

*A copy of this preliminary prospectus has been filed with the securities regulatory authorities in all of the provinces and territories of Canada other than Québec but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.*

*This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “U.S. Securities Act”) or the state securities laws of any state of the United States. Accordingly, these securities may not be offered, sold or delivered in the United States unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from registration is available. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act). See “Plan of Distribution”.*

## PRELIMINARY PROSPECTUS

*Initial Public Offering by way of Distribution as a  
Return of Capital and Rights Offering*

**January 11, 2017**

### CAUTIVO MINING INC.

#### **Distribution of ● Common Shares of Cautivo Mining Inc. as a Return of Capital - and - Distribution of Rights to Subscribe for up to ● Common Shares of Cautivo Mining Inc.**

#### **The Spin-Off of Cautivo Mining Inc. by a Return of Capital**

Sierra Metals Inc. (“**Sierra**”) is distributing to holders (other than Ineligible Holders (as defined herein)) of its common shares (the “**Sierra Shares**”) of record as at 4:59 p.m. (Toronto time) on ●, 2017 (the “**Distribution Record Date**”), as a return of capital (the “**Distribution**”), all of the common shares (the “**Distributed Shares**”) of its wholly-owned subsidiary, Cautivo Mining Inc. (the “**Corporation**” or “**Cautivo Mining**”). The Distributed Shares will be distributed on the basis of one Distributed Share for every ● Sierra Shares held on the Distribution Record Date. The number of Distributed Shares to be distributed to holders of Sierra Shares (other than Ineligible Holders) will be rounded down to the nearest whole number. The Distributed Shares will be deemed to have been distributed, and the person or persons to whom such Distributed Shares are to be distributed will be deemed to have become the holder or holders of record thereof, on the Distribution Record Date. It is currently expected that the Sierra Shares will begin trading on an ex-distribution basis on the Toronto Stock Exchange (the “**TSX**”) on ●, 2017, two trading days before the Distribution Record Date, meaning that persons who acquire Sierra Shares on or after such date will not be entitled to receive the Distribution. For important details regarding the Distribution, see “*Plan of Distribution*”.

Following the Distribution, Sierra will not own any securities of the Corporation. Neither Sierra nor the Corporation will receive any proceeds as a result of the Distribution. See “*Principal Securityholders*”.

#### **The Rights Offering**

Immediately following the Distribution, the Corporation will issue to holders of its Distributed Shares (other than Ineligible Holders) at 5:00 p.m. (Toronto time) on the Distribution Record Date, which date has been fixed by the board of directors of the Corporation (the “**Board**”) as the record date for the Rights Offering (as defined herein) (the “**Rights Offering Record Date**”), ● rights (each whole right a “**Right**”) for each Distributed Share held (the “**Rights Offering**”). For every whole Right held, a holder will be entitled to subscribe for one common share of the Corporation (a “**Share**”) at a price of \$● per Share (the “**Subscription Price**”) at any time from ●, 2017 to 5:00 p.m. (Toronto time) (the “**Rights Expiry Time**”) on ●, 2017 (the “**Rights Expiry Date**”). Holders who exercise their Rights in full are entitled to exercise additional Rights to acquire, at the Subscription Price, Additional Shares (as defined herein) on a pro rata basis (but subject to certain limitations), if available, pursuant to an Additional Subscription Privilege (as defined herein). See “*Plan of Distribution – Exercise and Transfer of Rights – Additional Subscription Privilege*”. A holder of a Right is not, by virtue of such Right, a shareholder of the Corporation and

does not have any of the rights of a shareholder. The Subscription Price was determined by Sierra in consultation with the Managing Dealer (as defined herein). Further particulars concerning the attributes of the Rights and the Rights Offering are set out under “*Plan of Distribution*”.

**PROSPECTIVE INVESTORS SHOULD BE AWARE THAT THE (I) DISTRIBUTION OF THE DISTRIBUTED SHARES, (II) INITIAL DISTRIBUTION OF THE RIGHTS, (III) EXERCISE OF THE RIGHTS, (IV) EXPIRY OF UNEXERCISED RIGHTS AND (V) DISPOSITION OF RIGHTS IN CERTAIN CIRCUMSTANCES MAY HAVE TAX CONSEQUENCES IN CANADA AND THE UNITED STATES DEPENDING ON A PARTICULAR PROSPECTIVE INVESTOR’S SPECIFIC CIRCUMSTANCES. THIS PROSPECTUS MAY NOT FULLY DESCRIBE THESE TAX CONSEQUENCES. PROSPECTIVE INVESTORS SHOULD READ THE TAX DISCUSSION IN THIS PROSPECTUS AND CONSULT THEIR OWN TAX ADVISORS. SEE “CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS”.**

As of the date hereof, Sierra currently holds all of the Corporation’s issued and outstanding Shares. Based on the ● Sierra Shares outstanding as of the date hereof, the Rights Offering would entitle holders to subscribe for and purchase up to an aggregate of ● Shares for gross proceeds of approximately \$●. Sierra will not receive any proceeds from the Rights Offering.

Rights not exercised prior to the Rights Expiry Time will be void and of no further value to the holder thereof and the Shares underlying such unexercised Rights will be taken up by the Standby Purchasers (as defined herein), pursuant to the terms of the Standby Agreement (as defined herein). The Rights Offering is not subject to any minimum subscription level.

	Price to the Public <sup>(1)</sup>	Maximum Solicitation Fee <sup>(2)</sup>	Net Proceeds to the Corporation <sup>(3)</sup>
Per Share.....	\$●	\$●	\$●
Total Rights Offering .....	\$●	\$●	\$●

Notes:

- (1) For tax purposes, the Board has attributed a fair market value of \$● to each Distributed Share, nil to each Right and \$● to each Share issuable upon the exercise of a Right. The Subscription Price was determined by Sierra in consultation with the Managing Dealer.
- (2) Sierra and the Corporation have retained Dundee Capital Partners (the “**Managing Dealer**”) to solicit, on a commercially reasonable efforts basis, the exercise of the Rights. In consideration for such services, Sierra and the Corporation have agreed to pay the Managing Dealer a fee of 5.0% of the proceeds received by the Corporation from the exercise of Rights from existing holders of Sierra Shares as of the Distribution Record Date (other than insiders of Sierra) (the “**Managing Dealer Fee**”). See “*Plan of Distribution*”.
- (3) After deducting the expenses of the Rights Offering, estimated to be \$●.

Computershare Investor Services Inc. (“**Computershare**”), at its principal offices in Toronto, Ontario (the “**Subscription Offices**”), is the subscription and transfer agent for the Rights Offering. For details regarding the exercise and transfer of Rights, see “*Plan of Distribution – Exercise and Transfer of Rights*”.

If a holder of Rights does not exercise his, her or its Rights, then such holder’s proportionate ownership in the Corporation will be diluted as a result of the exercise of the Rights by other holders. See “*Risk Factors – Risks Related to the Distribution of the Distributed Shares and the Rights Offering – Dilution*”.

The Corporation entered into a standby agreement dated ●, 2017 (the “**Standby Agreement**”) with the Standby Purchasers. Under the Standby Agreement, each Standby Purchaser has agreed to exercise all of the Rights held by such Standby Purchaser and, severally, to each purchase its respective percentage of all Unsubscribed Shares (as defined herein) as set forth in the Standby Agreement. Assuming each Standby Purchaser fulfills its Standby Commitment (as defined herein), the Standby Purchasers shall acquire, in the aggregate, all of the Shares underlying the Rights that are unexercised by Qualified Holders (as defined herein), including pursuant to the Additional Subscription Privilege, as of the Rights Expiry Time (the “**Unsubscribed Shares**”). The Standby Purchasers have

agreed, severally, to purchase the Unsubscribed Shares, if any, at a price per Share equal to the Subscription Price. Pursuant to the Standby Agreement, each Standby Purchaser has irrevocably agreed to exercise the Basic Subscription Privilege in respect of all of the Rights to be received by such Standby Purchaser (the “**Initial Purchaser Rights**”) and the Standby Purchasers will have, prior to the time of filing of the Final Prospectus (as defined herein), deposited with Computershare an aggregate sum of \$● representing the aggregate Subscription Price for such Rights. The Standby Commitment is subject to certain conditions and the Standby Agreement (other than the obligation to exercise the Initial Purchaser Rights) may be terminated by each Standby Purchaser or the Corporation under certain circumstances. See “*Plan of Distribution – Standby Commitment*”.

This prospectus (the “**Prospectus**”) qualifies the distribution of the Distributed Shares, Rights, Shares issuable upon the exercise of the Rights, and the Shares issuable to the Standby Purchasers pursuant to the Standby Agreement (together, the “**Issued Securities**”) under applicable Canadian securities laws in each of the provinces and territories of Canada, other than Québec, but does not qualify the distribution of the Issued Securities in the United States (as defined in Regulation S under the U.S. Securities Act, the “**United States**”) or any other jurisdiction. See “*Notice to Investors in the United States*” and “*Plan of Distribution*” for a description of the applicable restrictions on the exercise of Rights by persons in the United States and on the transfer of Rights. Except under the circumstances described herein, Issued Securities are not being distributed in any jurisdiction (each, an “**Ineligible Jurisdiction**”) other than the Eligible Jurisdictions (as defined herein), and, except under the circumstances described herein, Rights may not be exercised by or on behalf of a holder who appears to be, or whom Sierra or the Corporation has reason to believe is, an Ineligible Holder. This Prospectus is not, and under no circumstances is to be construed as, an offering of any Issued Securities for sale or distribution in any Ineligible Jurisdiction or a solicitation therein of an offer to buy any securities. Except under the circumstances described herein, Rights Certificates (as defined herein) will not be sent to shareholders with addresses of record in any Ineligible Jurisdiction. Ineligible Holders will be sent a letter advising them that their Rights Certificates will be held by Computershare, who will hold such Rights as agent for the benefit of all such Ineligible Holders. See “*Plan of Distribution – Ineligible Holders*”. The Corporation will not permit the exercise of Rights by any Ineligible Holder and the issuance of Shares pursuant thereto, including by or to such holder who may have acquired Rights in a secondary trade through the CSE (as defined herein) or otherwise. For important information regarding the determination of eligibility to receive the Issued Securities and the treatment of Ineligible Holders, see “*Plan of Distribution – Ineligible Holders*”.

**As at the date of this Prospectus, the Corporation does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the TSX, Aequitas NEO Exchange Inc., a U.S. marketplace, or a marketplace outside of Canada and the United States of America (other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc).**

**There is currently no market through which the Issued Securities may be sold, and holders may not be able to resell the Issued Securities. This may adversely affect the pricing of the Issued Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Issued Securities, and the extent of issuer regulation. See “*Risk Factors*”.**

**The Corporation has applied to list the Issued Securities on the Canadian Securities Exchange (the “CSE”). Listing will be subject to the Corporation fulfilling all of the listing requirements of the CSE.**

The Managing Dealer may engage in market stabilization activities as described under “*Plan of Distribution*”. Such activities, if commenced, may be discontinued at any time.

Based on certain assumptions set out in the discussion entitled “*Certain Canadian Federal Income Tax Considerations*”, Sierra Shareholders (as defined herein) should be considered to have received a return of capital for Canadian federal income tax purposes and Sierra Shareholders who are non-residents of Canada for purposes of the *Income Tax Act* (Canada) (the “**Tax Act**”) should not be subject to Canadian federal withholding tax under Part XIII of the Tax Act.

An investment in the securities of the Corporation is speculative and involves a high degree of risk. There are risks inherent in the Corporation’s business that may adversely affect the value of its securities. Investors should carefully review the risk factors outlined in this Prospectus before acquiring or subscribing for the securities of the

Corporation. Investors are advised to consult their own legal, financial or other professional advisors in order to assess income tax, legal and other aspects of any investment. See “*Risk Factors*” and “*Certain Canadian Federal Income Tax Considerations*”.

Ricardo Arrarte, Carlos Villanueva, Alberto Arias and Daniel Tellechea (collectively, the “**Non-Resident Directors and Officers**”) are directors or officers of the Corporation who reside outside of Canada. In addition, Giovanni J. Ortiz, the qualified person involved in the preparation of the Technical Report (as defined herein), resides outside of Canada. Each of the Non-Resident Directors and Officers and the Technical Report author has appointed Baker & McKenzie LLP, Bay/Wellington Tower, 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 as his agent for service of process.

Readers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that resides outside of Canada or is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction, even if the party has appointed an agent for service of process.



## TABLE OF CONTENTS

ABOUT THIS PROSPECTUS .....	2
CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS .....	3
NOTICE TO INVESTORS IN THE UNITED STATES .....	5
ELIGIBILITY FOR INVESTMENT.....	7
PROSPECTUS SUMMARY .....	8
GLOSSARY OF TERMS .....	12
CORPORATE STRUCTURE.....	18
REORGANIZATION.....	19
REDUCTION OF STATED CAPITAL .....	19
BUSINESS OF THE CORPORATION .....	19
SUMMARY OF TECHNICAL REPORT .....	21
DOING BUSINESS IN PERU.....	70
USE OF PROCEEDS .....	77
PLAN OF DISTRIBUTION .....	79
INTENTION OF DIRECTORS AND EXECUTIVE OFFICERS TO EXERCISE RIGHTS .....	89
DESCRIPTION OF THE SECURITIES DISTRIBUTED .....	90
DIVIDENDS OR DISTRIBUTIONS .....	90
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	90
OUTSTANDING SECURITIES.....	90
CONSOLIDATED CAPITALIZATION.....	90
PRIOR SALES.....	91
ESCROWED SHARES .....	91
PRINCIPAL SECURITYHOLDERS.....	93
DIRECTORS AND EXECUTIVE OFFICERS .....	94
EXECUTIVE COMPENSATION .....	97
STATEMENT OF CORPORATE GOVERNANCE .....	99
AUDIT COMMITTEE.....	102
INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS .....	102
RISK FACTORS.....	102
CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS .....	111
PROMOTERS.....	116
LEGAL PROCEEDINGS AND REGULATORY ACTIONS.....	116
INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS .....	117
AUDITORS, TRANSFER AGENT, SUBSCRIPTION AGENT AND REGISTRAR .....	117
MATERIAL CONTRACTS .....	117
EXPERTS.....	118
STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION .....	118

SCHEDULE "A" - AUDIT COMMITTEE CHARTER .....	A-1
SCHEDULE "B" - MANAGEMENT'S DISCUSSION AND ANALYSIS.....	B-1
INDEX TO FINANCIAL STATEMENTS.....	F-1
CERTIFICATE OF THE CORPORATION AND THE PROMOTER .....	C-1
CERTIFICATE OF THE MANAGING DEALER .....	C-2

## ABOUT THIS PROSPECTUS

### General Matters

All references in the Prospectus to “we”, “our”, “us” “our company” refer to the Group (as defined herein), unless the context requires otherwise.

No person has been authorized to give any information other than that contained in this Prospectus, or to make any representations in connection with the Distribution or the Rights Offering, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Corporation. The Corporation is not distributing the Issued Securities in any jurisdiction where such distribution is not permitted. The information contained in this Prospectus is accurate only as of the date of this Prospectus, regardless of the time of delivery of this Prospectus or any distribution of the Issued Securities. The Corporation’s business, financial conditions, results of operations and prospects may have changed since the date of this Prospectus.

### Currency

Unless otherwise noted herein and in the documents incorporated by reference, all dollar amounts refer to lawful currency of Canada. All references to “US\$” are to the currency of the United States.

### Financial Information and Accounting Principles

This Prospectus includes the following financial statements:

- (a) financial statements of the Corporation as at and for the period ended December 6, 2016 (the “**Corporation Financial Statements**”);
- (b) audited consolidated annual financial statements of Plexmar as at and for each of the years in the two year period ended December 31, 2015 (the “**Plexmar Annual Financial Statements**”) and unaudited condensed interim consolidated financial statements of Plexmar as at and for the three and nine month periods ended September 30, 2016 and 2015 (“**Plexmar Interim Financial Statements**”); and
- (c) unaudited pro forma consolidated financial statements of the Corporation as at and for the period ended December 6, 2016 (“**Pro Forma Financial Statements**”),

(collectively, the “**Financial Statements**”).

The Financial Statements, except for the Pro Forma Financial Statements, have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”).

The financial information is not intended to comply with the applicable accounting requirements of the U.S. Securities Act and the related rules and regulations of the SEC (as defined herein) which would apply if the Issued Securities were being registered with the SEC.

The following table sets out certain exchange rates based upon the noon rate published by the Bank of Canada. The rates are set out as United States dollars per \$1.00.

	Years Ended December 31,	
	2015	2014
Low .....	\$0.7148	\$0.8589
High.....	\$0.8527	\$0.9422
Average .....	\$0.7820	\$0.9054
End .....	\$0.7225	\$0.8620

On January 10, 2017, the noon rate for United States dollars in terms of Canadian dollars, as quoted by the Bank of Canada, was \$1.00 = US\$0.7571.

### **Business and Industry Data**

The Corporation has obtained certain business and industry data used throughout this Prospectus from various publicly available sources, including publications, data on websites maintained by private and public entities, general publications and other publicly available information. Although the Corporation believes that the sources it has relied on are reliable, the Corporation has not independently verified any of this information and therefore cannot guarantee its accuracy or completeness.

### **CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

Certain statements in this Prospectus which are not historical in nature may constitute “forward-looking statements” within the meaning of that phrase under applicable securities law. When used in this Prospectus, such statements generally use words such as “may”, “will”, “expect”, “believe”, “plan”, “intend”, “should”, “anticipate”, “budget”, “scheduled”, “estimates”, “forecasts” and other similar terminology. These statements reflect management’s current assumptions and expectations regarding future events and operating performance as of the date of this Prospectus and by their nature are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. Accordingly, readers should not place undue reliance on forward-looking statements. A number of factors could cause actual results to vary significantly from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed in this Prospectus under the heading “*Risk Factors*”.

Forward-looking information in this Prospectus may include, but are not limited to:

- information with respect to the Corporation’s future financial and operating performance and that of its subsidiaries, including its statement that the Corporation’s primary objective is to complete exploration with respect to the Las Lomas Project (as defined herein) with a view to developing the property surrounding such project;
- statements relating to changes or proposed changes in Peruvian mining regulations;
- costs and timing of exploration and, if warranted, development activities, including as these relate to the Corporation’s two phase exploration program to improve its understanding of the economic mineral potential of the Las Lomas Project recommended in the Technical Report;
- the potential acquisition of surface rights and additional mining interests and the commencement of further exploration programs in Peru other than as set out in the Work Program;
- timing and receipt of approvals, consents and permits under applicable legislation;
- the Corporation’s assessment of potential environmental liabilities and its plans to minimize environmental impacts;
- results of future exploration and drilling;
- quality and marketability of mineral products;
- metals prices;

- the proposed use of the net proceeds of the Rights Offering;
- adequacy of financial resources; and
- forward-looking information attributed to third party industry sources, in particular the statements made under the heading “*Doing Business in Peru*”.

Forward-looking information is based on assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made. The Corporation believes that the assumptions and expectations reflected in such forward-looking statements are reasonable. Assumptions have been made regarding, among other things: our ability to carry on exploration and development activities, the timely receipt of required approvals and acquisitions of applicable surface rights, the price of metals, the Corporation’s ability to operate in a safe, efficient and effective manner and its ability to obtain financing as and when required and on reasonable terms. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used and that these factors and assumptions may be incomplete or incorrect.

Forward-looking statements are also subject to known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from those expressed or implied by such forward-looking information. Those risks include:

- foreign country risk;
- crime and business corruption risk;
- security risks;
- liquidity concerns and future financing requirements;
- requirement for substantial capital expenditures;
- infrastructure risks;
- risks related to future acquisitions and/or the acquisitions of applicable surface rights;
- risks related to exploration and mineral development;
- operating hazards and risks;
- mineral price fluctuations;
- foreign exchange rate fluctuations;
- price volatility of publicly traded securities;
- competition;
- title matters;
- environmental risks and other regulatory requirements;
- no known mineral resources or reserves;
- industry regulation;

- uninsured or uninsurable risks;
- insurance risks;
- conflicts of interest;
- dependence on, and protection of, key personnel;
- risks related to the business cycle;
- liquidity risks;
- adverse general economic conditions;
- shortages of critical parts, equipment and skilled labour;
- risk of community action;
- claims and legal proceedings;
- enforcement of legal rights;
- financial reporting standards;
- internal controls;
- risk related to Sierra's determination of the fair market value of the Distributed Shares;
- risk that an active or liquid market will not exist for the Corporation's securities;
- volatility in the price of the Corporation's securities;
- risk of shareholder dilution;
- discretion of management over the use of proceeds of the Rights Offering;
- risks concerning the Corporation's principal securityholders; and
- tax risks.

See "*Risk Factors*".

Except as required by applicable securities laws, the Corporation does not intend to update or revise forward-looking statements made in this Prospectus to reflect events or changes in circumstances that occur after the date of this Prospectus. Forward-looking statements should not be construed as investment advice. Readers should perform a detailed, independent investigation and analysis of the Corporation before making any investment decision and are encouraged to seek independent professional advice.

#### **NOTICE TO INVESTORS IN THE UNITED STATES**

The Issued Securities have not been and will not be registered under the U.S. Securities Act, or any state securities laws, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons

unless registered under the U.S. Securities Act and applicable state securities laws or an exemption therefrom is available.

If Sierra and the Corporation determine that a U.S. person holding Sierra Shares is a Qualified Holder, then Issued Securities may be offered to such U.S. person on the basis of one or more applicable exemptions from U.S. federal and state securities law registration requirements.

In making an investment decision, any prospective U.S. participants must rely on their own examination of the Corporation and the terms of the Rights Offering, including the merits and risks involved. This Prospectus does not contain all the information that would be included in a prospectus for the offering, if such offering were registered under the U.S. Securities Act. These securities have not been recommended by the SEC or any state or other regulatory authority, nor has the SEC or any state or other regulatory authority passed on the accuracy or adequacy of this document or endorsed the merits of the offering. Any representation to the contrary is a criminal offense under the laws of the United States.

The Issued Securities are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and applicable state securities laws, pursuant to registration or an exemption therefrom. All of the securities will be “restricted securities” within the meaning of Rule 144 under the U.S. Securities Act and therefore may not be transferred by a holder within the United States or to a U.S. person unless such transfer is made pursuant to registration under the U.S. Securities Act, pursuant to an exemption therefrom, or in a transaction outside the United States pursuant to the resale provisions of Regulation S. For a description of certain restrictions on transfers of the Issued Securities, see “*Plan of Distribution – Ineligible Holders – U.S. Transfer Restrictions*”.

Prospective participants in the United States should be aware that the acquisition of the Issued Securities may have tax consequences both in the United States and in Canada. Such consequences for investors who are residents in, or citizens of, the United States may not be fully described herein. The contents of this Prospectus are not to be construed as legal, business or tax advice and this Prospectus is not intended to provide the sole basis for any evaluation of an investment in the Issued Securities. Each prospective U.S. participant should consult its own attorney, investment, accounting and tax advisor to determine the potential benefits, burdens and other consequences of an investment in the Issued Securities.

We reserve the right to reject any U.S. participation in whole or in part, to waive any deficiency in any certification or subscription, or to terminate the Rights Offering at any time, all in our sole discretion. Each prospective U.S. participant is responsible for its own costs in considering an investment in the Issued Securities. None of Sierra, the Corporation nor the Managing Dealer shall have any liability to a prospective participant whose subscription is rejected or preempted based on suitability or for any other reason.

### **Enforceability of Civil Liabilities**

The Corporation exists under the laws of the Province of Ontario, and all of its executive offices, administrative activities and assets are located outside the United States. In addition, many of the directors and officers of the Corporation are residents of jurisdictions other than the United States and all or a substantial portion of the assets of those persons are or may be located outside the United States.

As a result, you may have difficulty serving legal process within your jurisdiction upon the Corporation or certain of its directors or officers, as applicable, or enforcing judgments obtained in courts in your jurisdiction against any of them or the assets of any of them located outside your jurisdiction, or enforcing against them in the appropriate Canadian court judgments obtained in courts of your jurisdiction, including, but not limited to, judgments predicated upon the civil liability provisions of the federal securities laws of the United States, or bringing an original action in the appropriate Canadian courts to enforce liabilities against the Corporation or any of its directors or officers, as applicable, based upon the United States federal securities laws.

## Available Information

The Corporation does not intend to register its securities with the SEC under the U.S. Securities Exchange Act of 1934, as amended, (the “**U.S. Exchange Act**”) and, consequently, will not be filing periodic or current reports with the SEC. The Corporation intends to comply with the conditions of the Rule 12g3-2(b) exemption from SEC registration under the U.S. Exchange Act. The Corporation files reports and other information with the Canadian provincial and territorial securities commissions. These reports and information are available to the public free of charge on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

## ELIGIBILITY FOR INVESTMENT

Based on the current provisions of the Tax Act, the regulations thereunder and the proposals to amend the Tax Act and the regulations publicly announced by the Minister of Finance prior to the date hereof, provided that the Distributed Shares, the Rights and the Shares are listed on a “designated stock exchange” for purposes of the Tax Act (which currently includes the CSE) at all relevant times, the Distributed Shares, the Rights and the Shares will be “qualified investments” under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans (“**RRSP**”), registered retirement income funds (“**RRIF**”), registered education savings plans, deferred profit sharing plans, registered disability savings plans, and tax-free savings accounts (“**TFSA**”), all as defined in the Tax Act (collectively, the “**Registered Plans**”). The listed status of the Distributed Shares, the Rights and the Shares as of a particular time cannot be guaranteed. The Distributed Shares and the Shares will also be “qualified investments” for Registered Plans at a time when the Corporation is a “public corporation” for purposes of the Tax Act, and for this purpose, the Corporation has advised counsel that the Corporation will file an election, in its tax return for its first taxation year, to be deemed to have been a public corporation from the beginning of the year.

If the Rights are not listed on a designated exchange, the Rights will be a qualified investment at a particular time for a Registered Plan, provided that at the particular time, (a) the underlying Shares are a qualified investment for Registered Plans, as described above, and (b) neither the Corporation, nor any person with whom the Corporation does not deal with at arm’s length for the purposes of the Tax Act, is an annuitant, a beneficiary, an employer or a subscriber under, or a holder of, such Registered Plan.

Notwithstanding the foregoing, if the Distributed Shares, the Rights or the Shares are a “prohibited investment” for an RRSP, RRIF or TFSA for the purposes of the Tax Act, the annuitant or holder, as the case may be, of the RRSP, RRIF or TFSA will be subject to a penalty tax as set out in the Tax Act. A Distributed Share, Right or Share will generally not be a “prohibited investment” unless the annuitant or holder, as the case may be, does not deal at arm’s length with the Corporation for the purposes of the Tax Act or if the annuitant or holder, as the case may be, has a “significant interest” (within the meaning of the Tax Act) in the Corporation. In addition, the Distributed Shares and the Shares will generally not be a prohibited investment if they are “excluded property”, as defined in the Tax Act. Annuitants or holders, as the case may be, of an RRSP, RRIF or TFSA should consult their own tax advisors with respect to whether the Distributed Shares, Rights and Shares would be prohibited investments for the purposes of the Tax Act.



## PROSPECTUS SUMMARY

*The following is a summary of the principal features of the Distribution and Rights Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this Prospectus.*

### **The Corporation**

The Corporation was incorporated pursuant to the provisions of the *Business Corporations Act* (Ontario) on December 6, 2016. See “*Corporate Structure*”.

The Corporation’s registered office address is 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 and its head office is located at Av. Primavera 1796, Office 702, Santiago de Surco, Lima, Peru.

### **The Business of the Corporation**

The Corporation is an exploration company focused on acquiring, exploring and, if warranted, developing gold, silver, copper, zinc and lead mineral properties. See “*Business of the Corporation*”.

### ***Las Lomas Project***

Following the Reorganization (as defined herein), the Las Lomas Project will comprise the main asset of the Corporation. The Las Lomas Project consists of 44 mining concessions totaling 31,635 ha, located in the Department of Piura in northern Peru, near the Ecuador border. 41 concessions are collectively held by San Miguelito (as defined herein) and Minera Ate (as defined herein), of which: (i) 7 concessions are 100% owned by San Miguelito, subject to the Angolos Concession Royalty (as defined herein); (ii) 26 concessions are 100% owned by Minera Ate; and (iii) a 100% interest in the Pending Concessions (as defined herein) has been awarded to Minera Ate but is in the process of being formally granted by the government. The remaining three concessions comprising the Las Lomas Project consist of the Hans Concessions (as defined herein) in respect of which Minera Ate has the option to acquire a 100% interest, subject to the Hans Royalty.

Pursuant to the Minera Ate Option Agreement (as defined herein), San Miguelito has the right to acquire all of the 26 concessions currently held by Minera Ate (if and when such concessions are authorized by the government to be transferred) in exchange for the payment of US\$1.8 million; pursuant to the Pending Concessions Option Agreement (as defined herein), San Miguelito has the right to acquire from Minera Ate the Pending Concessions (if and when such concessions are registered to Minera Ate and subject to the receipt of the required Supreme Decree) in exchange for the payment of US\$180,000; and pursuant to the Hans Assignment Agreement (as defined herein), Minera Ate has assigned to San Miguelito all of Minera Ate’s rights and obligations under the Hans Option Agreement (as defined herein) (subject to the receipt of the required Supreme Decree and subject to the Hans Royalty) in exchange for: (i) San Miguelito assuming all of Minera Ate’s obligations under the Hans Option Agreement; and (ii) the payment by San Miguelito to Minera Ate of the sum of US\$106,000 upon the receipt of the required Supreme Decree. As a result of the Reorganization, San Miguelito will be an indirect subsidiary of the Corporation. See “*Business of the Corporation – Las Lomas Project*” and “*Summary of Technical Report*”.

### ***Objectives***

The Corporation’s primary objective is to undertake a plan of exploration with respect to the Las Lomas Project with a view to potentially developing such project.

### **The Spin-Off**

Distribution	Sierra Shareholders (other than Ineligible Holders) on the Distribution Record Date will receive the Distributed Shares as a return of capital on the basis of one Distributed Share for every • Sierra Shares held. Fractional interests in the Distributed Shares will not be issued. Where a Qualified Holder would otherwise be entitled to a fractional Distributed Share, the number of Distributed Shares distributed will be rounded down to the nearest
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whole number. All Shares held by Sierra will be distributed, with the result that, following the Distribution, Sierra will not own any securities of the Corporation. The Distributed Shares will be deemed to have been distributed, and the person or persons to whom such Distributed Shares are to be distributed will be deemed to have become the holder or holders of record thereof, on the Distribution Record Date.

Neither Sierra nor the Corporation will receive any proceeds as a result of the Distribution. See “*Plan of Distribution*”.

Certain Sierra Shareholders may not be eligible to receive Distributed Shares. Sierra has made arrangements for the sale of such securities and the remittance to such holders of the net proceeds realized on such sale, if any. See “*Plan of Distribution – Ineligible Holders – Sale of Distributed Shares and Rights on Behalf of Ineligible Holders*”.

Distribution Record Date 4:59 p.m. (Toronto time) on ●, 2017

Certain Canadian Federal Income Tax Considerations Assuming that the fair market value of the Distributed Shares does not exceed the paid-up capital of the relevant Sierra Shares and that the other assumptions set out in “*Certain Canadian Federal Income Tax Considerations*” are correct, the distribution of the Distributed Shares should be a non-taxable return of capital for Canadian income tax purposes. Sierra Shareholders will be required to reduce the adjusted cost base of their Sierra Shares by an amount equal to the fair market value of the Distributed Shares distributed to or for their benefit. Sierra Shareholders who are non-residents of Canada for the purposes of the Tax Act should not be subject to a withholding tax under Part XIII of the Tax Act.

### **The Rights Offering**

Distribution of Rights Immediately after giving effect to the Distribution, the Corporation will distribute Rights to subscribe for up to an aggregate of ● Shares on the basis of ● Rights for each Distributed Share held at 5:00 p.m. (Toronto time) on the Rights Offering Record Date. Each Right will entitle the holder thereof to subscribe for one Share at the Subscription Price from the Commencement Date (as defined herein) to the Rights Expiry Time. Certain Sierra Shareholders may not be eligible to receive Rights. The Corporation has made arrangements for the sale of such Rights and the remittance to such shareholders of the net proceeds realized from such sale, if any. See “*Plan of Distribution*”.

Rights Offering Record Date 5:00 p.m. (Toronto time) on ●, 2017

Commencement Date On or around ●, 2017

Rights Expiry Time on Rights Expiry Date 5:00 p.m. (Toronto time) on ●, 2017. Rights not exercised on or before this time will expire, be void and have no value to the holder thereof and the Shares underlying such unexercised Rights will be taken up by the Standby Purchasers pursuant to the terms of the Standby Agreement.

Subscription Price The Subscription Price for Shares subscribed for upon the exercise of the Rights will be \$● per Share.

Maximum Securities Issuable Following the exercise of the Rights pursuant to the Basic Subscription Privilege (as defined herein) and Additional Subscription Privilege and the purchase of Unsubscribed Shares pursuant to the Standby Commitment, the maximum number of Shares to be issued (pursuant to the Rights Offering) will be ● Shares.

Gross Proceeds Approximately \$● following the exercise of Rights pursuant to the Basic Subscription

	Privilege, Additional Subscription Privilege and the purchase of Unsubscribed Shares pursuant to the Standby Commitment and before deduction of estimated expenses.
Use of Proceeds	Proceeds from the Rights Offering will be used primarily to fund Phases I and II of the Work Program and for general working capital purposes. See <i>“Use of Proceeds”</i> .
Basic Subscription Privilege	Every one whole Right entitles the holder thereof to subscribe for one Share upon payment of the Subscription Price. No fractional Shares will be issued. See <i>“Plan of Distribution – Exercise and Transfer of Rights”</i> .
Additional Subscription Privilege	Holders who fully exercise their Basic Subscription Privilege will be entitled to subscribe for Additional Shares, if any, not otherwise purchased pursuant to the Basic Subscription Privilege. See <i>“Plan of Distribution – Exercise and Transfer of Rights”</i> .
Standby Commitment	Under the Standby Agreement, the Standby Purchasers have agreed, severally and subject to the Standby Purchaser Conditions (as defined herein), that each of the Standby Purchasers will purchase its respective percentage of the Unsubscribed Shares as set forth in the Standby Agreement. Pursuant to the Standby Agreement, each Standby Purchaser has irrevocably agreed to exercise the Initial Purchaser Rights and the Standby Purchasers will have, prior to the time of filing of the Final Prospectus, deposited with Computershare an aggregate sum of \$● representing the aggregate Subscription Price for such Rights. Each Standby Purchaser may terminate the Standby Agreement (other than the obligation to exercise the Initial Purchaser Rights) under certain circumstances. For more details on the Standby Commitment see <i>“Plan of Distribution – Standby Commitment”</i> .

#### **Listing on the CSE**

The Corporation has applied to list the Issued Securities on the CSE. Listing will be subject to the Corporation fulfilling all of the listing requirements of the CSE.

#### **Sale of Distributed Shares and Rights on Behalf of Ineligible Holders**

Sierra has made arrangements to have the Ineligible Securities (as defined herein) issued to Computershare as custodian for the Ineligible Holders and has further arranged for the sale of such securities, and the net cash proceeds thereof, if any, to be distributed by Computershare to the Ineligible Holders on whose behalf such Ineligible Securities were issued. See *“Plan of Distribution – Ineligible Holders – Sale of Distributed Shares and Rights on Behalf of Ineligible Holders”*.

Ineligible Holders should be aware that the distribution or disposition of the Ineligible Securities and payment of the net proceeds thereof, if any, may have tax consequences in the jurisdiction in which they reside which are not described in this Prospectus. Such holders should consult their own legal, financial, tax or other professional advisors about the specific tax consequences of the distribution or disposition by Computershare of the Ineligible Securities and payment of the net proceeds

#### **Risk Factors**

An investment in the securities of the Corporation is subject to a number of risks, including:

- the Corporation’s activities in Peru can be significantly affected by changes in policies and attitudes respecting the development and ownership of mineral resources;
- the Corporation may require additional financing in order to fund its full exploration program and fund the ongoing maintenance costs of the Las Lomas Project, including the annual payments for Minera Ate to maintain its option to acquire the Hans Concessions and any payments associated with the exercise of such option;

- the Corporation will need to devote substantial capital resources to the exploration of its properties and there is no certainty that such expenditures will result in the discovery of commercial quantities of ore;
- the Corporation's long-term viability is dependent on the cost and success of its exploration programs;
- there is no assurance that the Corporation's exploration or development work will be successful;
- mining operations are inherently risky;
- the marketability of any natural resources which may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control;
- the Corporation's obligations are not supported or guaranteed in any way by Sierra and the Corporation will be entirely dependent on its ability to raise funding for its operations. There is no assurance that ongoing funding will be available to the Corporation on acceptable terms, or at all;
- the Corporation's operations are in Peru and so are subject to risks associated with operating in a foreign jurisdiction, including the risk that mining concessions may be susceptible to revision or cancellation by new laws or changes in direction by the government in question;
- the loss of key executives may adversely affect the Corporation's business or prospects; and
- the price of the Corporation's securities may be adversely affected by the Corporation's financial condition and results of its exploration efforts, as well as other factors beyond the Corporation's control including general economic, political and market conditions.

In addition to the above risks, investors should consider the risk factors disclosed elsewhere in the Prospectus. For a more detailed discussion of the risks facing the Corporation and investing in its securities, see "*Risk Factors*".

## GLOSSARY OF TERMS

In this Prospectus, the following terms have the meanings set forth below, unless otherwise indicated

“**Additional Shares**” means the Shares a Qualified Holder of Rights who exercises the Basic Subscription Privilege in full is entitled to subscribe for, as described under the heading “*Plan of Distribution – Exercise and Transfer of Rights – Additional Subscription Privilege*”.

“**Additional Subscription Privilege**” means the right of a Qualified Holder who exercises the Basic Subscription Privilege in full to subscribe for any Additional Shares which are not otherwise subscribed for, as described under the heading “*Plan of Distribution—Exercise and Transfer of Rights – Additional Subscription Privilege*”.

“**allowable capital loss**” has the meaning ascribed thereto under “*Certain Canadian Federal Income Tax Considerations – Resident Holders – Capital Gains and Capital Losses*”.

“**Angolos Concession Royalty**” means the NSR royalty of 2% to which the Angolos concession, being one of the 7 concessions forming part of the Las Lomas Project directly held by San Miguelito, is subject.

“**ARC Funds**” mean, collectively, Arias Resource Capital Fund L.P., Arias Resource Capital Fund II L.P. and Arias Resource Capital Fund II (Mexico) L.P.

“**ARC Nominee**” means an individual designated by the ARC Funds in a nomination letter and who, as reasonably determined by the Board: (i) satisfies the qualification requirements to serve as a director under the OBCA, applicable Canadian securities laws and the rules of any stock exchange on which the Shares are then listed; and (ii) acknowledges and agrees to be bound by the Nomination Rights and Governance Agreement with respect to the obligations of the ARC Nominee. In no event shall an ARC Nominee be a person who has been convicted of an indictable offence or a crime involving moral turpitude or a person who is not acceptable to any stock exchange on which the Shares are then listed or a securities regulatory authority having jurisdiction over the Corporation.

“**ARCM**” means Arias Resource Capital Management LP.

“**Arrangement**” means the plan of arrangement completed under the OBCA on November 14, 2012, pursuant to which Sierra acquired all of the issued and outstanding shares of Plexmar.

“**Audit Committee**” means the Audit Committee of the Board.

“**Basic Subscription Privilege**” means the right of a Qualified Holder of Rights to subscribe for one Share for every Right held by such holder, as described under the heading “*Plan of Distribution – Exercise and Transfer of Rights – Basic Subscription Privilege*”.

“**BIA**” means the *Bankruptcy and Insolvency Act* (Canada).

“**BlackRock**” means BlackRock, Inc., for and on behalf of its investment advisory subsidiaries.

“**Board**” has the meaning ascribed thereto on the face pages hereof.

“**Border Zone**” means the area located within 50 kilometers of any of Peru’s national borders.

“**Business Day**” means a day which is not a Saturday, Sunday or statutory holiday in Toronto, Ontario.

“**Code**” means the Corporation’s Code of Conduct and Ethics.

“**Commencement Date**” means on or around ●, 2017.

“**Computershare**” has the meaning ascribed thereto on the face pages hereof.

“**Corporation**” or “**Cautivo Mining**” means Cautivo Mining Inc., a corporation existing under the laws of the Province of Ontario.

“**Corporation Financial Statements**” has the meaning ascribed thereto under “*About this Prospectus - Financial Information and Accounting Principles*”.

“**CRA**” means the Canada Revenue Agency.

“**CSE**” means the Canadian Securities Exchange.

“**Declaration of Eligibility**” means the form of declaration of eligibility delivered by Sierra to each Sierra Shareholder with an address of record other than in an Eligible Jurisdiction, as described under the heading “*Plan of Distribution – Ineligible Holders – Declaration of Eligibility*”.

“**Depository**” has the meaning ascribed thereto in NI 54-101.

“**DIA**” has the meaning ascribed thereto under “*Use of Proceeds – Business Objectives and Milestones*”.

“**Directors Election Meeting**” means a meeting of shareholders of the Corporation at which directors of the Corporation are to be elected.

“**Distributed Shares**” has the meaning ascribed thereto on the face pages hereof.

“**Distribution**” has the meaning ascribed thereto on the face pages hereof.

“**Distribution Record Date**” has the meaning ascribed thereto on the face pages hereof.

“**Eligibility Deadline**” means ●, 2017, being the cut-off date established by Sierra after which Computershare stops processing Declarations of Eligibility and other requested information from registered and beneficial Sierra Shareholders who wished to receive the Issued Securities.

“**Eligible Jurisdictions**” means each of the provinces and territories of Canada, other than Québec, and any other jurisdiction in which Sierra has determined the distribution may lawfully be made under the applicable securities and other laws of such jurisdiction and which exempt Sierra and the Corporation from or do not generally require Sierra and the Corporation to seek registration or to file a prospectus, registration statement or other comparable filing or subject Sierra or the Corporation to ongoing filing or disclosure requirements in such jurisdiction.

“**Escrow Agreement**” means the escrow agreement to be entered into between each Principal of the Corporation and Computershare, as escrow agent.

“**Final Prospectus**” means the final long form prospectus of the Corporation in connection with the offer and sale of the Issued Securities.

“**Financial Statements**” has the meaning ascribed thereto under “*About this Prospectus – Financial Information and Accounting Principles*”.

“**Group**” means the Corporation and its subsidiaries.

“**ha**” means hectares.

“**Hans Assignment Agreement**” means the agreement between San Miguelito and Minera Ate pursuant to which Minera Ate has assigned to San Miguelito all of Minera Ate’s rights and obligations under the Hans Option Agreement (subject to the receipt of the required Supreme Decree and subject to the Hans Royalty) in exchange for:

(i) San Miguelito assuming all of Minera Ate's obligations under the Hans Option Agreement; and (ii) the payment by San Miguelito to Minera Ate of the sum of US\$106,000 upon the receipt of the required Supreme Decree.

“**Hans Concessions**” means the three concessions (Hans X, Hans XX and Hans XXX) forming part of the Las Lomas Project which may be acquired by Minera Ate pursuant to the Hans Option Agreement, which agreement has been assigned by Minera Ate to San Miguelito pursuant to the Hans Assignment Agreement (subject to the receipt of the required Supreme Decree and subject to the Hans Royalty), and “**Hans Concession**” means any one of them.

“**Hans Option Agreement**” means the option agreement between Minera Ate and the titleholder of the Hans Concessions, Minera Leona de Oro S.A.C.

“**Hans Royalty**” means the NSR royalty of 1.7% on the Hans Concessions, up to a maximum of US\$500,000 per Hans Concession, to which such concessions are subject.

“**Holder**” has the meaning ascribed thereto under “*Certain Canadian Federal Income Tax Considerations*”.

“**IASB**” means the International Accounting Standards Board.

“**IFRS**” means International Financial Reporting Standards.

“**Ineligible Distributed Shares**” means the Distributed Shares issued to Computershare to be held on behalf of Ineligible Holders.

“**Ineligible Holder**” means any registered or beneficial holder of Sierra Shares who appears to be, or who Sierra or the Corporation has reason to believe, is resident in or otherwise subject to the laws of a jurisdiction other than an Eligible Jurisdiction and who is not recognized by Sierra and the Corporation to be a Qualified Holder.

“**Ineligible Jurisdictions**” has the meaning ascribed thereto on the face pages hereof.

“**Ineligible Rights**” means the Rights issued to Computershare to be held on behalf of Ineligible Holders.

“**Ineligible Securities**” means the Ineligible Distributed Shares and the Ineligible Rights.

“**Initial Purchaser Rights**” has the meaning ascribed thereto on the face pages hereof.

“**IPO**” means an initial public offering.

“**Issued Securities**” has the meaning ascribed thereto on the face pages hereof.

“**Las Lomas Project**” or “**Project**” means the Corporation's interest in and to the Las Lomas Project located in the Department of Piura in northern Peru, near the Ecuador border, on the west side of the Andes Cordillera and consisting of 44 mining concessions totaling 31,635 ha.

“**Listing Date**” means the date of listing of the Shares on the CSE.

“**Loans**” means, collectively, the advances made by Sierra to Plexmar and its subsidiaries in the aggregate amount of approximately US\$4.8 million.

“**Malaspina**” means Malaspina Consultants Inc.

“**Managing Dealer**” means Dundee Capital Partners.

“**Managing Dealer Agreement**” has the meaning ascribed thereto under “*Plan of Distribution – Managing Dealer Agreement*”.

“**Managing Dealer Fee**” has the meaning ascribed thereto on the face pages hereof.

“**Mercator**” means Mercator Minerals Ltd.

“**Minera Ate**” means Minera Ate S.A.C.

“**Minera Ate Option Agreement**” means the option agreement between San Miguelito and Minera Ate in respect of 26 concessions comprising, in part, the Las Lomas Project.

“**Named Executive Officers**” has the meaning ascribed thereto under “*Executive Compensation*”.

“**NGO**” means a non-governmental organization.

“**NI 43-101**” means National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*.

“**NI 52-110**” National Instrument 52-110 – *Audit Committees*.

“**NI 54-101**” means National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer*.

“**NI 58-101**” means National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

“**Nomination Rights and Governance Agreement**” means the investor nomination rights and governance agreement entered into among the ARC Funds and the Corporation on ●, 2017.

“**Non-Resident Directors and Officers**” has the meaning ascribed thereto on the face pages hereof.

“**Non-Resident Holders**” has the meaning ascribed thereto under “*Certain Canadian Federal Income Tax Considerations – Non-Resident Holders*”.

“**NP 46-201**” means National Policy 46-201 – *Escrow for Initial Public Offerings*.

“**NSR**” means net smelter return.

“**OBCA**” means the *Business Corporations Act* (Ontario).

“**order**” has the meaning ascribed thereto under “*Directors and Executive Officers – Cease Trade Orders, Bankruptcies, Penalties or Sanctions*”.

“**OSC**” means the Ontario Securities Commission.

“**Participant**” means a participant in a depository as defined in NI 54-101.

“**Pending Concessions**” has the meaning ascribed thereto under “*Business of the Corporation – Las Lomas Project*”.

“**Pending Concessions Option Agreement**” means the option agreement between San Miguelito and Minera Ate, pursuant to which San Miguelito has the option to acquire from Minera Ate the Pending Concessions (if and when such concessions are registered to Minera Ate and subject to the receipt of the required Supreme Decree) in exchange for the payment of US\$180,000.

“**Plexmar**” means Plexmar Resources Inc., a corporation existing under the laws of the Province of Ontario.

“**Plexmar Annual Financial Statements**” has the meaning ascribed thereto under “*About this Prospectus – Financial Information and Accounting Principles*”.



“**Plexmar Interim Financial Statements**” has the meaning ascribed thereto under “*About this Prospectus – Financial Information and Accounting Principles*”.

“**Policies**” means, collectively, the Corporation’s Disclosure Policy and Insider Trading Policy.

“**Principal**” has the meaning ascribed thereto under “*Escrowed Shares*”.

“**Pro Forma Financial Statements**” has the meaning ascribed thereto under “*About this Prospectus – Financial Information and Accounting Principles*”.

“**Proposed Amendments**” means all specific proposals to amend the Tax Act and the Regulations which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof.

“**Prospectus**” has the meaning ascribed thereto on the face pages hereof.

“**PUC**” means paid-up capital, as defined in the Tax Act.

“**Qualified Holder**” means a holder of Sierra Shares who (i) is resident in an Eligible Jurisdiction or (ii) is resident in or otherwise subject to the laws of a jurisdiction other than an Eligible Jurisdiction and who has satisfied Sierra and the Corporation that the distribution of Issued Securities to such holder may lawfully be made under the applicable securities and other laws of the jurisdiction in which such holder resides or to which such holder is subject, and will not require Sierra or the Corporation to comply with any disclosure requirements that may otherwise apply to Sierra and the Corporation in such jurisdiction.

“**Registered Plan**” means a trust governed by an RRSP, an RRIF, a registered disability savings plan, a registered education savings plan, a deferred profit sharing plan or a TFSA, all as defined under the Tax Act.

“**Registration Requirements**” means requirements under applicable securities and other laws in a particular jurisdiction to: (i) seek registration or to file a prospectus, registration statement or other comparable filing; (ii) comply with ongoing filing or disclosure requirements; and/or (iii) seek any approvals of any kind whatsoever, in such jurisdiction.

“**Regulations**” means the regulations under the Tax Act.

