 | 139,412,248 |

**INDICO RESOURCES LTD.**
(An Exploration Stage Company)
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)
NINE MONTHS ENDED

| | February 28, 2017 | February 29, 2016 |
|---|---|---|
| **Operating activities** | | |
| Net loss for the period from continuing operations | $ (510,228) | $ (974,119) |
| Items not affecting cash: | | |
| Share-based payments | - | 493,450 |
| Depreciation | 151 | 216 |
| Unrealized loss on foreign exchange | 4,144 | 26,275 |
| Changes in non-cash working capital items: | | |
| Accounts receivable | 560 | 6,749 |
| Prepaid expenses | 13,761 | 8,213 |
| Accounts payable and accrued liabilities | 514,743 | 73,728 |
| Due to related parties | (92,235) | 330,479 |
| Operating cash flows from continuing operations | (69,104) | (35,009) |
| Operating cash flows from discontinued operations (note 3) | (267) | (24,903) |
| **Cash used in operating activities** | (69,371) | (59,912) |
| **Investing activities** | | |
| Acquisition of exploration and evaluation assets | - | - |
| Cash used for investing activities for continuing operations | - | - |
| Cash used for investing activities for discontinued operations | - | - |
| **Cash used in investing activities** | - | - |
| **Financing activities** | | |
| Cash received from loans payable | 70,218 | 40,701 |
| Share issuance costs | - | (40,147) |
| **Cash provided by financing activities** | 70,218 | 554 |
| **Effect of foreign exchange on cash** | - | - |
| **Increase (decrease) in cash during the period** | 847 | (59,358) |
| **Cash associated with assets held for sale** | (523) | (474) |
| **Cash, beginning of the period** | 3,175 | 73,913 |
| **Cash, end of the period** | $ 3,499 | $ 14,081 |

**INDICO RESOURCES LTD.**
(An Exploration Stage Company)
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

| | Number of Shares | Share Capital | Share Subscriptions Received in Advance | Share-based Payments Reserve | Deficit | Total |
|---|---|---|---|---|---|---|
| **Balance, May 31, 2015** | 107,003,489 | $ 27,704,500 | $ 3,000,000 | $ 2,510,499 | $ (30,933,848) | $ 2,281,151 |
| Shares issued for private placement | 40,000,000 | 3,000,000 | - | - | - | 3,000,000 |
| Share issuance costs | - | (40,147) | - | - | - | (40,147) |
| Share subscriptions received in advance | - | - | (3,000,000) | - | - | (3,000,000) |
| Share-based payments | - | - | - | 493,450 | - | 493,450 |
| Net loss for the period | - | - | - | - | (1,608,806) | (1,608,806) |
| **Balance, February 29, 2016** | 147,003,489 | $ 30,664,353 | $ - | $ 3,003,949 | $ (32,542,654) | $ 1,125,648 |
| Net loss for the period | - | - | - | - | (354,293) | (354,293) |
| **Balance, May 31, 2016** | 147,003,489 | 30,664,353 | - | 3,003,949 | (32,896,947) | 771,355 |
| Net loss for the period | - | - | - | - | (762,690) | (762,690) |
| **Balance, February 28, 2017** | 147,003,489 | $ 30,664,353 | $ - | $ 3,003,949 | $ (33,659,637) | $ 8,665 |

## 1. NATURE OF OPERATIONS AND GOING CONCERN

The principal business activity of Indico Resources Ltd. (the "Company" or "Indico") is the acquisition, exploration and development of natural resource properties in Peru. Previously registered in Bermuda, the Company was extra-provincially registered in the province of British Columbia under the *Business Corporations Act* on June 22, 2006. The Company changed domicile from Bermuda to British Columbia by way of a continuance under the *Business Corporations Act* (British Columbia) effective October 15, 2009. The Company is an exploration stage company.

The head office of the Company is located at Suite 507 – 837 West Hastings Street, Vancouver, British Columbia V6C 3N6, Canada. The registered address and records office of the Company is located at Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia V6E 4N7, Canada.

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which presumes that the Company will be able to continue in operation for the foreseeable future and will 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 not limited to, twelve months from February 28, 2017. Management is aware in making its assessment of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, as explained below.

