# CANDELARIA MINING CORP.

# (Formerly BRANCO RESOURCES LTD.)

## CONSOLIDATED FINANCIAL STATEMENTS

**For the years ended April 30, 2016 and 2015**

**(Expressed in Canadian Dollars)**

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Candelaria Mining Corp.

We have audited the accompanying consolidated financial statements of Candelaria Mining Corp., which comprise the consolidated statements of financial position as at April 30, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Candelaria Mining Corp. as at April 30, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
August 26, 2016

# CANDELARIA MINING CORP.
**(Formerly Branco Resources Ltd.)**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(Expressed in Canadian Dollars)**

| | April 30, 2016 | April 30, 2015 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 4) | **$ 1,584,136** | $ 2,306,361 |
| GST receivable | **6,723** | 2,762 |
| Prepaid expenses | **5,765** | 21,570 |
| | **1,596,624** | 2,330,693 |
| **Investment in Apolo (Note 10)** | **1,055,725** | - |
| **Advances to Apolo (Note 10)** | **850,247** | - |
| **TOTAL ASSETS** | **$ 3,502,596** | $ 2,330,693 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable | **$ 65,693** | $ 30,927 |
| Accrued liabilities | **20,000** | 15,726 |
| **TOTAL LIABILITIES** | **85,693** | 46,653 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 5) | **4,826,970** | 511,068 |
| Stock option reserve (Note 5) | **144,832** | 28,462 |
| Share subscriptions (Note 5) | **-** | 2,407,188 |
| Subscription receivable (Note 5) | **(177,500)** | - |
| Deficit | **(1,377,399)** | (662,678) |
| **TOTAL SHAREHOLDERS' EQUITY** | **3,416,903** | 2,284,040 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **$ 3,502,596** | $ 2,330,693 |

Commitments (Note 6)
Subsequent events (Note 11)

These financial statements were approved on behalf of the Board of Directors on August 26, 2016.

"Sokhie Puar"
Director

"Ramon Perez"
Director

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

## CANDELARIA MINING CORP.
**(Formerly Branco Resources Ltd.)**
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**
**(Expressed in Canadian Dollars)**

| | Year ended April 30, 2016 | Year ended April 30, 2015 |
|---|---|---|
| **Expenses** | | |
| Filing and listing fees | $ 44,644 | $ 26,379 |
| Office and administration (Note 6) | 112,768 | 39,927 |
| Professional fees (Note 6) | 115,692 | 138,451 |
| Project evaluation | 131,064 | 56,751 |
| Property investigation (Note 6) | 95,475 | 85,131 |
| Share-based payments | 116,370 | - |
| **Loss before other expense** | **(616,013)** | (346,639) |
| **Other expense** | | |
| Loss on foreign exchange | **(98,708)** | (50,908) |
| **Net and comprehensive loss for the year** | **$ (714,721)** | $ (397,547) |
| **Loss per share - basic and diluted** | **$ (0.04)** | $ (0.07) |
| **Weighted average number of shares outstanding** | **18,432,622** | 5,870,685 |

## CANDELARIA MINING CORP.

**(Formerly Branco Resources Ltd.)**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**(Expressed in Canadian Dollars)**

| | Share capital | | Stock option | Share | Subscriptions | | |
|---|---|---|---|---|---|---|---|
| | Number | Amount | reserve | subscriptions | receivable | Deficit | Total |
| **Balance, April 30, 2014** | **4,440,000** | **$ 282,968** | **$ 37,198** | **$ -** | **$ -** | **$ (273,867)** | **$ 46,299** |
| | | | | | - | | |
| Common shares issued for cash | 4,562,000 | 228,100 | - | - | - | - | 228,100 |
| Escrow shares cancelled | (1,000,000) | - | - | - | - | - | - |
| Expired agent's warrants | - | - | (8,736) | - | - | 8,736 | - |
| Cash received for share subscriptions | - | - | - | 2,407,188 | - | - | 2,407,188 |
| Net loss for the year | - | - | - | - | - | (397,547) | (397,547) |
| **Balance, April 30, 2015** | **8,002,000** | **511,068** | **28,462** | **2,407,188** | **-** | **(662,678)** | **2,284,040** |
| Share issued for cash (note 5) | 71,918,750 | 3,585,502 | - | (2,407,188) | (177,500) | - | 1,000,814 |
| Share issued for Apolo acquisition (Note 10) | 13,408,000 | 670,400 | - | - | - | - | 670,400 |
| Share issued for finder fees (Note 10) | 1,200,000 | 60,000 | - | - | - | - | 60,000 |
| Share-based payments | - | - | 116,370 | - | - | - | 116,370 |
| Net loss for the year | - | - | - | - | - | (714,721) | (714,721) |
| **Balance, April 30, 2016** | **94,528,750** | **$4,826,970** | **$ 144,832** | **$ -** | **$ (177,500)** | **$(1,377,399)** | **$3,416,903** |