“**Reorganization**” means the transfer by Sierra to the Corporation, immediately prior to the Distribution Record Date, of all of the outstanding shares of Plexmar and the Loans in exchange for ● Shares.

“**Right**” has the meaning ascribed thereto on the face pages hereof.

“**Rights Certificate**” means a certificate representing the total number of Rights that each such holder is entitled to receive.

“**Rights Expiry Date**” has the meaning ascribed thereto on the face pages hereof.

“**Rights Expiry Time**” has the meaning ascribed thereto on the face pages hereof.

“**Rights Offering**” has the meaning ascribed thereto on the face pages hereof.

“**Rights Offering Record Date**” has the meaning ascribed thereto on the face pages hereof.

“**RRIF**” means a trust governed by a “registered retirement income fund”, as defined in the Tax Act.

“**RRSP**” means a trust governed by a “registered retirement savings plan”, as defined in the Tax Act.

“**San Miguelito**” means Sociedad Minera San Miguelito S.A.C., a corporation existing under the laws of Peru.

“SEC” means the U.S. Securities and Exchange Commission.

“Selling Agent” means such selling agent as may be designated by Computershare, Sierra and the Corporation.

“Share” has the meaning ascribed thereto on the face pages hereof.

“Sierra” means Sierra Metals Inc., a corporation existing under the federal laws of Canada.

“Sierra Management Cease Trade Orders” has the meaning ascribed thereto under the heading “*Directors and Executive Officers – Cease Trade Orders, Bankruptcies, Penalties or Sanctions*”.

“Sierra Shareholder” means a holder of Sierra Shares on the Distribution Record Date.

“Sierra Shares” has the meaning ascribed thereto on the face pages hereof.

“SRK” means SRK Consulting (U.S.), Inc.

“Standby Agreement” has the meaning ascribed thereto on the face pages hereof.

“Standby Commitment” means the commitment by each Standby Purchaser, subject to the Standby Purchaser Conditions and other customary conditions, to purchase from the Corporation its respective percentage of all Unsubscribed Shares as set forth in the Standby Agreement at the Subscription Price.

“Standby Purchaser Conditions” has the meaning ascribed thereto under the heading “*Plan of Distribution – Standby Commitment*”.

“Standby Purchasers” means Arias Resource Capital Fund II L.P. and Arias Resource Capital Fund II (Mexico) L.P.

“Subscription Offices” has the meaning ascribed thereto on the face pages hereof.

“Subscription Price” has the meaning ascribed thereto on the face pages hereof.

“Tax Act” has the meaning ascribed thereto on the face pages hereof.

“taxable capital gain” has the meaning ascribed thereto under “*Certain Canadian Federal Income Tax Considerations – Resident Holders – The Distribution*”.

“Technical Report” means the technical report titled “NI 43-101 Technical Report, Las Lomas Project, Department of Piura, Peru” dated and with an effective date of January 10, 2017 prepared by Giovanni J. Ortiz, BSc Geology, FAusIMM of SRK, Associate Geologist (Resource Geology).

“TFSA” means a “tax free savings account”, as defined in the Tax Act.

“Treaty” has the meaning ascribed thereto under “*Certain Canadian Federal Income Tax Considerations – Non-Resident Holders – Dividends*”.

“TSX” means the Toronto Stock Exchange.

“U.S.” or “United States” has the meaning ascribed thereto on the face pages hereof.

“U.S. Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“U.S. Holder” has the meaning ascribed thereto under “*Certain Canadian Federal Income Tax Considerations – Non-Resident Holders – Dividends*”.

“U.S. Securities Act” has the meaning ascribed thereto on the face pages hereof.

“Unsubscribed Shares” has the meaning ascribed thereto on the face pages hereof.

“VAT” means value added tax.

“Work Program” has the meaning ascribed thereto under “*Business of the Corporation – General Description of the Business*”.

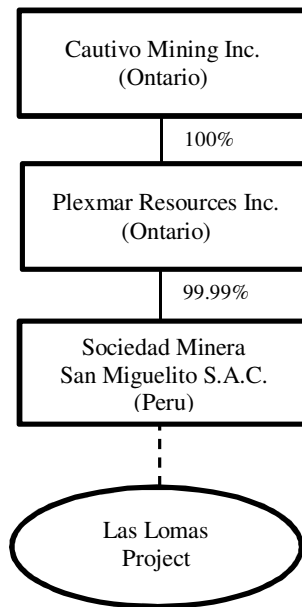
## CORPORATE STRUCTURE

### Name, Address and Incorporation

The Corporation was incorporated under the OBCA on December 6, 2016. The Corporation’s registered office address is 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 and its head office is located at Av. Primavera 1796, Office 702, Santiago de Surco, Lima, Peru.

### Intercorporate Relationships

All of the outstanding Shares are currently beneficially owned by Sierra. The Corporation does not currently have any subsidiaries. The following chart sets out the corporate structure of the Corporation and its material subsidiaries after giving effect to the Distribution.



## **REORGANIZATION**

The Corporation was incorporated by Sierra on December 6, 2016 for the purpose of completing the Distribution and the Rights Offering. Sierra acquired all of the outstanding shares of Plexmar pursuant to the Arrangement on November 14, 2012 and has made the Loans. Immediately prior to the Distribution Record Date, Sierra will effect the Reorganization pursuant to which it will transfer to the Corporation all of the outstanding shares of Plexmar and the Loans in exchange for • Shares. The result of the Reorganization will be that the Corporation will be a wholly-owned subsidiary of Sierra (until the completion of the Distribution), Plexmar will be a wholly-owned subsidiary of the Corporation and the Loans will be held by the Corporation rather than by Sierra. Unless otherwise indicated, the disclosure in this Prospectus assumes that the Reorganization has been completed.

## **REDUCTION OF STATED CAPITAL**

In connection with the Distribution, Sierra intends to effect a reduction in the stated capital of the Sierra Shares in an amount equal to the aggregate fair market value of the Distributed Shares. Such a reduction will require the approval of the shareholders of Sierra. Accordingly, a meeting of the shareholders of Sierra has been called for 10:00 a.m. (Toronto time) on February 16, 2017 for the purpose of considering a special resolution to approve the stated capital reduction. The completion of the Distribution and the Rights Offering is conditional on at least two-thirds of the votes cast by shareholders of Sierra at such meeting being in favour of the stated capital reduction.

## **BUSINESS OF THE CORPORATION**

### **General Description of the Business**

The Corporation is an exploration company focused on acquiring, exploring and, if warranted, developing gold, silver, copper, zinc and lead mineral properties. Following completion of the Reorganization, the Las Lomas Project will comprise the main asset of the Corporation.

The Corporation's objective is to develop into a producing junior mining company through further exploration in the Corporation's prospective areas of interest in Peru and, if warranted, the successful development and operation of the Las Lomas Project. Towards this end, assuming successful completion of the Reorganization, the Corporation intends to undertake the two phase exploration program to improve its understanding of the economic mineral potential of the Las Lomas Project (the "**Work Program**") recommended in the Technical Report. If the results of the Work Program merit further exploration, the Corporation may commence further exploration programs. Such further exploration activities may require additional capital and there is no assurance that the Corporation will be able to raise such funds. See "*Risk Factors*".

### *Specialized Skill and Knowledge*

Most aspects of the Corporation's business will require specialized skills and knowledge. Such skills and knowledge include the areas of geology, mining, metallurgy, engineering, environmental issues, permitting, social issues, and accounting. The Corporation believes that it currently has adequate employees with experience in these specialized areas to meet its immediate needs.

### *Competitive Conditions*

The mining and exploration industry is competitive in all aspects. The Corporation will compete with other mining companies, many of whom have greater financial resources, operational experience or technical capabilities than the Corporation, in connection with the acquisition of properties capable of producing precious or base metals. In addition, the Corporation will also compete for the recruitment and retention of qualified employees and consultants.

### Changes to Contracts

The Corporation does not anticipate that its business will be materially affected in the current financial year by the renegotiation or termination of any contracts or sub-contracts.

### Environmental Protection

The Corporation is currently in material compliance with all applicable environmental regulations applicable to its exploration activities.

### Employees

As at the date hereof, the Corporation has two full-time employees in Peru, being its Chief Executive Officer and Chief Operating Officer. The services of the Corporation's Chief Financial Officer are provided pursuant to a consulting agreement with Malaspina, of which the Chief Financial Officer is an employee.

### Foreign Operations

The Corporation's resource properties are located in Peru which has a stable government and sound macro-economic policies.

### **Las Lomas Project**

Following completion of the Reorganization, the Las Lomas Project will comprise the main asset of the Corporation. The Las Lomas Project consists of 44 mining concessions totaling 31,635 ha, located in the Department of Piura in northern Peru, near the Ecuador border. Under Article 71 of the Peruvian Constitution, foreign individuals (including Peruvian-domiciled companies owned ultimately by overseas investors) must obtain permission from the President of the Republic and the Board of Ministers, in the form of a Supreme Decree, in order to hold any type of concession over property located within the Border Zone. All of the concessions comprising the Las Lomas Project are within the Border Zone.

Plexmar, through its Peruvian subsidiary, San Miguelito, has a 100% interest in respect of 7 concessions of the Las Lomas Project, subject to the Angolos Concession Royalty, for which the required Supreme Decree has been obtained. As a corporation ultimately controlled by foreign individuals, San Miguelito is prohibited under Peruvian law from holding (directly or indirectly) any type of concession in the Border Zone until the required Supreme Decree has been obtained. Accordingly, certain other concessions forming part of the Las Lomas Project are held by Minera Ate, which has, in turn, granted San Miguelito the right to acquire such properties in the future as further described below. Minera Ate is a Peruvian corporation owned by two Peruvian nationals.

Minera Ate has direct mining rights in respect of 26 concessions of the Las Lomas Project. Pursuant to the Minera Ate Option Agreement, San Miguelito has the right, upon the receipt of the required Supreme Decree, to acquire all of the 26 concessions currently held by Minera Ate in exchange for the payment of US\$1.8 million. Application has been made to receive the Supreme Decree for these concessions but such approval has not yet been received.

Minera Ate has the right to acquire a 100% interest in the Hans Concessions, subject to the Hans Royalty, pursuant to the Hans Option Agreement, which agreement has been assigned to San Miguelito under the Hans Assignment Agreement (subject to the receipt of the required Supreme Decree and subject to the Hans Royalty) in exchange for: (i) San Miguelito assuming all of Minera Ate's obligations under the Hans Option Agreement; and (ii) the payment by San Miguelito to Minera Ate of the sum of US\$106,000 upon the receipt of the required Supreme Decree. The Hans Option Agreement is described below under the heading "*Summary of Technical Report – Royalties, Agreements and Encumbrances – Option Contract – Minera Leona de Oro Concessions*".

The remaining 8 concessions forming part of the Las Lomas Project (the "**Pending Concessions**") have been awarded to Minera Ate but are in the process of being formally granted by the government. Pursuant to the Pending Concessions Option Agreement, San Miguelito has the right to acquire from Minera Ate the Pending Concessions (if

and when such concessions are registered to Minera Ate and subject to the receipt of the required Supreme Decree) in exchange for the payment of US\$180,000.

It is expected that San Miguelito will make advances to Minera Ate from time to time to fund the activities of Minera Ate in respect of all of the 26 concessions currently held by Minera Ate, the Hans Concessions and the Pending Concessions. Accordingly, it is expected that the price payable by San Miguelito to acquire each of the 26 concessions currently held by Minera Ate, the Hans Concessions and the Pending Concessions will be satisfied through a full or partial reduction of amounts paid by San Miguelito in respect of these concessions. As at the date hereof, San Miguelito has made advances to Minera Ate in the aggregate amount of US\$1.8 million.

## SUMMARY OF TECHNICAL REPORT

The following summary of the Technical Report has been approved by, and included herein with the consent of, Giovanni J. Ortiz, BSc Geology, FAusIMM of SRK, a “qualified person” within the meaning of NI 43-101. All terms used in this section, but not otherwise defined, have the meanings ascribed thereto in the Technical Report.

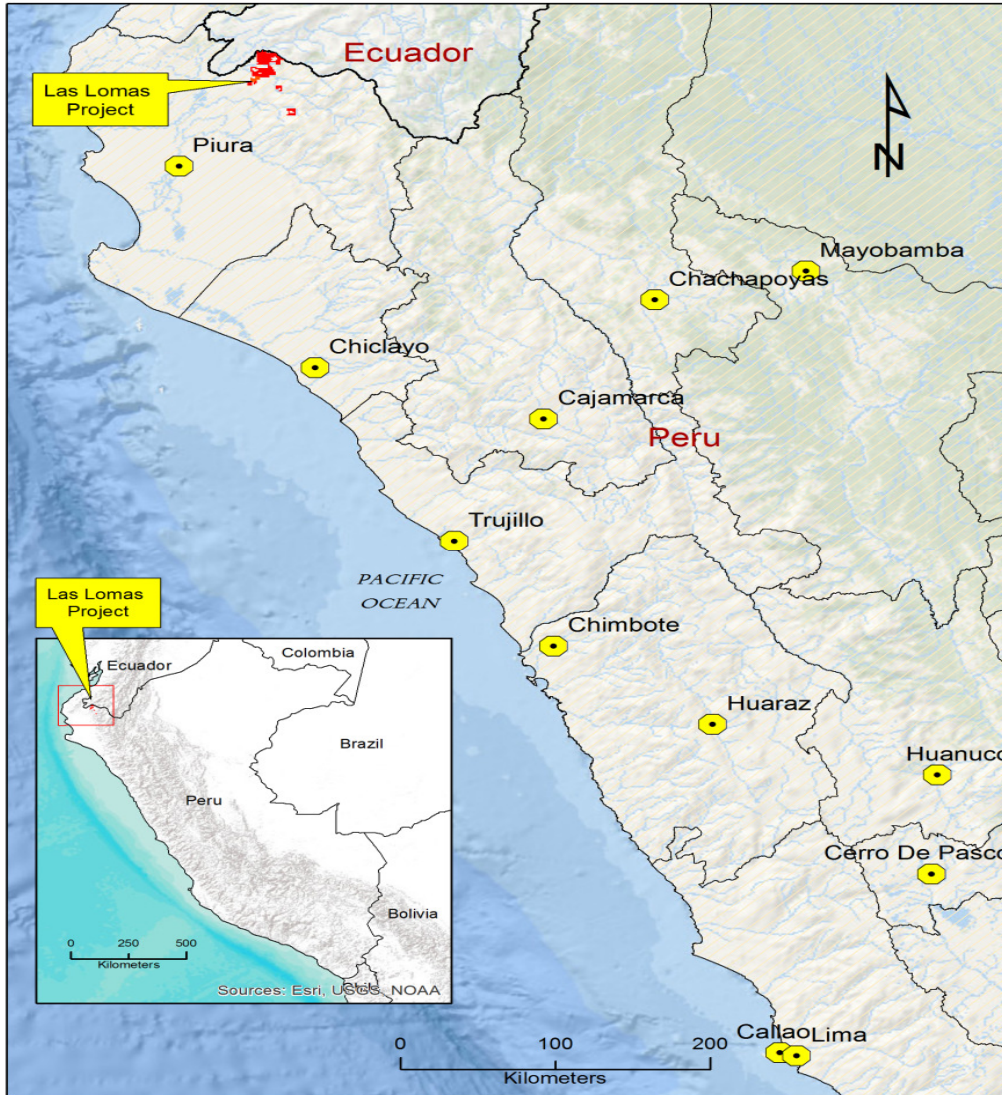
Portions of the following information are based on assumptions, qualifications and procedures which are set out only in the full Technical Report. For a complete description of the assumptions, qualifications and procedures associated with the following information, reference should be made to the full text of the Technical Report, a copy of which is available on the Corporation’s SEDAR profile at [www.sedar.com](http://www.sedar.com). **The contents of this Prospectus are qualified in their entirety by the Technical Report.**

### Project Description and Location

#### *Property Location*

The Las Lomas Project consists of 44 mining concessions totaling 31,635 ha, located in the Department of Piura in northern Peru, near the Ecuador border, on the west side of the Andes Cordillera. Utilizing the WGS-84 datum, the property is roughly centred on 4°34’48” south latitude, 80°06’32” west longitude or UTM Projection PSAD56, Zone 17 Southern Hemisphere, 601,470 E and 9,497,760 N. The mining concessions are located some 90 km NE of Piura city and 900 km NNW of Lima (Figure 1).

**Figure 1: Location Map**



### ***Mineral Titles***

#### *Legal Framework*

The General Law of Mining (Texto Único Ordenado de la Ley General de Minería, Decreto Supremo #014-92-EM) and its regulations govern the mining activity in Peru. The Ministry of Energy and Mines (MEM) is the government entity commissioned to manage the energy and mining industry. The law establishes that the mineral resources belong to the state and are inalienable and imprescriptible.

To obtain a concession, an application (petitorio) must be presented to the Instituto Geológico Minero y Metalúrgico de Peru (INGEMMET) according to the procedures and requirements regulated in the General Law of Mining. The petitorio specifies the polygon location of the application in UTM coordinates.

The concession can be metallic or non-metallic, and according to the law, the concession grants to the concessionaire the right to explore and exploit the mineral resources conferred within a solid of undefined depth. The concessions are granted in extensions from 100 to 1,000 ha.

The mining concession (Concession) grants to the concessionaire the right to sustainably use the natural resources conferred, according to the conditions and limitations established in the mining title. The Concession can be granted for a fixed term or undefined term, and is irrevocable whilst the entitled comply with the legal obligations. It can be transferred observing the terms of the Concession. The granting, disposition, transfers and the constitution of real rights over the Concession should be registered in the Mining Rights Registry (part of the National System of Public Registry).

The scale of mining is defined according to the concession area or by the capacity of production, as presented in Table 1. Plexmar's concessions are in the General Regime.

**Table 1: Mining Scales According to the Mining Legislation of Peru**

Scale	Area (ha)	Production Capacity (Metric t/d)	Competent Statal Entities
Large Scale Mining (General Regime)	>= 2,000	>= 350	Ministry of Energy and Mines Organism of Environmental Evaluation and Monitoring (OEFA) The Supervisory Organism of Investment in Energy and Mines (OSINERGMIN)
Small Mining Producer <sup>(1)</sup>	Metallic: < 2,000 Non Metallic: No limit	Metallic: < 350 Non Metallic: Up to 1,200	Regional Government
Artisanal Mining Producer <sup>(2)</sup>	Metallic: < 1,000 Non Metallic: No limit	Metallic: < 25 Non Metallic: <100	Regional Government

(1) Placer Deposit – up to 3,000 m<sup>3</sup> /day

(2) Placer Deposit – up to 200 m<sup>3</sup> /day

The mining concession is granted through a title resolution issued by the National Institute of Concessions and Mining Registry (Instituto Nacional de Concesiones y Catastro Minero, INACC).

Concessions are awarded to a person or legal person who applies first. If the petition is made over an area that has become open for staking due to a previously existing concession lapsing, all parties submitting petitions on the first day are permitted to bid for the concession in an auction (remate), with the concession being awarded to the highest bidder. Foreign companies can apply for a concession through a Peruvian subsidiary.

The Las Lomas Project lies within the Frontier Border Zone (50 km) between Peru and Ecuador. Under Article 71 of the Peruvian Constitution, foreign individuals (including Peruvian-domiciled companies owned ultimately by overseas investors) must obtain permission from the President of the Republic and the Board of Ministers, in the form of a Supreme Decree, in order to hold any type of concession over property located within the Border Zone.

To maintain the mining rights over a concession, the holder should pay the yearly validity right as presented in Table 2. The mining concessions have no expiration dates and are active if the validity right payments are made to the government and if the annual minimum production amount is US\$100/yr/ha. If the holder cannot demonstrate mining production or the minimum established investments, a penalty should be paid after the sixth year according to the parameters presented in Table 2.

**Table 2: Validity Right and Penalties defined to Maintain Mining Rights**

Mining Scale	Yearly Validity Right (US\$/yr/ha)	Penalty - From 7th Year (US\$/yr/ha)	Penalty - From 12th Year (US\$/yr/ha)
Large Scale Mining (General Regime)	3.00	6.00	20.00
Small Mining Producer	1.00	1.00	5.00
Artisanal Mining Producer	0.50	0.50	3.00



The causes for cancelling the mining rights are non-payment of the validity right for two consecutive years; failure to provide proof of minimum production ending the fifteenth year (five years prorogue can be requested for force majeure); or with a penalty payment and proving minimum yearly investments of ten times the penalty.

### *Mining Concessions*

The 44 mining concessions that comprise the Las Lomas Project are in Piura and their status are presented in Table 3. Figure 2 presents the location map of the concessions of the Las Lomas Project.

**Table 3: Las Lomas Mining Concessions Status**

#	Code	Concession Name	Hectares	Entitled To	Title Resolution Date	Campesino Community	Status
1	010014605	CAUTIVITO I	900.0000	Minera Ate S.A.C.	28/03/2005	San Sebastián	Titled
2	010014505	CAUTIVITO II	800.0000	Minera Ate S.A.C.	28/03/2005	San Sebastián	Titled
3	010014705	CAUTIVITO III	900.0000	Minera Ate S.A.C.	28/03/2005	San Sebastián	Titled
4	010014305	CAUTIVITO IV	1,000.0000	Minera Ate S.A.C.	28/03/2005	Pampa Larga	Titled
5	010014405	CAUTIVITO V	700.0000	Minera Ate S.A.C.	28/03/2005	Pampa Larga	Titled
6	010014205	CAUTIVITO VI	1,000.0000	Minera Ate S.A.C.	28/03/2005	Pampa Larga	Titled
7	010026805	CAUTIVITO IX	800.0000	Minera Ate S.A.C.	28/03/2005	Sapillica	Titled
8	010026905	CAUTIVITO X	700.0000	Minera Ate S.A.C.	28/03/2005	Sapillica	Titled
9	010086905	CAUTIVITO DE AYABACA I	900.0000	Minera Ate S.A.C.	06/09/2005	Pampa Larga	Titled
10	010087005	CAUTIVITO DE AYABACA II	1,000.0000	Minera Ate S.A.C.	13/06/2005	Pampa Larga	Titled
11	010085505	CAUTIVITO DE AYABACA III	1,000.0000	Minera Ate S.A.C.	13/06/2005	Pampa Larga	Titled
12	010085605	CAUTIVITO DE AYABACA IV	1,000.0000	Minera Ate S.A.C.	13/06/2005	Pampa Larga	Titled
13	010085405	CAUTIVITO DE AYABACA V	1,000.0000	Minera Ate S.A.C.	25/05/2005	Pampa Larga	Titled
14	010085305	CAUTIVITO DE AYABACA VI	1,000.0000	Minera Ate S.A.C.	25/05/2005	Pampa Larga	Titled
15	010085205	CAUTIVITO DE AYABACA VII	1,000.0000	Minera Ate S.A.C.	13/06/2005	Pampa Larga	Titled

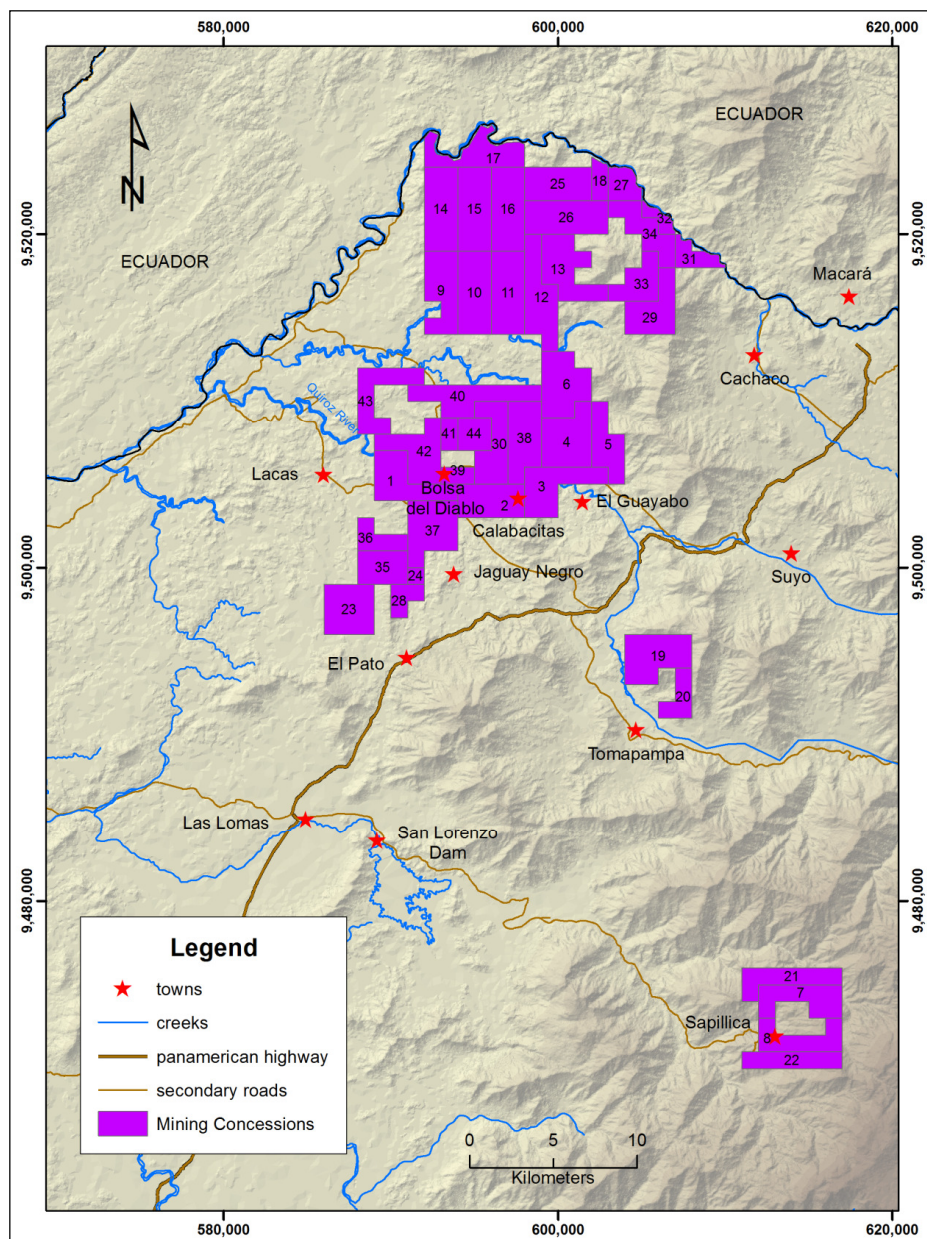
#	Code	Concession Name	Hectares	Entitled To	Title Resolution Date	Campesino Community	Status
16	010085105	CAUTIVITO DE AYABACA VIII	1,000.0000	Minera Ate S.A.C.	07/06/2005	Pampa Larga	Titled
17	010085005	CAUTIVITO DE AYABACA IX	841.6468	Minera Ate S.A.C.	15/06/2005	Pampa Larga	Titled
18	010084905	CAUTIVITO DE AYABACA X	233.9393	Minera Ate S.A.C.	27/09/2005	Pampa Larga	Titled
19	010289006	ALMIRANTE MIGUEL GRAU V	916.8622	Minera Ate S.A.C.	12/10/2006	Ramón Castilla	Titled
20	010289106	ALMIRANTE MIGUEL GRAU VI	399.3321	Minera Ate S.A.C.	06/10/2006	Ramón Castilla	Titled
21	010289406	ALMIRANTE MIGUEL GRAU VII	700.0000	Minera Ate S.A.C.	23/10/2006	Sapillica	Titled
22	010289506	ALMIRANTE MIGUEL GRAU VIII	600.0000	Minera Ate S.A.C.	25/10/2006	Sapillica	Titled
23	010059005	CORTEZO I	900.0000	Minera Ate S.A.C.	13/05/2005	San Sebastián	Titled
24	010059105	CORTEZO II	100.0000	Minera Ate S.A.C.	13/05/2005	San Sebastián	Titled
25	010155113	NALU	800.0000	Minera Ate S.A.C.	27/12/2013	Pampa Larga	Titled
26	010155013	PAPATU	1,000.0000	Minera Ate S.A.C.	27/12/2013	Pampa Larga	Titled
27	010100815	EL AHUAR PIURA	347.3687	Minera Ate S.A.C.	-----	Pampa Larga	In Process
28	010101715	CABUYAL 2009 - ATE	300.0000	Minera Ate S.A.C.	-----	San Sebastián	In Process
29	010101815	CACHAQUITO XXI -A	800.0000	Minera Ate S.A.C.	-----	Pampa Larga	In Process
30	010101215	MOLINETES 2004-2014	800.0000	Minera Ate S.A.C.	-----	Pampa Larga	In Process
31	010100615	ROSABELLA DEL NORTE	326.6149	Minera Ate S.A.C.	-----	Pampa Larga	In Process
32	010100715	ROSAFLOR DEL NORTE	169.1864	Minera Ate S.A.C.	-----	Pampa Larga	In Process
33	010101515	ROSALUZ DE ATE	600.0000	Minera Ate S.A.C.	-----	Pampa Larga	In Process
34	010101615	ROSAMARÍA - ATE	700.0000	Minera Ate S.A.C.	-----	Pampa Larga	In Process
35	030015104	HANS X	600.0000	Minera Leona de	04/06/2004	San Sebastián	Titled – Option

#	Code	Concession Name	Hectares	Entitled To	Title Resolution Date	Campesino Community	Status
				Oro			Contract
36	030015704	HANS XX	400.0000	Minera Leona de Oro	10/06/2004	San Sebastián	Titled – Option Contract
37	030021404	HANS XXX	1,000.0000	Minera Leona de Oro	17/08/2004	San Sebastián	Titled – Option Contract
38	010282604	JULIA ELENA PRIMERA	900.0000	Minera San Miguelito S.A.C.	29/11/2004	Pampa Larga	Titled
39	010282504	MANUEL ENRIQUE	200.0000	Minera San Miguelito S.A.C.	29/11/2004	Pampa Larga	Titled
40	010282304	SANTA ROSA DE SUYO	1,000.0000	Minera San Miguelito S.A.C.	06/12/2004	Pampa Larga	Titled
41	010282404	SOFIA DEL CARMEN	200.0000	Minera San Miguelito S.A.C.	30/11/2004	Pampa Larga	Titled
42	010304604	EL ARTESANAL I	900.0000	Minera San Miguelito S.A.C.	06/12/2004	Pampa Larga	Titled
43	010304704	EL ARTESANAL	800.0000	Minera San Miguelito S.A.C.	07/12/2004	Pampa Larga	Titled
44	030018604	ANGOLOS	400.0000	Minera San Miguelito S.A.C.	08/03/2005	Pampa Larga	Titled
			<b>31,634.9699</b>				

41 concessions are collectively held by San Miguelito and Minera Ate. 7 of these concessions are 100% owned by San Miguelito, subject to the Angolos Concession Royalty, and 26 of these concessions are 100% owned by Minera Ate. The additional 8 Pending Concessions forming part of the Las Lomas Project have been awarded to Minera Ate but are in the process of being formally granted by the government. Pursuant to option agreements between San Miguelito and Minera Ate, San Miguelito has the option to acquire from Minera Ate: (i) all of the 26 concessions currently held by Minera Ate (if and when such concessions are authorized by the government to be transferred) in exchange for the payment of US\$1.8 million; and (ii) the Pending Concessions (if and when such concessions are registered to Minera Ate and subject to the receipt of the required Supreme Decree) in exchange for the payment of US\$180,000.

In addition, the Hans Concessions are subject to the Hans Option Agreement described below under the heading “*Summary of Technical Report – Royalties, Agreements and Encumbrances – Option Contract – Minera Leona de Oro Concessions*”. Pursuant to the Hans Assignment Agreement, Minera Ate has assigned to San Miguelito all of Minera Ate’s rights and obligations under the Hans Option Agreement (subject to the receipt of the required Supreme Decree and subject to the Hans Royalty) in exchange for: (i) San Miguelito assuming all of Minera Ate’s obligations under the Hans Option Agreement; and (ii) the payment by San Miguelito to Minera Ate of the sum of US\$106,000 upon the receipt of the required Supreme Decree.

**Figure 2: Land Tenure Map**



Source: SRK, 2016

*Nature and Extent of Issuer's Interest*

Sierra is a Canadian mining company producing precious and base metals from its Yauricocha Mine in Peru, and its Bolivar Mine and Cusi Mine in Mexico. The company is exploring several targets in Peru and Mexico. The Sierra Shares trade on the Lima Stock Exchange (Bolsa de Valores de Lima) and on the TSX under the symbol "SMT".

On December 5 2012, Sierra changed its name from "Dia Bras Exploration Inc." ("**Dia Bras**") to "Sierra Metals Inc.". Previously, in November 2012, Dia Bras had acquired all the outstanding common shares of Plexmar and, consequently, Plexmar was de-listed from the TSX Venture Exchange.

Plexmar’s main asset is San Miguelito. For further details concerning San Miguelito’s interest in the Las Lomas Project, see “*Summary of Technical Report – Project Description and Location – Mineral Titles – Mining Concessions*”.

Since 2013, San Miguelito and Minera Ate have maintained a continuous presence in the Las Lomas Project, keeping good relations with the community, closing a mining rights option contract with Minera Leona de Oro and applying for new mining concessions.

Surface Rights

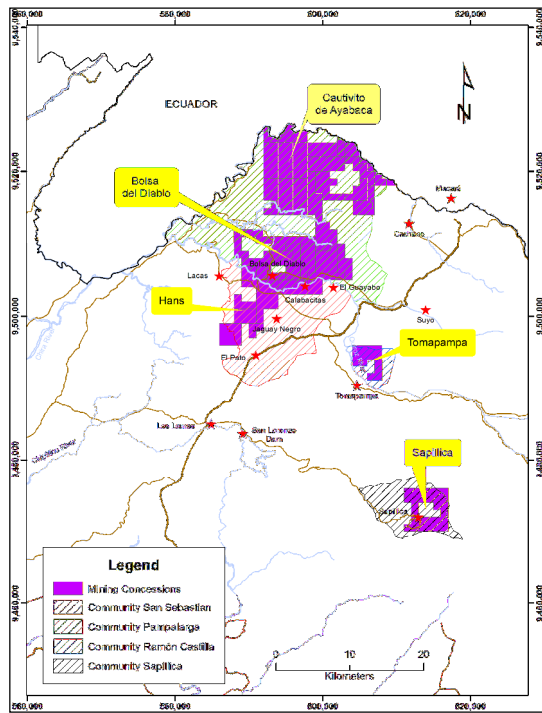
Plexmar has not acquired surface rights in the property area. The surface rights of the property are owned by Campesino Communities (“**Comunidades Campesinas**”). Plexmar, through its Peruvian subsidiary San Miguelito, is keeping continuous dialogue with the communities of the area and is in process of obtaining the necessary agreements to access the property in order to carry out future exploration campaigns.

The Campesino Communities are organizations of public interest, with legal entity status, formed by families that live in and control territories, linked by ancestral, social and cultural aspects expressed by the communal property of the land, communal work and mutual help. Table 4 presents the settled communities in the property area.

**Table 4: Campesino Communities settled in the Las Lomas Project**

Campesino Community	District	Province	Department
Sapillica	Sapillica	Ayabaca	Piura
Ramón Castilla	Paimas		
San Sebastian	Suyo		
Pampa Larga			

**Figure 3: Location of Campesino Communities and the Sierra Concessions**



Source: SRK, 2016

**Royalties, Agreements and Encumbrances**

*Option Contract – Minera Leona de Oro Concessions*

Minera Ate has signed the Hans Option Agreement with Minera Leona de Oro for the transfer of the rights over the Hans Concessions, totaling 2,000 ha located in the San Sebastian Campesino Community, 5 km southwest of Bolsa del Diablo area (Figure 2). Pursuant to the Hans Assignment Agreement, Minera Ate has assigned to San Miguelito all of Minera Ate’s rights and obligations under the Hans Option Agreement (subject to the receipt of the required Supreme Decree and subject to the Hans Royalty) in exchange for: (i) San Miguelito assuming all of Minera Ate’s obligations under the Hans Option Agreement; and (ii) the payment by San Miguelito to Minera Ate of the sum of US\$106,000 upon the receipt of the required Supreme Decree.

The Hans Option Agreement provides for annual payments to maintain the option, a payment to exercise the option and the grant of the Hans Royalty. Table 5 presents the payments agreed to maintain the option.

**Table 5: Annual Payments for Minera de Oro Concessions under the Hans Option Agreement**

Year	Payment Date	Payment by Concession (US\$)		Total (US\$)
1	27/05/2016	Hans X	50,000 <sup>(*)</sup>	150,000
		Hans XX	50,000	
		Hans XXX	50,000	
2	27/05/2017	Hans X	50,000 <sup>(*)</sup>	150,000
		Hans XX	50,000	
		Hans XXX	50,000	
3	27/05/2018	Hans X	50,000 <sup>(*)</sup>	150,000
		Hans XX	50,000	
		Hans XXX	50,000	
4	27/05/2019	Hans X	50,000 <sup>(*)</sup>	150,000
		Hans XX	50,000	
		Hans XXX	50,000	
5	27/05/2020	Hans X	50,000 <sup>(*)</sup>	150,000
		Hans XX	50,000	
		Hans XXX	50,000	
<b>Total</b>				<b>\$750,000</b>

(\*)Payment retained by Minera Ate while the contingency remains outstanding. The contingency associated with the Hans X concession is related to a Validity Right payment that was made in the last hour of the due date. A third party claimed the concession had expired, but the mining authority denied this third party claim and ruled that the payment was valid. The third party subsequently appealed the decision to an administrative tribunal of the mining authority and was once again denied. The third party can now take his claim to the judicial courts. If the third party fails to do so the contingency will be released.

The Hans Option Agreement established an option exercising payment of US\$1,000,000 per mining concession and the Hans Royalty. Table 6 sets out the payments required to maintain and/or exercise the option in full for the Hans Concessions. The option can be exercised any time until May 27, 2020.

**Table 6: Maximum Total Payments for the Mining Rights Transfer – Minera Leona de Oro**

Concept	Payments (US\$)
Option Maintenance	750,000
Option Exercising (Mining Rights Transfer)	3,000,000
NSR of 1.7% (Maximum)	1,500,000
<b>Total</b>	<b>\$5,250,000</b>

### *Angolos Concession Acquisition*

In 2013 San Miguelito finalized the acquisition of 100% of the shares and rights over the Angolos concession, subject to the Angolos Concession Royalty (Table 3, Figure 2). The agreement included the payment of US\$1,025,000 completed over an extended period between 2005 and 2013, and the issue of 600,000 common shares of Plexmar to S.M.R.L Angolos, the previous concession holder, in 2009. Currently Angolos does not hold shares in Plexmar as Sierra acquired 100% of the outstanding shares of Plexmar in 2012 pursuant to the Arrangement.

### ***Environmental Liabilities and Permitting***

#### *Environmental Liabilities*

There are no known environmental liabilities attributable to Plexmar in Las Lomas. SRK notes that the artisanal mining carried out by the Campesino Communities of Sapillica, Pampa Larga and San Sebastian is being performed without control or oversight. Mercury and cyanide are used and likely impact negatively on the water quality, soils, vegetation, fauna and the community members.

#### *Required Permits and Status*

A concession, per se, does not authorize the initiation of exploration or exploitation activities. The concessionaire must obtain the rights over the surface properties or the permit through an agreement (mining servitude), generally temporary, to access the properties. If the negotiation is not favorable, the concessionaire can request to the MEM the imposition of a forced legal servitude over the third party surface property. If the surface rights are owned by the state (terrenos eriazos del estado), the concessionaire must follow the administrative procedures regulated in the General Law of the National Assets (Ley General del Sistema de Bienes Nacionales, Decreto Supremo No 007-2008) to acquire the surface rights or for obtaining a temporary servitude.

The Environmental Regulation for the Mining Exploration Activities (Reglamento Ambiental para las Actividades de Exploración Minera, Decreto Supremo No. 020-2008-EM) defines that the concessionaire should previously have the environmental certification to carry out exploration activities.

If the exploration activity affects the collective rights of indigenous/original groups (recognized by the ILO Convention 169), the concessionaire must pass through the process of Previous Consultation (Proceso de Consulta Previa). Plexmar informed SRK that there are no indigenous or original groups in the area of their concessions in Piura.

#### Mining Servitude

As mentioned under “*Summary of Technical Report – Project Description and Location – Mineral Titles – Nature and Extent of Issuer’s Interest*”, the surface rights in the concession areas are owned by the Campesino Communities. Therefore, Plexmar must negotiate the access to the surface properties with the communities settled in the concession areas.

Since 2013, the geologists of San Miguelito, a subsidiary of Plexmar, have obtained land use permits to execute small exploration campaigns. Recent dialogue with the local communities include the proposal of Plexmar to formalize existing artisanal mining through the exploitation contracts with the miners of the communities. Plexmar expects to obtain the agreements with the communities during the first half of 2017. The map in Figure 3 shows the location of the Campesino Communities with respect to the concessions.

#### Environmental Permits

The environmental certification is obtained through the approval of an environmental management instrument that contemplates all the exploration activities of the Project and the environmental mitigation measures to counteract the negative impacts. The prospection activities are not subject to environmental certification.

There are two environmental management instruments. The first is The Declaration of Environmental Impact (DIA). The second is the semi-detailed Environmental Impact Assessment (EIASd). The description of these instruments is presented in the Table 7.

**Table 7: Environmental Management Instruments for Exploration Activities**

<b>Exploration Activity</b>	<b>Environmental Instrument</b>	<b>Approval</b>	<b>Comments</b>
Drilling platforms: < 20 Disturbed area: < 10 ha Tunneling: < 50 m	Declaration of Environmental Impact of automatic approval	Automatic	The approval is automatic if the documentation is complete
Drilling platforms: < 20 Disturbed area: < 10 ha Tunneling: < 50 m	Declaration of Environmental Impact of previous evaluation	Previous Evaluation	If the location of the Project requires the technical opinion from other national authorities.
Drilling platforms: > 20 Disturbed area: > 10 ha Tunneling: > 50 m	Semi detailed Environmental Impact Assessment	Evaluation	The approval process includes the citizen participation; Approval can take 6 to 8 months.

The DIA and the EIASd must be presented through the Environmental Evaluation System (Linea-SEAL del MEM). The evaluation and approval is under the direction of the General Direction Mining Environmental Issues of the MEM (Dirección General de Asuntos Ambientales Mineros, DGAAM, del MEM).

The competent entity of the state for environmental monitoring is the Organism of Environmental Evaluation and Monitoring (Organismo de Evaluación y Fiscalización Ambiental, OEFA) that is part of the Ministry of Environment of Peru.

As of the date of this report, Plexmar has not initiated the environmental certification process to restart exploration activities in Las Lomas.

#### Authorization for Start / Restart of Exploration Activities

The procedure to obtain the authorization begins in the General Direction of Mining of MEM, where the concessionaire presents the documentation of the environmental certification and the surface rights ownership or agreements. The General Direction of Mining must define if it is necessary to start the process of previous consultation. If previous consultation is not required, and the documentation is complete, the authorization granted. The authorization process could take some months. As of the date of this report, Plexmar has not requested the authorization to restart the exploration activities.

#### ***Other Significant Factors and Risks***

SRK is not aware of any additional significant factors or risks that affect access, title, right or ability to perform work on the property.

#### **Accessibility, Climate, Local Resources, Infrastructure and Physiography**

##### ***Topography, Elevation and Vegetation***

The property is characterized by low relief in the areas of Tomapampa, San Sebastian and Pampa Larga with elevations varying from 250 m in the flat valleys to 500 m near the Ecuador border and to 950 m on the Tomapampa area. Sapillica is characterized by a rugged topography with elevations varying from 1,300 m to 2,200 m.

The vegetation is typical of a desert climate with poor vegetative biomass and rapid vegetation growth during the rainy season. The eco-region is known as dry forest that consists of species which are adapted to the arid conditions. Some plant species include ceiba, bougainvillea and some cacti, among others.



### ***Accessibility and Transportation to the Property***

The property is accessible from Lima by the Pan-American Highway, passing through Piura, Tambo Grande and Las Lomas town, at which point the highway runs NE and continues through Ecuador. From the town of Las Lomas, gravel roads connect with the property areas in Pampa Larga, San Sebastian, Tomapampa and Sapillica.

A number of airlines offer flights from Lima to Piura with more than ten flights per day (1 hour 40 minutes duration).

### ***Climate and Length of Operating Season***

The region has a desert climate. The temperatures vary from 24°C to 27°C with highs up to 40°C. The rainy season occurs from January to March, with precipitation varying between 100 to 500 mm the rest of the year is dry. July is the driest month of the year and March has the highest precipitation. The warmest month is February and the coolest month is July.

In the area of Sapillica the climate is slightly cooler. The meteorological data varies with the phenomenon of El Niño. The climate does not affect the length of the operating season.

### ***Infrastructure Availability and Sources***

San Miguelito maintains an operations base in Las Lomas consisting of an office, several dormitories, parking and storage areas. Las Lomas town has 22,000 inhabitants. Several government institutions are present and the town provides a variety of services and a good potential workforce. The districts where the property is located have the following populations: 42,000 in Las Lomas, 11,000 in Sapillica, including 820 inhabitants in the Sapillica town; 12,000 in Suyo; and 9,700 in Paimas.

The main river on the property is the Quiroz River and its tributary creeks. For exploration activities, water would need to be hauled or pumped from the Rio Quiroz or from other creeks. Many of these creeks do not flow year-round.

A power line is located along the Pan-American Highway. The topography of the property offers enough space for exploration and exploitation infrastructure, including potential tailings, waste dump, heap leach, and processing facilities.

## **History**

### ***Prior Ownership and Ownership Changes***

As described under “*Summary of Technical Report – Project Description and Location – Mineral Titles – Nature and Extent of Issuer’s Interest*”, in 2012 Sierra acquired Plexmar pursuant to the Arrangement. Since 2013, Minera Ate has applied for new mining concessions and has negotiated a mining rights option contract with Minera Leona de Oro.

### ***Exploration and Development Results of Previous Owners Hans Mo-Cu-Au Prospect***

The exploration activities carried out by Minera Leona de Oro in the area of the Hans Concessions (subject to the Hans Option Agreement) included geological mapping and 170 rock chip samples collected between 2008 and 2010.

Two of the concessions, Hans X and Hans XXX, contain a Mo-Cu porphyry system with peripheral auriferous quartz veins. Rock chip sampling from the porphyry yielded high grade molybdenum values (to 0.082% Mo). Rhyolite volcanic units in contact with the porphyry also contain anomalous values to 0.074% Mo. The resulting Mo geochemical anomaly (>200 ppm Mo) measures more than 1 km in strike length and is open to the NE (Park, 2011).

Copper values in the Cascajo Blanco porphyry are also elevated in both the quartz-porphyry and rhyolite units, ranging in value up to 0.13% Cu. Gold values of greater than 6 g/t are associated with narrow epithermal quartz pyrite veins hosted in both the quartz-porphyry and in the volcanic rocks peripheral to the quartz-porphyry. The highest gold values, as indicated by the location of informal miners, are found in quartz-pyrite veins hosted in andesite volcanic rocks west of the quartz porphyry (Park, 2011).

#### ***Historic Mineral Resource and Reserve Estimates***

Historic mineral resource and reserve estimates have not been performed for Las Lomas.

#### ***Historic Production***

The artisanal gold production through the property has not been quantified. The artisanal mining has increased in the last three decades and according to the information provided by Plexmar's personnel, roughly 150 artisanal miners are producing gold from its concessions in the Campesino Communities of San Sebastian, Pampa Larga and Sapillica.

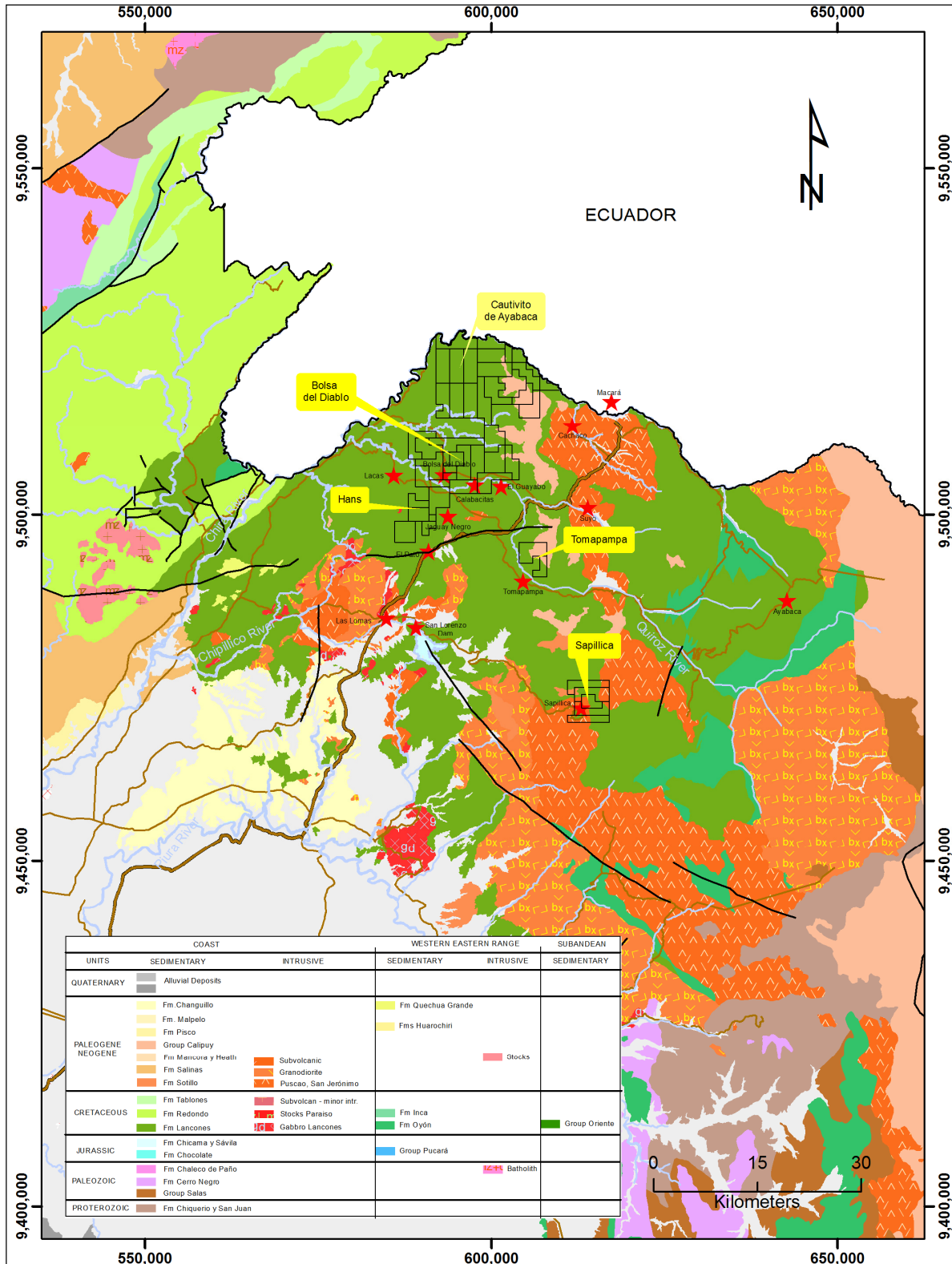
Some production of barite has been reported from Tomapampa (Rios et al, 2008), close to the Minera Ate concessions of Almirante Miguel Grau V and Almirante Miguel Grau VI. Plexmar's personnel report that some years ago Duberly Campos, the owner of an adjacent property to the Almirante Grau concessions V and VI, temporally exported Au-Cu-Pb-Zn mineral (RoM) to China extracted from a VMS deposit.