Several adverse conditions cast significant doubt on the validity of this assumption. The Company has incurred a net loss of $762,690 for the period ended February 28, 2017 (February 29, 2016 - $1,608,806) is currently unable to self-finance operations, has a deficit of $33,659,637 at February 28, 2017 (May 31, 2016 - $32,896,947), limited resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its exploration and evaluation assets.

The Company does not generate cash flow from operations, and has therefore relied principally upon the issuance of securities for financing. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company intends to continue relying upon the issuance of securities to finance its future activities, but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. Although these condensed interim consolidated financial statements do not include any adjustments that may result from the inability to secure future financing, such a situation would have a material adverse effect on the Company's business, results of operations and financial condition.

The business of resource exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and to acquire, explore and maintain its exploration and evaluation assets. The recoverability of the carrying value of exploration and evaluation assets is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these assets, and future profitable production or proceeds from disposition of exploration and evaluation assets. The carrying value of the Company's exploration and evaluation assets do not reflect current or future values.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, "*Interim Financial Reporting*". The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended May 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as investment held-for-trading, which are stated at their fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting. These condensed interim consolidated financial statements are prepared in Canadian dollars, which is also the Company's functional currency.

### Approval of consolidated financial statements

The condensed interim consolidated financial statements for the nine months ended February 28, 2017 were reviewed, approved and authorized for issue by the Audit Committee on April 26, 2017.

### Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiary, Indico Peru S.A.C. ("Indico Peru"), which was incorporated under the laws of Peru on August 24, 2010. All significant intercompany balances and transactions have been eliminated upon consolidation.

## 3. ASSETS HELD FOR SALE

On May 20, 2016, the Company entered into a Letter of Intent ("LOI") to sell 100% of the issued and outstanding shares of Indico Peru to Aruntani S.A.C ("Aruntani") for total cash consideration of US$6,000,000 (the "Transaction"). Aruntani will acquire all rights held by Indico Peru to Inversiones Minerales S.A.C ("Inversiones"). In addition to the cash consideration, Aruntani will grant a 1% net smelter return royalty ("NSR") to the Company. Aruntani is a non-arm's length party by virtue of being a holder of 27.2% of the common shares in the capital of the Company.

The Transaction is subject to customary conditions, including receipt of applicable regulatory and third party approvals and consents as may be required to effect and complete the transaction.

In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the assets and liabilities associated with the Irmin Copper Gold project and the Company's wholly owned subsidiary, Indico Peru were reclassified from their respective financial position classifications to "assets held for sale" and "liabilities associated with assets held for sale" during the period ended February 28, 2017.

(Expressed in Canadian Dollars)

**3. ASSETS HELD FOR SALE (cont'd)**

Assets reclassified to assets held for sale as of February 28, 2017and May 31, 2016:

| | | **February 28, 2017** | | **May 31, 2016** |
|---|---|---|---|---|
| Cash | $ | 523 | $ | 790 |
| Property and equipment | | 105,349 | | 118,906 |
| Exploration and evaluation assets | | 4,637,347 | | 4,637,347 |
| | $ | 4,743,219 | $ | 4,757,043 |

Liabilities reclassified to liabilities associated with assets held for sale as of February 28, 2017 and May 31, 2016:

| | | **February 28, 2017** | | **May 31, 2016** |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ | 1,609,316 | $ | 1,370,678 |

Cash held by Indico Peru will no longer be included in the condensed interim consolidated assets of the Company following the sale of the shares of Indico Peru, and accordingly, has been classified as assets held for sale. Property and equipment with a net book value of $105,349 (May 31, 2016 - $118,906) and exploration and evaluation assets of $4,637,347 (May 31, 2016 - $4,637,347) were reclassified to assets held for sale. Accounts payable in Indico Peru of $1,609,316 (May 31, 2016 - $1,370,678) were reclassified to liabilities associated with assets held for sale.

As the cash flows related to the operations of Indico, as well as Indico Peru are clearly distinguished, both operationally, geographically and for financial reporting purposes from the rest of the entity, the financial performance within these entities for the comparative period have been reclassified and presented separately as discontinued operations in the condensed interim consolidated statements of loss and comprehensive loss and cash flows.