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

## CANDELARIA MINING CORP.
**(Formerly Branco Resources Ltd.)**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Expressed in Canadian Dollars)**

| | Year ended April 30, 2016 | Year ended April 30, 2015 |
|---|---|---|
| **Operating activities** | | |
| Net loss for the year | $ (714,721) | $ (397,547) |
| Add non-operating cash flow item: | | |
| Share-based payments | 116,370 | - |
| Foreign exchange loss | (1,963) | 50,908 |
| Changes in non-cash working capital items: | | |
| GST receivable | (3,961) | (1,264) |
| Prepaid expenses | 15,805 | (21,570) |
| Loan receivable | - | 38,640 |
| Accounts payable and accrued liabilities | 39,040 | - |
| Due to related parties | - | (1,331) |
| **Cash flows used in operating activities** | (549,430) | (332,164) |
| **Financing activities** | | |
| Proceeds from issuance of shares, net of share issue costs | 1,000,814 | 228,100 |
| Proceeds from shares subscriptions | - | 2,407,188 |
| **Cash flows from financing activities** | 1,000,814 | 2,635,288 |
| **Investing Activity** | | |
| Investment in Apolo | (325,325) | - |
| Advances to Apolo | (840,382) | - |
| **Cash flows from investing activity** | (1,165,707) | - |
| **Effect of foreign exchange on cash** | (7,902) | (50,908) |
| **Increase (decrease) in cash** | (722,225) | 2,252,216 |
| **Cash, beginning of year** | 2,306,361 | 54,145 |
| **Cash and cash equivalents, end of year** | $ 1,584,136 | $ 2,306,361 |
| Supplemental cash flow information: | | |
| Shares issued for investment in Apolo | $ 730,400 | $ - |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Candelaria Mining Corp., (formerly Branco Resources Ltd.) (the "Company") is a British Columbia public company listed on the TSX Venture Exchange ("TSXV"). The Company was incorporated under the Business Corporations Act of British Columbia on January 23, 2012. The Company registered and records office is located at Suite 1200, 750 West Pender Street, Vancouver, BC, Canada, V6C 2T8. The address of the Company's head office is 15444 Royal Ave., White Rock, BC, V4B 1N1.

On February 27, 2015, the Company, entered into an agreement to acquire a 60% interest in Minera Apolo, S.A. de C.V. ("Apolo"). Apolo is a privately owned exploration company with certain mining concessions located in the State of Zacatecas, Mexico (the "Property"). The Company finalized the agreement for the acquisition of Apolo on March 17, 2016 (Note 10).

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has no source of operating revenues and its capacity to operate as a going concern in the near term will depend on its ability to continue raising equity financing. These financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern.

## 2. BASIS OF PRESENTATION

**Statement of compliance**
These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"). The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial statements are presented in Canadian dollars.

The financial statements were authorized for issue on August 26, 2016 by the directors of the Company.