### **Geological Setting and Mineralization**

#### ***Regional Geology***

The Project is located within the Lancones Basin, a rift or submarine arch environment, which has been filled by submarine bimodal volcano-sedimentary sequences ranging from basaltic pillow lavas to rhyolitic volcanics and silicoclastic and calcareous sedimentary units, later intruded by phases of the Batolito de la Costa (Figure 4). (Fernandez, 2016).

Figure 4: Regional Geology Map



Source: Modified from Jaimes, et al., 2012

### *Tectonic Setting*

The Lancones basin represents the northwestern portion of a series of continental margin rift basins that includes the Huarmey-Cañete Marginal Trough (Benavides-Cáceres, 1999) or Western Peruvian Trough (Atherton et al., 1983; and others) along the Peruvian coast to the south. Volcanic and sedimentary rocks, deposited dominantly within the eastern and western parts of the Lancones Basin, respectively, define a roughly 40 km by 80 km long basin (Figure 4). East of the pre-Albian to Cenomanian volcano-sedimentary sequence is the Olmos Massif, which represents a portion of the Amazonian craton. To the west is the possible allochthonous terrain. Amotape Range consisting of Precambrian gneisses and unconformably-overlying Paleozoic sedimentary rocks. These blocks of ancient continental crust define the Jurassic pre-rift Andean margin (Grond and Winter, 2005).

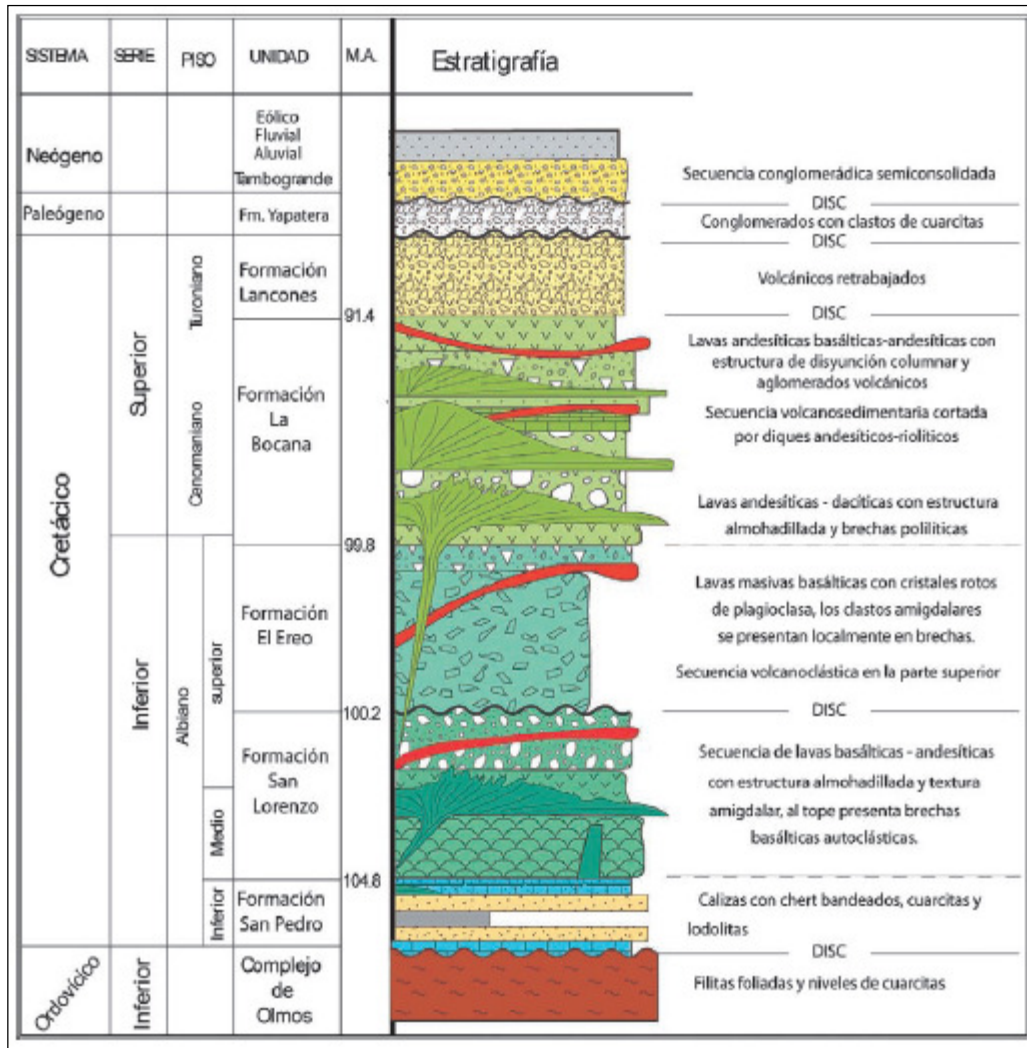
A tectonic event in the ~100 to 95 Ma range, the Mochica Orogeny, caused regional uplift of the Cretaceous basinal rocks (Myers, 1974; Cobbing et al., 1981; Megard, 1984). As a result of this orogeny, en-echelon right lateral wrench faults appear to have controlled the emplacement of the plutonic rocks of the Coastal Batholith (Cobbing et al., 1981). Late Cretaceous to Eocene plutonic rocks ranging in composition from gabbro to granite intruded the Cretaceous strata of the Lancones basin. Preliminary Argon-Argon dating (Ar-Ar) ages for these intrusive rocks range from approximately 75 to 48 Ma (Ar-Ar dating; L. Winter, unpub. data) and overlap within the age range of the well documented Coastal Batholith of Peru (100 to 55 Ma; Benevides-Cáceres, 1999). Tertiary marine sequences and Pleistocene sediments unconformably overlie the Cretaceous sequence (Grond and Winter, 2005).

### *Stratigraphy*

The Albian Ereo Formation, the basal sequence of the Lancones Basin, is dominated by basalt pillow lava and breccias, but locally contains andesitic to rhyodacitic volcanic rocks. This formation hosts all known VMS deposits and VMS-type prospects in the Tambo Grande area. Drilling in the south of the basin near known massive sulfide deposits indicate a minimum thickness of approximately 900 m for the Ereo Formation. The basal contact is not seen in outcrop or drill core, and underlying rocks are either equivalent to the pre-Mesozoic crystalline rocks Amotape Range on the west, or Proterozoic Olmos Complex on the east, or newly formed ocean crust emplaced during rifting (Grond and Winter, 2005).

Overlying the Ereo Formation, possibly unconformably, is a more than 1 km thick, dominantly intermediate to felsic volcanic sequence with subordinate amounts of calcareous and siliciclastic sedimentary rocks. These rocks form the La Bocana and Lancones Formations. The La Bocana and Lancones Formations are overlain by a very thick sequence of Cenomanian turbidities of the Copa Sombrero Formation (>3 km in thickness; Grond and Winter, 2005). A schematic stratigraphic section of the Eastern part of Lancones Basin is shown in Figure 5.

Figure 5: Stratigraphy of the Lancones Basin (Eastern)



Source: Jaimes, et al., 2012; modified from Winter, 2008

Late Cretaceous plutonic rocks intrude the earlier Cretaceous volcanic and sedimentary rocks and form many of the present day generally northeast trending ridges in the region. Tertiary marine sequences and Pleistocene sediments unconformably overlie the Cretaceous sequence. Felsic dykes and lava flow-domes of probable Tertiary age occur locally (e.g., exposed along the highway near Suyo). No radiometric age determinations have been reported for Tertiary volcanic rocks in these areas (Grond and Winter, 2005).

### *Metallogeny*

Mineral occurrences and prospects of northwestern Peru include base-metal sulfides of VMS-type and porphyry Cu+/-Au, skarn, and polymetallic vein type. Although less common, epithermal-type deposits or mesothermal (i.e., orogenic) gold-bearing quartz veins have also been documented in this part of Peru; however, in southern Ecuador low to intermediate sulfidation vein systems are well-documented (i.e., the well-known multi-million oz Portovelo deposits; Grond and Winter, 2005).

To date, VMS deposits represent the most advanced and therefore the most economically significant deposit type in northwestern coastal Peru. Three unusually large deposits occur within the vicinity of the town of Tambo Grande,

TG1: 109 Mt grading 1.6% Cu, 1.0% Zn, 0.5 g/t Au and 22 g/t Ag plus 16.7 Mt grading 3.5 g/t Au and 64 g/t Ag in oxide ore; TG3: 82 Mt grading 1.0% Cu, 1.4% Zn, 0.8 g/t Au and 25 g/t Ag, and B5: resource not defined, (Tegart et al., 2000).

These VMS deposits formed during the Cretaceous extensional phase and are conformable within, and syngenetic with, deep marine bimodal volcanic rocks. These deposits display a very strong spatial and temporal association with aphyric high-silica dacitic volcanic and subvolcanic rocks (i.e., lava flow-domes) which have been dated at 100.5 +/- 0.5 Ma to 102 +/- 2 Ma (U-Pb zircon age; L. Winter, unpub. data). Felsic volcanic rocks throughout the basin have been dated at the youngest age of ~92 Ma (U-Pb zircon age; L. Winter, unpub. data) (Grond and Winter, 2005).

In contrast to the rift-related VMS deposits, deposits of a continental arc affinity, including porphyry Cu+/-Au, high sulfidation epithermal deposits, and polymetallic skarn and vein deposits are related to arc magmatism in the second phase of the Andean cycle. These deposits comprise a Miocene metallogenic belt of deposits extending some 1,000 km through central and northwestern Peru and into southern Ecuador (Noble and McKee, 1999). These hydrothermal deposits, ranging in age from approximately 6 to 20 Ma, are associated with 4 to 24 Ma calc-alkaline magmas typical of continental arc magmatism (Noble and McKee, 1999; Noble et al., 2004). Lavas and associated breccias dominate with only minor pyroclastic rocks reported (Noble and McKee, 1999). This belt projects northwest through the central Piura Province, yet no economic deposits have yet been documented in the region to permit such an extension to this region. The closest deposit in this belt is Monterico Metals' Rio Blanco deposit, a copper porphyry style deposit currently undergoing feasibility. It occurs approximately 100 kilometers to the east of the Bolsa del Diablo area. The discovery of epithermal style mineralization in the Bolsa del Diablo area is of great interest as it indicates that the metallogenic belt may in fact be continuous through northern Peru (Grond and Winter, 2005).

### ***Local Geology***

#### ***Lithology***

**Chungas Formation:** Formed mainly by lavas, this unit is the basal stratigraphic sequence of the Lancones Basin that overlies unconformably the metamorphic rocks of the Paleozoic basement. Two sequences have been defined.

- **Andesitic tuff sequence:** This unit outcrops close to the Almirante Miguel Grau V, formed by andesitic tuffs, dark to clear grey color, with thin levels of volcanoclastic breccias and andesitic lavas with N50° to 85°W strike and dipping 46° to 58° NE (Los Incas, 2009).
- **Andesitic lavas sequence:** Lavas of proximal environment of the basin continental border (East of the basin) are outcropping along the Carrizo Creek, and to the North of the area of the Almirante Miguel Grau V, locally with pillow lavas, greenish grey color, locally propylitized and weak silicification. Porphyritic and aphanitic texture. The general orientation is N15°-70°E, dipping 10°-27°NW (Los Incas, 2009).

**La Bocana Formation (Ki):** Accumulation of coarse and massive volcanoclastic material of intermediate composition, sandy limestones, dark grey lime-claystones, acid tuffs and ash flows with presence of felsic events characterized by rhyolitic flows, dacitic domes and felsic tuffs (Ríos, 2004). The rocks of this formation outcrop along the central part of the Lancones Basin. Two members form this formation:

- **Pilares Member:** Thick accumulation of massive volcanoclastic material formed by volcanoclastic breccias, lavas, andesitic tuffs, broadly covering the central part of the Lancones Basin. The lower part of this member is observed in Bolsa del Diablo, Saucillo, Hans and along the Rio Quiroz, and is formed by polymictic volcanoclastic breccias sequence inside of a micro-brecciated matrix, locally propylitized. Andesitic, dacitic and granodioritic composition of the clasts, locally weakly argillized, propylitized and silicified. N75°E – EW strike, dipping 21°NW, folded due to the distensive strength (Los Incas, 2009).
  - **Andesitic Lavas sequence** is observed along the property, locally in pillows and pseudo-stratified, greenish green color, with weak propylitization and silicification, with aphanitic to porphyry-aphanitic texture. This sequence is intruded by sub-parallel andesitic dikes, weakly silicified,

interlayered with thin volcanoclastic breccias and andesitic tuffs. The orientation vary from N60°E to E-W in Bolsa del Diablo, Río Quiroz, Carrizo Creek, Lacas, Saucillo, NS in the Calabacitas and el Huaro and N20°e in the Valdivia (Río Quiroz) and Cabuyal, and dipping 5° - 63°NW (Los Incas, 2009).

- A third sequence of this member is composed by andesitic tuffs, fine to coarse grain, no pseudo-stratification, with thin lenses of sandstones, tuffaceous limonites and locally chert deposited in a submarine environment. Locally weakly silicified, propylitized and epidotized. The orientation varies from N40°E to EW dipping between 15° - 52° NW. This sequence is observed in El Milagro, Angolos, Valdivia, Cabuyal, El Portillo, Jaguay Negro and East of Malvas (Los Incas, 2009).

- **Cabuyal Member:** Carbonaceous materials accumulation exposed along the Lancones Basin.

**Intrusives and Dikes.** Andesitic dikes and sills, diorite-tonalite-granodiorite stocks in are observed in a complex distribution, that are emplaced along the NW to EW faults, controlling the terrain morphology and forming an important structural corridor with intrusions and mineralization associated (Los Incas, 2009). Cabuyal-Carrizo coarse grain granodioritic porphyry, called Cascajo Blanco porphyry by Park (2011), is observed in the Hans area. According to the mapping of INGEMMET, this quartz-porphyry belongs to the Las Lomas Plutonic Complex, a sub-division of the Piura Segment of the Coastal Batholith (Loaiza and Galoso, 2010).

In Bolsa del Diablo, the Angolos granodioritic-diorite intrusives (porphyry) are observed in the Angolos and Sofía del Carmen concession, locally with argillic and silicification alteration. The Sapillica diorite-tonalite intrusive is observed in the Sapillica area, clear grey color, fine grain, locally with weak intermediate argillic alteration and sericite-Kaolinite-chlorite alteration assemblage (Los Incas, 2009).

**Dikes:** Controlled by structural lineaments, the andesitic dikes are observed with NE strike and sub-vertical dipping, limiting the alteration-mineralization zone in the El Huaro zone. An andesitic conglomerate-dike of N-S strike, dipping 85°SE and N85°W strike, dipping 85°SW, is outcropping in the Río Quiroz in the areas of Valdivia and Calabacitas, and in the El Progreso and Jaguay Negro creeks (Los Incas, 2009).

## ***Structural Geology***

### ***Faults***

The main structural controls in the zone are north, northwest, northeast and east-west trending extensional faults (Los Incas, 2009).

N-S system: This faulting trend is observed to the east of Cabuyal, and to the south and west of the Valdivia intrusive, dipping 80° to 85°W cut by quartz veining.

NW system: This system is observed along the Quiroz River, southeast of the Hermoso Valley where it has a N60°W strike and dips vertically.

NE system: N50° to 75°E faults are associated with the Au mineralization (and traces of base metals) in the areas of Chivatos, Angolos, Saucillo and along the margins of the Valdivia intrusive. In Tomapampa, faults striking N14°E and dipping 67°SE are observed along the road close to the Quiroz River.

E-W system: This system plays an important role in the generation of weakness zones that facilitated the hydrothermal fluid migration. Au mineralization is associated with this system in the areas of Valdivia, Saucillo, El Milagro and Carrizo creek (base metals) in Tomapampa.

### ***Folds***

Two folding systems have been observed in the area. The first system has a north-south trending axis with sub-horizontal flanks (10° to 35° dipping) and associated vertical stratification faulting. The second system has an axis that trends N60°E and limbs dipping 18° to 27°, and has associated sub-horizontal faulting (Los Incas, 2009).

### ***Property Geology***

#### *Bolsa del Diablo*

##### Lithology

The Bolsa del Diablo area consists of an approximately 4 km<sup>2</sup> zone where variably hydrothermally altered granodioritic-diorite intrusive rocks (Angolos Intrusive) and mafic volcanic rocks are observed.

The granodioritic intrusive (porphyry) is characterized by massive granular silica and sporadic vuggy silica in bands and veinlets, quartz-calcite veinlets, with iron oxides (hematite, limonite, goethite) present as disseminations, veinlets, patches and fracture fill produced by the oxidation of the sulfides (pyrite). Boxworks (pyrite), disseminated pyrite, Mn oxides (psilomelane) are found in fractures associated with the dioritic-granodioritic intrusive and the volcanoclastic tuffs (Los Incas, 2009). This body has an area of 9.5 ha and could be part of a high sulfidation epithermal deposit.

##### Alteration

The dioritic intrusive is observed to the south of the granodioritic porphyry, with moderate silicification, massive-granular silica, and pervasive intermediate argillization (sericite-kaolinite-chlorite assemblage) developed along the margins and local weak propylitization (Los Incas, 2009).

Weak silicification and argillization is common as halos around the veins. Weak to moderate argillic alteration (kaolinite) is affecting the outcropping host rocks.

#### *Hans*

##### Lithology

Volcanic flows and volcanoclastic sediments of the Lancones Formation are observed in the Hans area. Most of the central area is underlain by fine-grained rhyolite, characterized by a white siliceous matrix with 2% to 4% of small quartz phenocrysts. A thick unit of andesitic lava, flow breccias and volcanoclastic sediments is interlayered with the rhyolite. Most of the andesite found within the prospect area outcrops in massive, blocky forms originating from volcanic flows.

A quartz-porphyry granodiorite called Cascajo Blanco is exposed in an elongated (E-W) area of 1,200 m x 800 m in the eastern part of the Hans X concession. This unit outcrops to the north in the Hans XXX concession (Figure 7-5). This intrusive contains quartz phenocrysts 1 to 2 cm in diameter, with orthoclase, plagioclase and few mafic minerals (Park 2011). Five to 20 cm width mineralized veinlets are observed as stockworks in the intrusive (Park, 2011).

##### Alteration

The southern and western portions of the Cascajo Blanco porphyry show indications of potassic alteration. The groundmass is moderately to strongly silicified with minor amounts of disseminated pyrite. Quartz-magnetite stockwork veinlets were found in localized zones of along the southern contact of the quartz-porphyry. Feldspar phenocrysts show an incipient alteration to clay minerals. Selvage zones along quartz-pyrite veins and veinlets commonly are stained red with hematite.

The majority of the rhyolite exposed adjacent to the Cascajo Blanco porphyry has a siliceous white matrix with a common stockwork of quartz-pyrite veinlets. Pyrite is common in the surface exposures as aggregates in quartz



veins and disseminated in the matrix and, less commonly, in cubic form in both vein and groundmass. Hematite (after pyrite) is ubiquitous, both in quartz veinlets and disseminated through the groundmass of the rhyolite. Granodiorite exposed by trenching in the Hans XXX concession shows strong quartz-sericite-pyrite-(chalcopyrite) alteration accompanied by barite. From preliminary field investigation it appears that this sericitic zone is controlled by NE-trending shear zones through the granodiorite and grades out from the shear zones into argillic alteration (Park, 2011).

### Structure

A regional NE structural trend is reflected in the area of Cascajo Blanco, controlling topographic features. Auriferous quartz veins hosted in the andesite, west of the Cascajo Blanco porphyry, trend E-W, but a secondary NW trend of veining is prominent within the quartz porphyry. Auriferous quartz veins in Hans XXX concession are mostly oriented to the NE, for example the Milta Vein (N50°E). Secondary mineralized veins along transverse structures trend N-S to NW (Park, 2011).

### *Sapillica*

#### Lithology

The Pampa Grande tonalite-diorite intrusive is exposed at Sapillica. A finely crystalline phaneritic microgranite is observed to the west of Sapillica, composed of orthoclase, quartz, plagioclase, and minor weakly oxidized ferromagnesian minerals. A phaneritic tonalite composed of plagioclase, orthoclase, quartz and hornblende outcrops near the Umbo River. Lavas and volcanoclastic (tuffs and andesitic dikes) are also observed in the area.

#### Alteration

Pervasive weak argillization (sericite-kaolinite-chlorite) affects the intrusive rocks. Sericitic alteration is observed in halos of few centimeters around the gold bearing veins hosted in the intrusive and volcanoclastic rocks. Propylitic alteration is observed in the lavas, the volcanoclastic rocks and the borders of the intrusives.

### Structure

The regional structural regime is reflected in the area of Sapillica. Gold mineralization at Sapillica follows a NE trend and exhibits vertical to subvertical (NW) dips. N-S veins are also observed in the area.

### *Tomapampa*

#### Lithology

Andesitic tuffs and andesitic lavas outcrop in the area of the Amirante Miguel Grau concessions. The tuffs contain andesitic lithoclasts in a micro-brecciated matrix. The andesitic lavas are exposed in the northern and eastern part of the concessions where they form areas of abrupt topographic relief. NW-trending pillow lavas are locally present; these have a greenish grey color, are locally propylitized and weakly silicified, have orientations varying between N15° to 70°E, and dip 18° to 27° NW.

Propylitization (chlorite-epidote-calcite-pyrite) is the main alteration affecting the tuffs and lavas. Quartz-sericite-Fe oxides-kaolinite-pyrite alteration (Silex) is exposed on the surface in the central part of the Amirante Miguel Gray VII (Figure 7-7) (Dilas, 2013).

### ***Significant Mineralized Zones***

Table 8 presents a summary with the deposit models and the commodities of interest applicable to each area of the project based on the features of the mineralization observed. Overlap of events and styles of mineralization, and alteration are observed in Bolsa del Diablo and Hans.

**Table 8: Ore Deposit Models Applicable to Las Lomas Project**

Area	Ore Deposit Models	Commodity of Interest
Bolsa del Diablo	Epithermal Gold ±Cu-±Au-±Mo Porphyry	Au, Ag, Cu
Hans	Epithermal Gold ±Cu-±Au-±Mo Porphyry	Au, Ag, Cu, Mo
Tomapampa	VMS	Cu, Zn, Pb, Ag, Au
Sapillica	Epithermal Gold	Au, Ag, Pb

### *Bolsa del Diablo*

The mineralization in Bolsa del Diablo is hosted in andesitic lavas and tuffs of La Bocana formation. The dioritic intrusive also hosts disseminated and high grade gold mineralization in stockworks and vetiform structures.

Mineralized vetiform structures are hosted in the intrusives and volcanoclastic rocks oriented between N60°E to N80°W and dipping subvertically. The vein widths vary from 0.15 to 1.50 m. The horizontal continuity of mineralization varies from some tens of meters to hundreds of meters, locally reaching more than 1 km (Los Incas, 2009). The observed vertical extension of the exploited veins is variable from 15 to 50 m.

The gold mineralization is associated with massive silica and vuggy quartz in veinlets, stringers, patches, stockworks, and with calcite in veinlets. In the oxidized zone, limonite, hematite and goethite are found as a result of sulfide oxidation.

### *Hans*

Narrow quartz-pyrite veins hosted in both the andesite and the Cascajo Blanco quartz-porphyry contain high grades of gold that are currently being worked by informal miners immediately west and northwest of the quartz-porphyry. These veins show typical epithermal textures with quartz banding and fine crystalline quartz filling vugs and open spaces. Widths of the veins that are being worked range from 5 to 50 cm.

Quartz-pyrite stockwork veining is common in the rhyolite and to a lesser extent in the andesite. Veinlets range in widths of 2 to 5 mm and locally show a sheeted pattern with a dominant orientation. At least two generations of veining are evident from cross-cutting relationships. Near the western contact between the volcanic rocks and quartz-porphyry is a zone of stockwork veining with quartz-pyrite-chalcopyrite. Copper sulfates are also present in this stockwork zone indicating a mixed oxide-sulfide horizon.

Numerous quartz veins are found hosted in the Cascajo Blanco quartz-porphyry; most consist of granular to massive white quartz with minor to moderate amounts of Fe oxides. Widths of these veins range from centimeter scale in stockwork zones to 0.5 m as seen in a series of sub-parallel veins crossing a ridge top along the northern portion of the quartz-porphyry exposure. Visible molybdenite was found in several of these veins; assays from these veins range from 222 to 825 ppm Mo.

Fine veining in the rhyolite was noted in one area in the northeastern portion of the prospect area that may be either feldspar veins later altered to siliceous clay or chalcedonic quartz. These are very fine veinlets, 1 mm width, light beige in color, amorphous texture with hardness the same as the siliceous groundmass. They appear to be early veins since they are cut by quartz-pyrite veinlets.

Higher grade (Au) quartz-pyrite veins, as denoted by current or past production by informal miners, are commonly associated with quartz-porphyry dikes cutting the andesite volcanic rocks. Quartz-pyrite veins are currently being worked in the andesite near the western contact of quartz-porphyry. Similar veins hosted in the rhyolite appear to have lower Au grades (<1 oz/t Au) relative to those in the andesite since none of the veins in the rhyolite are currently being worked in the prospect area (Park, 2011).

### *Sapillica*

The moderate to high grade of gold mineralization is found in fracture-filling veins of variable widths hosted in the intrusives and volcanic rocks with quartz and pyrite as the main sulfide. In the oxidized part of the veins the association of quartz-pyrite-oxides (limonite, goethite) is observed. Coarse native gold is observed in some high grade structures. The width of the mineralized veins varies between 0.1 m to 1.0 m (Dilas, 2013).

The length, width, depth and continuity of mineralization have not been defined in detail. Additional exploration work is needed to improve the knowledge of the mineralization.

### *Tomapampa*

The geological setting and the alterations observed in the area indicate that the area exhibits some characteristics of a VMS deposit. Anomalous values of Au, Ag, Cu, Pb, Zn, Fe from samples collected from altered areas and veins have been obtained.

The length, width, depth and continuity of mineralization have not been defined in detail. Additional exploration work is needed to improve the knowledge of the mineralization.

## **Deposit Type**

### *Mineral Deposit*

Based on the geological setting of the Las Lomas property and the geologic features observed in the area, the following deposit type models may be applicable and should be considered in the mineral exploration of the property: Cu ± Au ± Mo porphyry, epithermal gold, and VMS deposit. Overlap of different types of mineralization and events must be considered in the interpretation of the deposit processes of deposit formation.

### *Cu ± Au ± Mo Porphyry*

Porphyry type deposits are widely known as the world's most important source of copper, molybdenum and gold. Porphyry systems can contain large volumes of hydrothermally altered rock centered on porphyry stocks that may also be genetically associated with skarn, carbonate-replacement, sediment-hosted, and high to intermediate-sulfidation epithermal base and precious metal mineralization (Sillitoe, 2010).

Porphyry Cu Systems are generated mainly in magmatic arc (including back-arc) environments subjected to a spectrum of regional-scale stress regimes, apparently ranging from moderately extensional through oblique slip to contractional (Tosdal and Richards, 2001).

The faults and interception of them play an important role in the formation of porphyry systems and definition of the geometry of clusters or structurally controlled alignments of them. This systems are associated with underlying composite plutons, at paleo - depths of 5 to 15 km, which represent the magma chambers which formed the vertically elongate (>3 km) stocks or dike swarms and associated mineralization. Individual systems have life spans of approximately 100,000 to several million years, whereas deposit clusters or alignments as well as entire belts may remain active for 10 million years or longer (Sillitoe, 2010).

Alteration and mineralization can occupy many cubic kilometers of rock, and are zoned outward from the stocks or dike swarms, which typically are comprised of several generations of intermediate to felsic porphyry intrusions. Porphyry Cu ± Au ± Mo mineralization is centered on the intrusions, whereas carbonate wall rocks commonly host proximal Cu ± Au ± Mo are centered on the intrusions, whereas carbonate wall rocks commonly host proximal Cu - Au skarns, less common Zn - Pb and/or Au skarns, and beyond the skarn front, carbonate - replacement Cu and/or Zn - Pb - Ag ± Au deposits, and/or sediment-hosted (distal - disseminated) Au deposits (Sillitoe, 2010).

High-sulfidation epithermal deposits may occur in lithocaps above porphyry Cu deposits, where massive sulfide lodes tend to develop in deeper feeder structures and Au ± Ag - rich, disseminated deposits within the uppermost

500 m or so. Less commonly, intermediate - sulfidation epithermal mineralization, chiefly veins, may develop on the peripheries of the lithocaps (Sillitoe, 2010).

The alteration-mineralization in the porphyry Cu deposits is zoned upward from barren, early sodic - calcic through potentially ore - grade potassic, chlorite-sericite, and sericitic, to advanced argillic, the last of these constituting the lithocaps, which may attain >1 km in thickness if unaffected by significant erosion. Low sulfidation - state chalcopyrite ± bornite assemblages are characteristic of potassic zones, whereas higher sulfidation - state sulfides are generated progressively upward in concert with temperature decline and the concomitant greater degrees of hydrolytic alteration, culminating in pyrite ± enargite ± covellite in the shallow parts of the lithocaps. The porphyry Cu mineralization occurs in distinctive sequence of quartz - bearing veinlets as well as in disseminated form in the altered rock between them. Magmatic - hydrothermal breccias may form during porphyry intrusion, with some of them containing high grade mineralization because of their intrinsic permeability. In contrast, most phreatomagmatic breccias, constituting maar - diatreme systems, are poorly mineralized at both the porphyry Cu and lithocap levels, mainly because many of them formed late in the evolution of the system.

*Epithermal Gold Deposits*

Epithermal ore deposits form at shallow depth. This conclusion was initially based on geologic reconstructions, ore mineralogy and related textures (Lindgren, 1933). It has subsequently been refined with fluid inclusion data to indicate that epithermal ores form over the temperature range of <150°C to ~300°C, from the surface to as deep as 1 to 2 km. Here we highlight the general characteristics of the two principal styles of epithermal mineralization in which gold is the dominant economic metal, low sulfidation and high sulfidation epithermal. The alteration zoning can be used as a pointer towards the most prospective part of the system, but only when the style has been correctly recognized. In addition, the two styles of mineralization have differences in their geochemical associations (White and Hedenquist, 1995).

In low-sulfidation systems, the fluid at 1-2 km depth is near-neutral pH and reduced, and in equilibrium with the host rocks at greater depths. The boiling fluid rises along permeable zones, depositing ore and gangue minerals, and may discharge from near-neutral pH hot springs. The separated vapor with CO<sub>2</sub> and H<sub>2</sub>S condenses in the vadose zone to form a steam-heated water, acidic from oxidation of H<sub>2</sub>S. In high-sulfidation systems, magmatic volatiles ascend to the epithermal environment where they are absorbed by meteoric water, and the HCl and SO<sub>2</sub> form a highly acidic solution that leaches the rock outward from the fluid conduit. Ore metals may be introduced into this leached rock by later magmatic fluids.

The characteristic form of these two styles of epithermal deposit is shown in Table 9.

**Table 9: Form of Epithermal Deposits**

<b>LOW SULFIDATION</b> (Adularia-sericite)	<b>HIGH SULFIDATION</b> (Acid sulfate)
Open-space veins dominant	Veins subordinate, locally dominant
Disseminated ore mostly minor	Disseminated ore dominant
Replacement ore minor	Replacement ore common
Stockwork ore common	Stockwork ore minor

Source: White & Hedenquist, 1995

The mineralogy of ores shows considerable overlap, but there are several pronounced differences, Table 10 is based on a compilation of mineral data for more than 130 epithermal deposits (White & Hedenquist, 1995). Table 11 shows the mineralogy of gangue.

**Table 10: Epithermal Deposits Ore Minerals in Au-Rich Ores**

	<b>LOW SULFIDATION</b>	<b>HIGH SULFIDATION</b>
PYRITE	ubiquitous (abundant)	ubiquitous (abundant)
SPHALERITE	common (variable)	common (very minor)
GALENA	common (variable)	common (very minor)
CHALCOPYRITE	common (very minor)	common (minor)
ENARGITE-LUZONITE	rare (very minor)	ubiquitous (variable)
TENNANTITE-TETRAHEDRITE	common (very minor)	common (variable)
COVELLITE	uncommon (very minor)	common (minor)
STIBNITE	uncommon (very minor)	rare (very minor)
ORPIMENT	rare (very minor)	rare (very minor)
REALGAR	rare (very minor)	rare (very minor)
ARSENOPYRITE	common (minor)	rare (very minor)
CINNABAR	uncommon (minor)	rare (very minor)
ELECTRUM	uncommon (variable)	common (minor)
NATIVE GOLD	common (very minor)	common (minor)
TELLURIDES-SELENIDES	common (very minor)	uncommon (variable)

Source: White and Hedenquist, 1995

**Table 11: Epithermal Deposits Mineralogy of Gangue**

	<b>LOW SULFIDATION</b>	<b>HIGH SULFIDATION</b>
QUARTZ	ubiquitous (abundant)	ubiquitous (abundant)
CHALCEDONY	common (variable)	uncommon (minor)
CALCITE	common (variable)	absent (except as overprint)
ADULARIA	common (variable)	absent
ILLITE	common (abundant)	uncommon (minor)
KAOLINITE	rare (except as overprint)	common (minor)
PYROPHYLLITE-DIASPORE	absent (except as overprint)	common (variable)
ALUNITE	absent (except as overprint)	common (minor)
BARITE	common (very minor)	common (minor)

Source: White and Hedenquist, 1995

The textures that characterize the two types of deposits are very different. Low-sulfidation deposits show a wide variety of textures, including banded, crustiform quartz and chalcedony veins, druse-lined cavities, and spectacular, multiple-episode vein breccias. By contrast, the typical textures of high-sulfidation deposits show relatively little variation, with the most characteristic texture being massive bodies of vuggy quartz typical of Nansatsu-type deposits, though locally veins and breccias may be important hosts to ore (White and Hedenquist, 1995).

In addition to gangue mineralogy, the mineralogy and zonation of hydrothermal alteration assemblages is another distinguishing characteristic (Table 12).

**Table 12: Hydrothermal Alteration of Epithermal Deposits**

	<b>LOW SULFIDATION</b>	<b>HIGH SULFIDATION</b>
DEEP, MINERALIZING FLUID	near-neutral pH	acid (pH <1 to >3)
MINERAL ASSEMBLAGE	illite (sericite) interstratified clays	alunite, kaolinite, pyrophyllite, diaspore, zoned out to illite

Source: White and Hedenquist, 1995

### *Volcanogenic Massive Sulfides Ore Deposit (VMS)*

VMS deposits, also known as volcanic-hosted massive sulfide, volcanic-associated massive sulfide, or seafloor massive sulfide deposits, are important sources of copper, zinc, lead, gold, and silver (Cu, Zn, Pb, Au, and Ag). These deposits form at or near the seafloor where circulating hydrothermal fluids driven by magmatic heat are

quenched through mixing with bottom waters or pore waters in near-seafloor lithologies. Massive sulfide lenses vary widely in shape and size and may be pod-like or sheet-like. They are generally stratiform and may occur as multiple lenses (USGS, 2008).

VMS deposits range in size from small pods of less than a ton (which are commonly scattered through prospective terrains) to supergiant accumulations like Rio Tinto (Spain), 1.5 Bt (billion metric tons); Kholodrina (Russia), 300 Mt (million metric tons); Windy Craggy (Canada), 300 Mt; Brunswick No. 12 (Canada), 230 Mt; and Ducktown (United States), 163 Mt (Galley and others, 2007). VMS deposits range in age from 3.55 Ga (billion years) to zero-age deposits that are actively forming in extensional settings on the seafloor, especially mid-ocean ridges, island arcs, and back-arc spreading basins (Shanks, 2001; Hannington and others, 2005). The widespread recognition of modern seafloor VMS deposits and associated hydrothermal vent fluids and vent fauna has been one of the most astonishing discoveries in the last 50 years, and seafloor exploration and scientific studies have contributed much to our understanding of ore-forming processes and the tectonic framework for VMS deposits in the marine environment (USGS, 2008)

Massive ore in VMS deposits consists of >40 percent sulfides, usually pyrite, pyrrhotite, chalcopyrite, sphalerite, and galena; non-sulfide gangue typically consists of quartz, barite, anhydrite, iron (Fe) oxides, chlorite, sericite, talc, and their metamorphosed equivalents. Ore composition may be Pb-Zn- Cu-Zn-, or Pb-Cu-Zn-dominated, and some deposits are zoned vertically and laterally (USGS, 2008).

Many deposits have stringer or feeder zones beneath the massive zone that consist of crosscutting veins and veinlets of sulfides in a matrix of pervasively altered host rock and gangue. Alteration zonation in the host rocks surrounding the deposits are usually well-developed and include advanced argillic (kaolinite, alunite), argillic (illite, sericite), sericitic (sericite, quartz), chloritic (chlorite, quartz), and propylitic (carbonate, epidote, chlorite) types (Bonnet and Corriveau, 2007).

An unusual feature of VMS deposits is the common association of stratiform “exhalative” deposits precipitated from hydrothermal fluids emanating into bottom waters. These deposits may extend well beyond the margins of massive sulfide and are typically composed of silica, iron, and manganese oxides, carbonates, sulfates, sulfides, and tourmaline (USGS, 2008).

### ***Geological Model***

#### ***Porphyry Type Deposit***

The geological features observed in Bolsa del Diablo and Hans (Cascajo Blanco) show some characteristics of an epithermal deposit, like stockwork ore, vuggy silica, silica bands and dissemination of sulfides, possibly associated to a Cu-Mo-Au porphyry system. Some portions of the Cascajo Blanco intrusive exhibit characteristics of a deeper porphyry system, including the potassic alteration and anomalous values of Mo. Park (2011) stated that two of the mining concessions (Hans X and Hans XX) contain a Mo-Cu porphyry system with peripheral auriferous quartz veins.

The definition of the geological setting combined with information on alteration mineralogy and zoning, geochemical anomalies and geophysical results is the best way to interpret the type of deposit and the location of each zone of the property in the system.

#### **Exploration Aspects**

Porphyry copper deposits often, but not always, appear as magnetic highs, with alteration halos usually manifested as annular (donut-shaped) or open-ring peripheral magnetic lows (Heithersay and Walshe, 1995; Ford and others, 2007). Typically, there is significant variability in magnetic susceptibility throughout the altered rock owing to the non-homogeneity of phyllic alteration-related magnetite destruction and late-stage magnetite formation (Gettings, 2005). Porphyry copper deposits almost always appear as moderate gravity lows, especially if the host rock is igneous or metamorphic (Oldenburg and others, 1997). Induced polarization (IP) anomalies are generally, but not always, a diagnostic indicator of economic mineralization. The IP anomalies correlate with both mineralization and

alteration-related magnetic lows; however, IP anomalies often indicate the most abundant pyrite zones in altered rocks rather than areas of less-IP-reactive clay minerals, chalcopyrite, and bornite (USGS, 2008)

Deposit-scale studies of trace elements have shown that copper, molybdenum, gold, silver, barium, lead, zinc, arsenic, antimony, and tellurium make up suites related to alteration zoning within deposits (for example, Beus and Grigorian, 1977; Chaffee, 1982, 1992, 1994). The principal associations are copper-molybdenum-gold ± silver-arsenic and barium-zinc-lead-antimony-silver-arsenic-tellurium ± bismuth (USGS, 2008)

A summary of zoning studies was published by Govett (1983). Copper, molybdenum, gold, and tin are most anomalous within the ore zones. Although silver and arsenic are also anomalous within ore zones, they also occur with barium, zinc, lead, and antimony in immediately overlying subeconomic, altered rock (Beus and Grigorian, 1977). Govett's (1983) summary shows that silver, zinc, lead, antimony, arsenic, tellurium, and bismuth are anomalous lateral to ore zones.

The knowledge of geological setting combined with information on alteration mineralogy and zoning, geochemical anomalies and geophysical results is the best way to interpret the potential for the identification of this type of deposit.

### *Epithermal Gold Deposit*

Grond and Winter (2005) indicated that the Bolsa del Diablo area hosts mineralization styles most characteristic of an epithermal system. In particular, colloform banding and drusy/vuggy quartz in veins observed locally are more typical of low-sulfidation systems. The lack of vuggy-silica textures but rather localized pervasive quartz and argillic alteration are generally more indicative of low-sulfidation system. The alteration at Bolsa del Diablo has not been studied in detail, but a few samples submitted for petrographic analysis indicate the presence of sericite and barite (more commonly associated with high sulfidation mineralization) as well as massive secondary quartz. Identification of specific clay minerals associated with the argillic alteration requires further study. More work is required to develop a more definitive deposit model; however, the mineralization features at Bolsa del Diablo are more typical of a low sulfidation gold deposit.

### Exploration Aspects

To assess an epithermal gold prospect effectively, it is essential to establish whether it is of low- or high-sulfidation style. The commonly extensive and conspicuous steam-heated acidic and/or weathering overprint on low-sulfidation systems has often been mistakenly identified as advanced argillic alteration related to a high-sulfidation system. The distinct origins of the two styles results in differences in the geochemical signatures of the ores (Table 13). With use of these generalized chemical differences to guide the design of geochemical surveys, and correct application of alteration zoning to focus detailed assessment towards ore potential (White and Hedenquist, 1995).

**Table 13: Geochemical Associations of Epithermal Deposits**

	<b>LOW SULFIDATION</b>	<b>HIGH SULFIDATION</b>
<b>ANOMALOUSLY HIGH</b>	Au, Ag, As, Sb, Hg Zn, Pb, Se, K, Ag/Au	Au, Ag, As, Cu, Sb, Bi Hg, Te, Sn, Pb, Mo, Te/Se
<b>ANOMALOUSLY LOW</b>	Cu, Te/Se	K, Zn, Ag/Au

Source: White & Hedenquist, 1995

Reconstruction of the geological setting and topography of a prospective district must be combined with information on alteration mineralogy and zoning (Table 9 and Table 10, geochemical anomalies (Table 11) and geophysical results to best interpret the potential for and location of epithermal mineralization (White and Hedenquist, 1995).

### *Volcanogenic Massive Sulfides Ore Deposit (VMS)*

Some characteristics of this type of deposit have been observed in Tomapampa, where anomalous values of Cu, Zn, Ag, Au and Pb are found in veins. The combination of detailed geological mapping of lithology, structural and alteration, geophysics and geochemical sampling is necessary to define the possible existence of a possible economic VMS deposit in the property.

#### Exploration Aspects

VMS deposits typically have strong geophysical contrasts with their host rocks because of the substantial differences in physical and chemical properties between the deposits and the rock in which they form (Thomas and others, 2000). Such properties include density, magnetic intensity and susceptibility, gravity, electrical resistance, and acoustical velocity (USGS, 2010).

VMS deposits produce significant electromagnetic, gravimetric, and magnetic responses and thus provide great potential for detection using geophysical methods.

Geochemically-based guides for VMS exploration and assessment can be divided into categories that focus on the following sample media: (1) rocks, (2) minerals, (3) stream sediments and heavy mineral concentrates, (4) glacial till, (5) lake sediments, (6) waters, and (7) soils and soil gases. The greatest effort probably has been directed towards rock geochemistry, involving searches for elevated contents of base and precious metals and for favorable indicators of VMS-type hydrothermal alteration (USGS, 2010).

#### Tambo Grande VMS

The Tambo Grande VMS deposit, 50 km south of the Hans Concessions, is hosted in a series of submarine andesitic volcanic flows (Ereos Formation) stratigraphically below the Bocana Formation. Whole-rock analysis shows that the Ereos Fm is geochemically tholeiitic – associated with oceanic crust-forming spreading centers – in contrast to the overlying volcanic sequence, Bocana and Lancones Formations, which are transitional between tholeiitic and calc-alkaline affinities (Rios et al., 2008).

Three Cu-Zn-Au-Ag deposits have been discovered to date at Tambo Grande: the TG1 deposit contains a resource of 56 million tonnes grading 1.6 % Cu, 1.1% Zn, 0.6 g/t Au and 27 g/t Ag within a large pyritic mound; a silica-barite-Feox cap containing an additional 9 million tonnes grading 3.7 g/t Au and 71 g/t Ag overlies the sulfide deposit; the TG3 deposit, approximately 500 m south of TG1, contains an inferred resource of 82 Mt grading 1.0 % Cu, 1.4 % Zn, 0.8 g/t Au and 25 g/t Ag; the B5 deposit has similar potential and is located about 11 km south of TG1 (Grond and Winter, 2005). Tambo Grande and the area of Las Lomas Project are located in the same basin where the submarine rift environment was developed. The knowledge of their similarities in lithology, alteration and mineralization features is an important tool for the exploration of Las Lomas Project.

### **Exploration**

#### ***Relevant Exploration Work***

The exploration carried out by Plexmar and its contractors and by Sierra through its subsidiaries, has successfully identified a number of exploration targets. The activities have included detailed geological mapping, rock chip sampling of outcrops and artisanal workings, and some channel sampling.

Before the Arrangement, Plexmar carried out a number of exploration campaigns beginning in 2004. The exploration activities were performed by Plexmar, its Peruvian subsidiary San Miguelito and several contractors.



Table 14 presents a summary of the exploration campaigns carried out by Plexmar from 2004 to 2012.

**Table 14: Exploration Campaigns carried out By Plexmar**

Year	Company/ Contractor	Area	Activities	Number of Samples		Comments
				Rock	Sedim.	
2004 - 2005	Minera Chan (Plexmar)	Bolsa del Diablo	Geology, rock sampling	64	-	Grab, chip, channel samples from outcrops and waste dumps of artisanal mines.
2006	Fugro Airborne Surveys	Bolsa Del Diablo	Magnetic and Radiometric Airborne Geophysical Survey			
2005 - 2006	San Miguelito – Minera Cautiva (Plexmar)	Bolsa Del Diablo, Cautivo de Ayabaca	Rock Sampling	1,232	-	Chip channels and chip samples from veins and outcrops.
2009	Los Incas (Plexmar)	Leona de Oro, Bolsa del Diablo, Sapillica	Geology, Rock Sampling, Sediment Sampling	412	2	Channel and panel chips from outcrops, workings

From 2004 to 2005, Plexmar collected 64 rock samples on the Bolsa del Diablo Property, as part of the preliminary examination of artisanal workings and localized geology. In 2005, Grond and Winter concluded from this exploration campaign that the widespread mineralization within the Bolsa del Diablo claims and in the immediate area represented a previously unknown potential new gold targets in north western Peru.

In 2006, Fugro Airborne Surveys was contracted by Plexmar to carry out a magnetic and radiometric airborne geophysical survey. Magnetometry results for Bolsa del Diablo indicate some magnetic response contrasts in the areas of Hans, Bolsa del Diablo and to the North in the Cautivito de Ayabaca. Further analysis and the integration with other exploration results is necessary to understand the significance of these magnetic anomalies.

In 2011, the contractor Los Incas S.A.C. carried out geological mapping and geochemical sampling that included 412 rock samples from Leona de Oro, Bolsa del Diablo and Sapillica.

The summary of the exploration activities carried out by Sierra is presented in Table 15.

**Table 15: Exploration Campaigns carried out By Sierra (After 2012)**

Year	Company/ Subsidiary	Sector	Activities	Number of Samples		
				Rock	Rock-vein	Soil
2013	San Miguelito (Plexmar)	Tomapampa	Geology, rock sampling	32	6	
2013-2014		Hans	Geology, rock sampling	52	113	
2014		Bolsa Del Diablo	Geology, rock soil sampling	84	48	2
2013-2014		Sapillica	Geology, rock sampling, sediment sampling	21	78	8

### ***Sampling Methods and Sample Quality***

The geochemical sampling has included mostly rock chip sampling collected by geologists from artisanal workings, trenches, pits and outcrops using hammers and chisels. The rock samples location are surveyed with a handheld GPS.