The reported net loss from discontinued operations is comprised of the following:

| **For the nine months ended** | | **February 28, 2017** | | **February 29, 2016** |
|---|---|---|---|---|
| Consulting | $ | 58,939 | $ | 271,249 |
| Exploration and evaluation expenditures (note 7) | | 92,917 | | 273,546 |
| Office | | 3,053 | | 1,527 |
| Professional fees | | 73,266 | | 48,028 |
| | | 228,175 | | 594,350 |
| Foreign exchange loss | | 24,287 | | 40,337 |
| Net loss for the period from discontinued operations, net of tax | $ | 252,462 | $ | 634,687 |

(Expressed in Canadian Dollars)

## 3. ASSETS HELD FOR SALE (cont'd)

The reported cash flows from discontinued operations are as follows:

| **For the nine months ended** | | **February 28, 2017** | | **February 29, 2016** |
|---|---|---|---|---|
| Net loss for the period from discontinued operations, net of tax | $ | (252,462) | $ | (634,687) |
| Depreciation | | 13,557 | | 13,557 |
| Accounts payable | | 238,638 | | 596,227 |
| Operating cash flows from discontinued operations | $ | (267) | $ | (24,903) |

## 4. EXPLORATION AND EVALUATION ASSETS

**Property acquisitions**

a) Irmin Copper Gold Porphyry Project (formerly Ocaña)

On September 14, 2010, the Company entered into an agreement wherein the Company, through Indico Peru, had been granted the exclusive option to acquire a 100% interest in the Ocaña Copper Gold Porphyry Project (subsequently named Irmin on September 8, 2015) ("Ocaña") in south-central Peru, by way of an option to acquire 100% of the issued and outstanding shares of Inversiones, which holds an indirect 100% interest in the Ocaña property, by making, at its option, payments of cash and shares over a five-year period ending April 20, 2015. The consideration due pursuant to the agreement is as follows.

(i) Payment of US$17,750,000 over a five-year period as follows:

- US$387,273 on or before November 29, 2010 (Paid);
- US$322,727 on or before April 20, 2011 (Paid);
- US$451,818 on or before April 20, 2012 (Paid);
- US$516,364 on or before April 20, 2013 (extended to May 23, 2013) (Paid);
- US$580,909 on or before April 20, 2014 (Paid); and
- US$15,490,909 on or before April 20, 2015 (Amended and extended for five years).

(ii) Issuance of 8,500,000 common shares of the Company over a five-year period as follows:

- 200,000 on or before April 20, 2011 (Issued);
- 300,000 on or before April 20, 2012 (Issued);
- 500,000 on or before April 20, 2013 (Issued);
- 1,000,000 on or before April 20, 2014 (Issued); and
- 6,500,000 on or before April 20, 2015 (Issued).

In addition, the consortium that holds the underlying mineral rights at Ocaña will receive a 1% NSR on commercial production at the Ocaña Project.

## 4. EXPLORATION AND EVALUATION ASSETS (cont'd)

**Property acquisitions (cont'd)**

a) Irmin Copper Gold Porphyry Project (formerly Ocaña) (cont'd)

In October 2014, the parties agreed to amend the final payment of US$15,500,000 due in April 2015. Under the terms of the amended payment schedule, the Company will pay:

- US$1,500,000 on April 20, 2015 (Paid);
- US$2,000,000 on April 20, 2016 (Paid);
- US$2,000,000 on April 20, 2017; (Note 13)
- US$2,000,000 on April 20, 2018; and
- US$7,990,909 on April 20, 2019.

The 2016 option payment was paid by Aruntani.

As part of the amending agreement, Inversiones is to commence construction of the project on or before June 30, 2016 and commence production on or before June 30, 2018. Should Inversiones not start construction of the project by June 30, 2016 it is required to pay a $50,000 penalty, and if it fails to commence production on or before June 30, 2018 it will be required to make advance royalty payments on a yearly basis of $300,000 payable from June 30, 2018 onwards. The advance royalty payments can be discounted from future royalty payments at a rate of 20% per year.

On September 8, 2015, Inversiones entered into an agreement (the "Joint Venture Agreement") with Aruntani whereby the companies agreed to develop a mining project on the Ocaña properties through the incorporation of Compañia Minera Irmin SAC ("Irmin") a Peruvian corporation. Interest of this entity would be held 70% by Aruntani and 30% by Inversiones. Aruntani would fund Irmin US$18,700,000 representing its 70% investment while Inversiones would transfer its option to acquire the Ocaña properties. To date, Inversiones has spent approximately US$8,000,000, which represents its 30% investment.