**Use of estimates and judgements**
The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates primarily relate to share-based transaction valuations, fair values of financial instruments and the recoverability of deferred income tax assets. Actual results could differ from those estimates. Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in Note 1 relating to going concern.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiary, Grupo Minero Candelaria, S.A.P.I. de C.V., a company incorporated in Mexico. The results of subsidiaries acquired or disposed of during the periods presented are included in the consolidated statement of loss and comprehensive loss from the effective date of acquisition and up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

### Foreign currencies

The functional currency of the Company and its subsidiary, as determined by management, is the Canadian Dollar. For the purpose of the financial statements, the results and financial position are expressed in Canadian Dollars. Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the Statement of Loss and Comprehensive Loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

### Financial instruments

<u>Financial assets</u>
The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* – This category involves financial instruments held for the purpose of selling them in the short term. All of the financial instruments in this category meet the definition of financial assets held for trading. Derivatives are included in this category, unless they are designated as hedges. The instruments classified in this category are classified in current assets and include cash. The financial instruments included in this category are initially recognized at fair value and the transaction costs are expensed to the Statement of Loss and Comprehensive Loss. Subsequently, financial assets at fair value through profit or loss are measured at fair value and all gains and losses, realized and unrealized, measured on the basis of market transactions, are recognized directly in the Statement of Loss and Comprehensive Loss. As at April 30, 2016 and 2015, the Company has no financial instruments classified as fair value through profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Loans and receivables* – These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Company has reported cash in this category.

*Held-to-maturity investments* – These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the Statement of Loss and Comprehensive Loss. The Company has no held to maturity investments as at April 30, 2016 and 2015.

*Available-for-sale* – Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is reclassified from other comprehensive income to profit or loss in the Statement of Loss and Comprehensive Loss. The Company has no available-for-sale assets as at April 30, 2016 and 2015.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

<u>Financial liabilities</u>
The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* – This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the Statement of Loss and Comprehensive Loss. The Company has no derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term as at April 30, 2016 and 2015.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Other financial liabilities* – This category includes accounts payable and amounts due to related parties, all of which are measured at amortized cost.

**Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in Statement of Loss and Comprehensive Loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. 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.

**Loss per share**

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. Contingently issuable or returnable shares are excluded from the determination of the weighted average number of shares outstanding.

(Expressed in Canadian Dollars)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Share-based payments**

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of 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 corresponding amount is recorded to the stock option reserve. The fair value of options is determined using the Black–Scholes Option Pricing Model. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

**Recent accounting pronouncements issued but not yet effective**

*IFRS 9 Financial Instruments*

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

## 4. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents consist of the following:

| Cash and cash equivalents | April 30, 2016 | April 30, 2015 |
|---|---|---|
| Cash | $ 599,431 | $ 2,306,361 |
| Temporary investments – GIC's | 984,705 | – |
| | $ 1,584,136 | $ 2,306,361 |

## 5. SHARE CAPITAL

(a) Authorized: Unlimited number of common shares without par value.

(b) Issued and outstanding

On July 29, 2014, the Company completed a non-brokered private placement of 1,500,000 common shares at $0.05 per share for total proceeds of $75,000.

On June 10, 2014, the Company completed a non-brokered private placement of 3,062,000 common shares at $0.05 per share for total proceeds of $153,100.

On March 17, 2016, the Company issued 71,918,750 common shares for proceeds of $3,595,938. $2,407,188 was received during the year ended April 30, 2015, $1,011,250 was received during the year and $168,000 was received subsequent to the year end. The Company incurred share issuance costs of $10,436 paid in cash.

On March 17, 2016, the Company issued 6,000,000 shares with a fair value of $300,000 (Note 10).

On March 17, 2016, the Company issued 7,408,000 shares to holders of Apolo notes with a fair value of $370,400 and 1,200,000 shares with a fair value of $60,000 (Note 10).

(c) Escrow shares

On January 27, 2015, 1,000,000 escrow shares were cancelled and returned to treasury according to the escrow agreement.

On March 17, 2016, pursuant to an escrow agreement, 6,000,000 commons shares issued as part of the acquisition of Apolo were held in escrow. Under the escrow agreement, 10% of the escrowed common shares were released from escrow on the date of the issuance of the final TSX-V bulletin upon completion of the qualifying transaction ("QT"), and an additional 15% will be released every six months after a period of eighteen months has passed.

As at April 30, 2016, 6,687,000 shares were held in escrow.

(d) Agent's warrants

On November 8, 2014, 201,000 agent's warrants with an exercise price of $0.10 expired. The value that had been recorded of $8,736 was reallocated from stock option reserve and charged to deficit. At April 30, 2016 and 2015, the Company had no outstanding share purchase warrants.