Ten soil samples have been gathered. Sampling methodology involves collecting material from the B Horizon using small shovels.

The samples collected so far are point samples and must be considered indicative of mineralization rather than representative of any volume or tonnage. The results of the rock samples presented in this section are used for assessment, future exploration planning and for drilling target definition, rather than resource estimation.

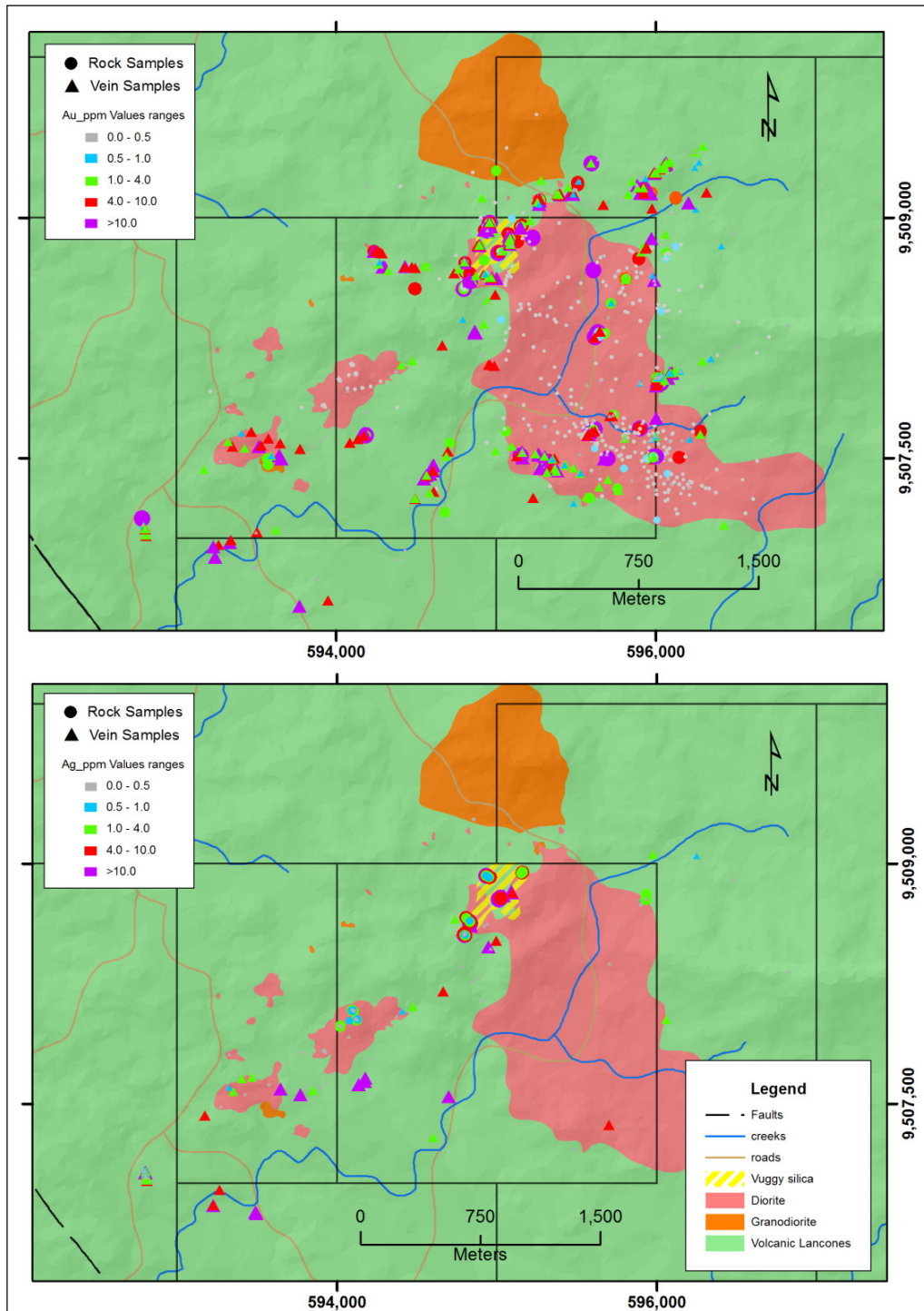
***Significant Results and Interpretation***

The results of the rock sampling performed on the property by Plexmar and then by Sierra are presented below.

***Bolsa del Diablo***

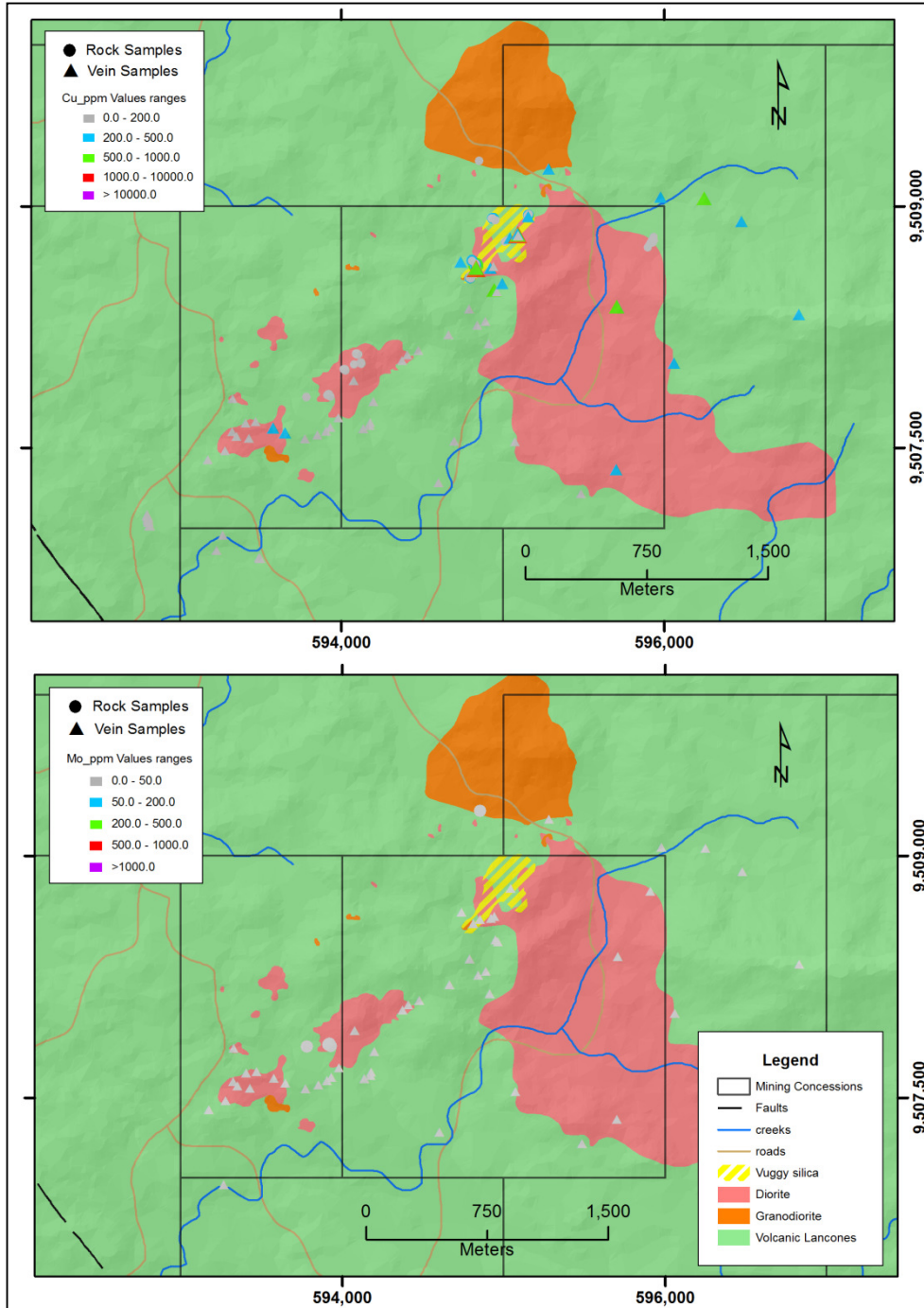
Figure 6 and Figure 7 present the rock sampling results from veins and outcrops.

Figure 6: Au and Ag Rock Sampling Results - Bolsa del Diablo



Source: SRK, 2016

Figure 7: Cu and Mo Rock Sampling Results - Bolsa del Diablo



Source: SRK, 2016

The grade profiles of Au, Ag, As, Cu, Pb, Zn and Mo in 50 rock samples of veins collected by Los Incas (2009) are presented in Figure 8.

Figure 8: Au, Ag, As, Cu, Pb, Zn Profiles of 50 Vein-Rock Samples of Bolsa el Diablo (Los Incas 2009)



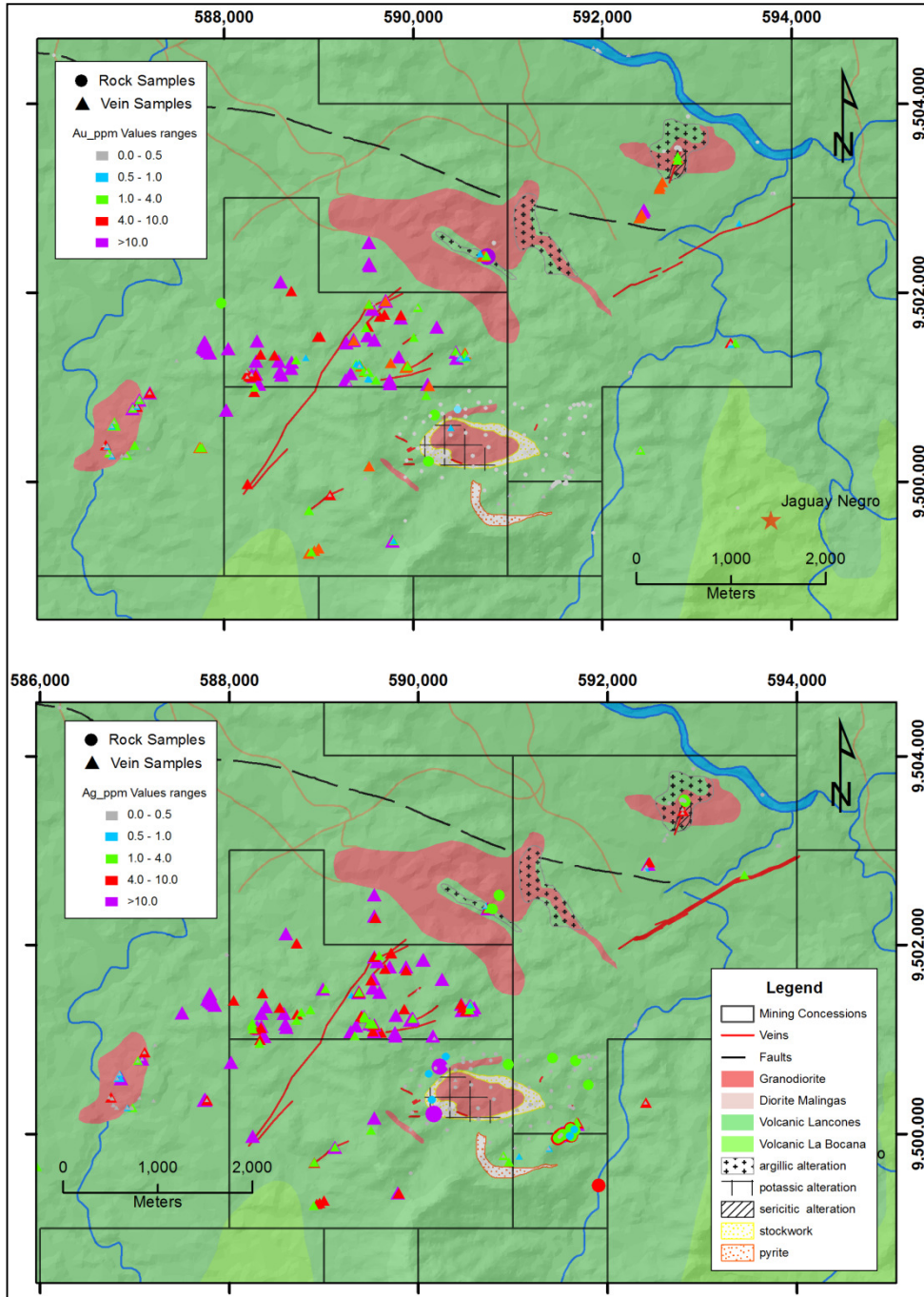
Source: SRK, 2016

The behavior of the different elements and their correlations indicate the existence of different mineralized events in the veins. Gold has good correlation with Ag and As. Locally high values of Zn and Pb have relation with gold. Mo values are not anomalous in Bolsa del Diablo. Some moderate values of gold and silver are associated to the vuggy silica alteration in the intrusives.

Hans

Figure 9 and Figure 10 present the rock sampling results from veins and outcrops collected in Hans.

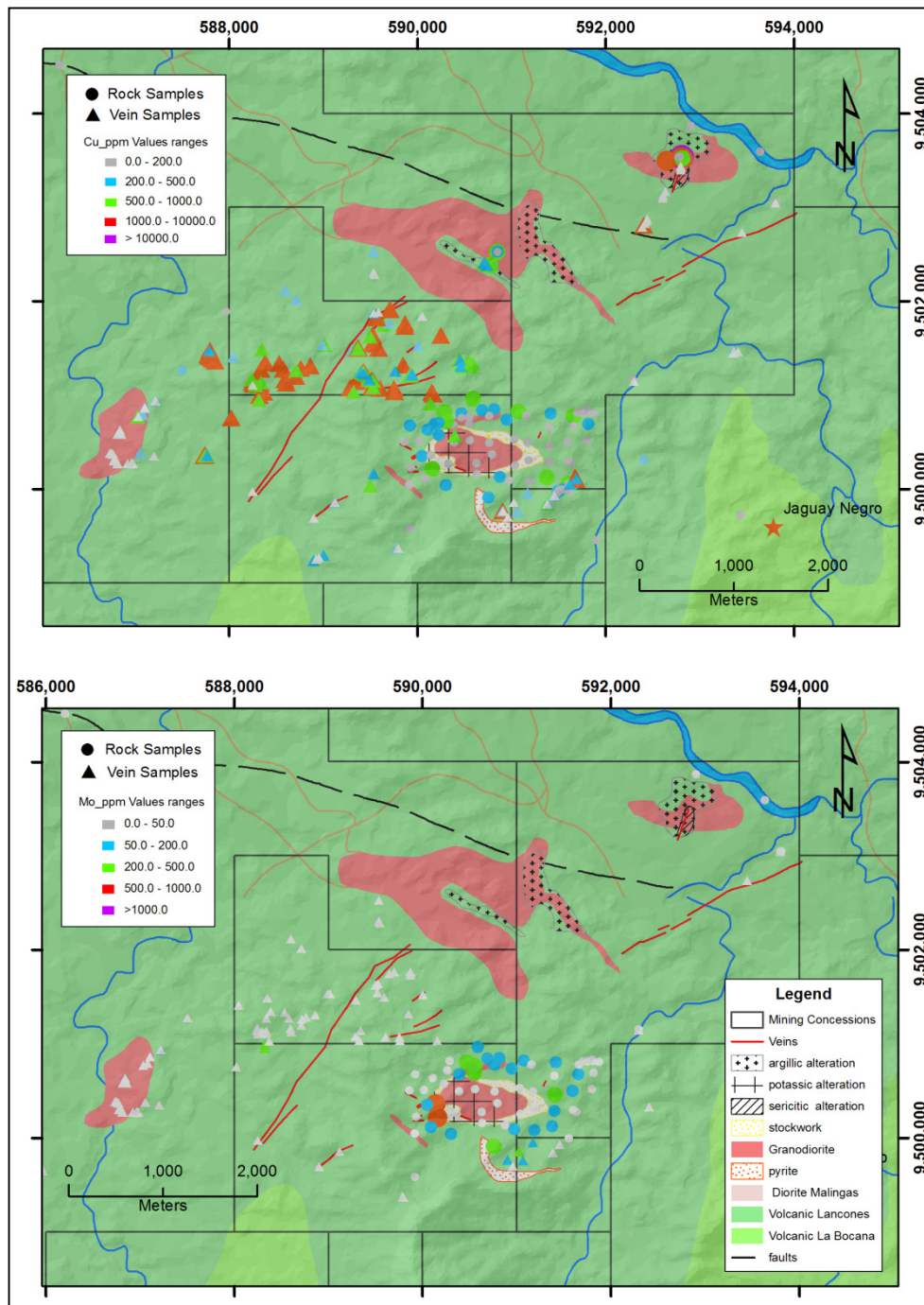
Figure 9: Au and Ag Rock Sampling Results - Hans



Source: SRK, 2016

Figure 10: Cu and Mo Rock Sampling Results - Hans

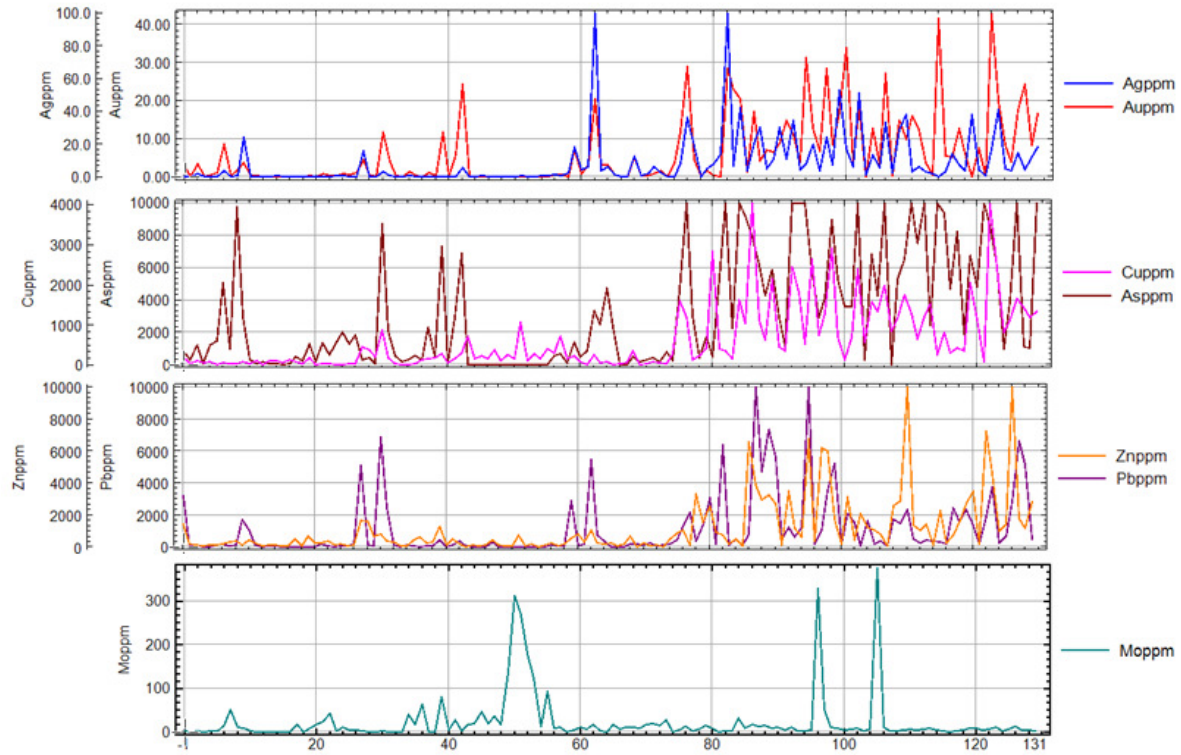




Source: SRK, 2016

The grade profiles of Au, Ag, Cu, Mo, Pb, Zn and As in 130 rock samples of veins collected by Los Incas (2009) are presented in Figure 11. Figure 12 shows the behavior of the same elements for 130 samples taken from host rocks (not from veins), and 61 samples from veins at Hans.

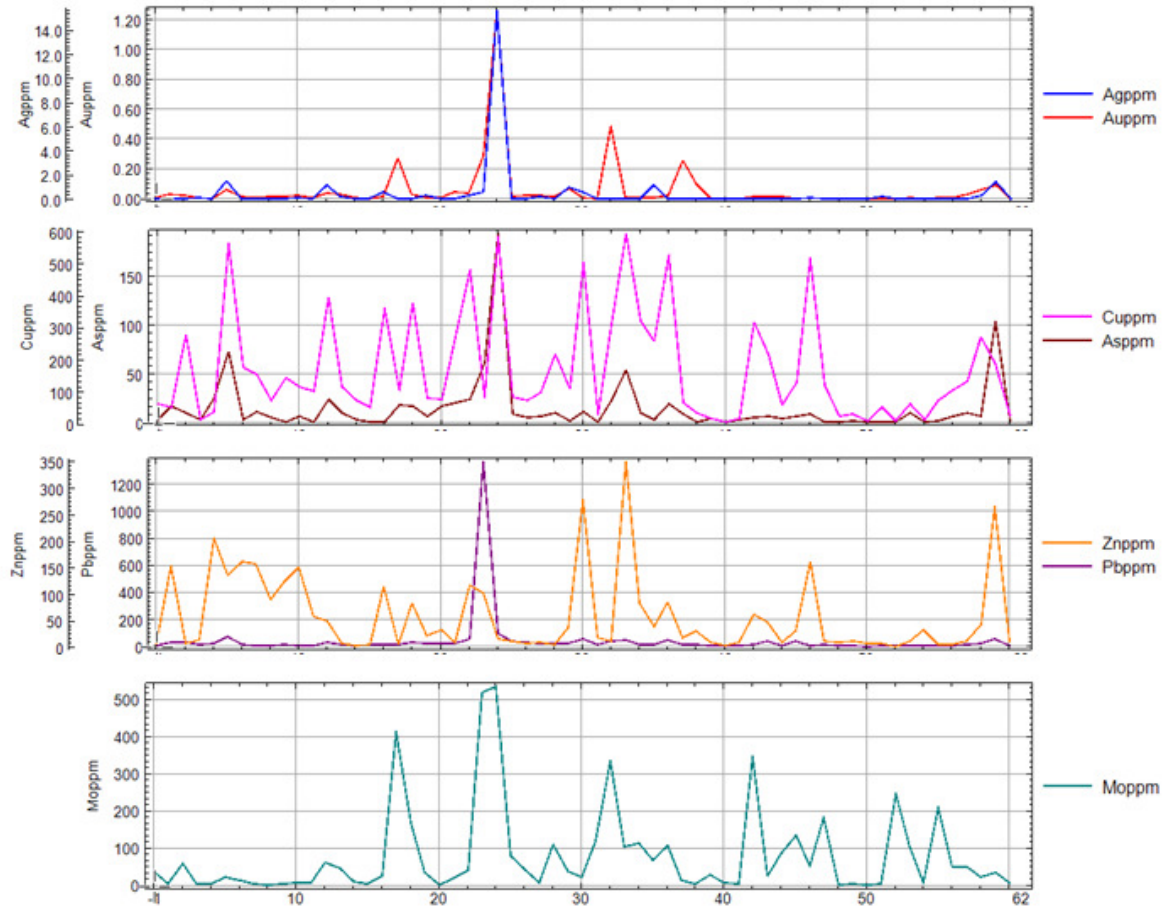
Figure 11: Au, Ag, Cu, As, Pb, Zn and Mo Profiles of 130 Vein-Rock Samples of Hans (Los Incas 2009)



Source: SRK, 2016



Figure 12: Profiles of Au, Ag, Cu, As, Pb, Zn and Mo for 61 Rock Samples of Hans (Los Incas 2009)



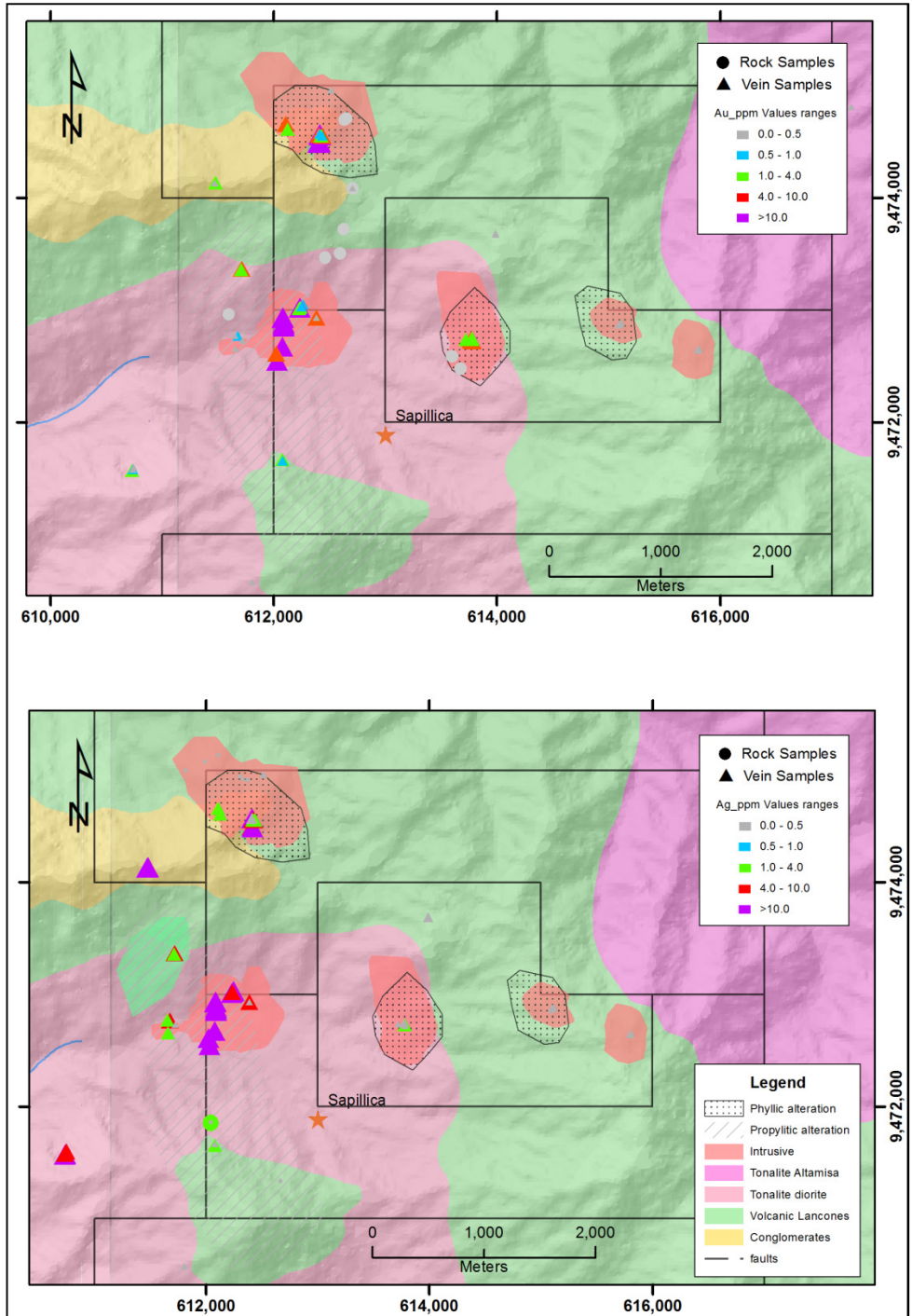
Source: SRK, 2016

The values of Mo and Cu at Hans are higher than at Bolsa del Diablo and are considered consistently anomalous and are observed to the borders of the Cascajo Blanco porphyry and in the surrounding volcanoclastic rocks. A good correlation of Au with Ag and As is observed in the veins, and Mo is related to gold in the host rock samples.

*Sapillica*

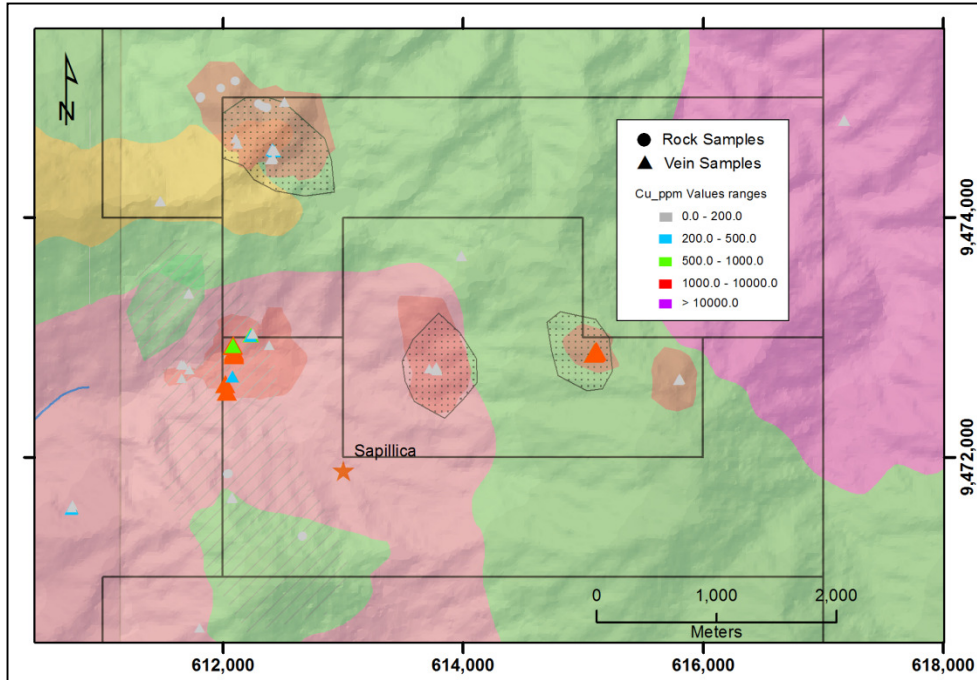
Figure 13 and Figure 14 present the rock sampling results from veins and outcrops collected since 2004.

**Figure 13: Au and Ag Rock Sampling Results – Sapillica**



Source: SRK, 2016

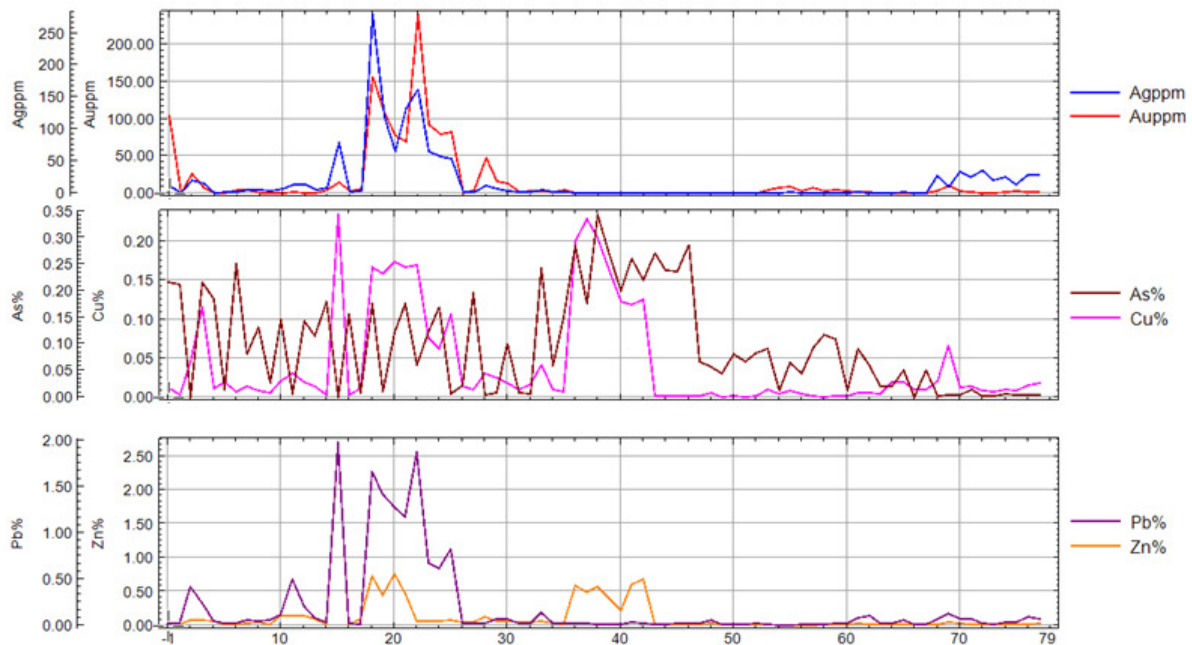
**Figure 14: Cu Rock Sampling Results - Sapillica**



Source: SRK, 2016

The grade profiles of Au, Ag, Pb, Cu, Zn and As in 78 vein samples collected by San Miguelito between 2013 and 2014 are presented in Figure 15.

Figure 15: Profiles of Au, Ag, Cu, Pb, Zn and As for 78 Vein -Rock Samples of Sapillica, San Miguelito (2014)



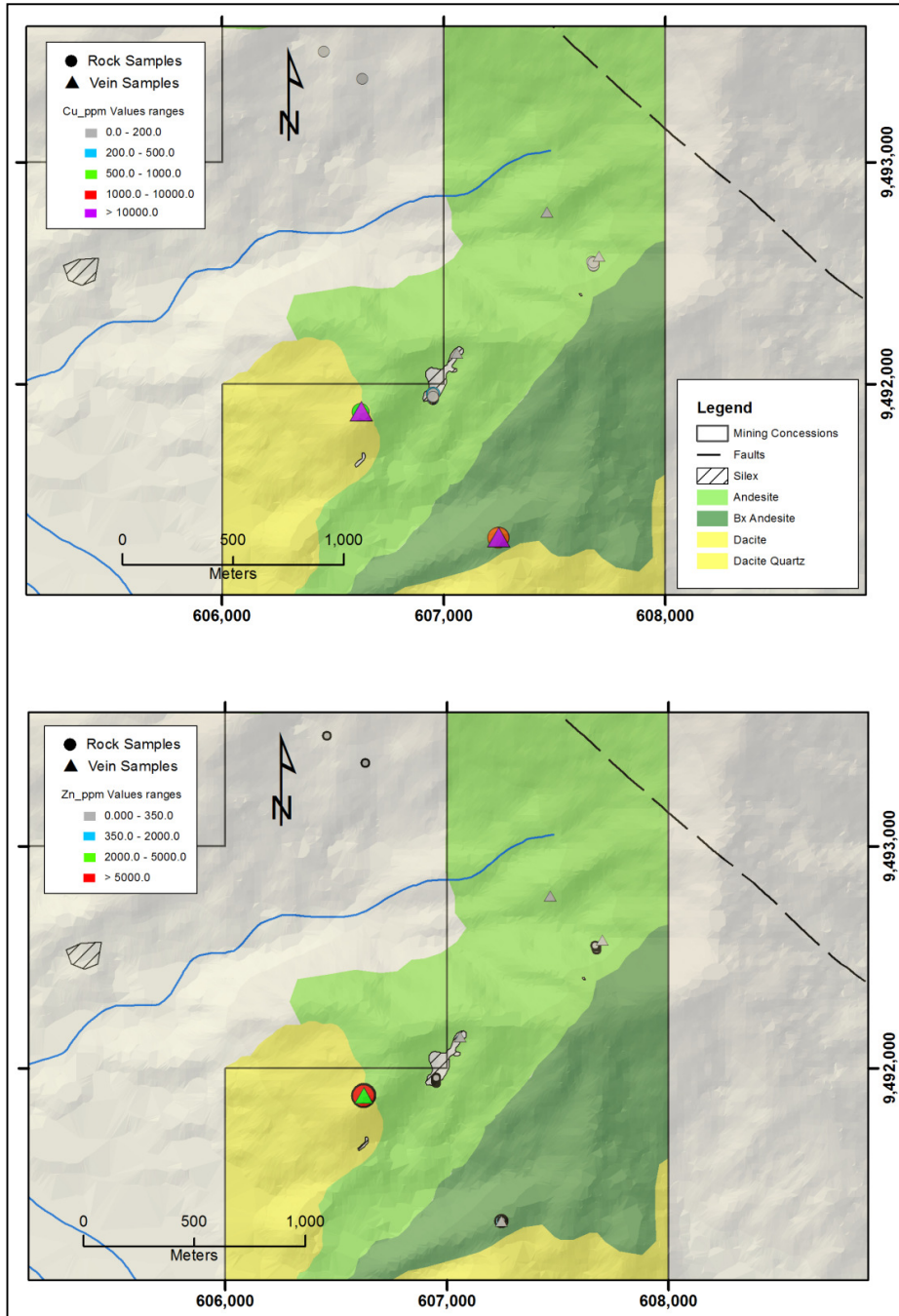
Source: SRK, 2016

Moderate to very high grades of gold have good correlation with silver, lead, copper and zinc in the veins at Sapillica. Values of up to 240 g/t Au and 278 g/t have been obtained from the veins.

*Tomapampa*

Figure 16 and Figure 17 present the rock sampling results from veins and outcrops collected since 2004.

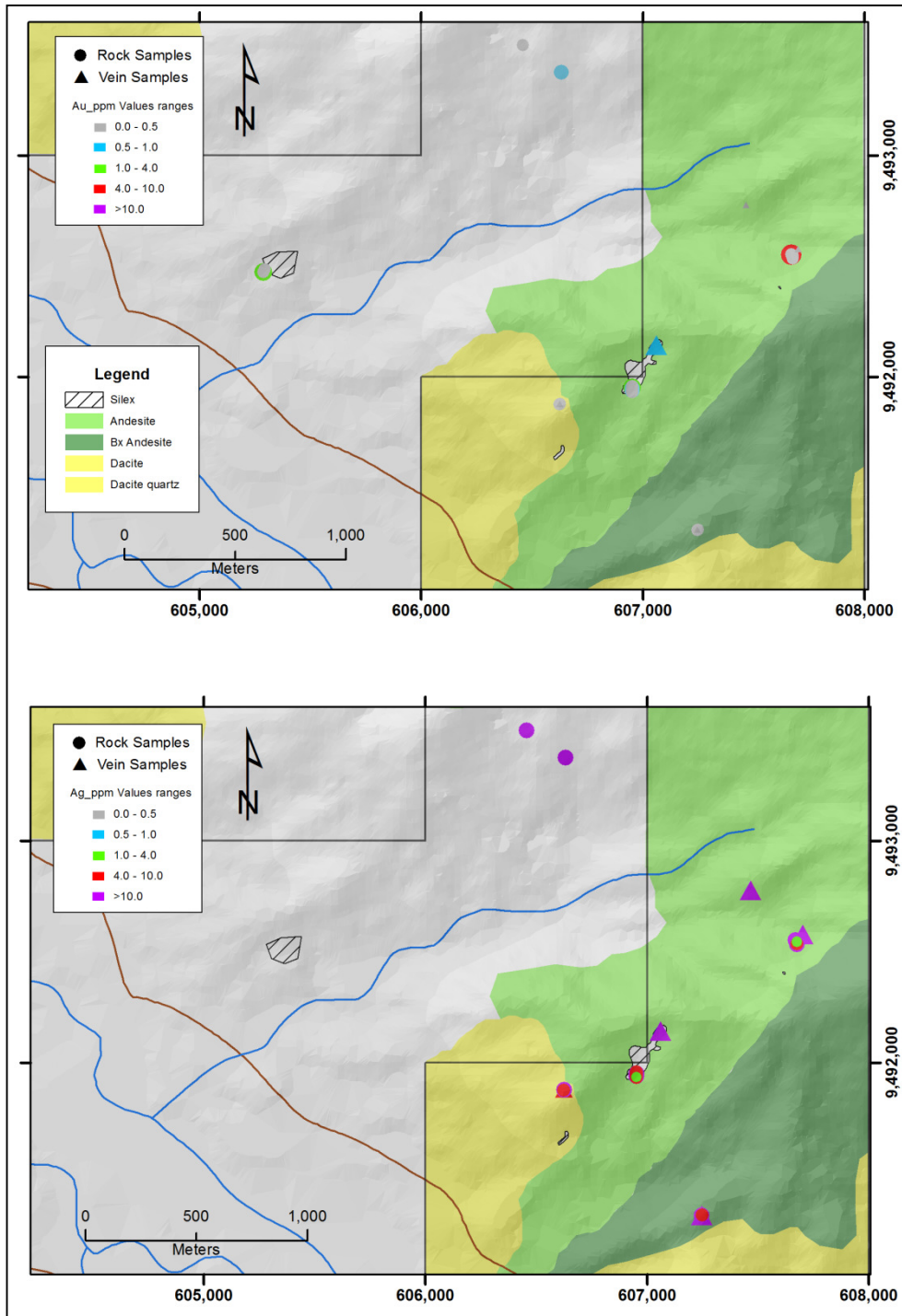
**Figure 16: Cu and Zn Rock Sampling Results – Tomapampa**



Source: SRK, 2016



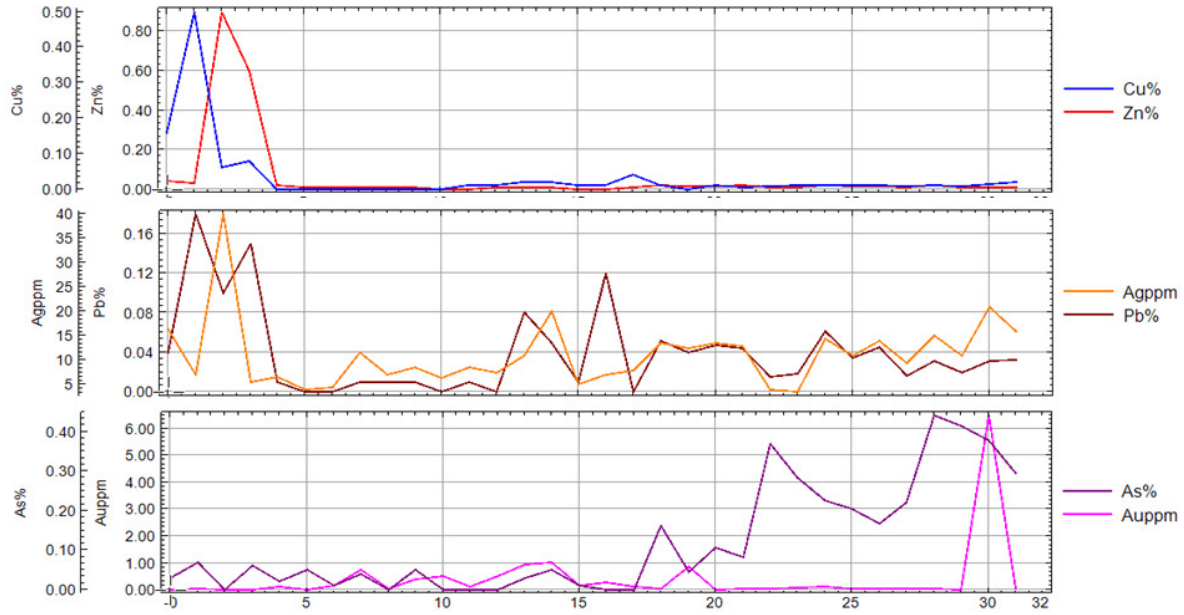
Figure 17: Au and Ag Rock Sampling Results – Tomapampa



Source: SRK, 2016

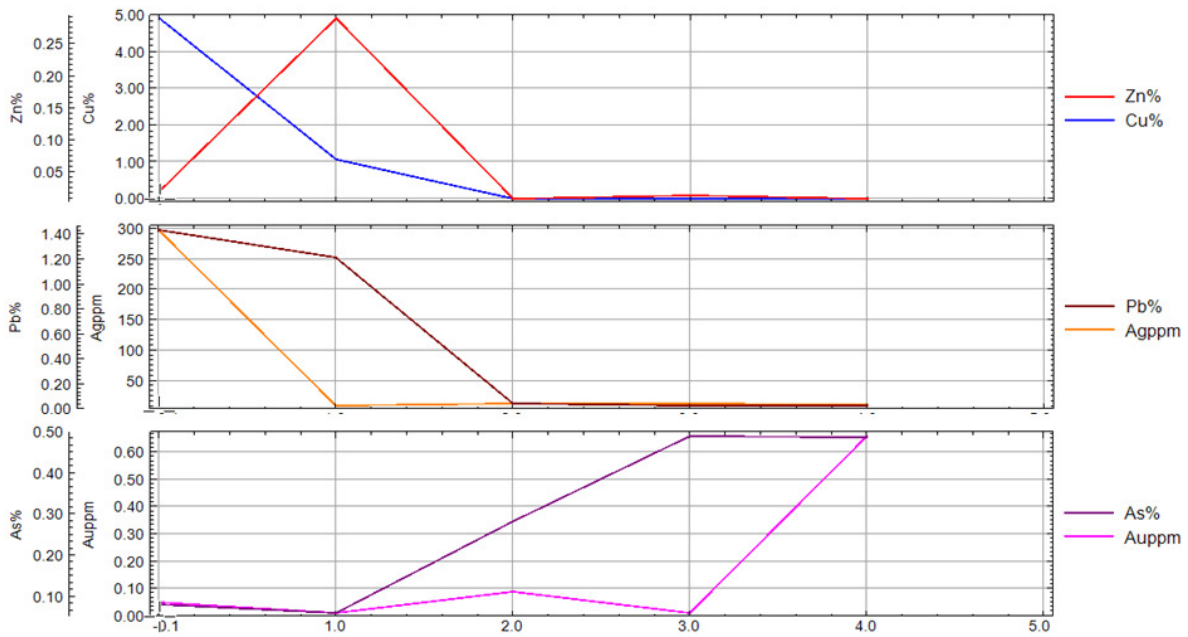
The grade profiles of Cu, Zn, Fe, Au, Ag and Pb in 31 rock samples collected by San Miguelito between 2013 and 2014 are presented in Figure 18. Figure 19 presents the profiles for 4 samples collected from some mineralized veins in Tomapampa.

Figure 18: Profiles of Cu, Zn, Fe, Au, Ag, and Pb for 31 Rock Samples of Tomapampa, San Miguelito (2014)



Source: SRK, 2016

Figure 19: Profiles of Cu, Zn, Fe, Au, Ag, and Pb for 4 Vein -Rock Samples of Tomapampa, San Miguelito (2014)



Source: SRK, 2016

Although the sampling is limited, high values of Cu and Zn are observed in some vein-rock samples.

## Drilling

No drilling has been carried out in the Las Lomas Project.

## Sample Preparation, Analysis and Security

The laboratories used for chemical analysis and the analysis types used for the rock sampling campaigns carried out in the Las Lomas since 2004 are presented in Table 16.

**Table 16: Chemical Analysis of Rock Samples 2004 - 2014**

Year / Exploration Campaign	Exploration Company/ Contractor/Subsidiary	Laboratory	Sample Analysis
2004 - 2005	Minera Chan (Plexmar)	Chemex Lab (Lima)	34 element Aqua Regia ICP-AES Fire Assay, AAS finish, 30 g nominal sample weight
2005 - 2006	San Miguelito – Minera Cautiva (Plexmar)	Missing Information	
2009	Los Incas (Plexmar)	CIMM – Peru S.A. (Lima)	Fire Assay - Au-EFAAS 30 gr (Atomic Absorption) Fire Assay - Au-EFGR 30 gr (gravimetry) ICP-AR35 (Aqua regia Multielement)
2013	San Miguelito (Plexmar)	Minera Corona's Chumpe laboratory <sup>(1)</sup>	Atomic Absorption (AA) – Aqua Regia digest (Ag, Pb, Zn, Cu)
2013-2014			Fire Assay (FA) – Atomic Absorption finish. (Au) ALS Minerals is used as an independent check.
2014		ALS Minerals (Lima)	Fire Assay - Au-AA 23 (Atomic Absorption Finish)
2013-2014			35 Element Aqua Regia ME-ICP41

(1) Laboratory not independently certified (Non-ISO Certified)

### *Security Measures*

The samples collected in field are stored in the San Miguelito office in Las Lomas town. The staff of San Miguelito transport the samples by road to Piura where the samples are sent to the Minera Corona offices in Lima. Sociedad Minera Corona S.A. is a subsidiary of Sierra in Lima that owns the Yauricocha mine, located in the Alis district, Yauyos province, department of Lima, approximately 12 km west of the Continental Divide and 60 km south of the Pachacayo railway station.

From the offices in Lima the samples are transported to Minera Corona's Chumpe laboratory located in the Yauricocha mine site. The samples sent to ALS Minerals in Lima are transported by the Minera Corona staff to the Lab location situated in: Calle 1 LT-1A Mz-D Esq. Con Calle A Urb. Industrial Bocanegra Callao, Lima.

### *Sample Preparation for Analysis*

Two laboratories have been used by San Miguelito: Chumpe laboratory and ALS Minerals of Lima.

## *Chumpe Laboratory*

### Sample Reception

Rock samples are received at the reception counter at the laboratory entrance. A log entry is made to record the number of samples being received. These samples are between 1.5 and 3.0 kg, are damp, and received in plastic bags.

### Preparation

Equipment used in sample preparation includes:

- One Primary Jaw Crusher, Make – Denver, Jaw capacity – 5 inch x 6 inch, Output – 70%, minus ¼ inch
- One Secondary Jaw Crusher, Make – FIMA, Jaw capacity – 5 inch x 6 inch, Output –80%, minus 10 mesh
- One Pneumatic Pulverizer, Make – Tmandina
- Two Sample Dryers, with termocupla and temperature regulator
- One ½ inch Stainless steel splitter, Make – Jones
- Five point air nozzles
- Stainless steel trays, 225x135x65 mm
- Stainless steel trays, 300x240x60 mm
- Plastic or impermeable cloth
- Two-inch brushes

### Preparation Procedure

Prior to beginning sample preparation, verification is made that:

- The equipment is clean and free from contamination.
- The crushers and pulverizers are functioning correctly.
- Review the numbering of the sample bags that all bags are unique and identifiable.