The US$18,700,000 funded by Aruntani would be used to pay the remaining option payments Inversiones is required to make to the Property's optionors, which amount to approximately US$7,000,000 on scheduled payments over the next four years, acquire the land surface of the property, perform mineral reserves evaluation, perform and modify environmental studies, prepare a pre-feasibility study, perform drilling and commence the project construction program.

Once both entities have contributed their respective investments, any further funding must be contributed according to the entities' interest percentage. Under the agreement, Aruntani will have four out of five of Irmin's directors and will be responsible for managing the project. However, in order to enter into an agreement to sell the properties, enter into debt or modify Irmin's capital structure, 100% shareholder approval will be required. The companies also agreed on a name change for the project from Ocaña to Acana in June 2015 and then to Irmin in September 2015.

On May 20, 2016, the Company entered into a LOI with Aruntani pursuant to which the Company will sell to Aruntani all of the shares of Indico Peru, which has an irrevocable option to acquire all of the shares in the capital of Inversiones, an entity holding a series of concessions of the Irmin Copper Gold Porphyry Project (the "Transaction").

## 4. EXPLORATION AND EVALUATION ASSETS (cont'd)

**Property acquisitions (cont'd)**

a) Irmin Copper Gold Porphyry Project (formerly Ocaña) (cont'd)

As part of the Transaction, Aruntani will acquire the Company's legal and beneficial right, title and interest in the Irmin Property, including any interest held pursuant to the Joint Venture Agreement. As consideration of the acquisition of all shares of Indico Peru, Aruntani will pay the Company US$6,000,000 in cash and will grant the Company a 1% NSR over the Irmin Property. Closing of the Transaction is subject to, among other things, the approval of the TSX Venture Exchange ("TSX-V"), minority shareholder approval (received) and valuation, and any other applicable governmental or regulatory authorities.

**Realization of assets**

The investment in exploration and evaluation assets comprises a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

**Title to exploration and evaluation assets**

The acquisition of title to exploration and evaluation assets is a detailed and time-consuming process. The Company has taken steps, in accordance with industry standards for the current stage of exploration activities, to verify title to assets in which it has an interest. Although the Company has taken every reasonable precaution to ensure that legal title to its properties is properly recorded in the name of the Company, there can be no assurance that such title will ultimately be secured.

**Environmental expenditures**

The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation by application of technically proven and economically feasible measures.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. Estimated future removal and site restoration costs, when the ultimate liability is reasonably determinable, are charged against earnings over the estimated remaining life of the related business operation, net of expected recoveries. The Company has determined, as of February 28, 2017, the disturbances to earth are minimal, and therefore did not record provisions for environmental rehabilitation expenditures.

(Expressed in Canadian Dollars)

## 5. LOANS PAYABLE

| | Total |
|---|---|
| **Balance, May 31, 2016** | $ 1,200,288 |
| Funds received | 70,218 |
| Foreign exchange adjustment | 4,144 |
| | 74,362 |
| **Balance, February 28, 2017** | $ 1,274,650 |

During the period ended February 28, 2017, the Company received $15,645 from arm's length individuals and $54,573 from the CEO in the form of non-interest-bearing short-term loan due on or before May 2017. At February 28, 2017, the total amount of loans payable amounted to $1,274,650 (May 31, 2016 - $1,200,288).

## 6. SHARE CAPITAL

### Authorized

Unlimited number of voting common shares without par value.

### Issued

There were no shares issued during the period ended February 28, 2017.

### Stock options

The Company has a stock option plan (the "Plan") under which it is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the Plan, the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of five years with vesting terms determined by the Board of Directors.

There were no stock options granted during the period ended February 28, 2017.

Stock option transactions are summarized as follows:

| | February 28, 2017 | | May 31, 2016 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance, beginning of the period | 5,990,000 | $ 0.10 | 1,720,000 | $ 0.10 |
| Granted | - | - | 6,440,000 | $ 0.10 |
| Expired | (2,050,000) | $ 0.10 | (2,170,000) | $ (0.10) |
| Balance, end of the period | 3,940,000 | $ 0.10 | 5,990,000 | $ 0.10 |

(Expressed in Canadian Dollars)

## 6. SHARE CAPITAL (cont'd)

The weighted average remaining contractual life of options outstanding at February 28, 2017 was 3.43 (May 31, 2016 - 4.17) years.