**(Expressed in Canadian Dollars)**

## 5. SHARE CAPITAL (continued)

(e) Stock Options

The Company has a stock option plan by which it can grant stock options to officers, directors, consultants and employees. The aggregate number of shares reserved for issuance under the stock option plan cannot exceed 9,452,875 shares.

The continuity of the Company's share options is as follows:

| | Number of options | Weighted average exercise price ($) |
|---|---|---|
| **Balance, April 30, 2014 and 2015** | **444,000** | **0.10** |
| Granted | 3,500,000 | 0.05 |
| **5Balance, April 30, 2016** | **3,944,000** | **0.06** |

On March 22, 2016, the Company granted to its directors and consultants incentive stock options to acquire a total of 2,450,000 common shares of the Company at a price of $0.05 per share exercisable up until March 22, 2021. The fair value of these options at the date of grant was estimated at $93,311 using the Black-Scholes option pricing model with the following assumptions: a five year expected average life; 105% volatility; risk-free interest rate of 0.65%; and a dividend yield of 0%.

On March 22, 2016, the Company granted to its consultants incentive stock options to acquire a total of 800,000 common shares of the Company at a price of $0.05 per share exercisable up until March 22, 2021. Options vest as to 25% at the date of grant and 25% every three months thereafter until fully vested. The fair value of these options at the date of grant was estimated at $30,469 using the Black-Scholes option pricing model with the following assumptions: a five year expected average life; 105% volatility; risk-free interest rate of 0.65%; and a dividend yield of 0%.

On March 31, 2016, the Company granted to a director incentive stock options to acquire a total of 250,000 common shares of the Company at a price of $0.05 per share exercisable up until March 31, 2021. The fair value of these options at the date of grant was estimated at $9,518 using the Black-Scholes option pricing model with the following assumptions: a five year expected average life; 105% volatility; risk-free interest rate of 0.61%; and a dividend yield of 0%.

The weighted average fair value of the options granted during the year ended April 30, 2016 was $0.04 per option.

**(Expressed in Canadian Dollars)**

## 5. SHARE CAPITAL (continued)

A summary of the Company's options at April 30, 2016 is as follows:

| Expiry date | Exercise price ($) | Weighted average remaining contractual life (years) | Number of options outstanding | Number of options exercisable |
|---|---|---|---|---|
| November 8, 2017 | 0.10 | 1.53 | 444,000 | 444,000 |
| March 22, 2021 | 0.05 | 4.90 | 2,450,000 | 2,450,000 |
| March 22, 2021 | 0.05 | 4.90 | 800,000 | 200,000 |
| March 31, 2021 | 0.05 | 4.92 | 250,000 | 250,000 |
| | | **4.52** | **3,944,000** | **3,344,000** |

The fair value of share options recognized as share-based compensation during the year ended April 30, 2016 was $116,370 (2015 - $nil).

## 6. RELATED PARTY TRANSACTIONS

During the year ended April 30, 2016, the Company incurred accounting fees of $12,000 (2015 - $8,000), rent and office and administration of $93,068 (2015 - $30,000), and property investigation costs of $nil (2015 – $16,000) to companies controlled by the directors of the Company.

During the year ended April 30, 2016, the Company granted 2,200,000 stock options (2015 – $nil) to officers and directors of the Company with a fair value of $83,786 (2015 – $nil) and was included in share-based compensation expense.

The Company is committed to management services contracts totalling US$8,000 per month for a period of two years commencing March 17, 2016.

Included in accounts payable as at April 30, 2016 is $29,792 (2015 - $nil) owing to a Company controlled by a director.

Amounts due to related parties are unsecured, non-interest bearing and have no specified terms of repayment.

## 7. CAPITAL MANAGEMENT

The Company's primary source of funds comes from the issuance of share capital. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flows from current operations, and is not subject to any externally imposed capital requirements.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. The Company defines its capital as shareholders' equity. Capital requirements are driven by the Company's general operations. To effectively manage the Company's capital requirements, the Company monitors expenses and overhead to ensure costs and commitments are being paid. There have been no changes to the Company's approach to capital management during the year.