The procedure to reduce the sample to a pulp of 150 gm, at 85% passing 200 mesh is:

- Transfer the sample to the appropriate tray, depending on the volume of the sample, noting the tray number on the sample ticket.
- Insert a blank sample (silica or quartz) in each batch.
- Place in the Sample Dryer at a temperature of 115°C.
- Code the sample envelopes with the information from the sampling ticket noting the sample code, the tray number, date and the quantity of samples requested on the sample ticket.
- Once dry, remove and place the tray on the work table to cool.
- Pass 100% of the sample through the Primary Jaw Crusher when particle sizes exceed 1 inch, the resulting product 70% passing ¼ inch.
- Pass the sample through the secondary crusher, the resulting product 80% passing 10 mesh.
- Clean all equipment after crushing of each sample.
- Select a random sample to carry out the control of the crushing to 10 mesh, noting the weights in the log along with the sample code for the sample in question.
- Empty the sample into the Jones Splitter and split to obtain an approximate 150 g sample. Clean the splitter after each sample with the air nozzle.
- Put the numbered envelopes in the tray for the corresponding sample.
- Then pass the sample in the ring cavity of the pneumatic pulverizer until achieving a size fraction of 85% minus 200 mesh. This is accomplished by setting the time on the pulverizer's timer. Clean the cavities after each pulverization with the compressed air nozzle.



- Transfer the pulverized sample to the impermeable sample mat, homogenize and pour into the respective coded envelope.
- As a part of this process, pass a random sample through a 200 mesh screen, noting the weights in the control log.
- Clean all materials and the work area thoroughly.

*ALS Minerals*

SRK has not visited the ALS Minerals lab in Lima. ALS is an ISO-Certified preparation and analysis facility achieving the most stringent standards in the industry.

The preparation package used for the rock samples sent from Piura include: Crush to 70% less than 2 mm, riffle split off 250 g, pulverize split to better than 85% passing 75 microns. Samples are tracked in barcoded envelopes throughout the process using internal tracking and control measures.

***Sample Analysis***

The rock sample analysis is performed in Chumpe Laboratory and ALS Minerals (Lima).

*Chumpe Laboratory*

The chemical analyses performed in Chumpe Laboratory include:

- Atomic Absorption (AA) – Aqua Regia digest for Ag, Pb, Zn and Cu; and
- Fire Assay (FA) – Atomic Absorption finish for Gold.

The lower limits of detection of the analysis are shown in Table 17, and are higher than those for ALS Minerals as Chumpe does not run the same multi-element analysis.

**Table 17: Chumpe Laboratory - Lower Limits of Detection**

<b>Element</b>	<b>Lower detection Limit</b>	<b>Unit</b>
Au	0.01	ppm
Ag	0.2	ppm
Cu	0.02	%
Pb	0.02	%
Zn	0.02	%

Source: Sierra, 2016

*ALS Minerals*

The rock sample analyses performed in ALS laboratory are:

- Fire Assay - Au-AA 23 (Atomic Absorption Finish); and
- 35 Element Aqua Regia ME-ICP41.

ME-ICP41 analysis uses inductively coupled plasma atomic emission spectroscopy (ICP-AEC) on aqua regia digest. Samples are also analyzed an atomic absorption method on an aqua regia digest for accuracy at ore-grade ranges. Gold is analyzed using FA with AA finish.

The lower limits of detection are presented in Table 18.

**Table 18: ALS Minerals - Lower Limits of Detection**

<b>Element</b>	<b>Lower detection Limit</b>	<b>Unit</b>
Au	0.005	ppm
Ag	0.2	ppm
Cu	0.0001	%
Pb	0.0002	%
Zn	0.0002	%

***Quality Assurance/Quality Control Procedures***

Plexmar has not implemented a QA/QC control procedure for the prospection-exploration sampling made in Las Lomas.

Plexmar uses an internal QA/QC procedure in the Chumpe Laboratory located at the Yauricocha mine.

***Opinion on Adequacy***

Although there is no QA/QC control procedure established for the activities in Las Lomas, the security, sample preparation and analytical procedures are adequate for the exploration level of the Las Lomas. The samples collected so far must be considered indicative of mineralization rather than representative of any volume or tonnage.

**Data Verification**

SRK visited the property on October 5-7, 2016. The visit to the property included the examination of the outcrops along roads and trails, confirming geological setting, visiting a number of artisanal workings and collection of rock samples from typical mineralized rocks. The areas visited included the Bolsa del Diablo, Hans, Tomapampa and Sapillica. The concessions of the Las Lomas property located to the north and east of the Bolsa del Diablo area were not visited. The exploratory studies carried out on those concessions are limited.

The technical information was provided and reviewed in Plexmar's office in Las Lomas town.

***Procedures***

Seven independent rock chip samples were collected from different areas of the property:

Bolsa del Diablo:

- Sample ZOR-1: Chip channel sample, 15 cm length and 10 cm width vein in stockwork (artisanal working) formed in the porphyry of Angolos, 15 cm vein width, 285°/90°SE.
- Sample ZOR-2: Chip pannel sample, 40 cm x 40 cm, stockwork (artisanal working) formed in the porphyry of Angolos.

Hans:

- Sample VH-1: Chip channel sample, 25 cm length and 15 cm width, vein peripheral vein to the Cascajo Blanco porphyry, exploited by artisanal miners in Hans XX concession, Mina Victor Hugo. 25 cm vein width, 215°/45°SE.

Tomapampa:

- Sample TP-1: Chip pannel sample, 40 cm x 40 cm massive sulfide material, part of a VMS deposit found close to the Almirante Miguel Grau concessions in the mine of Duberly Campos.
- Sample TP-2: Chip pannel sample, 40 cm x 40 cm, volcanic rock with limonite and hematite in stockwork, property Miguel Grau VI concession.

### Sapillica:

- Sample SAP-1. Chip channel, 15 cm length and 10 cm width, limonite, quartz veinlet, filling fracture in dioritic intrusive. 15 cm vein width, 40°/90°SE.
- Sample SAP-2. Chip channel, 20 cm length and 10 cm width, limonite, quartz veinlet, argillized, filling fracture in dioritic intrusive, 20 cm vein width, 0°/60°E.

The samples were bagged, tagged and sealed in plastic bags and remained in possession of the author for the trip from the Property to Piura, where the samples were sent to ALS Minerals (Lima) using a courier company. The samples weighed from 1 to 3 kg. The chemical analysis consisted multiple element ICP analysis (35 element aqua regia ICP-AES; code: ME-ICP41), and Fire Assay of gold (Au 30 g FA-AA, code: Au-AA23). The samples containing more than 10 g/t Au, were analyzed by Au 30 g Fire Assay – gravimetric finish (Code: Au-GRA21) and Ore grade Ag – four acid / AAS (Code: Ag-AA62). Table 19 presents the results of the independent samples. The assay certificates and results for the samples can be found in Appendix B.

Plexmar's staff in Las Lomas provided sampling databases, assay certificates and described the legal and social situation of the property.

**Table 19: List of independent samples and results, October 2016**

East	North	Zone	Sample Type	Sample ID	Au (ppm)	Ag (ppm)	Cu (ppm)	Pb (ppm)	Zn (ppm)
594,493	9,508,628	Bolsa del Diablo	Chip channel	ZOR-1	0.18	2.1	394	43	67
594,956	9,508,915	Bolsa del Diablo	Chip pannel	ZOR-2	1.980	2.2	237	78	56
589,598	9,501,861	Hans	Chip channel	VH-1	67.1	80.9	813	1,620	399
605,282	9,492,491	Tomapampa	Chip pannel	TP-1	2.80	>100	3,360	329	1,580
606,955	9,492,021	Tomapampa	Chip pannel	TP-2	1.275	12.1	158	558	85
612,354	9,472,929	Sapillica	Chip channel	SAP-1	2.84	1.1	24	33	270
612,086	9,473,017	Sapillica	Chip channel	SAP-2	108.5	55.6	1,240	>10,000	1,640

Note: Position taken with GPS map 62sc - Garmin

### ***Limitations***

The analysis certificates of rock sampling performed by Plexmar between 2005 and 2006 were not available.

### ***Opinion on Data Adequacy***

The data used in the technical report is adequate for the purposes used in this report.

### **Mineral Processing and Metallurgical Testing**

To date, no mineral processing and metallurgical studies have been carried out on Las Lomas mineralization.

### **Mineral Resource and Mineral Reserve Estimates**

To date, no NI 43-101 compliant mineral resource estimates or NI 43-101 compliant mineral reserve estimates have been completed on the Las Lomas.

### **Mining Methods**

To date, no studies of mining methods have been carried out on Las Lomas.

### **Recovery Methods**

To date, no studies of recovery methods have been carried out on the Las Lomas, as no processing or metallurgical investigations have been completed on Las Lomas.

### **Project Infrastructure**

To date, studies of required infrastructure for a potential mine project have not been carried out for the Las Lomas.

### **Market Studies and Contracts**

To date, there are not market studies or contracts associated to the mineralization within Las Lomas.

### **Environmental Studies, Permitting and Social or Community Impact**

To date, environmental studies, permitting and social or community impact of a mining project have not been performed for Las Lomas.

### **Capital and Operating Costs**

To date, no capital and operating costs have been evaluated for a mining project in Las Lomas.

### **Economic Analysis**

To date, no economic analysis has been completed for a mining operation in Las Lomas.

### **Adjacent Properties**

SRK is not aware of any adjacent properties to the Las Lomas as defined under NI 43-101.

### **Other Relevant Data and Information**

Community support is a critical aspect affecting the success of exploration projects. The Tambo Grande project has suffered the resistance of the civil population and as of the date of this report, the project has not been developed. Although the Las Lomas Project is in an historical mining district, a good relationship with the local communities and stakeholders is essential for the advance of exploration and exploitation work.

### **Interpretation and Conclusions**

#### *Exploration*

Las Lomas Project is located in a district with significant mining potential, as clearly evidenced by the existence of artisanal gold mining in a number of sectors of Las Lomas Project, the occurrence of mineral deposits such as the world class Cu-Zn-Au-Ag VMS deposit of Tambo Grande (50 km SW),  $\pm$ Cu- $\pm$ Au porphyry, skarn and polymetallic vein occurrences to the NW.

In the regional geological context, Las Lomas lies in the Lancones Basin, which is characterized by the existence of submarine rift-related volcanoclastic rocks cut by intrusives of acid to intermediate composition. These intrusives are possibly associated with the mineralized hydrothermal fluids producing the mineral enrichment found in the project.

The geological environment, structural framework and styles of mineralization observed suggest that mineralization and alteration in the area could be attributed to epithermal gold,  $\pm\text{Cu}-\pm\text{Au}-\pm\text{Mo}$  porphyry and VMS systems. These deposit types have well-defined characteristics which can be used to guide the understanding of the mineralization at Las Lomas. The overlap of different pulses and styles of mineralization must be considered. Table 20 presents the ore deposit models applicable to Las Lomas Project and the commodities of interest.

**Table 20: Ore Deposit Models Applicable to Las Lomas Project**

Area	Ore Deposit Models	Commodity of Interest
Bolsa del Diablo	Epithermal Gold $\pm\text{Cu}-\pm\text{Au}-\pm\text{Mo}$ Porphyry	Au, Ag, Cu
Hans	Epithermal Gold $\pm\text{Cu}-\pm\text{Au}-\pm\text{Mo}$ Porphyry	Au, Ag, Cu, Mo
Tomapampa	VMS	Cu, Zn, Pb, Ag, Au
Sapillica	Epithermal Gold	Au, Ag, Pb

In Bolsa del Diablo and Hans there are numerous occurrences of high-grade gold associated with Au-quartz veins cutting the intrusive rocks (Angolos and Cascajo White) and volcanoclastic sequences. In addition, lower Au grade values are found as disseminations in the rocks and in stockwork form. These observations indicate the possible existence of an economic deposit that will require additional detailed and well-planned exploration.

Exploratory studies of Sapillica and Tomapampa are limited. However, rock sampling results have been encouraging. The character and continuity of the mineralization is not yet understood. The geological features observed in Tomapampa and the surrounding area indicate the possible existence of a VMS type deposit; however, further research is necessary to define the mineral potential of the area.

SRK is of the opinion that the exploration methods used are currently adequate and resulted in the discovery of important evidence of gold mineralization on the property; however, improvements can be implemented in the areas of information management, documentation, database administration, establishment of exploration protocols, and data QA/QC.

Plexmar will require the implementation of a social responsibility strategy to maintain and improve the relations of the company with the Campesino Communities settled in the prospective areas. The negotiation of formal agreements is essential to advance in the definition of the mineral potential of the property.

## **Recommendations**

### ***Recommended Work Programs and Costs***

Despite previous studies performed on the property, the Las Lomas Project is an early exploration stage project. SRK therefore recommends the following two phased exploration program. If it is implemented, the understanding of the economic potential of the property will be improved. The total or partial performing of the Phase II program depends on the results of the Phase I.

SRK recommends that exploration activity protocols and an industry-standard QA/QC program be designed and implemented for Las Lomas before starting the next exploration program.

## ***Phase I***

### *Social Responsibility Program*

Negotiate and implement of the agreements with the Campesino Communities of Pampa Larga, San Sebastian, Tomapampa and Sapollica.

### *Detailed Geological Mapping*

Detailed geological mapping of lithology, hydrothermal alteration, structure and mineralization features, in the areas of Bolsa del Diablo, Hans, Tomapampa and Sapollica.

A semi-detailed mapping program is recommended for the northern concessions where little exploration information has been collected to date.

### *Geochemical Sampling*

#### Rocks:

Rock sampling of trenches and pits along the recognized high grade structures (50 m intervals). In areas with contamination, rock sampling from regular pits to define the importance and dimension of the disseminated mineralization (50 x 50 m grid). Sampling should be conducted to ensure representativeness of the results.

#### Soils:

Perform soil sampling in areas uncontaminated by artisanal mining.

- Bolsa del Diablo and Hans: 50 m x 25 m grid.
- Sapollica and Tomapampa: 100 m x 50 m grid.

#### Stream Sediment Sampling:

Carry out stream sediment sampling in the northern concessions, near the limit with Ecuador, considering potential impact of the contamination issues due to artisanal mining.

### *Geophysical Surveys*

**Bolsa del Diablo and Hans:** Indicative analysis should be done to define the appropriated method to be used. Ground Induced Polarization is recommended to define possible zones at depth with anomalous contents of sulfides.

**Tomapampa:** Ground Gravity methods are appropriate to define density contrasts at depth, which are characteristic of a VMS deposit type.

## ***Phase 2***

### *First-round Drilling*

Depending on the results of the Phase I, drill targets should be defined to test the down dip extension of the mineralization observed at surface.

5,000 m of drilling distributed in Bolsa del Diablo and Hans are recommended to obtain information regarding the continuity of the mineralization to depth and to better define the spatial distribution of the mineralization.

## Costs

Table 21 lists the activities and estimated costs for the recommended work described above.

**Table 21: Summary of Costs for Recommended Work**

Work	Units	Cost US\$
<b>Phase I</b>		
Social Responsibility	N/A	50,000
Detailed Geological Mapping	N/A	90,000
Geochemical Sampling	2,500	125,000
Geophysical Surveys	3	120,000
<b>Sub-Total Phase I</b>		<b>\$385,000</b>
<b>Phase II</b>		
Social Responsibility	N/A	20,000
Personnel	N/A	40,000
Drilling	5,000	500,000
<b>Sub-Total Phase II</b>		<b>\$560,000</b>
<b>TOTAL</b>		<b>\$945,000</b>

Note: Drilling costs assume US\$100/m drilling costs.

## DOING BUSINESS IN PERU

The Corporation is largely dependent upon foreign operations due to the fact that it has direct and indirect interests in mineral properties – being the Las Lomas Project – is located in Peru.

### Government Organization

Peru is a democratic republic governed by an elected government which is headed by a president who serves a five-year term. Pedro Pablo Kuczynski is the current president of Peru. Mr. Kuczynski's economic proposals include temporary stimulus packages, the simplification of private investments and a reduction in tax rates. He took office in July, 2016. At the same time, a new congress was elected. The majority of the elected members of congress – 73 out of the 130 – belong to the party named "Fuerza Popular", who's leader, Keiko Fujimori, lost the presidential race against Pedro Pablo Kuczynski.

### Economic Indicators

According to the World Bank<sup>1</sup>, over the past decade, Peru's average growth rate has been 5.9%. However, for the last few years the Peruvian economy has been suffering a slowdown. The GDP growth in 2015 was 3.3%. Panelists have projected that GDP growth will accelerate to 4.2% in 2017.

### Peruvian Mining Regulations

The 1992 General Mining Law approved by Supreme Decree No. 014-92-EM is the key legislation governing mining activities in Peru. Mining activities involve the exploration and exploitation of metallic and non-metallic mineral resources, excluding oil and gas. Various other laws and regulations govern specific matters such as land titles, occupational health and safety, environmental protection, mining operations and taxation.

According to the Peruvian Constitution, all mineral resources are vested in the government. Private parties can exploit mineral resources under the concession system (e.g.; by obtaining a mining lease). The development of any

<sup>1</sup> <http://www.worldbank.org/en/country/peru/overview>. Last updated September 30, 2016.

mining activity requires a concession, with the exception of reconnaissance, prospection, storage and commercialization. The General Mining Law states that the local and international trading of minerals is free.

Mining concessions may be privately owned and no minimum state participation is required. The rights vested to a mining concession are protected against third parties, transferable, chargeable and, in general, may be the subject of any transaction or contract not specifically forbidden by law. Buildings and other permanent structures used in a mining operation are considered real property accessories to the concession on which they are located.

A concession provides its holder with the exclusive right to undertake specific mining activities within a specific geographical area, provided it has obtained an Authorization to Commence Mining Activities, as well as other required licenses and permits.

### **Restrictions on Foreign Investments in Mining**

According to the General Mining Law, mining concessions are only granted to individuals domiciled in Peru or to companies incorporated in Peru whose principal business is conducting mining activities. However, such companies may be wholly-owned by foreign investors or branches of foreign companies that are established in Peru to carry out mining activities, with the exception set out below.

Under Article 71 of the Peruvian Constitution, foreign individuals (including Peruvian-domiciled companies owned ultimately by overseas investors) must obtain permission from the President of the Republic and the Board of Ministers, in the form of a Supreme Decree, in order to hold any type of concession over property located within the Border Zone.

### **Terms**

Mining concessions are granted for an unlimited period of time over areas consisting of a minimum of 100 ha and a maximum of 1,000 ha (though concessions located at sea may extend to 10,000 ha). There is no limit to the number of mining concessions that one individual company may hold.

Mining concessions are irrevocable, except in the following circumstances:

- failure to pay the “Good Standing Fee” (Derecho de Vigencia) for two consecutive years; and
- failure to pay the mining penalty due when the “Annual Production Target” has not been met for two consecutive years.

### **Obligations of the Mining Titleholder**

The holder must pay a “Good Standing Fee” of US\$3 for each hectare that has been granted or applied for per year.

Mining concessionaires are required to put their concessions to work. Therefore, they are required to meet a minimum “Annual Production Target” established by the General Mining Law. By Legislative Decrees No. 1010 and No. 1054 published on May 9 and June 27 of 2008 the minimum annual production target was modified.

Under the new regimen, the target is equivalent to 1 Tax Unit (approximately US\$1,162) per ha per year, in case of metallic mining concessions and shall be met before the eleventh year counted as from December 31 of the year when the mining concession was granted. As an example, if the mining concession was granted on November 29, 2016, its title holder has until December 31, 2027 to meet the “Annual Production Target”.

If the minimum “Annual Production Target” is not met, the holder is required to pay a penalty equal to 10% of the corresponding minimum “Annual Production Target” per year per ha (approximately US\$116), until the year in which the holder meets such target.

Failure to pay this penalty for two consecutive years will result in the termination of the mining concession.



In addition, failure to meet the minimum “Annual Production Target” in the fifteenth year after the concession has been granted may lead to the cancellation of the concession.

The holder of a mining concession might avoid cancellation of the mining concession if he can prove to the Ministry of Energy and Mines that the failure in meeting the minimum “Annual Production Target” is the result of a cause not attributable to the holder. Holders may be able to avoid the cancellation of the concession by paying the corresponding penalty (as referred to above) and proving that they have invested an amount equivalent to at least ten times the amount of the penalty in mining activities or basic public infrastructure. If such failure continues until the end of the twentieth year counted as from December 31 of the year when the mining concession was granted, the concession shall be automatically cancelled, without any kind of recourse.

In the case of mining concessions granted before the new regimen was approved, Supreme Decree No. 054-2008-EM provides that the 10-year term for meeting the new minimum “Annual Production Target” shall be counted from the first business day of 2009. Until then (2019), the amount of the mining penalty and the causes to cancel a mining concession will be the one provided by the General Mining Law, before Legislative Decrees No. 1010 and No. 1054 were approved.

The new regimen established in connection with the minimum “Annual Production Target” and correspondent penalty has not been implemented yet as the new 10-year term for meeting the new minimum “Annual Production Target” has not been met. Therefore, it is expected that before 2019, new regulations in connection with actual implementation of the new regimen will be issued.

### **Surface Rights**

Mining concessions are property-related rights that are distinct and independent from the estate in which they are located. Therefore, in order to carry on mining activities, the concessionaire must obtain a right to use the corresponding estate from the landowner.

- Privately owned lands: if the land is privately owned, its use for mining activities requires the prior agreement with the landowner. If such approval is not granted, the mining concessionaire is entitled to apply to the Ministry of Energy and Mines for a legal mining easement over the surface land. However, to date, the awarding of legal mining easements by the Ministry of Energy and Mines has been rare.
- State-owned lands: if the surface land is state-owned property, the titleholder of a mining concession must execute an agreement with the Government. The types of agreements that could be executed are regulated in the Law No. 29151, General Law of the National System of State-owned Assets, and its Regulation.
- Common property:
  - for peasant communities located in coastal areas, a favourable vote of not less than 50% of members attending the Assembly; and
  - for peasant communities located in the highlands and Amazon area, a favourable vote of at least two-thirds of all members of the community.

### **Indigenous People Considerations**

Peru has ratified ILO Convention No. 169, regarding Indigenous and Tribal Peoples in Independent Countries, through Legislative Decree No. 26253 and its regulations. This treaty has been implemented by the Prior Consultation Right of the Law, passed by Congress on September 7, 2011. This law acknowledges indigenous and tribal peoples’ right of consultation, given that their collective rights may be affected directly by a legislative or administrative measure. However, the right is merely one of consultation, not veto.

This law sets out certain criteria for identifying which populations are considered indigenous. They must be groups of people directly descended from indigenous populations with their own customs and lifestyle, different from other sectors of the national population, and they must have an indigenous identity.

With respect to mining projects located in areas inhabited by indigenous peoples, the Ministry of Energy and Mines must follow the “Prior Consultation” procedure both before granting the Authorization to Commence Mining Activities and before granting any processing concession. According to the Geological, Mining and Metallurgical Institute of the Ministry of Energy and Mines (INGEMMET) criterion, the “Prior Consultation” does not need to be conducted as part of the procedure to grant mining concessions because concession titles do not authorize per se the commencement of any mining activity.

### **Environmental Regulations**

The Peruvian General Environmental Law, Law No. 28611 approved on October 15, 2005, provides that mining companies are responsible for the emissions, effluents, discharges and other negative impacts generated as a consequence of their activities on the environment, health or natural resources. Supreme Decree No. 040-2014-EM, which approved the Regulations for Environmental Protection in the Mining Sector and, Supreme Decree No. 020-2008-EM, which approved the Environmental Regulation for Exploration Mining Activities are the controlling regulations that establish the responsibility of the government agencies to monitor compliance with law.

In compliance with the Environmental Regulations on Mining Exploration Activities, the development of mining exploration activities requires an authorization from the General Mining Environmental Matters Bureau of the Ministry of Energy and Mines. Under these Regulations, mining exploration activities are classified into two categories (Category I and II). Category I consists of exploration activities with a small impact on the environment and which require an Environmental Impact Statement (DIA), and Category II consists of exploration activities with a moderate impact on the environment and which require a Semi-detailed Environmental Impact Assessment (EIA-SD).

Pursuant to the Regulations for Environmental Protection in the Mining Sector, the holders of mining activities who have completed the exploration stage and are about to carry out mining development activities, mining exploitation activities, general labour, transport, storage and/or beneficiation activities shall obtain a Semi-Detailed Environmental Impact Assessment (EIA-SD) or a Detailed Environmental Impact Assessment (EIA-D), depending on the magnitude of the impact on the environment. Pursuant to Law No. 29968, the National Service of Environmental Certification for Sustainable Investments (SENACE) is the entity responsible for reviewing and approving the EIA-D for activities, constructions, works and other commercial and service activities that may have a significant environmental impact.

Finally under the Mine Closure Act, Law No. 28090, all the holders of mining activities who intend to start their exploitation activities shall prepare and submit within no more than one year following the approval of the pertinent EIA, a “Mine Closure Plan”. This plan must contain the measures to be taken in order to recondition the areas, works and premises of each mining operation unit and requires the establishment of guarantees by the holder of the mining activities.

Non-compliance with Peruvian environmental laws or regulations can result in the imposition of administrative sanctions, such as fines or closure orders. The Peruvian authority with jurisdiction to supervise compliance with environmental obligations is the Ministry of the Environment, through the Environmental Supervision and Enforcement Agency (OEFA).

### **Workers Participation**

Under Peruvian law, every company that generates income and has more than 20 workers on its payroll is obligated to grant a share of its profits to its workers. For mining companies, the percentage of this profit-sharing benefit is 8% of pre-tax income. Cooperative, self-managed companies, civil partnerships non-profit-making and companies that do not have more than 20 workers are exempt from this profit-sharing obligation. Both permanent and fixed

term employees must be taken into account for purposes of these laws; the only legal requirement is that such workers must be registered on the company's payroll.

The profit-sharing amount made available to each worker is limited to 18 times the worker's monthly salary, based upon their salary at the close of the previous tax year.

In case there is a remnant between 8% of a company's pre-tax income and the limit of the workers profit sharing benefit, it must be contributed to a public fund (FONDOEMPLEO) for the purpose of workers training and job promotion, as well as public investment projects.

### **Taxation and Foreign Exchange Controls**

Regarding income tax ("IT"), as from 2017, the corporate net income is taxed at a rate of 29.5% of the annual net income. Shareholders (domiciled or non domiciled individuals and non domiciled companies) are subject to an additional 5% tax if dividends are declared / distributed (if the dividends correspond to retained earnings of fiscal years 2015 and 2016, the applicable rate is 6.8%). Advance monthly IT payments are required on a percentage of taxable income, subject to a final settlement in March of the following business year (January 1 through December 31).

Peruvian VAT levies, with a 18% tax rate, the following 5 operations: i) sale of goods within the Peruvian territory; ii) render or use of services within the Peruvian territory; iii) the execution of construction agreements; iv) the first sale of real state property performed by the constructor; and v) the import of goods. It is important to note that the VAT charged on previous operations can be used as credit against the VAT generated when performing the above mentioned operations.

A Temporary Net Assets Tax will apply to companies subject to the General IT Regime. Net assets are taxed at a rate of 0.5% on the value exceeding S/1,000,000 (approximately US\$370,000). Taxpayers must file a tax return during the first 12 days of April and the amounts paid can be used as a credit against IT. Companies which have not started productive operations or those that are in their first year of operation are exempt from such tax.

The National Tax Administration Superintendency (SUNAT) is the entity empowered under the Peruvian Tax Code to regulate central government taxes. The Tax Administration Superintendency can enforce tax sanctions, which can result in fines, the confiscation of goods and vehicles, and the closing of a taxpayer's offices.

There are currently no restrictions on the ability of a company operating in Peru to transfer foreign currency to or from Peru or to convert Peruvian currency into foreign currency.

### **Mining Taxes**

- Depreciation: in general terms, the maximum annual depreciation rates for income tax purposes are 5% for buildings, 20% for vehicles, 20% for new machinery and equipment used in the mining, oil and construction industries, 25% for hardware, and 10% for other fixed assets.

The value of acquisition of the mining concessions is amortized as from the fiscal year in which the mining company has to comply with its "Annual Production Target", within the term to be determined by the mining company based upon the probable life of the mining deposit, and calculated in accordance with the proven and probable reserves and "Annual Production Target". Such value of acquisition will include the purchase price paid or the expenses related to the petition, depending on the case, as well as the prospecting and exploration investments until the date on which the company is obliged to comply with the "Annual Production Target", except when the mining company chooses to deduct such investments in the fiscal year in which they were incurred.

Once the mining concession has complied with the "Annual Production Target", exploration expenses may be entirely deducted in the relevant fiscal year or amortized as from such year, according to a yearly rate that shall

be calculated on the basis of the probable life of the mine proven and probable reserves and “Annual Production Target”.

The development and preparation expenses that allow the exploitation of the deposit may be either entirely deducted in the year in which they were incurred or amortized in such year and subsequent years (up to a maximum of two additional years).

- **Regulatory Contributions:** the titleholders of medium- and large-scale mining activities shall pay contributions to the Supervising Agency for Energy and Mining (OSINERGMIN) and OEFA to fund their supervisory activities. The sum of both contributions cannot exceed 1% of the company’s annual billing after deducting the VAT and the Municipal Promotion Tax.
- **Mining royalties:** a mining royalty is a payment requirement set by law under which the mining concessionaires are required to fulfill a monthly payment to the government for the exploitation of metallic and non-metallic minerals. As of 2004, mining concessionaires are required to pay mining royalties. Payment of mining royalties shall be completed on a quarterly basis and is calculated based on the greater of either: (a) an amount determined in accordance with a statutory scale of tax rates based on a company’s operating profit margin and applied to the company’s operating profit; and (b) 1% of the company’s net sales, in each case during the applicable quarter. The royalty rate applicable to the company’s profit is based on its operating profit margin according to the following statutory scale of rates that range between 1% and 12%. Mining royalty payments are deductible as expenses for income tax purposes in the fiscal year in which such payments are made.
- **Special Mining Tax:** In addition to the payment of mining royalties, since October 1, 2011, mining concessionaires are required to pay a Special Mining Tax (*Impuesto Especial a la Minería*) to the Peruvian government for the sale of metallic resources, regardless of the state in which they are sold. The Special Mining Tax is payable on a quarterly basis and is calculated in accordance with the operating profit derived exclusively from the sale of metallic resources. The applicable Special Mining Tax (which is between 2% and 8.4%) is determined by the quarterly operating profit margin of the company and such rate is applied to the operating profit derived from the sale of metallic resources. Special Mining Tax payments are deductible as expenses for income tax purposes in the fiscal year in which such payments are made.
- **Special Mining Burden (voluntary contribution):** the aforementioned mining royalties and Special Mining Tax regimes are not applicable to holders of mining concessions who have entered into Mining Stability Agreements before the mining royalty regime and Special Mining Tax regimes were established.

Therefore, effective as from October 1, 2011, they are expected to enter into agreements with the Peruvian government in order to pay, as a “voluntary contribution”, a Special Mining Burden (*Gravamen Especial a la Minería*) to the Peruvian government for the exploitation of non-renewable natural resources. This regime is very similar to the aforementioned mining royalty regime.

The Special Mining Burden is payable on a quarterly basis and is calculated in accordance with the operating profit derived exclusively from the sale of metallic resources. The Special Mining Burden (which is between 4% and 13.12%) is determined by the quarterly operating profit margin of the company and such rate is applied to the operating profit derived from the sale of metallic resources, according to a statutory scale of rates.

- **Early recovery of VAT:** According to the provisions of Law No. 27623, by which the Regime of Final Return of VAT was approved, and its regulations, approved by Supreme Decree No. 082-2002-EF, holders of mining concessions, which are exclusively carrying out exploration activities, are entitled to a refund of VAT transferred to them or paid by them for the execution of their activities during the exploration phase, as long as they comply with the following conditions:
  - production operations have not yet been commenced;
  - the exploration of mineral resources has been conducted in Peru; and

- an Investment in Exploration Agreement has been entered into with the state, by which an investment of at least US\$5 million is committed.

It must be noted that the beneficiary of this regime may only claim back the VAT paid for the acquisition of goods and services that are included in a list previously approved by the government.

This benefit is named “Final Return of VAT” given that the return of VAT is not conditioned on the commencement of the exploitation phase.

This regime will be in force until December 31, 2018.

### **Foreign Investment Guarantee**

Peruvian legislation recognizes several rights and guarantees to all investors, local or foreign, without distinction with respect to sectors or kind of activity, size of the investment, geographical location or if they are individuals or companies. No filings are required and no minimum requirements have to be complied with. These rights are granted automatically to any private investor for making investments in the country.

Among the most relevant are:

- (i) Non-discriminatory treatment: National and foreign investments are subject to the same conditions.
- (ii) Freedom of Contract: The parties can include in their contracts any term and condition valid under the legal framework in force. They cannot be modified by law.
- (iii) Free transfer of capital: The state guarantees the right of foreign investors to freely transfer, without prior authorization of any central government authority or state entity, the total of profits obtained after taxes, including the sale of shares and other assets.
- (iv) Freedom to access internal and external credit.
- (v) Free competition.
- (vi) Guarantee for private property: Property rights are inviolable. Regarding property rights, both foreign companies and individuals are in the same positions as Peruvians.
- (vii) Unrestrictive access to most economic sectors: National and foreign investment are able to develop the economic activity of its preference and freedom of entry to any industry.
- (viii) Freedom to export and import.
- (ix) To trade freely, locally or abroad: The state guarantees the freedom to trade locally or internationally.
- (x) To use the most beneficial exchange rate available in the market: Whereas the foreign investor may need to change foreign currency to local currency and vice versa, he will have the right to use the most beneficial rate available at the time of the operation.

### **General Stability Agreements**

Notwithstanding these guarantees, investors and the enterprises in which they invest may protect themselves from changes in Peruvian law by executing “Stability Agreements” with the Peruvian government. The “Stability Agreement” is a civil contract that has the force of a law and guarantees continued application of certain laws and regulations in force at the execution date.

In order to execute a “Stability Agreement”, investors are required to guarantee an investment of no less than US\$5 million in any sector, except in mining and hydrocarbons. For these two specific sectors, the minimum investment required is US\$10 million.

### **Sectorial Stability Agreements – Mining Stability Agreements:**

In addition to “Stability Agreements”, local and foreign investors in mining projects are entitled to enter into with the Ministry of Energy and Mines, on behalf of the Peruvian government, Guarantee Agreements and Investment Promotional Measures (the “Mining Stability Agreements”).

Similar to “Stability Agreements”, Mining Stability Agreements have the force of a law and protect investors from changes in certain laws and regulations for a 10 or 15-year term starting on the date when the execution or expansion of the investment is evidenced, as applicable:

- 10-year term: Companies that conduct mining activities that start or are carrying on operations above 350 tons per day and up to 5,000 tons per day and investment programs for a minimum amount of US\$20,000,000 can benefit from a 10 year agreement. The companies can choose to anticipate the regime stabilized in the agreement to the stage of investment for a 3 year term, and deduct this period from the 10 year term.
- 12-year term: Companies with a starting capacity of over 5,000 tons per day or expansion projects aimed to reach a capacity of over 5,000 tons per day may enter into a stability agreement that also provides tax stability. In general terms, the investment programs shall amount to US\$100,000,000 for the start-up of the mining activities, and US\$250,000,000 for already existing mining companies with expansion projects. The companies can choose to anticipate the regime stabilized in the agreement to the stage of investment for an 8 year term, and deduct this period from the 12 year term.
- 15-year term: Companies with a starting capacity of over 15,000 tons per day or expansion projects aimed to reach a capacity of over 20,000 tons per day may enter into a stability agreement that also provides tax stability. In general terms, the investment programs shall amount to US\$500,000,000 for the start-up of the mining activities, and US\$25,000,000 for already existing mining companies with expansion projects. The companies can choose to anticipate the regime stabilized in the agreement to the stage of investment for an 8 year term, and deduct this period from the 15 year term.

Investors in mining activities are entitled to execute both types of agreements at the same time in order to benefit from both regimens.

## **USE OF PROCEEDS**

### **Funds Available**

The Corporation expects to realize net proceeds of approximately \$● from the Rights Offering after deducting from the expected gross proceeds of \$● the estimated expenses of the Rights Offering of approximately \$● and the Managing Dealer Fee of approximately \$●. The Corporation and Sierra will not receive any proceeds from the Distribution.

Each of Sierra and the Corporation will be responsible for 50% of the legal, accounting and other transaction costs associated with the Distribution and the Rights Offering, including the Managing Dealer Fee, Computershare’s expenses and regulatory fees relating to the Distribution and the Rights Offering.

## Principal Purposes

The principal purposes for which the funds available to the Corporation upon completion of the Rights Offering will be used are as follows:

Use of Proceeds	Approximate Expenditure
To fund Phase I of the Work Program	\$●
To fund Phase II of the Work Program	\$●
General working capital	\$●
Estimated working capital (deficiency) as of ●, 201●	(\$●)
<b>Total Funds Available:</b>	<b>\$●</b>

While the Corporation currently anticipates that it will use the net proceeds of the Rights Offering as set forth above, it may re-allocate the net proceeds from time to time depending upon its growth strategy relative to market and other conditions in effect at the time. See “*Risk Factors – Risks Related to the Distribution of the Distributed Shares and the Rights Offering*”. Until the Corporation uses the net proceeds, it expects to invest such funds in short-term, interest-bearing, investment-grade securities.

## Business Objectives and Milestones

The Corporation has not acquired surface rights to the Las Lomas Project area. The surface rights of the property are owned by Campesino Communities (Comunidades Campesinas). The Campesino Communities are organizations of public interest, with legal entity status, formed by families that live in and control territories, linked by ancestral, social and cultural aspects expressed by the communal property of the land, communal work and mutual help. The Corporation’s first priority will be to negotiate and execute agreements with the Campesino Communities of Pampa Larga, San Sebastian, Tomapampa and Sapillica. This process is expected to take approximately seven months at an anticipated cost of US\$10,000 per month.

Once surface rights have been obtained, the balance of Phase I of the Work Program can be undertaken. This will include detailed geological mapping, geochemical sampling and geophysical surveys. Completion of Phase I of the Work Program is targeted for October 2017 at an expected total cost (including the acquisition of surface rights) of US\$385,000.

Phase I of the Work Program will be designed to identify priority drill targets to test the down dip extension of the mineralization observed at surface. Phase II of the Work Program is expected to consist of approximately 5,000 m of drilling in the Bolsa del Diablo and Hans areas of the Project. In order to undertake any drilling activities, the Supreme Decree must be obtained in respect of the concessions not held by San Miguelito. This will enable San Miguelito to acquire title to the concessions. A drilling permit will also be required. Both a land owner's authorization to drill, and an Environmental Impact Statement (“**DIA**”) are submitted in connection with the application for the drilling permit. The DIA calls for the concession holder to indicate where it plans to drill and how it plans to remediate the land after drilling. There are no separate environmental permits required. All environmental aspects are submitted as part of an overall permitting package. Completion of Phase II of the Work Program is targeted for December 2017 at an expected total cost of US\$560,000.

The results of the Work Program will determine the Corporation’s next priority activities. These could include additional drilling, the preparation of a mineral resource estimate in accordance with NI 43-101, the acquisition of additional properties and, if warranted, plans to undertake development of the Las Lomas Project.

## PLAN OF DISTRIBUTION

### Managing Dealer Agreement

Pursuant to a managing dealer agreement dated ●, 2017 (the “**Managing Dealer Agreement**”) between Sierra, the Corporation and the Managing Dealer, the Managing Dealer has agreed to solicit the exercise of Rights by Qualified Holders. Sierra and the Corporation have agreed to pay to the Managing Dealer the Managing Dealer Fee. In addition, Sierra and the Corporation will reimburse the Managing Dealer for certain costs and expenses relating to the Rights Offering. The Managing Dealer’s expenses have been included in the estimated expenses of the Rights Offering. The obligations of the Managing Dealer under the Managing Dealer Agreement may be terminated at its discretion on the basis of “disaster out”, “material change out” and “breach out” provisions in the Managing Dealer Agreement and may also be terminated upon the occurrence of certain other stated events.

### The Distribution

Under the Distribution, the Distributed Shares will be issued and distributed as a return of capital to Qualified Holders on the basis of one Distributed Share for every ● Sierra Shares held as of the Distribution Record Date. Fractional interests in the Distributed Shares will not be issued. Where a Qualified Holder would otherwise be entitled to a fractional Distributed Share, the number of Distributed Shares distributed will be rounded down to the nearest whole number. As of ●, 2017, there were ● Sierra Shares outstanding. Based on this, the Corporation anticipates that Sierra will distribute approximately ● Distributed Shares under the Distribution. It is currently expected that the Sierra Shares will begin trading on an ex-distribution basis on the TSX on ●, 2017, two trading days before the Distribution Record Date, meaning that persons who acquire Sierra Shares on or after such date will not be entitled to receive the Distribution.

All securities held by Sierra in the capital of the Corporation will be distributed, with the result that, following the Distribution, Sierra will not own any securities of the Corporation. Neither Sierra nor the Corporation will receive any proceeds as a result of the distribution of the Distributed Shares.

### Value of Shares

The board of directors of Sierra has determined the aggregate fair market value of the Corporation to be \$● million and the fair market value of each Distributed Share to be \$●. This determination has been made by the board of directors in good faith and in accordance with its business judgment and based, in part, on the advice of its professional advisors. See “*Certain Canadian Federal Tax Considerations*” and “*Risk Factors*”.

### Issuance of Distributed Shares and Share Certificates

The Distributed Shares will be distributed by Sierra to or on behalf of each Qualified Holder determined as of the Distribution Record Date.

Each Sierra Shareholder, other than an Ineligible Holder, who is a registered holder of Sierra Shares on the Distribution Record Date will be mailed a copy of this Prospectus and a share certificate or direct registration system statement or advice representing the total number of Distributed Shares that such holder is entitled to receive. See “*Plan of Distribution – Canadian Tax Consequences*”.

Persons who beneficially hold Sierra Shares through a Participant in a book-based system administered by a Depository will not directly receive a physical certificate or direct registration system statement or advice representing their Distributed Shares. Rather, one or more global certificates representing the aggregate number of Distributed Shares held on behalf of all of the beneficial holders, other than Ineligible Holders, of the Participants of each Depository will be issued in registered form to, and deposited with, such Depository. Sierra expects that each person who beneficially holds Sierra Shares through a Participant, other than Ineligible Holders, will receive a confirmation from the Participant of the number of Distributed Shares distributed to such person.



Except under the circumstances described herein, the Distributed Shares are not being distributed in any Ineligible Jurisdiction. Except under the circumstances described herein, certificates representing Distributed Shares will not be sent to shareholders with addresses of record in any Ineligible Jurisdiction. Ineligible Holders who are not Qualified Holders will be sent a letter advising them that their Distributed Shares will be held by Computershare, who will hold such Distributed Shares as agent for the benefit of all such Ineligible Holders. For important information regarding the determination of eligibility to receive the Distributed Shares and the treatment of Ineligible Holders, see “*Plan of Distribution – Ineligible Holders*”.

Distributed Shares that are distributed to U.S. persons will be subject to restrictions on transfer and certificates representing those Shares will be legended. See “*Plan of Distribution – Ineligible Holders – U.S. Transfer Restrictions*”.

None of Sierra, the Corporation, the Managing Dealer or Computershare, the Corporation’s transfer agent and distribution agent, will incur any liability for the records or procedures of any Depository or Participant relating to the Distributed Shares including the accounting, recording or safekeeping thereof or any action taken by any Depository or the Participant.

### **Transfer of Distributed Shares**

Upon completion of the distribution of the Distributed Shares and the listing of the Shares on the CSE, holders of Distributed Shares evidenced by a share certificate may transfer their Distributed Shares upon executing and delivering an instrument of transfer together with such share certificates to Computershare at its principal office in the City of Toronto, or such other city or cities as may from time to time be designated by the Corporation and paying any taxes or other charges incidental thereto, if any. Upon receipt, such certificates will be cancelled and new share certificates will be issued in the name of the transferee, evidencing the aggregate number of the Distributed Shares so transferred.

Transfers of beneficial ownership in Distributed Shares represented by one or more global certificates will be effected by recording such transfers in the records of the applicable Participants and their Depository, with respect to interests of persons who beneficially hold Distributed Shares through such Participants. Persons who beneficially hold Distributed Shares through a Participant and who wish to sell or otherwise transfer their Distributed Shares must arrange such transfers through their Participants.

### **Rights and Rights Certificates**

Immediately following the Distribution, the Corporation will issue to or for the benefit of each holder of the Distributed Shares on the Rights Offering Record Date, ● fully divisible and transferable Rights for every Distributed Share issued to or for the benefit of such holder. Each whole Right will entitle the holder thereof to subscribe for one Share (see “*Description of the Securities Distributed*”). As with the Distribution, certain Sierra Shareholders who are not eligible to receive Distributed Shares from Sierra will also not be eligible to receive Rights from the Corporation. Computershare will instead hold these Rights as custodian for such holders and arrange for the sale of such Rights and distribute the net proceeds, if any, thereof to the person entitled thereto. See “*Plan of Distribution – Ineligible Holders*”. The Rights Offering is not subject to any minimum subscription level. However, pursuant to the Standby Agreement, each Standby Purchaser has irrevocably agreed to exercise the Basic Subscription Privilege in respect of all of the Rights to be received by such Standby Purchaser and the Standby Purchasers will have, prior to the time of filing of the Final Prospectus, deposited with Computershare an aggregate sum of \$● representing the aggregate Subscription Price for such Rights. See “*Plan of Distribution – Standby Commitment*”.

The Rights are evidenced by Rights Certificates in registered form. Each registered holder of Distributed Shares on the Rights Offering Record Date, other than an Ineligible Holder, will receive a Rights Certificate evidencing the total number of Rights to which such holder is entitled. See “*Plan of Distribution – Exercise of Rights Held in Registered Form*”. As described below, Rights Certificates may not be held directly by, and subscription for Shares will not be accepted from, Ineligible Holders. See “*Plan of Distribution – Ineligible Holders*”.

Persons who beneficially hold Distributed Shares through Participants in the book-based system administered by a Depository will not receive a physical certificate evidencing their ownership of Rights. Instead, one or more global certificates representing the aggregate number of Rights held for beneficial holders, other than Ineligible Holders, of Participants of a particular Depository, will be issued in registered form to, and deposited with, such Depository. See *“Plan of Distribution – Exercise of Rights Held Through a Depository”*.

Rights that are distributed to U.S. persons will be subject to restrictions on transfer and certificates representing those Rights will be legended. See *“Plan of Distribution – Ineligible Holders – U.S. Transfer Restrictions”*.

### **Value of Rights**

The Board has determined the fair market value of the Rights to be nil and so, no amount will be required to be included in computing the income of holders in Canada to whom such Rights are issued nor will the issuance thereof on behalf of persons who are not resident of Canada be subject to any withholding tax obligation. The Subscription Price was determined by Sierra in consultation with the Managing Dealer. See *“Certain Canadian Federal Tax Considerations”*.

### **Exercise and Transfer of Rights**

#### ***Subscription Basis***

Every whole Right held entitles the holder thereof to subscribe for one Share. Rights will be eligible for exercise commencing on or around the Commencement Date until the Rights Expiry Time, at the Subscription Price. Rights not exercised by the Rights Expiry Time will be void and of no further value to the holder thereof and the Shares underlying such unexercised Rights will be taken up by the Standby Purchasers pursuant to the terms of the Standby Agreement. A holder that subscribes for some, but not all, of the Shares which such Holder is entitled to subscribe for will be deemed to have elected to waive the unexercised balance of its Rights, unless Computershare is otherwise specifically advised by such holder at the time the Rights Certificate is surrendered that the Rights are to be transferred to a third party or are to be retained by the holder. Subscriptions will be irrevocable and holders may not withdraw a subscription once made. For information on how to exercise the Basic Subscription Privilege, see *“Plan of Distribution – Exercise and Transfer of Rights – How to Complete the Rights Certificate – Form 1 – Basic Subscription Privilege”*.

Qualified Holders of Rights who exercise their Basic Subscription Privilege will become holders of the Shares underlying such Rights. The Shares issuable pursuant to exercised Rights are expected to be delivered as soon as practicable following the Rights Expiry Date.

Fractional securities will not be issued upon the exercise of Rights. Where the exercise of Rights would entitle the holder to receive a fractional Share, the Holder’s entitlement will be rounded down to the next nearest whole number of Shares. Where the exercise of Rights would result in the payment of a fractional cent in respect of the aggregate subscription price by a holder, the aggregate subscription price payable by such holder will be rounded up to the next whole cent. Participants that hold Rights for more than one beneficial holder may, upon providing evidence satisfactory to the Corporation, exercise Rights on behalf of such beneficial holders, other than Ineligible Holders, on the same basis as if the beneficial owners were holders of record on the Rights Offering Record Date.

#### ***Basic Subscription Privilege***

Each Qualified Holder on the Rights Offering Record Date is entitled to receive • Rights for every Distributed Share held. For every whole Right held, the holder is entitled to acquire one Share under the Basic Subscription Privilege at the Subscription Price by subscribing and making payment in the manner described herein on or before the Rights Expiry Time. Holders of Rights who exercise the Basic Subscription Privilege in full are also entitled to subscribe for the Additional Shares, if any, that are not otherwise subscribed for under the Rights Offering, prior to the Rights Expiry Time pursuant to the Additional Subscription Privilege. See *“Plan of Distribution – Additional Subscription Privilege”*.