Stock options outstanding and exercisable are as follows:

| | February 28, 2017 | | | May 31, 2016 | | |
|---|---|---|---|---|---|---|
| Expiry date | Exercise price | Options outstanding | Options exercisable | Exercise price | Options outstanding | Options exercisable |
| August 6, 2020 | $ 0.10 | 3,940,000 | 3,940,000 | $ 0.10 | 5,990,000 | 5,990,000 |

**Share-based payments**

During the period ended February 28, 2017, the Company granted nil (February 29, 2016 - 6,440,000) stock options with a fair value of $nil (February 29, 2016 - $493,450), or $nil (February 29, 2016 - $0.08) per option, calculated using the Black-Scholes option pricing model. Share-based payments have been allocated as follows:

| For the nine months ended | February 28, 2017 | February 29, 2016 |
|---|---|---|
| Consulting fees | $ - | $ 471,230 |
| Exploration and evaluation expenditures | - | 19,156 |
| Professional fees | - | 3,064 |
| | $ - | $ 493,450 |

The following weighted average assumptions were used for the Black-Scholes option pricing model calculations:

| For the nine months ended | February 28, 2017 | February 29, 2016 |
|---|---|---|
| Risk-free interest rate | N/A | 0.78% |
| Expected life of options | N/A | 5 years |
| Expected annualized volatility | N/A | 131% |
| Expected dividend yield | N/A | 0.0% |
| Forfeiture rate | N/A | 0.0% |

(Expressed in Canadian Dollars)

## 6. SHARE CAPITAL (cont'd)

**Warrants**

| | **February 28, 2017** | | **May 31, 2016** | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Balance, beginning of the period | 47,289,240 | $ 0.13 | 41,106,980 | $ 0.15 |
| Issued | - | - | 20,000,000 | $ 0.10 |
| Expired | (27,289,240) | 0.15 | (13,817,740) | $ 0.16 |
| Balance, end of the period | 20,000,000 | $ 0.10 | 47,289,240 | $ 0.13 |

The weighted average remaining contractual life of warrants outstanding at February 28, 2017 was 0.40 (May 31, 2016 - 0.82) years.

Warrants outstanding:

| | **February 28, 2017** | | **May 31, 2016** | |
|---|---|---|---|---|
| Expiry date | Exercise price | Number of warrants | Exercise price | Number of warrants |
| December 31, 2016 | $ 0.15 | - | $ 0.15 | 26,762,000 |
| December 31, 2016 (agent compensation warrants) | $ 0.15 | - | $ 0.15 | 527,240 |
| July 23, 2017 | $ 0.10 | 20,000,000 | $ 0.10 | 20,000,000 |
| | | 20,000,000 | | 47,289,240 |

(Expressed in Canadian Dollars)

## 7. RELATED PARTY TRANSACTIONS

During the period ended February 28, 2017 and February 29, 2016, the Company entered into the following transactions with related parties:

**Management compensation**

Key management personnel compensation is comprised of the following:

| For the nine months ended | February 28, 2017 | February 29, 2016 |
|---|---|---|
| Consulting fees to CEO | $ 180,000 | $ 180,000 |
| Consulting fees to CFO | 45,000 | 43,750 |
| Directors' fees (included in consulting fees) | 106,434* | 62,794 |
| Geological consulting fees to COO | - | 2,323 |
| Share-based payments to CEO, CFO, COO and directors | - | 371,620 |
| | $ 331,434 | $ 660,487 |

*Included in Director's fees was a one-time fee of $67,130 (US$50,000) payable to two directors for acting members of the Special Committee.

**Transactions with other related parties**

| For the nine months ended | February 28, 2017 | February 29, 2016 |
|---|---|---|
| Consulting fees to Corporate Secretary | $ 27,000 | $ 27,000 |
| Share-based payments to Corporate Secretary | - | 15,325 |
| | $ 27,000 | $ 42,325 |

At February 28, 2017, included in due to related parties was $1,164,725 (May 31, 2016 - $1,256,960) in expenses owing to companies with common directors.

At February 28, 2017, included in loans payable was $805,557 (May 31, 2016 - $888,300) in loans payable to directors, officers and a company with common directors.

These amounts were unsecured and non-interest-bearing.