## 8. FINANCIAL INSTRUMENTS RISK MANAGEMENT

(a) Fair value

The classification of the Company's financial instruments requires that they are measured at amortized cost. Their carrying value approximates fair value due to the short-term maturity of these financial instruments.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk for the Company is associated with its cash. The Company is not exposed to significant credit risk as its cash is placed with a major Canadian financial institution.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal terms of trade.

(d) Foreign currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flow will fluctuate as a result of changes in foreign exchange rates. The Company's functional currency is the Canadian dollar. The Company does not hedge anticipated foreign currency changes. As at April 30, 2016, the Company held cash in US dollars of $537,477 (CDN$674,512) (2015 - US$1,416,483 (CDN$1,702,655)). A 10% change in foreign exchange rates would impact net loss by approximately $67,000 (2015 - $170,000).

**(Expressed in Canadian Dollars)**

## 9. INCOME TAXES

The reported income tax recovery differs from the amount computed by applying the Canadian basic statutory rate to the loss before income taxes. The reasons for this difference and the related tax effect are as follows:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Net loss | $ | (714,721) | $ | (397,547) |
| Canadian basic statutory tax rate | | 26.0% | | 26.0% |
| Expected income tax recovery | | (186,000) | | (103,362) |
| Impact of tax rate changes and other | | 74,000 | | 40 |
| Change in valuation allowance | | 112,000 | | 103,322 |
| Income tax recovery | $ | – | $ | – |

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Deferred income tax assets: | | | | |
| Non-capital losses | $ | 283,000 | $ | 170,905 |
| Share issuance costs | | 4,000 | | 3,885 |
| Valuation allowance | | (287,000) | | (174,790) |
| Recognized deferred income tax assets | $ | – | $ | – |

The Company has accumulated non-capital losses which may be deducted in the calculation of taxable income in future years. The losses will expire as follows.

| | | |
|---|---|---|
| 2031 | $ | 12,685 |
| 2032 | | 49,923 |
| 2033 | | 90,046 |
| 2034 | | 99,652 |
| 2035 | | 288,147 |
| 2036 | | 547,911 |
| | $ | 1,088,364 |

Due to the uncertainty surrounding the realization of income tax assets in future years, the Company has provided a 100% valuation allowance against its potential deferred income tax assets.

## 10. INVESTMENT IN AND ADVANCES TO APOLO

On February 27, 2015, the Company, entered an agreement (the "Agreement") with the shareholders of Apolo to acquire 60% of Apolo's issued and outstanding common shares.

Apolo is a privately owned exploration company with certain mining concessions located in the State of Zacatecas, Mexico (the "Property"). Pursuant to the terms and conditions of the Agreement, the Company will earn the 60% interest by:

- Paying an aggregate of USD$250,000 to the shareholders of Apolo on the closing date and a further USD$250,000 to the shareholders of Apolo on or before 8 months from the closing date (paid);
- Issuing a total of 20,000,000 common shares of the Company in installments over an 18 month period beginning on the closing date;
- Funding exploration expenditures of a minimum of USD$3,500,000 by advancing funds to Apolo on or before 12 months from the closing date (the "Funding Commitment"); and
- Lending or arranging for a third party to loan, to Apolo, a minimum of US$1,000,000 on or before 12 months from the closing date (the "Loan").
- The Company shall not issue dividends until the financing and the loan are fully paid.

Subject to the terms and conditions set forth in the Agreement, the Company will pay an additional US$100,000 to the Apolo shareholders annually as long as all of the following conditions are satisfied:

- Apolo reaches a production of 250 tons per day on the Property;
- any portion of the Funding Commitment remains outstanding and payable;
- any portion of the Loan remains outstanding and payable;
- the price of gold is over USD$1,100 per ounce; and
- the price of silver is over USD$17 per ounce.

The Company will grant a 1.5% net smelter royalty ("NSR") on the Property to the shareholders of Apolo. The Company will have a right of first refusal on the NSR and on the remaining 40% interest in Apolo held by the Apolo shareholders.