In order to exercise the Rights represented by a Rights Certificate, the holder of Rights must complete and deliver the Rights Certificate to Computershare in accordance with the terms of the Rights Offering in the manner and upon the terms set out in this Prospectus. See “*Plan of Distribution – Exercise and Transfer of Rights – How to Complete the Rights Certificate – Form 1 – Basic Subscription Privilege*”.

For Rights held through a Participant, a beneficial holder may subscribe for Shares by instructing the Participant holding the beneficial holder’s Rights to exercise all or a specified number of such Rights and forwarding to such Participant the Subscription Price for each Share that such beneficial holder wishes to subscribe for. Subscriptions for Shares made in connection with the Rights Offering through a Participant will be irrevocable and beneficial holders will be unable to withdraw their subscriptions for Shares once submitted. See “*Plan of Distribution – Exercise and Transfer of Rights – Exercise of Rights Held Through a Depository*”.

The Subscription Price is payable in Canadian funds by certified cheque, bank draft or money order drawn to the order of Computershare. In the case of subscription through a Participant, the Subscription Price is payable by certified cheque, bank draft or money order drawn to the order of such Participant, by direct debit from the beneficial holder’s brokerage account or by electronic funds transfer or other similar payment mechanism. The aggregate Subscription Price for Shares subscribed for must be paid at the time of subscription and must be received by Computershare prior to the Rights Expiry Time. Accordingly, a beneficial holder subscribing through a Participant must deliver its payment and instructions sufficiently in advance of the Rights Expiry Time to allow the Participant to properly exercise the Rights on the holder’s behalf.

#### ***Additional Subscription Privilege***

Qualified Holders of Rights who exercise their Basic Subscription Privilege in full are entitled to subscribe for Additional Shares at the Subscription Price on a *pro rata* basis with all other holders of Rights who have exercised their Basic Subscription Privilege in full. The aggregate number of Additional Shares available for subscription under the Additional Subscription Privilege will be the difference, if any, between the total number of Shares issuable upon exercise of Rights and the total number of Shares subscribed and paid for pursuant to the exercise of the Basic Subscription Privilege.

Subscriptions for Additional Shares will be received subject to allotment only, and the number of Additional Shares, if any, that may be allotted to a beneficial holder will be equal to the lesser of:

- (a) the number of Additional Shares that such beneficial holder has subscribed for; and
- (b) the product (disregarding fractions) obtained by multiplying (i) the number of Additional Shares available to be issued by (ii) a fraction, the numerator of which is the number of Rights previously exercised by such holder and the denominator of which is the aggregate number of Rights previously exercised under the Rights Offering by all holders of Rights that have subscribed for Additional Shares.

To apply for Additional Shares, each holder must forward their request to Computershare or their Participant, as applicable, prior to the Rights Expiry Time and payment for the Additional Shares must be received by Computershare prior to the Rights Expiry Time. Accordingly, a beneficial holder subscribing through a Participant must deliver its payment and instructions sufficiently in advance of the Rights Expiry Time to allow the Participant to properly exercise the Rights on its behalf.

If any holder of Rights has subscribed for fewer Additional Shares than such holder’s *pro rata* allotment of Additional Shares, the excess Additional Shares will be allotted in a similar manner among the holders who were allotted fewer Additional Shares than they subscribed for. If all Rights offered are exercised, no Additional Shares will be available for the purposes of the Additional Subscription Privilege. For information on how to exercise the Additional Subscription Privilege, see “*Plan of Distribution – Exercise and Transfer of Rights – How to Complete the Rights Certificate – Form 2 – Additional Subscription Privilege*”.

If as a result of the application of the foregoing formula a holder of Rights who exercises the Additional Subscription Privilege is allotted a number of Shares which is less than the number of Shares that such holder has

subscribed for, Computershare will, when mailing the certificate for the Shares issued to such holder, refund without interest or deduction the excess portion of the total Subscription Price paid by such holder.

### ***Subscription and Transfer Agent***

Computershare has been appointed as the agent of the Corporation to receive subscriptions and payments from holders of Rights and to perform certain services relating to the exercise and transfer of Rights. Subscriptions and payments under the Rights Offering should be sent to Computershare at: 100 University Avenue, 8<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1, Attention: Corporate Actions.

### ***Exercise of Rights Held Through a Depository***

For Rights held through a Participant in the book-based system administered by a Depository, one or more Rights global certificates will be issued in registered form to, and deposited with, such Depository. The Corporation expects that each person who beneficially holds Rights through a Participant, other than an Ineligible Holder, will receive a confirmation of the number of Rights issued to such person from such Participant in accordance with the practices and procedures of that Participant.

In order to exercise Rights held through a Participant, a beneficial holder must (a) instruct the Participant holding such Rights to exercise all or a specified number of such Rights and (b) forward to such Participant the Subscription Price for each Share that such beneficial holder wishes to subscribe for. A person beneficially holding Rights through a Participant may subscribe for Additional Shares pursuant to the Additional Subscription Privilege by (a) instructing the Participant holding Rights on behalf of such person to exercise the Additional Subscription Privilege in respect of the number of Additional Shares such person wishes to subscribe for and (b) forwarding to such Participant the Subscription Price for the Additional Shares requested. Any excess funds will be returned to the Participant, as applicable, for the account of the beneficial holder, without interest or deduction. Subscriptions for Shares made through a Participant will be irrevocable and beneficial holders will be unable to withdraw their subscriptions for Shares once submitted.

None of Sierra, the Corporation, the Managing Dealer or Computershare will have any liability for the records maintained by a Depository or Participant relating to the Rights or the book-entry accounts maintained by them; maintaining, supervising or reviewing any records relating to such Rights; or any advice or representations made or given by a Depository or Participant with respect to the rules and regulations of such Depository or any action to be taken by such Depository or Participant.

The ability of a person who beneficially holds an interest in the Rights through a Participant to pledge such interest or otherwise take action with respect to such interest (other than through a Participant) may be limited due to the lack of a physical certificate.

### ***Exercise of Rights Held in Registered Form***

Except for Ineligible Holders, holders of Rights in registered form will be mailed a copy of this Prospectus and a Rights Certificate representing the total number of Rights that each such holder is entitled to receive. In order to exercise Rights represented by the Rights Certificate, such holders must complete and deliver the Rights Certificate in accordance with the instructions set out under “*Plan of Distribution – Exercise and Transfer of Rights – How to Complete the Rights Certificate*”.

Rights not exercised by the Rights Expiry Time will be void and of no value to the holder thereof and the Shares underlying such unexercised Rights may be taken up by the Standby Purchasers pursuant to the terms of the Standby Agreement. The Subscription Price paid for Rights exercised by holders of Rights in registered form is irrevocable. The Subscription Price is payable in Canadian dollars by certified cheque, bank draft or money order to Computershare and must be received by Computershare prior to the Rights Expiry Time.

### ***How to Complete the Rights Certificate***

1. **Form 1 – Basic Subscription Privilege.** Every Right entitles the holder thereof to subscribe for one Share. The maximum number of Rights that may be exercised pursuant to the Basic Subscription Privilege is shown in the box on the upper right hand corner of the face of the Rights Certificate. If Form 1 on the Rights Certificate is completed so as to exercise some but not all of the Rights represented by a Rights Certificate, the holder of such Rights Certificate will be deemed to have waived the unexercised balance of such Rights, unless Computershare is otherwise specifically advised by such holder at the time the Rights Certificate is surrendered that the Rights are to be transferred to a third party or are to be retained by the holder.

Only subscriptions for whole Shares will be accepted. Each holder of Rights will have to round down the number of Shares it is entitled to subscribe for to the next nearest whole number.

Completion of Form 1 on the Rights Certificate constitutes a representation by the holder that the holder is resident in an Eligible Jurisdiction or is an agent of a beneficial holder who is resident in an Eligible Jurisdiction.

2. **Form 2 – Additional Subscription Privilege.** Holders of Rights who exercise their Basic Subscription Privilege in full are entitled to subscribe for Additional Shares. Only a holder of Rights who wishes to exercise the Additional Subscription Privilege should complete and sign Form 2 on the Rights Certificate. See “*Plan of Distribution – Exercise and Transfer of Rights – Additional Subscription Privilege*”.
3. **Form 3 – Transfer of Rights.** Only a holder who wishes to transfer the Rights represented by a Rights Certificate should complete and sign Form 3 on the Rights Certificate. To complete a transfer, a holder must complete Form 3 on the Rights Certificate and have its signature guaranteed by a Schedule I bank, a major trust company in Canada, or a member of an acceptable Medallion Signature Guarantee Program (including STAMP, SEMP, and MSP). Members of STAMP are usually members of a recognized stock exchange in Canada or members of the Investment Industry Regulatory Organization of Canada. The guarantor must affix a stamp bearing the actual words “Signature Guaranteed”. It is not necessary for a transferee to obtain a new Rights Certificate to exercise the Rights, but the signatures of the transferee on Forms 1 and 2 must correspond in every particular with the name of the transferee (or the bearer if no transferee is specified) as the absolute owner of the Rights Certificate for all purposes. If Form 3 is completed, the Corporation and Computershare will treat the transferee as the absolute owner of the Rights Certificate for all purposes and will not be affected by notice to the contrary.
4. **Form 4 – Dividing or Combining.** Only a holder who wishes to divide or combine the Rights represented by a Rights Certificate should complete and sign Form 4 on the Rights Certificate. Rights Certificates need not be endorsed if the new Rights Certificate(s) will be issued in the same name. Computershare will then issue a new Rights Certificate in such denominations (totalling the same number of Rights as represented by the Rights Certificate(s) being divided or combined) as are required by the Rights Certificate holder. Rights Certificates must be surrendered for division or combination in sufficient time prior to the Rights Expiry Time to permit the new Rights Certificates to be issued to and used by the Rights Certificate holder.
5. **Payment.** The Subscription Price is payable in Canadian funds by certified cheque, bank draft or money order to Computershare. If the number of Additional Shares issued to a holder who has exercised the Additional Subscription Privilege is less than the number of Additional Shares that such holder subscribed for, Computershare will, when mailing the certificate for the Shares issued to such holder, refund without interest or deduction the excess portion of the total Subscription Price paid by such holder.
6. **Delivery.** Holders of Rights who exercise their right to subscribe for Shares must complete and mail the enclosed Rights Certificate to Computershare, together with payment of the Subscription Price, in the enclosed return envelope. The completed Rights Certificate and payment of the Subscription Price must be received by Computershare by no later than the Rights Expiry Time. If mailing, registered mail is recommended. Please allow sufficient time to avoid late delivery.

The signature of the holder of a Rights Certificate must correspond in every particular with the name that appears on the face of the Rights Certificate. Signatures by a trustee, executor, administrator, guardian, attorney, officer of a

company or any person acting in a fiduciary or representative capacity should be accompanied by evidence of authority satisfactory to Computershare. All questions as to the validity, form, eligibility (including time of receipt) and acceptance of any subscription will be determined by the Corporation in its sole discretion, and any determination by the Corporation will be final and binding on the Corporation and its shareholders. Upon delivery or mailing of the completed Rights Certificate to Computershare, the exercise of the Rights and the subscription for Shares is irrevocable. The Corporation reserves the right to reject any subscription if it is not in proper form or if the acceptance thereof or the issuance of Shares pursuant thereto could be unlawful. The Corporation also reserves the right to waive any defect in respect of any particular subscription. Neither the Corporation nor Computershare is under any duty to give any notice of any defect or irregularity in any subscription, nor will they be liable for the failure to give any such notice.

If a holder of Rights has any questions with respect to the proper exercise of Rights, such holder should contact Computershare at: Computershare Investor Services Inc., 100 University Avenue, 8<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1, Attention: Corporate Actions; Telephone: 1-800-564-6253; Email: corporateactions@computershare.com.

### ***Undeliverable Rights***

Rights Certificates returned to Computershare as undeliverable will not be sold by Computershare and no proceeds of sale will be credited to the holders thereof. Such Rights will be available for exercise pursuant to the Additional Subscription Privilege.

### ***Sale or Transfer of Rights***

A holder of Rights in registered form may sell or transfer some or all of such Rights to any person who is not an Ineligible Holder. A holder who wishes to transfer some or all of its Rights must complete Form 3 on the Rights Certificate and have its signature guaranteed by a Schedule I bank, a major trust company in Canada, or a member of an acceptable Medallion Signature Guarantee Program (including STAMP, SEMP, and MSP). See “*Plan of Distribution – Exercise and Transfer of Rights – How to Complete the Rights Certificate*”. Holders who hold their Rights through a Participant must arrange purchases or transfers of Rights through their Participant.

Rights held by U.S. persons will be subject to restrictions on transfer. See “*Plan of Distribution – Ineligible Holders – U.S. Transfer Restrictions*”.

### ***Dividing or Combining Rights Certificates***

Rights Certificates may be divided or combined by completing Form 4 on the Rights Certificate and delivering the Rights Certificate to Computershare in sufficient time prior to the Rights Expiry Time to permit the new Rights Certificates to be issued to and used by the Rights Certificate holder. See “*Plan of Distribution – Exercise and Transfer of Rights – How to Complete the Rights Certificate*”.

### ***Standby Commitment***

The Corporation has entered into the Standby Agreement with the Standby Purchasers. Pursuant to the Standby Agreement, each Standby Purchaser has agreed to exercise all of the Rights held by such Standby Purchaser and, severally, to each purchase its respective percentage of all Unsubscribed Shares as set forth in the Standby Agreement. Assuming each Standby Purchaser fulfills its Standby Commitment, the Standby Purchasers shall acquire, in the aggregate, all of the Unsubscribed Shares. Pursuant to the Standby Agreement, each Standby Purchaser has irrevocably agreed to exercise the Initial Purchaser Rights and the Standby Purchasers will have, prior to the time of filing of the Final Prospectus, deposited with Computershare an aggregate sum of \$● representing the aggregate Subscription Price for such Rights. No fee will be paid by the Corporation to the Standby Purchasers in respect of the Standby Commitment. The Corporation and the Standby Purchasers have agreed that the subscription price per Share pursuant to the Standby Agreement will be equal to the Subscription Price. The Corporation has received evidence satisfactory to it that each Standby Purchaser has sufficient funds to satisfy its obligations under the Standby Agreement.

The obligations of each Standby Purchaser to exercise such Rights and purchase the Shares underlying such Rights is several and not joint and not joint and several and, other than the exercise of the Initial Purchaser Rights which is irrevocable, is subject to satisfaction or waiver of certain terms and conditions in favour of the Standby Purchasers (the “**Standby Purchaser Conditions**”). The Standby Purchaser Conditions include the following: (i) the CSE will have conditionally approved the listing of the Issued Securities; (ii) the terms of the Rights Offering will not have materially changed (and any change in the subscription price or ratio of Shares issuable upon exercise of Rights will be considered as a material change); (iii) subject to (ii), the Rights Offering shall have been completed in accordance with the terms set forth in the Final Prospectus; (iv) the Corporation will have obtained a receipt for the Final Prospectus from the securities regulatory authorities in each of the provinces of and territories of Canada, other than Québec, qualifying the distribution of the Issued Securities in each such jurisdiction; (v) all necessary documents shall have been filed and all requisite proceedings shall have been taken and all necessary approvals shall have been obtained, subject to clause (i), by or on behalf of the Corporation, to carry out its obligations in connection with the Distribution, the Rights Offering and the Standby Agreement; and (vi) each Standby Purchaser will have received a certificate or certificates signed on behalf of the Corporation by its Chief Executive Officer or Chief Financial Officer or such other officers of the Corporation acceptable to each Standby Purchaser, acting reasonably, as to, among other things, (A) the truth and accuracy of the Corporation’s representations and warranties and the Corporation’s compliance with its covenants contained in the Standby Agreement; and (B) no order having been issued by a governmental entity which suspends or ceases trading in any of the Rights or Shares or operates to prevent or restrict the lawful distribution of any of the Rights or Shares (which suspension, cease trading, prevention or restriction, as the case may be, is continuing).

The obligations of each Standby Purchaser under the Standby Agreement may be terminated at the discretion of such purchaser in certain circumstances, including if:

- the Standby Purchaser Conditions have not been satisfied on or before ●, 2017;
- the Final Prospectus has not been filed in each of the provinces and territories of Canada, other than Québec, on or before ●, 2017; or
- the Rights Offering is otherwise terminated or cancelled or the closing of the Rights Offering has not occurred on or before ●, 2017.

Arias Resource Capital Fund II L.P. is a Cayman Islands exempted limited partnership. Sierra and the Corporation are satisfied that the distribution of Issued Securities to it may lawfully be made under the applicable securities and other laws of the Cayman Islands, and will not require Sierra or the Corporation to comply with any Registration Requirements. As such, Sierra and the Corporation consider this Standby Purchaser to be a Qualified Holder.

Pursuant to the Standby Commitment, the Standby Purchasers could own up to ● Shares, representing ●% of the issued and outstanding Shares, assuming that none of the Shares are purchased pursuant to the exercise of Rights under the Rights Offering by other holders.

### **Qualification and Listing of Issued Securities in Canada**

This Prospectus qualifies the distribution of the Issued Securities under applicable Canadian securities laws in each of the provinces and territories of Canada, other than Québec.

**As at the date of this Prospectus, the Corporation does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the TSX, Aequitas NEO Exchange Inc., a U.S. marketplace, or a marketplace outside of Canada and the United States of America (other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc).**

**There is currently no market through which the Issued Securities may be sold, and holders may not be able to resell the Issued Securities. This may adversely affect the pricing of the Issued Securities in the secondary market, the transparency and availability of trading prices and the liquidity of the Issued Securities. There**

can be no assurance that an active trading market will develop for the Issued Securities or, if developed, that such a market will be sustained. See “*Risk Factors*”.

**The Corporation has applied to list the Issued Securities on the CSE. Listing will be subject to Corporation fulfilling all of the listing requirements of the CSE.**

Pursuant to the rules and policy statements of certain Canadian securities regulators, the Managing Dealer may not, throughout the period of distribution under this Prospectus, bid for or purchase Shares for its own account or for accounts over which it exercises control or direction. The foregoing restriction is subject to certain exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in or raising the price of the Shares. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules for Canadian marketplaces administered by the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market-making activities and a bid or purchase made for or on behalf of a client where the client’s order was not solicited during the period of distribution. Subject to applicable laws, the Managing Dealer may effect transactions in connection with the transactions contemplated hereby intended to stabilize or maintain the market price of the Shares at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

### **Canadian Tax Consequences**

Provided that the fair market value of the Distributed Shares does not exceed the paid-up capital of the Sierra Shares on which the Distribution is made and that the other assumptions set out in “*Certain Canadian Federal Income Tax Considerations*” are correct, the distribution of the Distributed Shares should be a return of capital for Canadian income tax purposes. Sierra Shareholders will be required to reduce the adjusted cost base of their Sierra Shares by an amount equal to the fair market value of the Distributed Shares issued to or for their benefit. If the fair market value of the Distributed Shares received by a Sierra Shareholder exceeds the adjusted cost base of the Sierra Shares to the Sierra Shareholder, then a capital gain will result to the extent of such excess. See “*Certain Canadian Federal Income Tax Considerations*” for a more detailed discussion.

### **Ineligible Holders**

Sierra Shareholders that are resident in or otherwise subject to the laws of (i) any jurisdiction outside of Canada or (ii) the Province of Québec, and any persons (including any Participants) that have a contractual or legal obligation to forward this document to any such Sierra Shareholder should read this section.

### ***Declaration of Eligibility***

The Issued Securities will only be distributed or issued to or for the benefit of Qualified Holders. A holder who is not resident in or otherwise subject to the laws of an Eligible Jurisdiction may receive the Issued Securities only if such holder has been recognized by Sierra and the Corporation as a “Qualified Holder” by satisfying Sierra and the Corporation that the distribution of Issued Securities to such holder may lawfully be made under the applicable securities and other laws of the jurisdiction in which such holder resides or to which such holder is subject and will not require Sierra or the Corporation to comply with any Registration Requirements that may otherwise apply to Sierra and the Corporation in connection with a distribution of the Issued Securities in such jurisdiction.

Each Sierra Shareholder who, according to Sierra’s records, is resident in or otherwise subject to the law of an Eligible Jurisdiction on the Distributed Record Date will be deemed to be eligible to receive the Issued Securities.

In order to provide each Sierra Shareholder who, according to Sierra’s records, was resident in or otherwise subject to the laws of a jurisdiction other than an Eligible Jurisdiction the opportunity to satisfy Sierra that such holder may be deemed a Qualified Holder, Sierra will cause to be delivered to each such holder immediately following the Distribution Record Date, a form of declaration of eligibility (the “**Declaration of Eligibility**”). Each such holder who wishes to receive the Issued Securities is required to deliver a completed Declaration of Eligibility to Computershare no later than the Eligibility Deadline. Based on the information provided in the completed Declaration of Eligibility and such other information as is requested, Sierra and the Corporation will determine, in



their sole discretion, if such holder may be deemed a Qualified Holder and could be eligible to receive the Issued Securities. Participants who hold Sierra Shares for the account of one or more beneficial holders and who receive a Declaration of Eligibility, are required to complete and deliver such Declaration of Eligibility on behalf of each such beneficial holder who has an address of record outside of an Eligible Jurisdiction. All beneficial holders of Sierra Shares who are not resident in Canada and who hold Sierra Shares through a Participant are urged by Sierra to contact their respective Participants to determine if a Declaration needs to be completed on their behalf and to ensure that if needed, such a Declaration is completed and delivered by their respective Participants to Computershare before the Eligibility Deadline.

**Each Sierra Shareholder or a Participant who holds Sierra Shares for the account of a beneficial holder who has an address of record outside an Eligible Jurisdiction and who fails to deliver a completed Declaration of Eligibility by the Eligibility Deadline and any other information requested, to the satisfaction of Sierra and the Corporation, may be deemed an Ineligible Holder.**

The Issued Securities will not be issued or distributed to or for the benefit of Ineligible Holders and certificates (or direct registration statements or advice) representing Issued Securities will not be issued to Ineligible Holders. Instead such certificates will be issued to and held, and the underlying securities sold, by Computershare as custodian for the benefit of all such Ineligible Holders. See “*Plan of Distribution – Ineligible Holders – Sale of Distributed Shares and Rights on Behalf of Ineligible Holders*” for details.

This Prospectus is not to be construed as an offer to sell or otherwise distribute or a solicitation of an offer to buy or otherwise acquire any Issued Securities in any jurisdiction where it is unlawful to do so. In particular, the Issued Securities have not been and will not be registered under the U.S. Securities Act or to, or for the account or benefit of, U.S. persons unless registered under the U.S. Securities Act and applicable state securities laws or an exemption therefrom is available.

#### ***U.S. Transfer Restrictions***

Eligible U.S. participants will be required to acknowledge that the Issued Securities are “restricted securities” as that term is defined in Rule 144 promulgated under the U.S. Securities Act, and agree that they may be offered, resold, pledged or otherwise transferred (other than pursuant to an effective registration statement under the U.S. Securities Act) only: (i) to the Corporation; (ii) outside the United States in a transaction meeting the requirements of Rule 904 of Regulation S under the U.S. Securities Act; (iii) inside the United States to a person whom the Corporation reasonably believes to be a qualified institutional buyer (as defined in Rule 144A under the U.S. Securities Act) in a transaction meeting the requirements of Rule 144A, or in a transaction meeting the requirements of Rule 144 under the U.S. Securities Act, if available (and based on an opinion of counsel of recognized standing reasonably satisfactory to the Corporation if the Corporation so requests); or (iv) in a transaction that does not require registration under the U.S. Securities Act, and the U.S. shareholder has prior to such sale furnished to the Corporation an opinion of counsel of recognized standing or other evidence of exemption, in either case reasonably satisfactory to the Corporation; and, in each case, in accordance with any applicable securities laws of any State of the United States or any other applicable jurisdiction.

Each certificate representing the Shares and each certificate representing the Rights issued to eligible U.S. participants will bear a legend stating the above restriction, provided, that if any of the Shares are being sold outside the United States in compliance with Rule 904 of Regulation S under the U.S. Securities Act, at a time when the Corporation is a “foreign issuer” as defined in Rule 902 under the U.S. Securities Act, the legend may be removed by providing a declaration to the Corporation and its transfer agent in such form as the Corporation may from time to time prescribe with respect to the Shares or rights subject to sale.

#### ***Sale of Distributed Shares and Rights on Behalf of Ineligible Holders***

As Sierra and the Corporation will not distribute the Distributed Shares and Rights to Ineligible Holders, Sierra has made arrangements to have the Distributed Shares and Rights of Ineligible Holders issued to Computershare as a custodian for such Ineligible Holders and sold through the Selling Agent and the net proceeds thereof, if any, distributed to the Ineligible Holders in accordance with their entitlement under the Distribution and Rights Offering.

The net proceeds from the sale of the Ineligible Securities, after the deduction of any brokerage fees or selling expenses incurred by the Selling Agent, will be divided by the number of securities sold and paid as soon as reasonably practicable to each Ineligible Holder on whose behalf such Ineligible Securities were sold, less any applicable withholding taxes or other duties, provided, however, that if any Ineligible Holder is entitled to proceeds of less than \$10.00, such proceeds will be credited and paid to Computershare for any fees or expenses payable to it as distribution paying agent. In carrying out the sale of the Ineligible Securities, Sierra, the Corporation, Computershare and the Selling Agent will act as agents of the Ineligible Holders on a best efforts basis only. None of the Corporation, Sierra, Computershare or the Selling Agent will incur or accept any responsibility or liability for the price obtained or the terms or manner of the sale of such Ineligible Securities or the inability to sell such securities. There is a risk that the proceeds received from the sale of the Ineligible Securities will not exceed the costs of or incurred in connection with the sale of such securities, in which case no proceeds will be remitted to the Ineligible Holders. In the event the proceeds distributed to an Ineligible Holder exceeds or is less than the value attributed to such Ineligible Securities at the time an Ineligible Holder became entitled to the Ineligible Securities, such holder may realize a gain or loss on the disposition of the Ineligible Securities.

Ineligible Holders should be aware that the distribution or disposition of the Ineligible Holder Securities and payment of the net proceeds thereof, if any, may have tax consequences in the jurisdiction in which they reside which are not described in this Prospectus. Such holders should consult their own legal, financial, tax or other professional advisors about the specific tax consequences of the distribution or disposition by Computershare of the Ineligible Holder Securities and payment of the net proceeds thereof, if any.

The Corporation will not permit the exercise of Rights by, or the issuance of Shares thereunder to, any Ineligible Holder, including such holder who may have acquired Rights in the secondary market through the CSE or otherwise.

#### **INTENTION OF DIRECTORS AND EXECUTIVE OFFICERS TO EXERCISE RIGHTS**

The following table sets out the estimated shareholdings in the Corporation of each director and executive officer of the Corporation at the relevant times:

Name of Director / Executive Officer	Shares Immediately Following the Distribution	Shares Immediately Following Completion of the Rights Offering <sup>(1)(2)</sup>
Ricardo Arrarte	●	●
Matthew Anderson	●	●
Carlos Villanueva	●	●
Alberto Arias <sup>(3)</sup>	●	●
Douglas Cater	●	●
Daniel Tellechea	●	●

Notes:

- (1) Based on there being ● Shares issued and outstanding immediately following completion of the Rights Offering.
- (2) Assumes each holder of Rights exercises its Basic Subscription Privilege in full and, as such, the Additional Subscription Privilege is not available.
- (3) ● of such Shares will be registered in the name of Arias Resource Capital Fund L.P., ● of such Shares will be registered in the name of Arias Resource Capital Fund II L.P., ● of such Shares will be registered in the name of Arias Resource Capital Fund II (Mexico) L.P. and ● of such Shares will be registered in the name of ARCM. Alberto Arias is the sole member of Arias Resource Capital GP LLC, the general partner of ARCM, investment manager to the ARC Funds.

## DESCRIPTION OF THE SECURITIES DISTRIBUTED

### Common Shares

The holders of Shares are entitled to receive notice of and to attend all meetings of the Corporation's shareholders and to vote (one vote per Share) at such meetings. Holders of Shares are, at the discretion of the Board and subject to applicable legal restrictions, entitled to receive rateably any dividends declared by the Board on the Shares from time to time, and, subject to the rights of any shares ranking ahead of the Shares, are entitled to participate rateably in any distribution to the Corporation's shareholders upon a liquidation, dissolution or winding-up. There are no pre-emptive, redemption or outstanding conversion rights attached to the Shares.

### Rights

On the Rights Offering Record Date, the Corporation will issue to each holder ● Rights for each Distributed Share held. For every Right held, a holder will be entitled to subscribe for one Share at the Subscription Price at any time prior to the Rights Expiry Time. A Right does not entitle the holder thereof to any rights whatsoever as a securityholder of the Corporation other than to subscribe for and purchase Shares as described herein. For details regarding the Rights Offering, see "*Plan of Distribution*".

## DIVIDENDS OR DISTRIBUTIONS

There have been no cash dividends or distributions declared on the Shares since the date of incorporation of the Corporation. The Corporation does not foresee paying dividends in the foreseeable future. Any decision to pay dividends on the Shares in the future will be made by the Board on the basis of the Corporation's earnings and financial requirements as well as other conditions existing at such time.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

See the management's discussion and analysis attached to this Prospectus at Schedule "B", which should be read in conjunction with the Financial Statements.

## OUTSTANDING SECURITIES

The authorized capital of the Corporation consists of an unlimited number of Shares and an unlimited number of Class A shares, issuable in series. As of the date of this Prospectus, there are 1,000 Shares issued and outstanding. No series of Class A shares is authorized or issued. Following completion of the Reorganization, there will be ● Shares issued and outstanding. As of the date hereof, none of the Shares are held in escrow. Following completion of the Distribution and the Rights Offering and in accordance with NP 46-201, any Shares held by a Principal of the Corporation will be subject to escrow in accordance with the terms and conditions of the Escrow Agreement. See "*Escrowed Shares*".

## CONSOLIDATED CAPITALIZATION

The following table sets forth the material changes in the share and loan capital of the Corporation, on a consolidated basis, since December 6, 2016, the date of the financial statements for the Corporation's most recently completed financial period included in this Prospectus, including the material changes that will result from the issuance of the securities being distributed under this Prospectus. This table should be read in conjunction with the Financial Statements and the management's discussion and analysis attached to this Prospectus at Schedule "B".

	As at December 6, 2016 Before Giving Effect to the Distribution and the Rights Offering	As at December 6, 2016 After Giving Effect to the Distribution and the Rights Offering <sup>(1)(2)</sup>
Cash and cash equivalents	US\$100	US\$●
Liabilities	-	US\$●
Shareholders' Equity:	US\$100	US\$●

	<b>As at December 6, 2016 Before Giving Effect to the Distribution and the Rights Offering</b>	<b>As at December 6, 2016 After Giving Effect to the Distribution and the Rights Offering<sup>(1)(2)</sup></b>
Share capital	US\$100	US\$●

Notes:

- (1) After deducting the estimated expenses of the Rights Offering of approximately \$● and the Managing Dealer Fee of approximately \$● (assuming each holder of Rights exercises its Basic Subscription Privilege in full, and as such, the Additional Subscription Privilege is not available).
- (2) The Subscription Price, as well as the estimated expenses of the Rights Offering and the Managing Dealer Fee, which are to be paid in Canadian dollars, were converted into United States dollars based on the Bank of Canada noon exchange rate for ●, 2017 of \$● per US\$1.00.

### PRIOR SALES

In the 12 months preceding the date of this Prospectus, the Corporation issued a total of 1,000 Shares as specified in the following table:

<b>Date</b>	<b>Reason for Issuance</b>	<b>Number of Shares Issued</b>	<b>Price per Share</b>
December 6, 2016	Incorporation	1,000	US\$0.10

### ESCROWED SHARES

In accordance with NP 46-201, subject to certain exceptions, all equity securities and convertible securities of an issuer owned or controlled by its Principals (as defined below) are required to be held in escrow in accordance with the escrow regime applicable to IPOs, unless the securities held by the Principal represent less than 1% of the voting rights attached to an issuer's outstanding securities immediately after its IPO.

Under NP 46-201, a "Principal" is defined to include all persons or companies that, on the completion of the IPO, fall into one of the following categories:

- (a) a person or company who acted as a promoter of the issuer within two years before the IPO prospectus;
- (b) a director or senior officer of the issuer or any of its material operating subsidiaries at the time of the IPO prospectus;
- (c) a *20% holder* – a person or company that holds securities carrying more than 20% of the voting rights attached to the issuer's outstanding securities immediately before and immediately after the issuer's IPO; and
- (d) a *10% holder* – a person or company that: (i) holds securities carrying more than 10% of the voting rights attached to the issuer's outstanding securities immediately before and immediately after the issuer's IPO; and (ii) has elected or appointed, or has the right to elect or appoint, one or more directors or senior officers of the issuer or any of its material operating subsidiaries.

In addition:

- (a) a company, trust, partnership or other entity more than 50% held by one or more Principals will be treated as a Principal; and
- (b) a Principal's spouse and their relatives that live at the same address as the Principal will also be treated as Principals and any securities of the issuer they hold will be subject to escrow requirements.

Immediately after completion of its IPO, an issuer will be classified for the purposes of escrow as an “exempt issuer”, an “established issuer” or an “emerging issuer”. As the Corporation will be an “emerging issuer”, the following automatic timed releases will apply to the Shares held by its Principals:

<b>Date of Automatic Timed Release</b>	<b>Amount of Escrowed Securities Released</b>
On the Listing Date	1/10 of the escrowed securities
6 months after the Listing Date	1/6 of the remaining escrowed securities
12 months after the Listing Date	1/5 of the remaining escrowed securities
18 months after the Listing Date	1/4 of the remaining escrowed securities
24 months after the Listing Date	1/3 of the remaining escrowed securities
30 months after the Listing Date	1/2 of the remaining escrowed securities
36 months after the Listing Date	The remaining escrowed securities

The automatic time release provisions under NP 46-201 pertaining to “established issuers” (usual case) provide that 25% of each Principal’s escrowed securities are released on the Listing Date, with an additional 25% being released in equal tranches at six month intervals over 18 months. If an emerging issuer becomes an established issuer 18 months or more after its Listing Date, all escrowed securities will be released immediately. If an emerging issuer becomes an established issuer within 18 months after its Listing Date, all escrowed securities that would have been released to that time, if the issuer was an established issuer on its Listing Date, will be released immediately. Remaining escrowed securities will be released in equal instalments on the date that is 6 months, 12 months and 18 months after the Listing Date.

Following completion of the Distribution and the Rights Offering, the following Shares will be subject to the terms of the Escrow Agreement:

<b>Name</b>	<b>Number of Shares<sup>(1)(2)</sup></b>	<b>Percentage of Shares Issued and Outstanding (After Giving Effect to the Distribution and the Rights Offering)<sup>(1)</sup></b>
Alberto Arias <sup>(3)</sup>	•	•%
<b>TOTAL</b>	•	•%

Note:

- (1) Based on there being • Shares issued and outstanding on the Listing Date.
- (2) Assumes each holder of Rights exercises its Basic Subscription Privilege in full and, as such, the Additional Subscription Privilege is not available.
- (3) • of such Shares will be registered in the name of Arias Resource Capital Fund L.P., • of such Shares will be registered in the name of Arias Resource Capital Fund II L.P., • of such Shares will be registered in the name of Arias Resource Capital Fund II (Mexico) L.P. and • of such Shares will be registered in the name of ARCM. Alberto Arias is the sole member of Arias Resource Capital GP LLC, the general partner of ARCM, investment manager to the ARC Funds.

Pursuant to the terms of the Escrow Agreement, the securities of the Corporation held in escrow may not be transferred during the term of the Escrow Agreement unless the transfers within the escrow are:

- (a) to existing or, upon their appointment, incoming directors or senior officers of the Corporation or any of its material operating subsidiaries if the Board has approved the transfer;
- (b) to a person or company that before the proposed transfer holds more than 20% of the voting rights attached to the Corporation’s outstanding securities;

- (c) to a person or company that after the proposed transfer: (i) will hold more than 10% of the voting rights attached to the Corporation’s outstanding securities; and (ii) has the right to elect or appoint one or more directors or senior officers of the Corporation or of any of its material operating subsidiaries;
- (d) to a trustee in bankruptcy or other person or company entitled to such securities on the bankruptcy of a holder of escrowed securities;
- (e) to a financial institution on the realization of escrowed securities pledged, mortgaged or charged by the holder of escrowed securities to the financial institution as collateral for a loan; or
- (f) to or between a RRSP, RRIF or other similar registered plan or fund with a trustee, where the annuitant of the RRSP or RRIF, or the beneficiaries of the other registered plan or fund are limited to the holder of the escrowed securities and his or her spouse, children and parents or, in the case of a trustee of such registered plan or fund, to the annuitant of the RRSP or RRIF, or a beneficiary of the other registered plan or fund, as applicable, or his or her spouse, children and parents.

If a holder of escrowed securities dies, the holder’s escrowed securities will be released from escrow.

In addition, tenders of escrowed securities pursuant to a business combination, which includes: (a) a formal take-over bid for all outstanding equity securities of the issuer or which, if successful, would result in a change of control of the issuer; (b) a formal issuer bid for all outstanding equity securities of the issuer; (c) a statutory arrangement; (d) an amalgamation; (e) a merger; (f) a reorganization that has an effect similar to an amalgamation or merger, are permitted. In general, escrowed securities subject to a share exchange will continue to be escrowed if the successor entity is not an “exempt issuer”, the holder is a Principal of the successor entity and the holder holds more than 1% of the voting rights of the successor entity’s outstanding securities.

A holder of escrowed securities may exercise any voting rights attached to their escrowed securities and receive distributions on the holder’s escrowed securities.

### **PRINCIPAL SECURITYHOLDERS**

The Corporation is a wholly-owned subsidiary of Sierra. All of the Shares beneficially owned and registered in the name of Sierra will be distributed by Sierra under the Distribution. Following completion of such distribution, Sierra will not hold any Shares.

If all of the Rights are unexercised at the Rights Expiry Time and the Standby Purchasers take up all of the Unsubscribed Shares, then the ARC Funds will hold an aggregate of ● Shares, representing approximately ●% of the then issued and outstanding Shares. Alberto Arias (a director of the Corporation) is the sole member of Arias Resource Capital GP LLC, the general partner of ARCM, investment manager to the ARC Funds. Mr. Arias is also the sole director of each of the general partners of the ARC Funds.

Other than the ARC Funds and as set forth in the table below, to the knowledge of the directors and officers of the Corporation, no other person, firm or corporation is expected to own, directly or indirectly, or exercise control or direction over, voting securities of the Corporation carrying more than 10% of the voting rights attached to any class of voting securities of the Corporation immediately following the Rights Expiry Time.

Name	Number of Shares Controlled or Directed <sup>(1)(2)</sup>	Percentage of Shares Issued and Outstanding <sup>(1)(2)</sup>
BlackRock	●	10.1%

Notes:

- (1) Assumes BlackRock is a Qualified Holder and exercises its Basic Subscription Privilege in full. To the knowledge of the Corporation, BlackRock exercises control or direction over 16,360,977 Sierra Shares as of the date hereof.
- (2) After giving effect to the Distribution and the Rights Offering.

## DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out, for each of the Corporation's directors and executive officers, the person's name, place of residence, position(s) with the Corporation and principal occupation. All Board members were elected as directors of the Corporation in 2016. The Corporation's directors are elected annually and, unless re-elected, retire from office at the end of the next annual general meeting of shareholders upon appointment of their successors. As of the date hereof, the Corporation's directors and executive officers (as a group) do not own, or exert direction or control over, any Shares or securities of the Corporation's subsidiaries.

Subject to the terms of any employment or other agreement between the officer and the Corporation, the term of office of the officers of the Corporation is at the discretion of the Corporation's directors.

Name and Residency	Office(s) with the Corporation	Principal Occupation
Ricardo Arrarte Lima, Peru	Chief Executive Officer	Employee of an affiliate of ARCM (an investment manager), where he holds the title of Director
Matthew Anderson Vancouver, British Columbia	Chief Financial Officer	Senior Consultant and an employee of Malaspina (a company that provides accounting and administrative infrastructure to junior public companies)
Carlos Villanueva Lima, Peru	Chief Operating Officer	Chief Operating Officer of Cautivo Mining
Alberto Arias <sup>(1)</sup> New York, New York	Director	Sole member of Arias Resource Capital GP LLC, the general partner of ARCM (an investment manager)
Douglas Cater <sup>(1)</sup> Ontario, Canada	Director	Vice President, Exploration of Kirkland Lake Gold Inc. (a mining company)
Daniel Tellechea <sup>(1)</sup> Tuscon, Arizona	Director	Self-employed Consultant

Note:

(1) Member of the Audit Committee.

### Biographies

The following is a brief biography of our directors and executive officers, including a description of each individual's principal occupation within the past five years.

#### *Ricardo Arrarte, age 50, Chief Executive Officer*

Mr. Ricardo Arrarte is employed by an affiliate of ARCM, where he holds the title of Director, and is the Chief Executive Officer of the Corporation. Mr. Arrarte is expected to devote approximately 30% of his time to the business of the Corporation. Mr. Arrarte is a Mining and Mechanical Engineer with over 20 years' experience in management, operations, and consulting for mining companies. Mr. Arrarte has previously worked as Operations Manager in charge of Hochschild Mining PLC's four silver mines in Peru, as Chief Executive Officer for Compania Minera Caudalosa SA, as Planning and Engineering Manager for Consorcio Minero Horizonte, as Engineering Consultant for Buenavetura Ingenieros SA - BISA, as Mine Manager for Fosfatos Del Pacifico SA, and as Geology and Mine Central Manager for Cementos Pacasmayo SAA. Mr. Arrarte is experienced in mine and plant design, managing mining operations, production and costs with large teams of personnel. Mr. Arrarte earned his Mining and Mechanical Engineering degrees from Pontifica Universidad Catolica Del Peru and his MBA from the George Washington University in Washington, D.C.

#### *Matthew Anderson, age 34, Chief Financial Officer*

Mr. Anderson is a Senior Consultant and an employee of Malaspina, a private company that provides accounting and administrative infrastructure to junior public companies. Mr. Anderson has worked with Malaspina since July

2009. He serves or has served as Chief Financial Officer of several junior public companies including Claven Energy Inc. (formerly Terra Nova Energy Ltd.), Search Minerals Inc., Dynamic Oil & Gas Exploration Inc. and VirtualArmour International Inc.

*Carlos Villanueva, age 69, Chief Operating Officer*

Mr. Carlos Villanueva is the former General Manager of Sociedad Minera Corona S.A. and the Chief Operating Officer of the Corporation. Mr. Villanueva is expected to devote approximately 50% of his time to the business of the Corporation. From 1984 to 2016, Mr. Villanueva served as General Manager of Sociedad Minera Corona S.A., a subsidiary of Sierra. From 1974 to 1984, he served as superintendent of Compania Minera Santa Rita, and previous to that he was mine superintendent of Minas Canarias from 1970 to 1973. Mr. Villanueva began his career in 1969 as mine manager at Cobre in Peru and he received a geological mine engineering degree from the Universidad Nacional de Ingenieria de Peru in 1968.

*Alberto Arias, age 50, Director*

Mr. Alberto Arias is the founder and sole member of Arias Resource Capital GP LLC, the general partner of ARCM. Mr. Arias has over 23 years of experience in the field of international mining finance, and is widely recognized as an industry expert, having been ranked for five consecutive years as the #1 equity research analyst for the metals and mining industry in Latin America by leading polls such as Institutional Investor. Prior to founding ARCM, Mr. Arias worked for eight years at Goldman, Sachs & Co., including having acted as Managing Director and Head of Equity Research for metals and mining in the U.S., Canada and Latin America. Prior to Goldman Sachs, Mr. Arias worked for four years at UBS as Executive Director and Analyst covering the Latin American metals and mining sector. Mr. Arias holds an MBA in Finance and International Business from the Columbia Business School, an M.S. in both Mining Engineering and Chemical Metallurgy/Extractive Metallurgy from Columbia University Henry Krumb School of Mines and a B.S. in Metallurgical Engineering from Colorado School of Mines, has mining industry operational experience, and holds a patent for a gold mineral processing technology. He was raised in a family with a three-generation tradition of founding and managing private and public mining companies in Peru.

*Douglas Cater, age 59, Director*

Mr. Cater is a professional geologist with more than 30 years of experience in the gold mining and exploration business gained while working with senior-tier Canadian-based mining and exploration companies. Currently, Mr. Cater is the Vice President of Exploration with Kirkland Lake Gold Inc., an operating and exploration gold company in Kirkland Lake (northeastern Ontario). Mr. Cater is a Council member of the Association of Professional Geoscientists of Ontario.

*Daniel Tellechea, age 70, Director*

Mr. Daniel Tellechea has extensive experience in international mining, and currently serves as a director of Largo Resources Ltd, and previously served as President and Chief Executive Officer of Sierra from 2007 to 2014. Prior to Sierra, Mr. Tellechea was President and Chief Executive Officer of Asarco LLC (2003-2005), and he served as the Managing Director of Finance and Administration for Asarco's parent, Grupo Mexico (1994-2003). He also served as Asarco's Chief Financial Officer and Vice-President of Finance, and Vice President of Finance for Southern Copper Corporation, which was majority owned by Grupo Mexico (1999 – 2003). Mr. Tellechea earned a BSc in Accounting (1968) and a Master's Degree in Business Administration (1983) from Tecnologico de Monterrey (Mexico).



## **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the knowledge of the Corporation, except as set forth herein, no director or executive officer of the Corporation is, as at the date of this Prospectus, or was, within ten years before the date of this Prospectus, a director, Chief Executive Officer or Chief Financial Officer of any company (including the Corporation) that:

- (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemptions under Canadian securities legislation, that was in effect for a period of more than 30 consecutive days, (an “**order**”), that was issued while the director or executive officer was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer; or
- (b) was subject to an order that was issued after the director or executive officer ceased to be a director, Chief Executive Officer or Chief Financial Officer and which resulted from an event that occurred while that person was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer.

To the knowledge of the Corporation, except as set forth herein, no director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation:

- (a) is, as at the date of this Prospectus, or has been within the ten years before the date of this Prospectus, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the ten years before the date of this Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

In May 2009 and May 2011, management cease trade orders (the “**Sierra Management Cease Trade Orders**”) applicable to directors and officers of Sierra (including Messrs. Arias, Cater and Tellechea) and related companies were issued for late filing of the financial statements.

From March 28, 2013 until January 21, 2014, Mr. Arias served as a director on the board of Colossus Minerals Inc. On January 14, 2014, Colossus Minerals Inc. filed a notice of intention to make a proposal under the BIA. Colossus Minerals Inc. was delisted from the TSX effective February 21, 2014.

Daniel Tellechea was a director of Mercator when it filed a notice of intention to make a proposal under the BIA on August 26, 2014. Mr. Tellechea ceased to be a director of Mercator on September 4, 2014. Pursuant to Section 50.4(8) of the BIA, Mercator was deemed to have filed an assignment in bankruptcy on September 5, 2014 as a result of allowing the ten-day period within which Mercator was required to submit a cash flow forecast to the Official Receiver to lapse.

To the knowledge of the Corporation, no director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **Conflicts of Interest**

Certain of the Corporation’s directors and officers serve or may agree to serve as directors or officers of other companies or have significant shareholdings in other companies and, to the extent that such other companies may participate in ventures in which the Corporation may participate, the directors and officers of the Corporation may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Corporation’s directors, a director who has such a

conflict will abstain from voting for or against the approval of such participation or such terms unless otherwise provided by the OBCA. To the knowledge of the Corporation, other than as disclosed herein, there are no existing or potential material conflicts of interest between the Corporation or any of its subsidiaries and any director or officer of the Corporation or any of its subsidiaries.

## EXECUTIVE COMPENSATION

In this section, “**Named Executive Officers**” means: (a) Ricardo Arrarte, Chief Executive Officer of the Corporation; (b) Matthew Anderson, Chief Financial Officer of the Corporation; and (c) Carlos Villanueva, Chief Operating Officer of the Corporation (being the three most highly compensated executive officers of the Group).

### Named Executive Officer and Director Compensation

The following table provides a pro-forma summary of the compensation to be awarded to, earned by, paid to or payable to the Named Executive Officers and directors of the Corporation (to the extent that such compensation has been determined):

Name and position	Salary, consulting fee, retainer or commission (\$)	Bonus (\$)	Committee or meeting fees (\$)	Value of perquisites (\$)	Value of all other compensation (\$)	Total compensation (\$)
Ricardo Arrarte, Chief Executive Officer	US\$133,000	nil	nil	nil	nil	US\$133,000
Matthew Anderson, Chief Financial Officer	nil	nil	nil	nil	\$50,000 <sup>(1)</sup>	\$50,000 <sup>(1)</sup>
Carlos Villanueva, Chief Operating Officer	US\$125,000	nil	nil	nil	nil	US\$125,000
Alberto Arias, Director and Chairman	nil	nil	nil	nil	nil	nil
Douglas Cater, Director	\$10,000	nil	nil	nil	nil	\$10,000
Daniel Tellechea, Director	\$10,000	nil	nil	nil	nil	\$10,000

Note:

- (1) The services of Mr. Anderson are provided pursuant to a consulting agreement with Malaspina dated December 8, 2016. Pursuant to such agreement, Malaspina charges the Corporation a monthly fee of \$3,500 plus HST for certain services plus an hourly rate for additional services. The amount set out above is an estimate of the fees expected to be paid by the Corporation to Malaspina during the next twelve months. The consulting agreement may be terminated on sixty days written notice.