Key management personnel were not paid any short-term benefits, post-employment benefits, termination benefits or other long-term benefits during the period ended February 28, 2017 and February 29, 2016.

(Expressed in Canadian Dollars)

## 8. EXPLORATION AND EVALUATION EXPENDITURES (RECOVERY), NET

The exploration and evaluation expenditures were as follows for the period ended:

| | February 28, 2017 | February 29, 2016 |
|---|---|---|
| **Irmin Copper Gold Porphyry Project (formerly Ocaña)** | | |
| Community relations | $ 30,910 | $ 120,555 |
| Depreciation | 13,557 | 13,557 |
| Geological (note 7) | - | 21,479 |
| Personnel | 24,653 | 35,003 |
| Peruvian value added tax | 23,797 | 82,952 |
| | $ 92,917 | $ 273,546 |

## 9. SEGMENTED INFORMATION

The business of the Company is the acquisition, exploration and development of mineral properties, which is considered one business segment.

Geographic information is as follows:

| | February 28, 2017 | | | May 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Canada | Peru | Total | Canada | Peru | Total |
| Cash | $ 3,499 | $ 523 | $ 4,022 | $ 2,385 | $ 790 | $ 3,175 |
| Exploration and evaluation assets | - | 4,637,347 | 4,637,347 | - | 4,637,347 | 4,637,347 |
| Other assets | 5,405 | 105,349 | 110,754 | 19,877 | 118,906 | 138,783 |
| Total assets | 8,904 | 4,743,219 | 4,752,123 | 22,262 | 4,757,043 | 4,779,305 |
| Discontinued segments | - | (4,743,219) | (4,743,219) | - | (4,757,043) | (4,757,043) |
| | $ 8,904 | $ - | $ 8,904 | $ 22,262 | $ - | $ 22,262 |

(Expressed in Canadian Dollars)

## 10. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company currently has no source of revenues, and accordingly, is dependent upon external financings to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing capital deficiency and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended February 28, 2017. The Company is not subject to externally imposed capital requirements.

## 11. LOSS PER SHARE

**Basic and diluted loss per share from continuing operations**

| **For the nine months ended** | **February 28, 2017** | **February 29, 2016** |
|---|---|---|
| Net loss from continuing operations | $ (510,228) | $ (974,119) |
| Weighted average number of common – basic and diluted | 147,003,489 | 139,412,248 |
| Basic and diluted loss per share from continuing operations | $ (0.00) | $ (0.01) |

**Basic and diluted loss per share from discontinued operations**

| **For the nine months ended** | **February 28, 2017** | **February 29, 2016** |
|---|---|---|
| Net loss from discontinued operations | $ (252,462) | $ (634,687) |
| Weighted average number of common – basic and diluted | 147,003,489 | 139,412,248 |
| Basic and diluted loss per share from discontinued operations | $ (0.00) | $ (0.00) |

## 12. OTHER ITEM

On July 29, 2016, the shareholders of the Company approved the termination of the Project Alliance Agreement for the Development, Construction and Operation of Minerals Extraction & Processing Projects between the Company and Stonehouse Constructions Pte Ltd. ("Stonehouse") in accordance with the terms a Settlement and Release Agreement agreed to by the Company and Stonehouse, the terms are as follows:

- Pay to Stonehouse all trade payable in the amount of $72,213, the entirely of the loan payable in the amount of $134,300 and a payment of US$350,000 (the "Up Front Payment");
- Pay the outstanding directors' fees of $76,250 to Stonehouse, as a reimbursement for Stonehouse having paid such outstanding directors' fees directly to the applicable nominee directors.
- and give Stonehouse 10% of the 1% net smelter return royalty (the "Royalty") expected to be granted by Aruntani to the Company on closing of the Aruntani Transaction, until such time as payments made pursuant to the royalty in addition to the Up Front Payment to Stonehouse reach an aggregate of $1,000,000, at which time all payments pursuant to the Royalty will cease, and Stonehouse will have no further rights to the Royalty or any other payments pursuant to this Agreement.

## 13. SUBSEQUENT EVENT

The owners of the Irmin property have questioned whether Inversiones has fulfilled certain of its obligations under the Mining Agreement. Inversiones is of the opinion that it has fulfilled all of its obligations, and has informed the owners that the April 20, 2017 option payment is being withheld pending settlement of this dissent. Indico agrees with the approach of Inversiones.