The acquisition of Apolo was approved on March 22, 2016. As per the Agreement the Company has made the first payment of US$250,000 to the Apolo shareholders and has issued the first instalment of 6,000,000 common shares of the Company to the Apolo shareholders. In addition, the Company has arranged a US$1,000,000 loan in favour of Apolo through Credipresto, S.A.P.I. de C.V., SOFOM ENR.

As part of the transaction, the Company issued 7,408,000 shares to holders of Apolo convertible notes to settle outstanding debt in the amount of $370,400 and 1,200,000 shares with a fair value of $60,000 (Note 5).

During the year ended April 30, 2016, the Company made advances totalling $850,247 to Apolo for working capital. These amounts will form an intercompany advance upon completion of the acquisition.

## 11. SUBSEQUENT EVENTS

Subsequent to April 30, 2016, 200,000 stock options were exercised for proceeds of $10,000.

On May 4, 2016, the Company closed a private placement of 16,200,000 common shares at a price of $0.05 per share for total proceeds of $810,000.

On May 11, 2016, the Company signed an agreement to acquire the Caballo Blanco Gold Project in Veracruz from Molimentales Del Noroeste, SA de CV, a subsidiary of Timmins Gold Corp. Pursuant to the terms of the agreement, Candelaria will pay Molimentales a total of US$12,500,000 in cash and assume US$5 million in liabilities in exchange for the project and all related rights and assets.

On June 7, 2016 pursuant to a private placement, a total of 78,099,000 common shares were sold at a price of $0.10 per share for gross proceeds of $7,809,900.

On June 7, 2016, pursuant to a private placement the Company raised $1,625,000 through the sale of a convertible note. The note will bear interest at 6% annually, paid monthly and will be convertible into common shares of the Company for a period of 18 months at $0.06 per share for the first 12 months, and $0.10 per share for the remainder of the term. The Company may prepay the convertible note at any time during the initial 12-month term by paying the holders all remaining interest to maturity in addition to the principal amount. Finder's fees of $260,216 were paid in connection with the private placement.

On July 4, 2016, the Company granted to its directors and consultants incentive stock options to acquire a total of 2,500,000 common shares of the Company at a price of $0.15 per share exercisable up until July 4, 2021.

On July 4, 2016, the Company granted to its employees and consultants incentive stock options to acquire a total of 900,000 common shares of the Company at a price of $0.15 per share exercisable up until July 4, 2021. Options vest as to 25% at the date of grant and 25% every three months thereafter until fully vested.

On July 15, 2016 pursuant to a private placement, a total of 30,259,999 units were sold at a price of $0.15 per unit for gross proceeds of $4,539,000. Each unit consists of one common shares and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of $0.25 per share for a period of 18 months from the closing date. The Company paid finder's fees of $73,475 and issued 1,102,122 finder's warrants having the same terms as the warrants under the private placement.

On July 21, 2016 the Company completed the acquisition of the Caballo Blanco gold project in Veracruz, Mexico, from Molimentales Del Noroeste SA de CV, a subsidiary of Timmins Gold Corp. Pursuant to the terms of the agreement, Candelaria has made payments of US$10,154,738 to Timmins to acquire the Caballo Blanco gold project and deferred a US$2,500,000 payment to be made at the earlier occurrence of the Company receiving permits or June 24, 2017, secured by a promissory note and security interest. The Company has also assumed US$5,000,000 in liabilities in exchange for the project and all related rights and assets.

## 11. SUBSEQUENT EVENTS (continued)

On July 27, 2016, the Company granted to its directors and consultants incentive stock options to acquire a total of 8,400,000 common shares of the Company at a price of $0.30 per share exercisable up until July 27, 2021.

On July 27, 2016, the Company granted to its employees and consultants incentive stock options to acquire a total of 1,750,000 common shares of the Company at a price of $0.15 per share exercisable up until July 27, 2021. Options vest as to 25% at the date of grant and 25% every three months thereafter until fully vested.

On August 8, 2016 pursuant to a private placement, the Company issued a total of 20,000,000 units at a price of $0.15 per unit for gross proceeds of $3,000,000. Each unit consists of one common share of the Company and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share of the Company at a price of $0.25 per common share for a period of 18 months following closing.