### Stock Options and Other Compensation Securities

The Corporation has no stock option plan and there are no stock options or other compensation securities outstanding.

### Oversight of Named Executive Officers and Director Compensation

The Board develops, monitors and assesses the Corporation’s approach to the compensation of its directors, senior management and employees. In addition, the Board is responsible for reviewing the Corporation’s annual disclosure regarding executive compensation for inclusion where appropriate in the Corporation’s disclosure documents. The Board oversees the hiring of senior management recruited from outside the Corporation, as well as the promotion of senior management within the Corporation.

When the Board considers it necessary or advisable, it may retain, at the Corporation’s expense, outside consultants or advisors to assist or advise the Board on any matter within its mandate. The Board has the sole authority to retain and to terminate such consultants or advisors. The Corporation has not yet engaged such consultants.

The Board endeavours to ensure that the philosophy and operation of the Corporation's compensation program reinforces its culture and values, creates a balance between risk and reward, attracts, motivates, and retains executives over the long-term and aligns their interests with those of the Corporation's shareholders. In addition, the Board is responsible for reviewing the Corporation's annual disclosure regarding executive compensation for inclusion where appropriate in the Corporation's disclosure documents. The Board's responsibilities regarding compensation include:

- (a) reviewing and approving the overall compensation strategy and policies for directors, officers and employees of the Corporation;
- (b) reviewing and approving the corporate goals and objectives relevant to the compensation of the Corporation's senior management and approving the compensation level of senior management based on their annual performance in light of those goals and objectives;
- (c) overseeing the Corporation's management succession plan, including succession for the Chief Executive Officer position;
- (d) advising on selection of certain executive officer positions;
- (e) reviewing and approving the terms of all executive severance and change in control benefits;
- (f) reviewing and approving the compensation of the Chairman of the Corporation (whether non-executive or otherwise);
- (g) approving the Corporation's incentive compensation and equity-based plans that are subject to Board approval;
- (h) considering the implications of the risks associated with the Corporation's compensation policies and practices; and
- (i) reviewing and approving the annual disclosure relating to executive compensation contained in the management information circular of the Corporation.

#### *Compensation Objectives and Principles*

The fundamental goal of the Corporation is to create value for its shareholders and foster well-managed growth of the Corporation. Compensation plays an important role in achieving short and long-term business objectives and in serving this goal. A primary goal of the compensation program for the Corporation's directors or executive officers is to attract and retain the key executive officers necessary for the Corporation's long-term success, to encourage executive officers to further the development of the Corporation and its operations, and to motivate top quality and experienced executives.

The compensation program for the executive officers is designed to provide such persons with a competitive compensation package having regard to responsibilities and performance. Performance is considered to include achievement of the Corporation's strategic plan and overall performance and success in building long-term shareholder value.

#### *Elements of Compensation*

The Board has not adopted any formal policies or procedures to determine the compensation of the executive officers. Executive officers will be compensated in a manner consistent with their respective contributions to the overall benefit of the Corporation. The Board will assess individual performance of the Corporation's executive officers and make decisions concerning the nature and scope of the compensation to be paid to the Corporation's executive officers. The Board will base its decisions on its compensation philosophy, market analysis of

compensation paid for similar positions by similar companies, and the Board's assessment of individual performance based on an objective set of performance goals.

The Corporation's total compensation package is made up of two main elements: (1) base salary or consulting fees, and (2) cash bonuses, thereby balancing short term incentives. The base salary or consulting fees are competitive and not subject to performance risk. The Board has determined that there are no identified risks arising from the Corporation's compensation policies and practices that are reasonably likely to have a material adverse effect on the Corporation.

The Board will meet annually to deal with compensation issues, or more frequently as needed to address specific issues in respect of executive compensation. The Board will work with the Chief Executive Officer to evaluate the performance and set the compensation for the other Named Executive Officers, including proposed salary adjustments, and cash bonuses, if any.

#### *1. Base Salary*

Base salaries or consulting fees are paid in cash as a fixed amount of compensation for performing day-to-day responsibilities. The base salaries or consulting fees of the Corporation's executive officers are determined through negotiation of each executive officer's employment/consulting agreement, with future increases set after considering the target median of the market, prevailing industry demand and performance factor.

#### *2. Short-Term Incentive Awards*

Cash bonus awards may be earned in the future for achieving short-term goals and other strategic objectives based on a variety of factors, including the individual's performance and contributions, improvements in job proficiency, retention risks and concerns, succession requirements and compensation changes in the market.

#### *Director Compensation*

The Board is also responsible for developing the directors' compensation plan. The objectives of the directors' compensation plan are to compensate the directors in a manner that is cost effective for the Corporation and competitive with other comparable companies. All non-executive directors of the Corporation are entitled to receive an annual fee of \$10,000. These fees are payable quarterly in arrears.

#### **Pension Plan Benefits**

Since the date of incorporation of the Corporation, there has not been established a pension plan for the Named Executive Officers or directors that provided for payments or benefits at, following or in connection with retirement.

#### *Directors and Officers Liability Insurance*

The Corporation has purchased directors and officers liability insurance for the protection of all the directors and officers against liability incurred by them in their capacities as directors and officers of the Corporation and the Corporation's subsidiaries, with coverage in the amount of up to \$10 million at an estimated annual cost of approximately \$●. No amount of the premium has been paid by the directors or officers of the Corporation. The policies contain standard industry exclusions.

### **STATEMENT OF CORPORATE GOVERNANCE**

Under the NI 58-101, the Corporation is required to disclose certain information relating to its corporate governance practices. This information is set forth below.

#### **Board of Directors**

The Board is responsible for the general supervision of the management of the Corporation's business and affairs with the objective of enhancing shareholder value. The Board is currently composed of three directors, one of whom is "independent", within the meaning of NI 52-110. That director is Messr. Cater. Mr. Arias is deemed not to be independent as he is the Chairman of the Board, the sole member of Arias Resource Management GP LLC, the general partner of ARCM, the investment manager to the ARC Funds, the principal and majority shareholders of the Corporation, and is also the sole director of each of the general partners of the ARC Funds. Mr. Tellechea is considered not to be independent as he served as the Chief Executive Officer of Sierra within the prior three years.

### **Directorships**

The directors of the Corporation currently serve on the board of directors of other issuers that are reporting issuers (or the equivalent) as set out below:

<b><u>Director</u></b>	<b><u>Reporting Issuer</u></b>
Alberto Arias	Sierra (TSX) and Largo Resources Ltd. (TSX)
Douglas Cater	Sierra (TSX)
Daniel Tellechea	Largo Resources Ltd. (TSX)

### **Orientation and Continuing Education**

Immediately following appointment, new directors of the Corporation will be provided with information regarding the Corporation including current strategic plans for the Corporation and materials summarizing issues relating to the Corporation. New directors will also be briefed by the Chief Executive Officer of the Corporation. The Board is expected to receive periodic reports from management and external advisors as to new developments in regard to corporate governance and in regard to other issues affecting the Corporation.

### **Ethical Business Conduct**

The Board expects management to operate the business of the Corporation in a manner that enhances shareholder value and is consistent with the highest level of integrity. Accordingly, the Board has adopted the Code to assist all directors, officers and employees of the Corporation to maintain the highest standards of ethical conduct in corporate affairs. Any material issues regarding compliance with the Code are brought forward by management at either the Board or appropriate Board committee meetings, or are referred to the senior executive officers of the Corporation, as may be appropriate in the circumstances. The Board and/or appropriate committee or senior executive officers determine what remedial steps, if any, are required. Any waivers from the Code may be granted only with the prior approval of the Board. No waiver has ever been granted under the Code.

In addition, the Board must comply with conflict of interest provisions in Canadian corporate law, including relevant securities regulatory instruments, in order to ensure that directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.

The Corporation has adopted the Policies. The directors of the Corporation encourage and promote an overall culture of ethical business conduct by promoting compliance with applicable laws, rules and regulations, providing guidance to employees, directors and officers to help them recognize and deal with ethical issues, promoting a culture of open communication, honesty and accountability and ensuring awareness of disciplinary action for violations of ethical conduct.

### **Nomination of Directors**

Subject to the Nomination Rights and Governance Agreement, the Board as a whole has the responsibility of recruiting and considering director candidates. The Board will consider the size of the Board each year when it determines the number of directors to recommend to shareholders for election at the annual meeting of

shareholders, taking into account the number of directors required to carry out the Board's duties effectively and to maintain a diversity of view and experience. In that regard, the Board will consider what competencies and skills the directors as a group should possess when assessing the competencies and skills of the existing and any proposed directors, and when considering the appropriate size of the Board.

Under the Nomination Rights and Governance Agreement, the Corporation and each of the ARC Funds have agreed that, subject to the terms of such agreement, as long as the ARC Funds beneficially own, or control or direct, whether individually or together, (i) 50% or more of the issued and outstanding Shares, the Corporation will include three ARC Nominees among the Board's nominees as directors of the Corporation to be nominated at each Directors Election Meeting; (ii) less than 50% but not less than 30% of the issued and outstanding Shares, the Corporation will include no less than two ARC Nominees among the Board's nominees as directors of the Corporation to be nominated at each Directors Election Meeting; (iii) less than 30% but not less than 10% of the issued and outstanding Shares, the Corporation will include no less than one ARC Nominee among the Board's nominees as directors of the Corporation to be nominated at each Directors Election Meeting; and (iv) less than 10% of the issued and outstanding Shares, the Corporation shall not be obligated to include any ARC Nominees among the Board's nominees as directors of the Corporation to be nominated at any further Directors Election Meeting.

Additionally, pursuant to the Nomination Rights and Governance Agreement, certain decisions in respect of the Corporation require the approval of at least two-thirds of the Corporation's directors. Such matters include (i) certain amendments to the articles or by-laws of the Group; (ii) approving or amending an annual business plan for the Corporation; (iii) changing the number of directors of the Group; (iv) appointing, changing or removing senior officers of the Corporation or any of its affiliates as well as determining certain aspects of their responsibilities and compensation; (v) approving any material transactions of any member of the Group; and (vi) decisions in respect of, *inter alia*, dividends, distributions and issuing any security of any member of the Group (except the Corporation) other than to another member of the Group.

Under the Nomination Rights and Governance Agreement, the Corporation has also granted to each ARC Fund, on the terms set forth in such agreement, a continuing right to participate in any subsequent equity financing of the Corporation in order for it to maintain its proportionate equity interest in the Corporation as at immediately prior to the closing of such equity financing.

The Nomination Rights and Governance Agreement may be terminated at any time by mutual consent of the parties to such agreement, and shall automatically terminate after the first continuous 180 day period during which the Shares held or controlled by the ARC Funds, whether individually or together, is less than 10%.

### **Compensation**

The Board as a whole has the responsibility relating to matters of human resources and compensation, including equity compensation. For more detailed information regarding the Board and its responsibilities, please see "*Executive Compensation – Oversight of Named Executive Officers and Director Compensation*".

### **Other Board Committees**

The Board does not have any standing committees other than the Audit Committee. See "*Audit Committee*", below.

### **Assessments**

The Chairman of the Board, in consultation with the independent directors, will oversee the effective functioning of the Board, which includes a periodic review of the effectiveness of the Board as a whole and of the composition of the Board. To date, given the small size of the Board and the frequency at which its meetings are held, the Board has not found it necessary to institute any formal process in order to satisfy itself that the Board, its committees and its individual directors are performing effectively.

## AUDIT COMMITTEE

### Composition

The Board has established an Audit Committee that is currently comprised of all directors of the Corporation. One of the three members of the Audit Committee is “independent” and all members of the Audit Committee are “financially literate” for the purposes of NI 52-110. For further information regarding the experience of the Audit Committee members, see “*Directors and Executive Officers – Biographies*”.

### Charter

The Charter of the Audit Committee is attached to this Prospectus at Schedule “A”. The Charter was adopted by the Board on January 7, 2017.

### Audit Committee Oversight

At no time since the date of incorporation of the Corporation has the Board failed to adopt a recommendation of the Audit Committee to nominate or compensate an external auditor.

### Reliance on Certain Exemptions

The Corporation is relying on the exemptions provided by: (i) section 6.1 of NI 52-110 which provides that the Corporation, as a “venture issuer”, is not required to comply with Parts 3 (*Composition of the Audit Committee*) and 5 (*Reporting Obligations*) of NI 52-110; and (ii) 6.1.1(5) of NI 52-110.

### Pre-Approval Policies and Procedures

The Audit Committee has adopted policies and procedures for the engagement of non-audit services as described in the Audit Committee Charter.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No person who is, or who was, within the thirty days prior to the date of this Prospectus a current or former director, executive officer or employee of the Corporation or any of its subsidiaries indebted to the Corporation or any of its subsidiaries or indebted to another entity which is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries.

## RISK FACTORS

*An investment in the securities of the Corporation involves significant risks. You should carefully consider the following risk factors in addition to the other information contained in this Prospectus and consult your legal, financial or other professional advisors before considering making or holding an investment in the securities of the Corporation. The risks and uncertainties below and elsewhere in this Prospectus are not the only ones facing the Corporation. Additional risks and uncertainties not presently known to the Corporation or that the Corporation currently considers immaterial may impair its business operations and cause the price or value of its securities to decline. If any of the risks contained in this Prospectus actually occur, the Corporation’s business may be harmed and its financial condition and results of operations may suffer significantly. In that event, the price or value of the Corporation’s securities could decline, and investors may lose all or part of their investment.*

*Investment in the Corporation’s securities should be regarded as highly speculative and should be considered only by those investors able to sustain a total loss of their investment. In addition to the other information set forth elsewhere in this Prospectus, prospective investors should carefully review the following risk factors:*

## **Risks Related to our Business**

### ***Foreign Country Risk***

The Corporation conducts its exploration activities in Peru. There is a sovereign risk of investing in a foreign country, including the risk that the mining concessions may be susceptible to revision or cancellation by new laws or changes in direction by the government in question. These are matters over which the Corporation has no control. The Corporation believes that the government and population of Peru support the development of natural resources. There is no assurance that future political and economic conditions in such country will not result in the adoption of different policies or attitudes respecting the development and ownership of mineral resources. Any such changes in policy or attitudes may result in changes in laws affecting ownership of assets, land tenure and mineral concessions, taxation, royalties, rates of exchange, environmental protection, labour relations, repatriation of income and return of capital, which may affect both the Corporation's ability to undertake exploration and, if warranted, development and mining activities in respect of current and future properties.

### ***Crime and Business Corruption Risk***

The Corporation conducts business in regions which have experienced high levels of business corruption and other criminal activity. The Corporation is required to comply with applicable anti-bribery laws, including the *Canadian Corruption of Foreign Public Officials Act*, as well as local laws in all areas in which the Corporation does business. These, among other things, include laws in respect of the monitoring of financial transactions and provide a framework for the prevention and prosecution of corruption offences, including various restrictions and safeguards. However, there can be no guarantee that these laws will be effective in identifying and preventing money laundering and corruption. The failure of the government in Peru to continue to fight corruption or the perceived risk of corruption could have a material adverse effect on the local economies. Any allegations of corruption in Peru or evidence of money laundering could adversely affect Peru's ability to attract foreign investment and thus have an adverse effect on its economy which in turn could have a material adverse effect on the Corporation's business, results of operations, financial condition and prospects. Moreover, findings against the Corporation, the directors, the officers or the employees of the Corporation, or their involvement in corruption or other illegal activity could result in criminal or civil penalties, including substantial monetary fines, against the Corporation, the directors, the officers or the employees of the Corporation. Any government investigations or other allegations against the Corporation, the directors, the officers or the employees of the Corporation, or finding of involvement in corruption or other illegal activity by such persons, could significantly damage the Corporation's reputation and its ability to do business and could materially adversely affect its financial condition and results of operations.

### ***Security Risks***

In recent years, criminal activity and violence has increased in Peru. As well, incidents of violent crime, kidnapping for ransom and extortion by organized crime have occurred. Many incidents of crime and violence go unreported and law enforcement authorities' efforts to reduce criminal activity are challenged by a lack of resources, corruption and the power of organized crime. We regularly review the safety of access routes and the physical security of our properties. Notwithstanding these measures, incidents of criminal activity, trespass, theft and vandalism affect our employees, contractors and their families. Although we have implemented measures to protect our employees, contractors and properties from these security risks, there can be no assurance that security incidents, in the future, will not have a material adverse effect on our business, especially if criminal activity and violence continue to increase. Such incidents may halt or delay exploration activities, increase costs, result in harm to employees, contractors or visitors, decrease operational efficiency due to employee absenteeism and other factors, increase community tensions or otherwise adversely affect the Corporation's ability to conduct business.

### ***Liquidity Concerns and Future Financing Requirements***

The Corporation may require additional financing in order to fund its full exploration program and fund the ongoing maintenance costs of the Las Lomas Project, including the annual payments for Minera Ate to maintain its option under the Hans Option Agreement described in the Technical Report summary under the heading "*Summary of Technical Report*" and any payments associated with the exercise of such option. The ability of the Corporation to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as the



business success of the Corporation. There can be no assurance that the Corporation will be successful in its efforts to arrange additional financing on terms satisfactory to the Corporation. The Corporation's obligations are not supported or guaranteed in any way by Sierra and the Corporation may be entirely dependent on its ability to raise funding for its activities. If adequate funds are not available, or are not available on acceptable terms, the Corporation may not be able to take advantage of opportunities that present themselves, or otherwise remain in business. In addition, failure to obtain additional financing could result in delay or indefinite postponement of further exploration and development or forfeiture of some rights in the Corporation's mineral properties, including the Las Lomas Project.

### ***Substantial Capital Expenditures Required***

Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis. The discovery of mineral deposits is dependent upon a number of factors. The commercial viability of a mineral deposit once discovered is also dependent upon a number of factors, some of which relate to particular attributes of the deposit, such as size, grade and proximity to infrastructure, and some of which are more general factors such as metal prices and government regulations, including environmental protection. Most of these factors are beyond the control of the Corporation. In addition, because of these risks, there is no certainty that the expenditures to be made by the Corporation on the exploration of its properties as described herein will result in the discovery of commercial quantities of ore.

### ***Infrastructure Risk***

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants that affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Corporation's operations, financial condition and results of operations.

### ***Future Acquisitions***

As part of the Corporation's business strategy, it may seek to grow by acquiring companies, assets or establishing joint ventures that it believes will complement its current or future business. The Corporation may not effectively select acquisition candidates or negotiate or finance acquisitions or integrate the acquired businesses and their personnel or acquire assets for its business, enter into or enforce satisfactory mineral agreements or obtain the Supreme Decree in the event any concessions proposed to be acquired are within the Border Zone. The Corporation cannot guarantee that it can complete any acquisition it pursues on favourable terms, or that any acquisitions completed will ultimately benefit its business. Future acquisitions may result in substantial dilution to shareholders.

### ***Exploration and Development***

The Las Lomas Project is in the exploration stage. Mineral exploration and development involves a degree of risk which even a combination of experience, knowledge and careful evaluation may not be able to mitigate. The vast majority of properties which are explored are not ultimately developed into producing mines. There is no assurance that the Corporation's mineral exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term viability of the Corporation's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors.

### ***Operating Hazards and Risks***

Operations in which the Corporation has a direct or indirect interest will be subject to hazards and risks normally incidental to exploration, development and production of minerals, any of which could result in work stoppages, delayed production and resultant losses, increased production costs, asset write downs, damage to or destruction of

properties, damage to or loss of life, environmental damage and possible legal liability for any or all damages. The nature of these risks is such that liabilities might exceed any insurance policy limits, the liabilities and hazards might not be insurable or the Corporation might not elect to insure itself against such liabilities due to high premium costs or other factors. Such liabilities may have a materially adverse effect upon the Corporation's financial condition.

### ***Fluctuating Mineral Prices***

The mining industry is heavily dependent upon the market price of the metals or minerals being mined. There is no assurance that, even if commercial quantities of mineral resources are discovered, a profitable market will exist for the sale of the same. There can be no assurance that mineral prices will be such that the Corporation's properties can be mined at a profit. Factors beyond the control of the Corporation may affect the marketability of any minerals discovered. The prices of many base and precious metals have experienced volatile and significant price movements over short periods of time, and are affected by numerous factors beyond the control of the Corporation.

### ***Foreign Exchange Rate Fluctuations***

Operations in Peru are subject to foreign currency exchange fluctuations with respect to the official currency of Peru and the Corporation may suffer losses due to adverse foreign currency fluctuations.

### ***Price Volatility of Publicly Traded Securities***

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the Rights and the Shares will be subject to market trends generally, notwithstanding any potential success of the Corporation in creating revenues, cash flows or earnings. The value of the Rights and the Shares distributed hereunder will be affected by such volatility.

Any negative change in the public's perception of the Corporation's prospects could cause the price of its securities to decrease dramatically. Furthermore, any negative change in the public's perception of the prospects of mining companies in general could depress the price of the Corporation's securities, regardless of the Corporation's results. Securities class-action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Corporation may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

### ***Competition***

The mining industry is intensely and increasingly competitive, and the Corporation competes for exploration and exploitation properties with many companies possessing greater financial resources and technical facilities than itself. Competition in the mining business could adversely affect the Corporation's ability to acquire suitable producing properties or prospects for mineral exploration in the future.

### ***Title Matters***

While the Corporation has reviewed and is satisfied with the titles to the claims of the Las Lomas Project, and, to the best of its knowledge, such titles are in good standing, there is no guarantee that titles to such claims will not be challenged or impugned, or that the Corporation will be able to obtain the Supreme Decree in relation to the concessions forming part of the Las Lomas Project that are not currently owned by San Miguelito. The Las Lomas Project may be subject to prior unregistered agreements of transfer or aboriginal land claims, and title may be affected by undetected defects.

### ***Surface Rights***

The Corporation has not acquired surface rights to the Las Lomas Project and there is no assurance that surface rights will be granted, nor that they will be on reasonable terms if granted. Failure to acquire surface rights may impact the Corporation's ability to access the Las Lomas Project, as well as its ability to continue exploration and, if warranted development activities, any of which may have a materially adverse effect on the profitability of the Corporation's future operations.

### ***Environmental Risks and Other Regulatory Requirements***

The current or future operations of the Corporation, including exploration or development activities and, if warranted, commencement of production at the Las Lomas Project requires permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits which the Corporation may require for the construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Corporation might undertake.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mineral exploration or mining operations may be required to compensate those suffering loss or damage by reason of the activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material impact on the Corporation and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in the development of new mining properties (in each case, if applicable).

### ***No Known Mineral Resources or Reserves***

The Las Lomas Project is in the exploration stage and is without known mineral resources or reserves. Although the Corporation may discover mineral resources or reserves through its exploration programs, commercial production may not be warranted due to insufficient quantities. Development of the Las Lomas Project will only follow upon obtaining satisfactory exploration results. However, few mineral properties that are explored are ultimately developed into producing mines.

In the event a commercially productive mineral reserve is discovered, substantial expenditures are required to develop mineral reserves for production, development of metallurgical processes for extraction and to develop the mining and processing facilities and infrastructure at the production site. The marketability of any minerals discovered may be affected by numerous factors which are beyond the Corporation's control and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Depending on the price of minerals produced, the Corporation may determine that it is impractical to commence or continue commercial production.

### ***Industry Regulation***

The Corporation operates its business in a regulated industry. Any changes in governmental laws, regulations, economic conditions or shifts in political attitudes or stability are beyond the control of the Corporation and may adversely affect its business. In addition, shortages of skilled labour and deficiencies in infrastructure may negatively influence costs of exploration and development.

### ***Uninsured or Uninsurable Risks***

The Corporation may become subject to liability for cave-ins, pollution or other hazards against which it cannot insure or against which it may elect not to insure because of high premium costs or for other reasons. The payment of any such liabilities would reduce the funds available for exploration and mining activities. Payments of liabilities for which the Corporation does not carry insurance may have a material adverse effect on the financial position of the Corporation.

### ***Insurance Risks***

The Corporation's insurance will not cover all the potential risks associated with a mineral exploration company's operations. The Corporation may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, the Corporation expects that insurance against risks such as environmental pollution or other hazards as a result of exploration and production may be prohibitively expensive to obtain for a company of the Corporation's size and financial means. The Corporation might also become subject to liability for pollution or other hazards which may not be insured against or which the Corporation may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Corporation to incur significant costs that could have a material adverse effect upon the Corporation's financial condition and results of operations.

### ***Conflicts of Interest***

Some of the directors and officers of the Corporation are engaged and will continue to be engaged in the search for additional business opportunities on behalf of other companies, and situations may arise where these directors and officers will be in direct competition with the Corporation. Some of the directors and officers of the Corporation are or may become directors or officers of other companies engaged in other business ventures.

To the extent that such other companies may participate in ventures in which the Corporation is also participating, such directors and officers of the Corporation may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. The OBCA requires the directors and officers to act honestly, in good faith, and in the best interests of the Corporation and its shareholders. However, in conflict of interest situations, directors and officers of the Corporation may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions.

### ***Dependence on, and Protection of, Key Personnel***

The success of the Corporation is currently largely dependent on the performance of its directors and officers. The loss of the services of any of these persons could have a materially adverse effect on the Corporation's business and prospects. There is no assurance the Corporation can maintain the services of its directors, officers or other qualified personnel required to operate its business.

### ***Cyclical Business***

The Corporation's financial performance is dependent on many external factors. The Corporation expects that any revenues it may earn from its operations in the future will be from the sale of metals and minerals. Both prices and markets for metals and minerals are cyclical, difficult to predict, volatile, subject to government price fixing and controls and respond to changes in domestic and international political, social and economic environments. In addition, the availability and cost of funds for exploration, development and production costs are difficult to predict. These changes and events could materially affect the financial performance of the Corporation.

### ***Liquidity Risk***

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Las Lomas Project is the exploration stage. At this time the Corporation has no operating revenue and does not anticipate earning any operating profits until it is able to place a project into production, or acquire a mining asset

with operating cash flow. Until such time, the Corporation will be required to: (i) raise funds through equity financing; (ii) have sufficient committed credit facilities in place to meet its operating needs; or (iii) secure other ways to continue its exploration and, if warranted, development activities. If additional financing is not available, the Corporation may have to postpone its capital expenditures and exploration programs, which could materially impact the long term financial performance of the Corporation.

### ***Adverse General Economic Conditions***

The unprecedented events in global financial markets in the past several years have had a profound impact on the global economy. Many industries, including the mineral resource industry, were impacted by these market conditions. Some of the key impacts of the financial market turmoil included contraction in credit markets resulting in a widening of credit risk, devaluations, high volatility in global equity, commodity, foreign exchange and precious metal markets and a lack of market liquidity. A similar slowdown in the financial markets or other economic conditions, including but not limited to, inflation, fuel and energy costs, lack of available credit, the state of the financial markets, interest rates and tax rates, may adversely affect our activities. Specifically, a global credit/liquidity crisis could impact the cost and availability of financing and our overall liquidity, the volatility of metal prices would impact the Corporation's prospects, volatile energy, commodity and consumables prices and currency exchange rates would impact our costs and the devaluation and volatility of global stock markets would impact the valuation of its equity and other securities. These factors could have a material adverse effect on the Corporation's financial condition and results of operations.

### ***Shortages of Critical Parts, Equipment and Skilled Labour***

The Corporation's ability to acquire critical resources such as input commodities, drilling equipment, tires and skilled labour due to increased worldwide demand, may cause unanticipated cost increases and delays in delivery times, thereby impacting operating costs, capital expenditures and development schedules.

### ***Community Action***

In recent years communities and NGOs have become more vocal and active with respect to mining activities at or near their communities. These communities and NGOs have taken such actions as road closures, work stoppages, and law suits for damages. These actions relate not only to current activities but often in respect to decades old mining activities by prior owners of mining properties. Such actions by communities and NGOs may have a material adverse effect on the Corporation's operations at the Las Lomas Project and on its financial position, cash flow and results of operations.

### ***Claims and Legal Proceedings***

The Corporation may be subject to claims or legal proceedings covering a wide range of matters that arise in the ordinary course of business activities, including claims relating to ex-employees. These matters may give rise to legal uncertainties or have unfavourable results. In addition, the Corporation may be involved in disputes with other parties in the future that may result in litigation or unfavourable resolution which could materially adversely impact its financial position, cash flow and results of operations.

In the event of a dispute arising in respect of the Corporation's foreign operations, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or elsewhere. The Corporation may also be hindered or prevented from enforcing its rights with respect to a government entity or instrumentality because of, among other things, the doctrine of sovereign immunity. Any adverse or arbitrary decision of a court, arbitrator or other governmental or regulatory body may have a material adverse impact on the Corporation's business, assets, prospects, financial condition and results of operations.

The Corporation's inability to enforce its contractual rights could have a material adverse effect on its future cash flows, earnings, results of operations and financial condition, as well as its business, assets and prospects.

### ***Enforcement of Legal Rights***

One of the Corporation's material subsidiaries following the Reorganization will be organized under the laws of Peru and certain of the Corporation's directors, management and personnel will be located in foreign jurisdictions. Given that the Corporation's material assets and certain of its directors and management personnel will be located outside of Canada, investors may have difficulty in effecting service of process within Canada and collecting from or enforcing against the Corporation, or its directors and officers, any judgments issued by the Canadian courts or Canadian securities regulatory authorities and predicated on the civil liability provisions of Canadian securities legislation or other laws of Canada. Similarly, in the event a dispute arises in connection with the Corporation's foreign operations, including its key asset being the Las Lomas Project, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada.

### ***Financial Reporting Standards***

The Corporation prepares its financial reports in accordance with IFRS applicable to publicly accountable enterprises. In preparation of financial reports, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Corporation. Significant accounting policies are described in more detail in the Corporation Financial Statements. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use, transactions are properly recorded and reported, and the Corporation has implemented and continues to analyze its internal control systems for financial reporting. Although the Corporation believes its financial reporting and financial statements are prepared with reasonable safeguards to ensure reliability, the Corporation cannot provide absolute assurance.

### ***Internal Controls***

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation. Any failure in the Corporation's internal controls over financial reporting may have a material adverse impact on the Corporation, its financial condition or its results of operations.

## **Risks Related to the Distribution of the Distributed Shares and the Rights Offering**

### ***No Assurance of Active or Liquid Market***

Prior to the transactions contemplated by this Prospectus, there has been no public market for the Corporation's securities. Although the Corporation has applied to list the Rights and the Shares on the CSE, there is no guarantee that its listing application will be approved or, if approved, the Corporation cannot provide assurances that an active public trading market will develop or will be sustained after completion of the transactions contemplated under this Prospectus. If an active public trading market does not develop, the liquidity of an investment in the Corporation's securities may be limited, and the price of the Corporation's securities may decline.

### ***Price Volatility and Loss of Entire Investment***

The market price of the Corporation's securities could fluctuate significantly, and an investor may not be able to resell its securities at or above the subscription price or cost base. Those fluctuations could be based on various factors in addition to those otherwise described in this Prospectus, including:

- our exploration results;
- the number of Shares available for future sale;
- the passage of legislation or other regulatory developments affecting us or our industry;

- the arrival or departure of key personnel;
- general economic, political and market conditions; and
- other developments affecting us, our industry or our competitors.

A decline in the market price of the Corporation's securities could cause investors to lose some or all of their investment and may adversely impact our ability to attract and retain employees and raise capital. Volatility will be greater with respect to our Rights and those securities may expire and be of no value. In addition, shareholders may initiate securities class action lawsuits if the market price of the Corporation's securities drops significantly, which may cause us to incur substantial costs and could divert the time and attention of our management.

### ***Dilution***

If a Holder does not purchase Shares pursuant to the Rights, the Holder's current percentage ownership in the Corporation will be diluted by the issue of Shares upon the exercise of Rights by others. Insiders may increase their proportionate holdings in the Corporation.

The Corporation may issue and sell additional Shares or other securities to finance its operations. The Corporation cannot predict the size or type of future issuances of securities of the Corporation or the effect, if any, that future issuances and sales of securities will have on the market price of any securities of the Corporation issued and outstanding from time to time. Sales or issuances of substantial amounts of securities of the Corporation, or the perception that such sales could occur, may adversely affect prevailing market prices for securities of the Corporation issued and outstanding from time to time. With any additional sale or issuance of securities of the Corporation, holders will suffer dilution with respect to voting power and may experience dilution in the Corporation's earnings per share.

### ***Discretion in the Use of Proceeds***

Management will have discretion concerning the use of proceeds of the Rights Offering as well as the timing of their expenditures. As a result, investors will be relying on the judgment of management as to the application of the proceeds of the Rights Offering. Although management intends to use the net proceeds of the Rights Offering primarily to fund exploration and development of the Las Lomas Project, management may use the net proceeds of the Rights Offering in ways that an investor may not consider desirable. The results and effectiveness of the application of the proceeds are uncertain. If the proceeds are not applied effectively, the Corporation's results of operations may suffer.

### ***Principal Securityholders***

Following completion of the Distribution and the Rights Offering, insiders of the Corporation, including the ARC Funds, will collectively own a significant number of Shares. This significant concentration of ownership may adversely affect the trading price for the Shares because investors often perceive disadvantages in owning shares in companies with controlling shareholders. In addition, these shareholders will be able to exercise influence over all matters requiring shareholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of the Corporation or its assets. This concentration of ownership could limit investors' ability to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation, or other business combination involving the Corporation, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit the Corporation's other shareholders. For information regarding the ownership of the Shares by the Corporation's principal securityholders pro forma following the Distribution and the Rights Offering, please see the section entitled "*Principal Securityholders*".

### ***Tax Risk***

The intended tax treatment depends on a determination of the fair market value and PUC of the Distributed Shares and a number of other assumptions, one or more of which assumptions could prove to be incorrect. This creates a

risk that the actual Canadian tax treatment of the Distribution could be different from the intended tax treatment, which could result in a taxable dividend or a capital gain for Sierra Shareholders and/or a requirement that Sierra withhold tax under Part XIII of the Tax Act in respect of Sierra Shareholders who are non-residents of Canada for purposes of the Tax Act.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is a general summary of the principal Canadian federal income tax considerations arising in respect of the receipt, holding and disposition of the Distributed Shares, Rights and Shares to a Sierra Shareholder who as beneficial owner, receives such Distributed Shares and Rights under the Distribution and the Rights Offering and who, for the purposes of the Tax Act and the Regulations thereunder, (i) deals at arm's length with the Corporation and Sierra, (ii) is not affiliated with the Corporation and Sierra, and (iii) holds Sierra Shares, Distributed Shares, Rights and Shares as capital property at all relevant times (a "**Holder**"). Generally, Sierra Shares, Distributed Shares, Rights and Shares will be capital property to a Holder provided that the Holder does not acquire or hold such securities in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is based on the provisions of the Tax Act and the Regulations thereunder, in force on the date hereof and counsel's understanding of the current administrative policies and practices of the CRA published in writing prior to the date hereof. This summary takes into account all Proposed Amendments and assumes that all such Proposed Amendments will be enacted in their present form. No assurance can be given that the Proposed Amendments will be enacted in the form proposed, if at all. This summary does not otherwise take into account or anticipate any changes in law, whether by judicial, governmental or legislative decision or action or changes in the administrative policies and practices of the CRA, nor does it take into account provincial, territorial or foreign income tax legislation or considerations which may differ materially from those described in this summary.

This summary is not applicable to a Holder: (i) that is a "specified financial institution", (ii) an interest in which is or whose shares are a "tax shelter investment", (iii) that is, for purposes of certain rules (referred to as the mark-to-market rules) applicable to securities held by financial institutions, a "financial institution", (iv) that reports its "Canadian tax results" in a currency other than Canadian currency, (v) that has or will enter into a "derivative forward agreement", or (vi) who has acquired Sierra Shares on the exercise of an employee stock option, each as defined in the Tax Act. Such Holders should consult their own tax advisors.

Additional considerations, not discussed herein, may be applicable to a Holder that is a corporation resident in Canada, and is, or becomes, controlled by a non-resident corporation for purposes of the "foreign affiliate dumping" rules in section 212.3 of the Tax Act. Such Holders should consult their own tax advisors with respect to the consequences of acquiring Distributed Shares or Shares.

**This summary is of a general nature only and is not exhaustive of all possible Canadian federal income tax considerations. It does not take into account or consider the tax laws of any province or territory or of any jurisdiction outside Canada. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations concerning the tax consequences to any particular Holder are made. Holders should consult their own tax advisers regarding the income tax considerations applicable to them having regard to their particular circumstances.**

### Assumptions Regarding Return of Capital

Distributions made by public corporations, such as Sierra, are generally characterized as taxable dividends for the purposes of the Tax Act, unless a specific exemption applies. Subsection 84(2) of the Tax Act provides, in effect, that a distribution made on a "winding up, discontinuance or reorganization of its [Sierra's] business", will not be taxed as a dividend so long as the amount or value of the funds or property distributed does not exceed the amount by which the PUC of the relevant shares is reduced on the distribution.

It is noted that the Distribution is being made by Sierra as part of a number of potential changes, including the Reorganization, that are contemplated in order to maximize the overall value of the Sierra assets for Sierra



Shareholders. Other changes include launching the Corporation as a CSE listed public company and the Rights Offering.

Subsection 84(4.1) of the Tax Act applies in certain circumstances to deem a return of capital by a public corporation (such as Sierra) to be a dividend. However, subsection 84(4.1) of the Tax Act does not apply to the Distribution provided that: (i) the Distribution can reasonably be considered to have been derived from proceeds of disposition realized by Sierra from a transaction that occurred outside the ordinary course of the business of Sierra but within the period that commenced 24 months before the Distribution; and (ii) no other amount that may reasonably be considered to have derived from such proceeds was paid by Sierra as a reduction of PUC prior to the Distribution. Management of Sierra has determined that the Distribution will be paid as a direct result of the proceeds of disposition that Sierra received on the sale of the outstanding Plexmar shares and the Loans to the Corporation in exchange for Shares under the Reorganization, that such transaction was outside of the ordinary course of Sierra's business, and that no amount that may reasonably be considered to have derived from such proceeds will have been paid by Sierra as a reduction of PUC prior to the Distribution. Therefore, the Distribution should be treated as a tax-free return of PUC (subject to the comments below concerning the reduction of the adjusted cost base of the Sierra Shares) and not as a deemed dividend pursuant to subsection 84(4.1) of the Tax Act.

PUC is computed according to the relevant provisions of the Tax Act. The starting point for computing PUC is the stated capital of the Sierra Shares for corporate law purposes, which amount is then subject to adjustment according to detailed rules contained in the Tax Act. Sierra management has advised that the PUC of the Sierra Shares will exceed the fair market value of the Distributed Shares on the date the Distribution is effected. The summary of tax consequences set out below assumes that the fair market value of the Distributed Shares will not exceed the PUC of the Sierra Shares on which the distribution is made and that subsection 84(4.1) will not apply.

### **Resident Holders**

The following is a discussion of the consequences under the Tax Act to Holders who, for the purposes of the Tax Act and at all relevant times, are resident or deemed to be resident in Canada ("**Resident Holders**"). Certain Resident Holders may be entitled to make or may have already made the irrevocable election permitted by subsection 39(4) of the Tax Act the effect of which may be to deem any shares, including Sierra Shares, Distributed Shares (but for the avoidance of doubt, not the Rights) and Shares, and all other "Canadian securities", as defined in the Tax Act, owned by such Resident Holder to be capital property in the taxation year in which the election is made and in all subsequent taxation years. Resident Holders whose Sierra Shares, Distributed Shares or Shares might not otherwise be considered to be capital property should consult their own tax advisors concerning this election.

### ***The Distribution***

The distribution of the Distributed Shares as a return of capital will reduce the adjusted cost base of a Resident Holder's Sierra Shares by an amount equal to the fair market value on the date the Distribution is effected of the Distributed Shares that are issued to or for the benefit of such holder. If the amount so required to be deducted from the adjusted cost base of the Sierra Shares to a particular Resident Holder exceeds the Resident Holder's adjusted cost base of such Sierra Shares, the excess will be deemed to be a capital gain realized by such Resident Holder from a disposition of their Sierra Shares. Generally, a Resident Holder is required to include in computing its income for a taxation year one-half of the amount of any capital gain (a "**taxable capital gain**"). A Resident Holder that is throughout the year a Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax on certain investment income, including taxable capital gains.

Distributed Shares received by a Resident Holder should have a cost to the Resident Holder for tax purposes equal to their fair market value at the time of such receipt. In computing the adjusted cost base of the Distributed Shares at any time, the adjusted cost base of a Resident Holder's Distributed Shares will be averaged with the respective adjusted cost base of all of the Shares, including Shares received on the exercise of a Right, held by the Resident Holder as capital property at that particular time.

### ***Capital Gains and Capital Losses***

On a disposition or deemed disposition of a Distributed Share, a Resident Holder will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition for the Distributed Share exceed (or are less than) the aggregate of any reasonable costs of disposition and the adjusted cost base to the Resident Holder of the Distributed Share immediately before the disposition or deemed disposition.

A Resident Holder of Distributed Shares who disposes or is deemed to dispose of such shares will generally be required to include in such Resident Holder's income the amount of any taxable capital gain and may deduct one-half of the amount of any capital loss (an "**allowable capital loss**") against taxable capital gains realized by the holder in the year of the disposition. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding years or carried forward and deducted in any following year against taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

In the case of a Resident Holder that is a corporation, the amount of any capital loss otherwise determined resulting from the disposition of a Distributed Share may be reduced by the amount of dividends previously received or deemed to have been received by it on such Distributed Share, to the extent and under the circumstances prescribed by the Tax Act. Similar rules may apply where a Distributed Share is owned by a partnership or trust of which a corporation, trust or partnership is a member or beneficiary. Such Resident Holders should consult their own advisors.

A Resident Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" as defined in the Tax Act may be liable to pay an additional refundable tax of 10 2/3% on any taxable capital gains.

Capital gains realized by an individual or certain trusts may give rise to a liability for alternative minimum tax.

### ***Dividends***

In the case of a Resident Holder that is an individual (other than certain trusts), dividends received or deemed to be received on the Distributed Shares and Shares will be included in computing the Resident Holder's income and will be subject to the normal gross-up and dividend tax credit rules applicable to dividends paid by taxable Canadian corporations under the Tax Act, including the enhanced gross-up and dividend tax credit applicable to any dividend designated by the Corporation as an "eligible dividend" in accordance with the provisions of the Tax Act. There may be limitations on the Corporation's ability to designate dividends as "eligible dividends".

A Resident Holder that is a corporation will be required to include in income any dividend received or deemed to be received on the Distributed Shares and Shares and generally will be entitled to deduct an equivalent amount in computing its taxable income. In certain circumstances, section 55(2) of the Tax Act will treat a taxable dividend received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors having regard for their own circumstances.

"Private corporations" (as defined in the Tax Act) and certain other corporations controlled by or for the benefit of an individual (other than a trust) or related group of individuals (other than trusts) generally will be liable to pay a 38 1/3% refundable tax under Part IV of the Tax Act on dividends to the extent such dividends are deductible in computing the corporation's taxable income.

### ***Receipt of Rights***

Generally, no amount will be required to be included in computing the income of a Resident Holder as a consequence of acquiring Rights under the Rights Offering. The cost to a Resident Holder of Rights received under the Rights Offering will be nil. All Rights held by a Resident Holder, including Rights acquired otherwise than pursuant to the Rights Offering, will be regarded as identical. The adjusted cost base of each Right held by a Resident Holder after the acquisition of any additional Rights will be determined by averaging the cost of such newly acquired Rights with the adjusted cost base, if any, to the Resident Holder of all Rights held immediately prior to such acquisition.

### ***Exercise of Rights***

The exercise of Rights will not constitute a disposition of property for purposes of the Tax Act and, consequently, no gain or loss will be realized by a Resident Holder upon the exercise of Rights. Shares acquired by a Resident Holder upon the exercise of Rights will have a cost to the Resident Holder equal to the aggregate of the Subscription Price paid plus the adjusted cost base (if any) to the Resident Holder of the Rights exercised to acquire such Shares.

The adjusted cost base of each Share held by a Resident Holder after the acquisition of Shares as a result of the exercise of Rights will be determined by averaging the cost of such newly-acquired Shares with the adjusted cost base to the Resident Holder of all Shares held immediately prior to such acquisition.

### ***Disposition of Rights or Shares***

Upon the disposition of a Right or Share by a Resident Holder (in the case of Rights, other than pursuant to the exercise or expiry thereof), the Resident Holder will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of reasonable costs of the disposition, exceed (or are less than) the adjusted cost base of the Right or Share, as applicable, to the Resident Holder.

A taxable capital gain must be included in the Resident Holder's income. Subject to and in accordance with the provisions of the Tax Act, allowable capital losses must be deducted from taxable capital gains of the Resident Holder in the year in which such allowable capital losses are realized. Any remaining allowable capital losses may ordinarily be carried back and deducted in any of the three preceding years or carried forward and deducted in any following year against taxable capital gains realized in such years, to the extent and under the circumstances specified in the Tax Act.

The amount of any capital loss realized by a corporate Resident Holder on the disposition of a Share may be reduced by the amount of dividends received or deemed to be received by it on such Share to the extent and under the circumstances prescribed by the Tax Act. Similar rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

A Resident Holder that is a Canadian-controlled private corporation throughout the year (as defined in the Tax Act) may be liable to pay an additional refundable tax of 10 2/3% on any taxable capital gains.

Capital gains realized by an individual or certain trusts may give rise to a liability for alternative minimum tax.

### ***Expiry of Rights***

Upon the expiry of an unexercised Right, a Resident Holder will realize a capital loss equal to the adjusted cost base, if any, of the Right to the Resident Holder. See the discussion above under the heading "*Resident Holders – Disposition of Rights or Shares*" regarding the treatment of capital losses.

### **Non-Resident Holders**

The following summary is relevant to a Holder who, at all relevant times, for purposes of the Tax Act and any applicable tax treaty or convention, is a non-resident or is deemed to be a non-resident of Canada and does not acquire or hold and is not deemed to acquire or hold Sierra Shares, Distributed Shares, Rights or Shares in the course of carrying on a business in Canada ("**Non-Resident Holder**"). Special rules, which are not discussed below,

may apply to a non-resident that is an insurer which carries on business in Canada and elsewhere. Such non-residents should consult their own tax advisors.

### ***The Distribution***

The distribution of the Distributed Shares as a return of capital will reduce the adjusted cost base of a Non-Resident Holder's Sierra Shares by an amount equal to the fair market value, on the date the Distribution is effected, of the Distributed Shares that are issued to or for the benefit of such holder. If the amount so required to be deducted from the adjusted cost base of the Sierra Shares to a particular Non-Resident Holder exceeds the Non-Resident Holder's adjusted cost base of such Sierra Shares, the excess will be deemed to be a capital gain realized by such Non-Resident Holder from a disposition of their Sierra Shares. See "*Capital Gains and Capital Losses*" below.

The Distributed Shares received by a Non-Resident Holder will have a cost to the Non-Resident Holder for tax purposes equal to the fair market value of such Distributed Shares at the time of receipt. On a disposition or deemed disposition of a Distributed Share, a Non-Resident Holder will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition for the Distributed Share exceed (or are less than) the aggregate of any reasonable costs of disposition and the adjusted cost base to the Non-Resident Holder of the Distributed Share immediately before the disposition. See "*Capital Gains and Capital Losses*" below.

### ***Capital Gains and Capital Losses***

A Non-Resident Holder generally will not be subject to tax under the Tax Act in respect of a capital gain realized on the disposition or deemed disposition of a Sierra Share, a Distributed Share, a Right or a Share, nor will capital losses arising therefrom be recognized under the Tax Act, unless the Sierra Share, Distributed Share, Right or Share constitutes "taxable Canadian property" to the Non-Resident Holder thereof for purposes of the Tax Act, and the gain is not exempt from tax pursuant to the terms of an applicable income tax treaty or convention.

Provided the Sierra Shares, Distributed Shares and Shares are listed on a "designated stock exchange", as defined in the Tax Act (which currently includes the CSE), at the time of disposition, the Sierra Shares, Distributed Shares, Rights and Shares generally will not constitute taxable Canadian property of a Non-Resident Holder at that time, unless at any time during the 60 month period immediately preceding the disposition the following two conditions are met concurrently: (a) the Non-Resident Holder, persons with whom the Non-Resident Holder did not deal at arm's length, partnerships in which the Non-Resident Holder or a person with whom the Non-Resident Holder did not deal at arm's length held a membership interest directly or indirectly through one or more partnerships, or the Non-Resident Holder together with all such persons, owned 25% or more of the issued shares of any class or series of shares of Sierra or the Corporation, as applicable; and (b) more than 50% of the fair market value of the shares of such applicable corporation was derived directly or indirectly from one or any combination of real or immovable property situated in Canada, "Canadian resource properties" (as defined in the Tax Act), "timber resource properties" (as defined in the Tax Act) or an option, an interest or right in such property, whether or not such property exists. Notwithstanding the foregoing, a Sierra Share, Distributed Share, Right or Share may otherwise be deemed to be taxable Canadian property to a Non-Resident Holder for purposes of the Tax Act.

Sierra management has advised that it does not believe that more than 50% of the fair market value of Sierra Shares, Distributed Shares or Shares is or will be derived directly or indirectly from property referred to under paragraph (b) above and therefore the Sierra Shares, Distributed Shares, Rights and Shares should not constitute taxable Canadian property.

Generally, a Non-Resident Holder who realizes a capital gain on a disposition of Sierra Shares, Distributed Shares, Rights or Shares that constitute or are deemed to constitute "taxable Canadian property" of the Non-Resident Holder and which is not exempt from tax under an applicable income tax treaty or convention will be subject to the tax treatment described above under the heading "*Resident Holders – Capital Gains and Capital Losses*".

Non-Resident Holders who will hold Sierra Shares, Distributed Shares, Rights or Shares as "taxable Canadian property" should consult their own tax advisors.

### ***Dividends***

Dividends received or deemed to be received by a Non-Resident Holder on the Distributed Shares and Shares will be subject to Canadian withholding tax under the Tax Act. The general rate of withholding tax is 25%, although such rate may be reduced under the provisions of an applicable income tax convention between Canada and the Non-Resident Holder's country of residence. Under the Canada-United States Income Tax Convention (1980) (the "Treaty") as amended, the rate of withholding tax on dividends paid or credited to a Non-Resident Holder who is a resident of the U.S. for purposes of the Treaty and entitled to benefits under the Treaty (a "U.S. Holder") is generally limited to 15% of the gross amount of the dividend (or 5% in the case of a U.S. Holder that is a company beneficially owning at least 10% of the Corporation's voting shares). Non-Resident Holders should consult their own tax advisors.

### ***Receipt of Rights***

Generally, no amount will be required to be included in computing the income of a Non-Resident Holder as a consequence of acquiring Rights under the Rights Offering. The cost to a Non-Resident Holder of Rights received under the Rights Offering will be nil. All Rights held by a Non-Resident Holder, including Rights acquired otherwise than pursuant to the Rights Offering, will be regarded as identical. The adjusted cost base of each Right held by a Non-Resident Holder after the acquisition of any additional Rights will be determined by averaging the cost of such newly acquired Rights with the adjusted cost base, if any, to the Holder of all Rights held immediately prior to such acquisition.

### ***Exercise or Expiry of Rights***

The tax consequences of the exercise and expiry of Rights held by a Non-Resident Holder are generally the same as those described above under the headings "*Resident Holders – Exercise of Rights*" and "*Resident Holders – Expiry of Rights*".

### ***Disposition of Rights or Shares***

Upon the disposition of a Right or Share by a Non-Resident Holder (in the case of Rights, other than pursuant to the exercise or expiry thereof), the Non-Resident Holder will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of reasonable costs of the disposition, exceed (or are less than) the adjusted cost base of the Right or Share, as applicable, to the Non-Resident Holder.

A Non-Resident Holder is liable for Canadian income tax on a capital gain realized on the disposition of property only where that property constitutes "taxable Canadian property" of the Non-Resident Holder. See discussion above under the heading "*Non-Resident Holders – Capital Gains and Capital Losses*".

## **PROMOTERS**

Sierra has taken the initiative in founding and organizing the Corporation and accordingly may be considered to be a promoter within the meaning of applicable securities legislation. As of the date hereof, Sierra owns 1,000 Shares, representing all of the issued and outstanding Shares. Other than in connection with the Reorganization, Sierra has not and will not receive anything of value, including money, property, contracts, options or rights of any kind from the Corporation or from a subsidiary of the Corporation. For details concerning the Sierra Management Cease Trade Orders, see "*Directors and Executive Officers – Cease Trade Orders, Bankruptcies, Penalties or Sanctions*".

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

To the best of our knowledge, other than as described below, neither the Corporation nor any of its properties is or has been the subject of any legal proceedings since the date of incorporation of the Corporation, and no such proceedings are known to be contemplated. The Corporation may be involved in routine, non-material litigation arising in the ordinary course of its business, from time to time.

In Peru every concession owner needs to pay the Peruvian mining authority (i) an annual amount to maintain ownership of the concession and (ii) a production penalty if a minimum level of production has not been met. These payments need to be made no later than June 30, of every year. In 2015, Minera Leona de Oro, the existing owner of the Hans X concession, made both of these payments at 11:59 pm on June 30 2015, however, the payment did not clear through the bank until the following day. As a result, a third party claimed to the mining authority that the payment was invalid because it was made after the June 30 deadline and that as a result ownership of the Hans X concession had expired. The mining authority denied this claim, saying that the actual payment had been made on June 30 2015. The third party appealed to an administrative tribunal of the mining authority, and was denied yet again. The third party can appeal this decision. Under the Hans Option Agreement, the US\$50,000 annual option maintenance payment is not required to be paid in respect of the Hans X concession until the title issue has been resolved.

To the best of the Corporation's knowledge, there have not been any penalties or sanctions imposed against the Corporation by a court relating to provincial and territorial securities legislation or by a securities regulatory authority since the date of its incorporation, nor have there been any other penalties or sanctions imposed by a court or regulatory body against the Corporation necessary for its Prospectus to contain full, true and plain disclosure of all material facts relating to the securities being distributed under this Prospectus. In addition, the Corporation has not entered into any settlement agreements before a court relating to provincial and territorial securities legislation or with a securities regulatory authority since the date of its incorporation.

#### **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as described herein, management of the Corporation is not aware of any material interest, direct or indirect, of any of the following persons or companies in any transaction within the three years before the date of this Prospectus that has materially affected or is reasonably expected to materially affect the Corporation or a subsidiary of the Corporation:

- (a) a director or executive officer of the Corporation;
- (b) a person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the Corporation's outstanding voting securities; and/or
- (c) an associate or affiliate of any of the persons or companies referred to in paragraphs (a) or (b).

#### **AUDITORS, TRANSFER AGENT, SUBSCRIPTION AGENT AND REGISTRAR**

##### **Auditors**

The auditors of the Corporation are PricewaterhouseCoopers LLP, at its office located at PwC Tower, 18 York Street, Suite 2600, Toronto Ontario M5J 0B2.

##### **Transfer Agents, Registrars and Other Agents**

The Corporation's registrar and transfer agent is Computershare, at its office located at 1500 Robert-Bourassa Boulevard, Suite 700, Montreal, Québec H3A 3S8.

The Corporation's subscription and transfer agent for the Rights Offering is Computershare, at its office located at 100 University Avenue, 8<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1.

#### **MATERIAL CONTRACTS**

The following are the only material contracts, other than contracts entered into in the ordinary course of business, which have been entered into by the Corporation since its incorporation or which are proposed to be entered into:

1. Standby Agreement referred to under “*Plan of Distribution – Standby Commitment*”.
2. Transfer Agent, Registrar and Disbursing Agent Agreement dated ●, 2017 between the Corporation and Computershare.
3. Rights Agency and Custodial Agreement dated ●, 2017 between the Corporation and Computershare.
4. Managing Dealer Agreement referred to under “*Plan of Distribution – Managing Dealer Agreement*”.
5. Escrow Agreement referred to under “*Escrowed Shares*”.
6. Hans Option Agreement referred to under “*Business of the Corporation – Las Lomas Project*” and “*Summary of Technical Report*”.
7. Hans Assignment Agreement referred to under “*Business of the Corporation – Las Lomas Project*” and “*Summary of Technical Report*”.
8. Pending Concessions Option Agreement referred to under “*Business of the Corporation – Las Lomas Project*” and “*Summary of Technical Report*”.
9. Minera Ate Option Agreement referred to under “*Business of the Corporation – Las Lomas Project*”.
10. Nomination Rights and Governance Agreement referred to under “*Statement of Corporate Governance – Nomination of Directors*”.

#### **EXPERTS**

The following persons or companies are named as having prepared or certified a report, valuation, statement or opinion in this Prospectus, and whose profession or business gives authority to the report, valuation, statement or opinion made by the expert.

Giovanny J. Ortiz, who contributed to the preparation of the Technical Report, did not receive and has not received a direct or indirect interest in the property of the Corporation or of any associate or affiliate of the Corporation. As of the date hereof, to the knowledge of the Corporation, Giovanny J. Ortiz, beneficially owns, directly or indirectly, less than 1% of the securities of the Corporation. Giovanny J. Ortiz is not currently expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

The Plexmar Annual Financial Statements and the Corporation Financial Statements have been audited by PricewaterhouseCoopers LLP, Chartered Professional Accountants and Licensed Public Accountants. PricewaterhouseCoopers LLP is independent of the Corporation within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

#### **STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revision of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal adviser.

However, in light of the fact that the Distributed Shares are being distributed pursuant to the Distribution, we believe that these remedies are not available in the circumstances in respect of the Distributed Shares.



## **SCHEDULE “A”**

### **AUDIT COMMITTEE CHARTER**

#### **CAUTIVO MINING INC.**

##### **I. MANDATE**

The Audit Committee (the “**Committee**”) is appointed by the Board of Directors (the “**Board**”) of Cautivo Mining Inc. (the “**Corporation**”) to assist the Board in fulfilling its oversight responsibilities relating to financial accounting and reporting process and internal controls for the Corporation. The external auditors will report directly to the Committee and the Committee shall have direct communication channels with the external auditors of the Corporation. The Committee’s mandate and responsibilities are to:

- recommend to the Board the external auditors to be nominated and the compensation of such auditors oversee and monitor the work and performance of the Corporation’s external auditors, including meeting with the external auditors and reviewing and recommending all renewals or replacements of the external auditors and their remuneration;
- pre-approve all non-audit services to be provided to the Corporation by the external auditors;
- review the financial statements and management’s discussion and analysis (MD&A) and annual and interim financial results press releases of the Corporation;
- oversee the integrity of internal controls and financial reporting procedures of the Corporation and ensure implementation of such controls and procedures; and
- provide oversight to any related party transactions entered into by the Corporation.

##### **II. AUTHORITY OF THE AUDIT COMMITTEE**

The Committee shall have the authority to:

- engage independent counsel and other advisors as it determines necessary to carry out its duties;
- set and pay the compensation for advisors employed by the Committee; and
- communicate directly with the external auditors.

##### **III. COMPOSITION AND MEETINGS**

The Committee and its membership shall meet all applicable legal, regulatory and listing requirements, including those of all applicable securities regulatory authorities.

The Committee shall be composed of three directors as shall be designated by the Board from time to time. The members of the Committee shall appoint from among themselves a member who shall serve as Chair. A minimum of two members of the Committee present either in person or by telephone shall constitute a quorum.

The Committee members will be elected annually at the first meeting of the Board following the annual general meeting of shareholders.

Each member of the Committee shall be “financially literate” and a majority of the members of the Committee shall be “independent” (as each such term is defined in Multilateral Instrument 52-110). At least one member of the Committee shall have accounting or related financial expertise.

The Committee shall meet at least quarterly, as circumstances dictate or as may be required by applicable legal or listing requirements.

Any member of the Committee may participate in the meeting of the Committee by means of conference telephone or other communication equipment, and the member participating in a meeting pursuant to this paragraph shall be deemed, for purposes hereof, to be present in person at the meeting.

#### **IV. RESPONSIBILITIES**

The Committee shall review the annual audited financial statements to satisfy itself that they are presented in accordance with international financial reporting standards and report thereon to the Board and recommend to the Board whether or not same should be approved, prior to their being filed with the appropriate regulatory authorities.

The Committee shall also review the interim financial statements.

The Committee shall oversee the integrity of internal controls and financial reporting procedures of the Corporation and ensure implementation of such controls and procedures;

The Committee shall review any internal control reports prepared by management and the evaluation of such report by the external auditors, together with management's response.

The Committee shall be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, management's discussion and analysis and annual and interim earnings press releases before the Corporation publicly discloses this information.

The Committee shall review management's discussion and analysis relating to annual and interim financial statements and any other public disclosure documents, including interim earnings press releases, before the Corporation publicly discloses this information.

The Committee shall meet no less frequently than annually with the external auditors and to review accounting practices, internal controls and such other matters as the Committee deems appropriate (including the establishment of the independence of the external auditor). The Committee shall be directly responsible for overseeing the work of the external auditor.

The Committee shall establish procedures for:

- the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
- the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

The Committee shall annually make recommendations to the Board regarding the selection, appointment and fees of the independent auditors.

The Committee shall provide oversight to any related party transactions entered into by the Corporation.

In the event that the Corporation wishes to retain the services of the Corporation's external auditors for tax compliance or tax advice or any non-audit services the Committee, must first pre-approve any such non-audit services (however, the Committee may delegate such approval to one independent committee member if desired, subject to compliance with applicable laws). The Committee shall maintain a record of non-audit services approved by the Committee for each fiscal year and provide a report to the Board on an annual basis.

The Committee shall review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former auditors of the Corporation.

The Committee shall perform any other activities consistent with this Charter and governing law, as the Committee or the Board deems necessary or appropriate.

## SCHEDULE “B”

### MANAGEMENT’S DISCUSSION AND ANALYSIS

#### General

This Management’s Discussion and Analysis (“**MD&A**”) should be read in conjunction with Plexmar Resources Inc.’s (the “**Company**” or “**Plexmar**”) audited consolidated financial statements for the year ended December 31, 2015, and condensed interim consolidated financial statements for the nine months ended September 30, 2016, and related notes thereto (the “**Financial Statements**”), which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board (“**IASB**”). References herein to “\$” are to the United States dollar and “C\$” are to the Canadian dollar and all tabular amounts are expressed in thousands of \$ unless otherwise stated. All information contained in this MD&A is current as of January 10, 2017 unless otherwise noted. Additional information relating to the Company, is available on SEDAR at [www.sedar.com](http://www.sedar.com). A cautionary note regarding forward-looking information follows this MD&A.

As at the date of this MD&A, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange (“**TSX**”), Aequitas NEO Exchange Inc., a U.S. marketplace, or a marketplace outside of Canada and the United States of America (other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc).

#### BUSINESS OF THE COMPANY AND SUMMARY OF ACTIVITIES

The Company is an exploration company focused on acquiring, exploring and, if warranted, developing mineral properties. The Las Lomas Project comprises the main asset of the Company.

The Company’s objective is to develop into a producing junior mining company through further exploration in the Company’s prospective areas of interest in Peru and, if warranted, the successful development and operation of the Las Lomas Project. Towards this end, the Company intends to undertake a two phase exploration program to improve its understanding of the economic mineral potential of the Las Lomas Project. If the results merit further exploration, the Company may commence further exploration programs. Such further exploration activities may require additional capital and there is no assurance that the Company will be able to raise such funds. See “Risk Factors”.

#### SELECTED FINANCIAL INFORMATION FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30

	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(3 months)\$</b>	<b>(3 months)\$</b>	<b>(9 months)\$</b>	<b>(9 months)\$</b>
<b>Consolidated Statements of loss and comprehensive loss</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
General and administrative expenses	(9,836)	(13,271)	(112,504)	(108,892)
Amortization of property, plant and equipment	(360)	(375)	(1,072)	(1,145)
Foreign exchange gain	67,192	96,387	126,684	716,914
<b>Net earnings</b>	<b>56,996</b>	<b>82,741</b>	<b>13,108</b>	<b>606,877</b>
<b>Comprehensive (loss) gain</b>	<b>(28,821)</b>	<b>(285,584)</b>	<b>293,072</b>	<b>(219,709)</b>
<b>Basic and diluted loss per share</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

<b>Consolidated Statements of Financial Position</b>			<b>September 30, 2016</b>	<b>December 31, 2015</b>
<b>Total assets</b>			7,753,617	6,907,274
<b>Total liabilities</b>			4,930,434	4,377,162

## **CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

### *Comparison of three and nine-month periods ended September 30, 2016 and 2015*

Net earnings attributable to shareholders for the three month period ended September 30, 2016 was \$56,996 (Q3 2015: \$82,741) or \$0.00 per share (basic and diluted) (Q3 2015: \$0.00). Net earnings attributable to shareholders for the nine month period ended September 30, 2016 was \$13,108 (9M 2015: \$606,877) or \$0.00 per share (basic and diluted) (9M 2015: \$0.00). The major differences between these periods are explained below.

General and administrative expenses were \$9,836 for Q3 2016, consistent with \$13,271 in Q3 2015. During 9M 2016 the general and administrative expenses were \$112,504, consistent with \$108,892 during 9M 2015.

There was no cost of mining properties abandoned or written off during the three or nine-month periods ended September 30, 2016 or 2015.

Foreign exchange gain was \$67,192 for Q3 2016 compared to \$96,387 for the same period in 2015 and the foreign exchange gain for 9M 2016 was \$126,684 compared to \$716,914 for the same period in 2015. The foreign exchange gain was due to the devaluation of the Canadian Dollar compared to the US Dollar during 2014 and 2015, and the decrease in the foreign exchange gain during 9M 2016 was because the devaluation of the Canadian Dollar during 9M 2015 was larger than during 9M 2016. Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities not denominated in the functional currency are translated at the year-end rates of exchange. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

Other comprehensive loss (“OCL”) for Q3 2016 was \$(28,821) compared to OCL of \$(285,584) for the same period in 2015. OCL includes a foreign currency loss of \$(85,817) Q3 2016 (Q3 2015: \$(368,325)). Other comprehensive income (“OCI”) for 9M 2016 was \$293,072 compared to OCL of \$(219,709) the same period in 2015. The unrealized foreign currency translation loss was caused by the weakening of the Canadian dollar relative to the US dollar during the period, which resulted in a foreign exchange loss on the translation of the Canadian dollar net assets into the Company’s US dollar presentation currency.

## **TOTAL CONSOLIDATED ASSETS AND LIABILITIES**

Total consolidated assets were \$7,753,617 million as at September 30, 2016, an increase of \$846,343 since December 31, 2015, which is explained mainly by an increase in current assets of \$3,811 and an increase in mining properties of \$843,604. The increase in mining properties was due to mineral property additions of \$736,803 and foreign exchange adjustments of \$106,801. Total consolidated liabilities were \$4,930,434 as at September 30, 2016, an increase of \$553,272 since December 31, 2015 due an increase in funding received during 2016.

## QUARTERLY SUMMARY FINANCIAL INFORMATION

<i>Unaudited</i>	Quarters ended			
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Net loss and comprehensive loss	\$(28,821)	\$160,946	\$160,947	\$(89,452)
Basic and diluted loss per share	\$0.00	\$0.00	\$0.00	\$0.00
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Net loss and comprehensive loss	\$(285,584)	\$66,147	\$66,148	\$(126,832)
Basic and diluted loss per share	\$0.00	\$0.00	\$0.00	\$0.00

It is important to note that historical patterns of expenses cannot be taken as an indication of future expenses. The amount and timing of expenses and the availability of capital resources vary substantially from quarter to quarter, depending on the level of exploration activity being undertaken at any one time and the availability of funding from investors.

### LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company had cash and cash equivalents totaling \$21,186 as at September 30, 2016, a decrease of \$6,764 from December 31, 2015. The Company had negative working capital of \$4,907,874 as at September 30, 2016.

Statement of cash flows	For the nine-months ended September 30	
	2016	2015
<b>Operating activities</b>	\$(112,205)	\$(104,794)
<b>Financing activities</b>	\$855,305	\$191,206
<b>Investing activities</b>	\$(736,803)	\$(31,472)
<b>Effect of foreign exchange</b>	\$467	\$(1,319)
<b>Net change in cash</b>	\$6,764	\$53,621

#### *Operating activities*

Cash flow used in operating activities was \$(112,205) for 9M 2016 compared to \$(104,794) for 9M 2015. The increase was due to negative changes in working capital balances, specifically accounts receivable and accounts payable.

#### *Financing activities*

Cash provided by financing activities of \$855,305 for 9M 2016 increased compared to \$191,206 due to an increase in the amount of funding received from Plexmar's parent company.

#### *Investing activities*

Cash flow used in investing activities of \$(736,803) for 9M 2016 increased compared to \$(31,472) spent during 9M 2015. This was due to an increase in mining concession payments during 2016 compared to 2015.

## SELECTED ANNUAL CONSOLIDATED INFORMATION

	2015	2014	2013
	\$	\$	\$
<b>Consolidated Statements of loss and comprehensive loss</b>			
General and administrative expenses	(122,557)	(118,741)	(198,199)
Amortization of property, plant and equipment	(1,508)	(18,157)	0
Foreign exchange (loss) gain	830,375	291,055	(178,161)
Loss on disposal of property, plant and equipment	0	(64,797)	0
<b>Net earnings (loss) for the year</b>	<b>706,310</b>	<b>89,360</b>	<b>(376,360)</b>
<b>Comprehensive loss for the year</b>	<b>(309,161)</b>	<b>(507,331)</b>	<b>(443,673)</b>
<b>Basic and diluted loss per share</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Consolidated Statements of Financial Position</b>			
<b>Total assets</b>	6,907,274	7,014,663	7,607,825
<b>Total liabilities</b>	4,377,162	4,175,390	3,841,048

## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

### *Comparison of years ended December 31, 2015 and 2014*

Net earnings attributable to shareholders for the year ended December 31, 2015 was \$706,310 (2014: \$89,360) or \$0.00 per share (basic and diluted) (2014: \$0.00). The major differences between these periods are explained below.

General and administrative expenses were \$122,557 for the year ended December 31, 2015, which were comparable to 2014.

Amortization of property, plant and equipment of \$1,508 for the year ended December 31, 2015 decreased due to the reduction in net book value of fixed assets being depreciated compared to 2014.

There was no cost of mining properties abandoned or written off in 2015 or 2014.

Foreign exchange gain was \$830,375 for the year ended December 31, 2015 compared to \$291,055 for the same period in 2014. The foreign exchange gain was due to the devaluation of the Canadian Dollar compared to the US Dollar during 2014 and 2015, and the increase in the foreign exchange loss during 2015 was because the devaluation of the Canadian Dollar during 2015 was larger than during 2014. Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities not denominated in the functional currency are translated at the year-end rates of exchange. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

OCL for the year ended December 31, 2015 was \$(309,161) compared to OCL of \$(507,331) for the same period in 2014. OCL includes a foreign currency loss of \$(1,015,471) for the year ended December 31, 2015 (2014: \$(596,691)). The unrealized foreign currency translation loss was caused by the weakening of the Canadian dollar relative to the US dollar during the year, which resulted in a foreign exchange loss on the translation of the Canadian dollar net assets into the Company's US dollar presentation currency.

## TOTAL CONSOLIDATED ASSETS AND LIABILITIES

Total consolidated assets were \$6,907,274 as at December 31, 2015, a decrease of \$107,389 since December 31, 2014, which is explained mainly by a decrease in current assets of \$256,915, partially offset by an increase in mining properties of \$151,033. The decrease in current assets was due to the write-off of receivables related to the joint operations, while the increase in mining properties was due to foreign exchange adjustments being lower than the mineral property additions during the period. Total consolidated liabilities were \$4,377,162 as at December 31, 2015, an increase of \$201,772 since December 31, 2014 due an increase in funding received during 2015.

## QUARTERLY SUMMARY FINANCIAL INFORMATION

<i>Audited</i>	Quarters ended			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Net loss and comprehensive loss	\$(89,452)	\$(285,584)	\$32,938	\$32,937
Basic and diluted loss per share	\$0.00	\$0.00	\$0.00	\$0.00
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Net loss and comprehensive loss	\$126,832	\$126,833	\$126,833	\$126,833
Basic and diluted loss per share	\$0.00	\$0.00	\$0.00	\$0.00

It is important to note that historical patterns of expenses cannot be taken as an indication of future expenses. The amount and timing of expenses and the availability of capital resources vary substantially from quarter to quarter, depending on the level of exploration activity being undertaken at any one time and the availability of funding from investors.

## LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company had cash and cash equivalents totaling \$14,422 as at December 31, 2015, a decrease of \$12,469 from December 31, 2014. The Company had negative working capital of \$4,358,413 as at December 31, 2015.

Statement of cash flows	For the year ended December 31	
	2015	2014
<b>Operating activities</b>	\$(120,128)	\$(152,314)
<b>Financing activities</b>	\$397,729	\$264,687
<b>Investing activities</b>	\$(288,437)	\$(349,573)
<b>Effect of foreign exchange</b>	\$(1,633)	\$(8,744)
<b>Net change in cash</b>	\$(12,469)	\$(245,943)

### *Operating activities*

Cash flow used in operating activities of \$(120,128) for the year ended December 31, 2015 decreased compared to \$(152,314) for the same period in 2014. The increase was due to positive changes in working capital balances, specifically accounts receivable and accounts payable.

### *Financing activities*

Cash provided by financing activities of \$397,729 for the year ended December 31, 2015 increased compared to \$264,687 due to an increase in the amount of funding received from Plexmar's parent company.



### ***Investing activities***

Cash flow used in investing activities of \$(288,437) for the year ended December 31, 2015 increased compared to \$(349,573) spent in 2014. This was due to an increase in mining concession payments during 2015 as well as the recording of a \$236,000 proceeds on disposal of property, plant and equipment recorded during 2015, which offset the \$524,437 of mining concession payments made.

### **CONTRACTUAL OBLIGATIONS**

The following table summarizes contractual obligations as at December 31, 2015:

	<b>Net value \$</b>	<b>0 - 12 months \$</b>	<b>12 - 24 months \$</b>	<b>Thereafter \$</b>
Accounts payable	152,236	152,236	-	-
Related party loan	4,224,926	4,224,926	-	-
	<u>4,377,162</u>	<u>4,377,162</u>	<u>-</u>	<u>-</u>

### **RELATED PARTY TRANSACTIONS**

Sierra Metals Inc. provided the Company with a credit facility, the proceeds of which are to be used to pay amounts due on mining concessions, working capital purposes, and to continue operations. The credit facility is non-interest bearing and does not have a maturity date. The current amount outstanding on the loan is \$4,780,105.

### **OUTSTANDING SHARE DATA**

As at January 10, 2017, the Company had 228,177,223 common shares outstanding, and does not have any stock options or warrants outstanding.

### **FINANCIAL RISK MANAGEMENT**

#### **Financial risk**

The Company is exposed to various types of risk due to the nature of the business activities it carries on, including those related to the use of financial instruments. The Company does not use financial derivatives.

#### **Market risk**

Market risk corresponds to the financial losses that the Company could incur because of unfavorable fluctuations in the value of financial instruments, following variations in the parameters underlying their evaluation, such as interest rates and exchange rates.

#### **Foreign exchange risk**

Foreign currency risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the entity's functional currency. The Company's functional currency is Canadian dollars (CA\$) for Plexmar Resources Inc and Plexmar Ecuador S.A. and US dollars (US\$) for San Miguelito. The Company and subsidiaries conducts some of its operating and investing activities in currencies other than the mentioned functional currency as the Peruvian New Sol (PEN). The Company and subsidiaries are therefore subject to gains or losses due to fluctuations in these currencies relative to their functional currency.

The Company had the following foreign currency balances:

			<b>2015</b>
	<b>Foreign currency</b>	<b>Foreign balance</b>	
		\$	\$
Cash	PEN	13,509	3,959
Accounts receivable	PEN	2,345	687
Accounts payable and accrued liabilities	PEN	9,768	2,863
Advances from parent company	US\$	4,224,926	4,224,926
			<b>2014</b>
	<b>Foreign currency</b>	<b>Foreign balance</b>	
		\$	\$
Cash	PEN	28,540	9,558
Accounts receivable	PEN	34,278	11,479
Accounts payable and accrued liabilities	PEN	40,873	13,688
Advances from parent company	US\$	4,014,527	4,014,527

#### **Interest rate risk**

As at December 31, 2015, the Company had no exposure to interest rate risk.

#### **Credit risk**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and amounts receivable. Cash is maintained with high credit quality financial institutions. Consequently, management considers the risk of non-performance related to cash to be minimal.

#### **Liquidity risk**

Liquidity risk represents the possibility the Company may not be able to gather sufficient cash resources when required and under reasonable conditions to meet its financial obligations. The "Las Lomas Project" is the exploration stage. At this time the Company has no operating revenue and does not anticipate earning any operating profits until it is able to place a project into production, or acquire a mining asset with operating cash flow. Until such time, the Company will be required to: (i) raise funds through equity financing, possibly supplemented by the issuance of options and warrants; (ii) have sufficient committed credit facilities in place to meet its operating needs; or (iii) secure other ways to continue its exploration and, if warranted, development activities. If additional financing is not available, the Company may have to postpone its capital expenditures and exploration programs, which could materially impact the long term financial performance of the Company.

#### **Sensitivity**

Sensitivity analysis based on management's knowledge of and experience with the financial markets, the Company believes the following movements are "reasonably possible" over a year:

- (i) The Company is exposed to foreign currency risk on fluctuations of financial instruments primarily relating to the intercompany loans. As at December 31, 2015, had both the Canadian dollar and the Peruvian New Sol weakened by 15% against the US dollar with all other variables held constant, the Company's reported net loss for the year ended December 31, 2015 would have been approximately \$613 thousands lower.

- (ii) Commodity price risk could affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market of precious metals. As of December 31, 2015, the Company was not a commercial producing entity. As a result, commodity price risk could affect the completion of future equity transactions such as equity offerings. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including foreign exchange rate and price risk). There have been no changes in the risk management department or in any risk management policies since year end.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of annual consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the annual consolidated financial statements and the reported amounts of gain and expenses during the reporting period. Such estimates and assumptions, which by their nature are uncertain, affect the carrying value of assets, impact decisions as to when exploration and evaluation costs should be capitalized or expensed. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to whether future economic benefits may be realized on exploration properties.

## **CAPITAL MANAGEMENT**

The Company defines capital as its shareholders' equity and related party loan.

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide an adequate return to shareholders and maintain a sufficient level of funds to finance its exploration activities, including acquisition of mining properties, general and administrative expenses and working capital.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets, all of which are subject to market conditions and the terms of the underlying third party agreements.

The Company is not subject to any capital requirements arising from regulatory authorities.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements as at December 31, 2015.

## INDEX TO FINANCIAL STATEMENTS

Corporation Financial Statements .....	F-2
Plexmar Annual Financial Statements .....	F-11
Plexmar Interim Financial Statements .....	F-35
Pro Forma Financial Statements.....	F-46

**CAUTIVO MINING INC.**

Financial Statements

As at December 6, 2016



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## **Independent Auditor's Report**

### **To the Directors of Cautivo Mining Inc.**

We have audited the accompanying financial statements of Cautivo Mining Inc., which comprise the statements of financial position as at December 6, 2016 and the statements of net earnings and comprehensive income, changes in equity and cash flows for the one-day period ended December 6, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cautivo Mining Inc. as at December 6, 2016 and their financial performance and their cash flows for the one-day period ended December 6, 2016 in accordance with International Financial Reporting Standards.

**Chartered Professional Accountants, Licensed Public Accountants**

**Cautivo Mining Inc.**  
Statement of financial position  
As at December 6, 2016  
(Expressed in United States Dollars)

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	Note	December 6, 2016
		\$
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents		100
		<u>100</u>
<b>SHAREHOLDER'S EQUITY</b>		
Share capital	4	100
		<u>100</u>

Approved on behalf of the Board and authorized for issue on January 7, 2017:

"Alberto Arias"

Alberto Arias  
Chairman of the Board

"Doug Cater"

Doug Cater  
Chairman of the Audit Committee

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



**Cautivo Mining Inc.**  
**Statement of net earnings and comprehensive income**  
For the period ended December 6, 2016  
*(Expressed in United States dollars)*

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	<b>For the period ended December 6, 2016</b>
	<b>\$</b>
<b>Revenue</b>	-
<b>Expenses</b>	-
<b>Earnings before income taxes</b>	-
Provision for income taxes	-
<b>Net earnings and comprehensive income for the period</b>	-
<b>Basic earnings per share</b>	-
<b>Diluted earnings per share</b>	-

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

**Cautivo Mining Inc.**  
**Statement of changes in shareholder's equity**  
For the period ended December 6, 2016  
*(Expressed in United States dollars)*

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	Number of Shares	Share Capital \$
<b>Outstanding, beginning of period</b>	-	-
Transactions during the period ended December 6, 2016		
Issuance of common shares for cash consideration (note 4)	1,000	100
<b>Outstanding, end of period</b>	<b>1,000</b>	<b>\$ 100</b>

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

**Cautivo Mining Inc.**  
**Statement of cash flows**  
For the period ended December 6, 2016  
*(Expressed in United States dollars)*

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	Note	For the period ended December 6, 2016	\$
<b>Cash flows from operating activities</b>			
Net earnings for the period		-	
<b>Cash generated from operating activities</b>		<b>-</b>	
<b>Cash flows from financing activities</b>			
Issuance of shares for cash consideration	4	<b>100</b>	
<b>Cash from (used in) financing activities</b>		<b>100</b>	
<b>Increase in cash and cash equivalents</b>			
Cash and cash equivalents, beginning of period		-	
<b>Cash and cash equivalents, end of period</b>		<b>100</b>	

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

## **1 Description of business and nature of operations**

Cautivo Mining Inc. (“Cautivo Mining” or the “Company”) was incorporated under the Business Corporations Act (Ontario) on December 6, 2016, and is domiciled in Canada. The Company’s registered office is 181 Bay Street, Toronto, Ontario, M5J 2T3, Canada.

The Company is an exploration company focused on acquiring, exploring, and, if warranted, developing mineral properties.

## **2 Basis of presentation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and with interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Handbook – Accounting. These financial statements were approved by the Board of Directors on January 7, 2017.

## **3 Significant accounting policies**

The significant accounting policies adopted by the Company in the preparation of its financial statement are set out below.

### **Basis of measurement**

These financial statements have been prepared under the historical cost convention

### **Foreign currency translation**

These financial statements are presented in United States Dollars, which is the Corporation’s functional currency.

### **Accounting standards, interpretations and amendments to existing standards not yet effective**

The Company does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

### **Critical accounting judgements, estimates and assumptions**

The preparation of these financial statements requires the Company to make judgements in applying accounting policies and estimates and assumptions about the future. These judgements, estimates and assumptions affect the Company’s reported amounts of assets, liabilities, revenues and other items in net earnings, and the related disclosure of contingent assets and liabilities, if any. The Company evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Company believes are reasonable under the circumstances, and these estimates form the basis for making judgements about the carrying value of assets and liabilities and the reported amount of revenues and other items in net earnings that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

**Cautivo Mining Inc.**

**Notes to the Financial Statements**

For the period ended December 6, 2016

*(In United States dollars)*

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**4 Share capital**

The Company is authorized to issue:

- a) an unlimited number of shares designated as common shares; and
- b) an unlimited number of shares designated as Class A shares, issuable in series.

The Company has issued 1,000 common shares for cash consideration of \$100.

**Plexmar Resources Inc.**  
(an exploration stage company)

Consolidated Financial Statements  
**December 31, 2015 and 2014**  
(expressed in US dollars)

January 10, 2017

### **Management's Responsibility for Financial Reporting**

Management is responsible for the preparation of the consolidated financial statements. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and reflect management's best estimates and judgments based on information currently available.

Management maintains accounting systems and internal controls to produce reliable consolidated financial statements and provide reasonable assurance that assets are properly safeguarded.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP Chartered Accountants and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

The Board of Directors of the Company is responsible for ensuring that Management fulfills its responsibilities for financial reporting. The Board of Directors carries out this responsibility through its Audit Committee, which is composed of three members. The committee meets various times during the year and at least once per year with the external auditors, with and without Management being present, to review the consolidated financial statements and to discuss audit and internal control related matters.

The Board of Directors approved the Company's audited consolidated financial statements.

*"Mark Brennan"*

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Mark Brennan  
President and Chief Executive Officer

*"Mark Brennan"*

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Mark Brennan  
Chief Financial Officer

@@@, 2016

## **Independent Auditor's Report**

### **To the Board of Directors of Plexmar Resources Inc.**

We have audited the accompanying consolidated financial statements of Plexmar Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of earnings and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise 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.

---

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Plexmar Resources Inc. and its subsidiaries as at December 31, 2015 and 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the corporation's ability to continue as a going concern.

**Chartered Professional Accountants, Licensed Public Accountants**

# Plexmar Resources Inc.

## Consolidated Statements of Financial Position

As at December 31, 2015 and 2014

(expressed in US dollars)

	2015 \$	2014 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	14,422	26,891
Amounts receivable	4,327	248,773
	<u>18,749</u>	<u>275,664</u>
<b>Mining properties</b> (note 6)	6,884,776	6,733,743
<b>Property, plant and equipment</b>	3,749	5,256
	<u>6,907,274</u>	<u>7,014,663</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	152,236	160,863
Related party loan (note 11)	4,224,926	4,014,527
	<u>4,377,162</u>	<u>4,175,390</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 8)	32,521,812	32,521,812
<b>Contributed surplus</b>	7,159,698	7,159,698
<b>Deficit</b>	(35,030,418)	(35,736,728)
<b>Foreign currency reserve</b>	(2,120,980)	(1,105,509)
	<u>2,530,112</u>	<u>2,839,273</u>
	<u>6,907,274</u>	<u>7,014,663</u>

**General information and going concern** (note 1)

**Subsequent events** (note 17)

### Approved by the Board of Directors

*"Alberto Arias"*

Alberto Arias  
Director

*"Doug Cater"*

Doug Cater  
Director

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

# Plexmar Resources Inc.

## Consolidated Statements of Earnings and Comprehensive Loss For the years ended December 31, 2015 and 2014

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(expressed in US dollars)

	2015 \$	2014 \$
<b>Expenses</b>		
General and administrative (note 12)	(122,557)	(118,741)
Amortization of property, plant and equipment	(1,508)	(18,157)
Loss on disposal of property, plant and equipment (note 7)	-	(64,797)
Foreign exchange gain	830,375	291,055
	<hr/>	<hr/>
<b>Net earnings for the year</b>	706,310	89,360
<b>Other comprehensive loss</b>		
Unrealized loss on translation of financial statements	(1,015,471)	(596,691)
	<hr/>	<hr/>
<b>Comprehensive loss for the year</b>	(309,161)	(507,331)
	<hr/>	<hr/>
<b>Weighted average shares outstanding</b>		
Basic	228,177,223	228,177,223
	<hr/>	<hr/>
<b>Net earnings per share</b> (note 10)	-	-
	<hr/>	<hr/>

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

# Plexmar Resources Inc.

## Consolidated Statements of Changes in Shareholders' Equity For the years ended December 31, 2015 and 2014

(expressed in US dollars)

	Share capital \$ (note 10)	Contributed surplus \$	Foreign currency reserve \$	Deficit \$	Total \$
<b>Balance - January 1, 2014</b>	32,521,812	7,159,698	(508,818)	(35,826,088)	3,346,604
Net earnings for the year	-	-	-	89,360	89,360
Other comprehensive loss for the year	-	-	(596,691)	-	(596,691)
Total comprehensive loss for the year	-	-	(596,691)	89,360	(507,331)
<b>Balance - December 31, 2014</b>	32,521,812	7,159,698	(1,105,509)	(35,736,728)	2,839,273
<b>Balance - January 1, 2015</b>	32,521,812	7,159,698	(1,105,509)	(35,736,728)	2,839,273
Net earnings for the year	-	-	-	706,310	706,310
Other comprehensive loss for the year	-	-	(1,015,471)	-	(1,015,471)
Total comprehensive loss for the year	-	-	(1,015,471)	706,310	(309,161)
<b>Balance - December 31, 2015</b>	32,521,812	7,159,698	(2,120,980)	(35,030,418)	2,530,112

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

# Plexmar Resources Inc.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(expressed in US dollars)

	2015 \$	2014 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the year	706,310	89,360
Items not affecting cash		
Amortization of property, plant and equipment	1,508	18,157
Loss on disposal of property, plant and equipment (note 7)	-	64,797
Foreign exchange gains	(830,375)	(291,055)
	(122,557)	(118,740)
Changes in non-cash working capital items		
Amounts receivable	8,447	(77,859)
Other assets	-	47,223
Accounts payable and accrued liabilities	(6,018)	(2,937)
	(120,128)	(152,314)
<b>Financing activities</b>		
Related party advances	397,729	264,687
<b>Investing activities</b>		
Purchase of mining properties and exploration costs	(524,437)	(349,572)
Proceeds on disposal of property, plant and equipment	236,000	-
	(288,437)	(349,572)
<b>Effect of foreign exchange rate changes on cash held in foreign currency</b>		
	(1,633)	(8,744)
<b>Decrease in cash during the year</b>	(12,469)	(245,943)
<b>Cash - Beginning of year</b>	26,891	272,834
<b>Cash - End of year</b>	14,422	26,891

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

# Plexmar Resources Inc.

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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(expressed in US dollars)

### 1 General information and going concern

#### General information

Plexmar Resources Inc. (the Company), incorporated under the Canada Business Corporations Act, is an exploration company focused on acquiring, exploring and, if warranted, developing mineral properties. The Company's registered office is located at 181 Bay Street, Suite 2100, Toronto, Ontario, M5J 2T3, Canada.

The Company is wholly owned by Sierra Metals Inc. (Sierra), which was incorporated under the Canada Business Corporations Act on April 11, 1996, and is principally engaged in the business of acquisition, exploration, extraction, production and commercialization of mineral concentrates containing silver, copper, lead, zinc and gold in Mexico and Peru. Sierra's shares are listed on the TSX and the Bolsa de Valores de Lima (BVL) and its registered office is 181 Bay Street, Suite 2100, Toronto, Ontario, M5J 2T3, Canada.

#### Going concern

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

For the year ended December 31, 2015, the Company did not earn operating income, and reported an accumulated deficit of \$35,030,418 at that date. It has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mining properties is dependent on the existence of economically recoverable reserves, the ability to obtain necessary financing to complete exploration and development of the Company's properties, and on the future profitable production or proceeds from the disposal of properties. These circumstances may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In recognition of these circumstances, the Company plans to maintain the status of its mining concessions and continue to progress the exploration and evaluation of these areas of interest, which may include divesting certain mineral properties. Nevertheless, there is no assurance that these initiatives will be successful. While the Company has reviewed and is satisfied with the titles to the claims of the Las Lomas Project, and, to the best of its knowledge, such titles are in good standing, there is no guarantee that titles to such claims will not be challenged or impugned. The Las Lomas Project may be subject to prior unregistered agreements of transfer or aboriginal land claims, and title may be affected by undetected defects.

The Company's ability to continue as a going concern is dependent upon its ability to obtain necessary financing or raise equity to fund its exploration and development of its mineral properties, and generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

# Plexmar Resources Inc.

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

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(expressed in US dollars)

## 2 Statement of compliance

The Company has prepared its consolidated financial statements in accordance with IFRS and its interpretation adopted by the International Accounting Standards Board (IASB) that are issued and effective as at December 31, 2015.

These consolidated financial statements were approved by the Board of Directors for issue on January 10, 2017.

## 3 Summary of significant accounting policies

### Basis of presentation

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention.

### Basis of consolidation

The consolidated financial statements of the Company include the accounts of its wholly owned subsidiaries, Sociedad Minera San Miguelito S.A.C. (San Miguelito), located in Peru, and Plexmar Ecuador S.A., located in Ecuador. All significant intercompany transactions and balances are eliminated on consolidation.

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

### Foreign currency translation

- Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, the Company's presentation currency. Functional currency is also determined for each of the Company's subsidiaries, and items included in the subsidiaries' financial statements are measured using their functional currency.

The Company, Plexmar Resources Inc., has a functional currency of Canadian dollars. The functional currency of subsidiaries Plexmar Ecuador S.A. and San Miguelito are Canadian dollars and US dollars, respectively.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities not denominated in the functional currency are translated at the year-end rates of exchange. Non-monetary

**Plexmar Resources Inc.**  
Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

---

(expressed in US dollars)

items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

The assets and liabilities of an entity with a functional currency other than US dollars are translated into US dollars for presentation purposes at the year-end rates of exchange, and the results of its operations are translated at average rates of exchange for the year. The resulting translation adjustments are included in other comprehensive income and accumulate in the foreign currency reserve in equity.

For companies with different functional currencies any intercompany loan will result in exchange differences reported within the consolidated statements of earnings and comprehensive loss. The borrower will initially record the foreign currency loan at the rate of exchange ruling at the date the loan is made. At each balance sheet date thereafter, until it is repaid, the loan will be translated at the closing rate and any exchange difference will be reported in the borrower's income statement. On consolidation, the intra-group loan account will be eliminated, but the exchange difference reported in the borrower's income statement continues to be recognized in profit or loss.

### **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief executive officer of the Company which makes strategic decisions.

### **Cash**

Cash consists of cash on hand and balances with banks.

### **Financial assets**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

- **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading. They are included in current assets, except for those with maturities greater than 12 months after the consolidated statements of financial position dates, which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently are carried at amortized cost using the effective interest method.

Loans and receivables comprise cash and amounts receivable.



**Plexmar Resources Inc.**  
Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

---

(expressed in US dollars)

**Financial liabilities**

Financial liabilities at amortized cost, which include accounts payable and accrued liabilities and the related party loan, are initially recognized at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of earnings and comprehensive loss over the period of the debt using the effective interest method.

Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liabilities for at least 12 months after the consolidated statements of financial position dates.

**Impairment of financial assets**

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- Financial assets carried at amortized cost - The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

**Mining properties**

The Company records its interests in mining properties and areas of geological interest at cost less option payments received from others and other recoveries. Exploration costs relating to these interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the mining properties to which they relate are placed into production, sold or allowed to lapse.

These costs will be amortized on a unit of production basis over the estimated useful lives of the mining properties following commencement of production or written off if the mining properties or projects are sold or allowed to lapse. General exploration expenditures not related to specific mining properties are expensed as incurred.

The Company assesses its mineral properties for impairment whenever facts and circumstances suggest the carrying amount of an asset may exceed its recoverable amount. Capitalization of exploration and development costs and assumptions regarding the future recoverability of such costs is subject to significant measurement uncertainty. Management's assessment of recoverability is based on, among other things, the period for which the entity has the right to explore in the specific area, the decision of the Company to discontinue activities in a specific area or sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration an evaluation asset is unlikely to be recovered in full from successful development or by sale. These assumptions and estimates could change in the future and this could

# Plexmar Resources Inc.

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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(expressed in US dollars)

materially affect the carrying value and the ultimate recoverability of the amounts recorded for mineral properties and deferred expenditures.

### **Impairment of non-financial assets**

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units (CGUs)). The recoverable amount is the higher of an asset's fair value less costs to sell and values in use (which is the present value of the expected future cash flows of the relevant assets of the CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Mining asset impairment tests are done on a project-by-project basis, each project representing one CGU. An impairment test is done when impairment indicators arise, but generally when one of these circumstances arises:

- the mining right in the specific zone expires or will expire in the near future and it is not anticipated it will be renewed;
- no mining expenses and subsequent evaluation in the specific zone are budgeted or planned;
- no resource discovery is commercially viable and the Company has decided to stop mining in the specific zone; and
- adequate work has been done in order to indicate the asset recorded expenditures book value will not be fully recovered.

Reversals of impairment losses are recognized when circumstances or changes justify them.

### **Income taxes**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

**Plexmar Resources Inc.**  
Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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(expressed in US dollars)

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

**Basic loss per share**

Basic loss per share is determined using the weighted average number of participating shares outstanding during the year.

**4 Adoption of new accounting standards and future accounting changes**

**Future accounting changes**

The following standards and amendments to existing standards have been published and are mandatory for annual periods beginning January 1, 2016, or later periods:

- IFRS 9, Financial Instruments - Recognition and Measurement (IFRS 9)

The International Accounting Standards Board (IASB) issued its completed version of IFRS 9 in July 2014. The completed standard provides revised guidance on the recognition and measurement of financial assets and liabilities. It also introduces a new expected credit loss model for calculating impairment for financial assets and liabilities. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard.

This final version of IFRS 9 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the extent of the impact of the adoption of this standard.

# Plexmar Resources Inc.

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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(expressed in US dollars)

- IFRS 15, Revenue from Contracts with Customers (IFRS 15)

IFRS 15 was issued in May 2014, and covers principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company has not yet determined the potential impact of adopting this standard on its consolidated financial statements.

- IFRS 16, Leases (IFRS 16)

In January 2016, the IASB issued this standard which is effective for periods beginning on or after January 1, 2019, which replaces the current guidance in IAS 17, Leases, and is to be applied either retrospectively or with a modified retrospective approach. Early adoption is permitted, but only in conjunction with IFRS 15. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off-balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflective of future lease payments and a right-of-use asset for virtually all lease contracts. The Company has not yet determined the effect of adoption of IFRS 16 on its consolidated financial statements.

### 5 Critical accounting estimates and judgments

The preparation of annual consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the annual consolidated financial statements and the reported amounts of gain and expenses during the reporting period. Such estimates and assumptions, which by their nature are uncertain, affect the carrying value of assets and impact decisions as to when exploration and evaluation costs should be capitalized or expensed. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to whether future economic benefits may be realized on exploration properties.

### 6 Mining properties

Mining properties comprise exploration and evaluation assets and mineral rights acquired as follows:

	2015 \$	2014 \$
Exploration and evaluation assets	6,884,776	6,733,743

**Plexmar Resources Inc.**  
Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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(expressed in US dollars)

	\$
Balance as at January 1, 2014	6,593,491
Additions	349,572
Effect of foreign currency translation	(209,320)
Depreciation and impairment	-
	<hr/>
Balance as at December 31, 2014	6,733,743
Additions	524,437
Effect of foreign currency translation	(373,404)
Depreciation and impairment	-
	<hr/>
Balance as at December 31, 2015	<u>6,884,776</u>

The exploration and evaluation assets relate to the Las Lomas Project which consists of 44 mining concessions, located in the Department of Piura in northern Peru, near the Ecuador border. 41 concessions are collectively held by San Miguelito and Minera Ate.

Mining concessions are granted for an unlimited period of time over areas consisting of a minimum of 100 ha and a maximum of 1,000 ha (though concessions located at sea may extend to 10,000 ha). There is no limit to the number of mining concessions that one individual company may hold. Mining concessions are irrevocable, except when the titleholder does not fulfill his obligation which includes the payment of the good standing fee.

## **7 Investment in joint operations**

In December 2009, the Company signed a joint operation agreement to operate the Malin plant with J&M Business (J&M), an important Peruvian producer and exporter of precious and base metals.

In November 2014, the Company agreed with J&M that a third party would replace the Company as part of the joint operation and therefore the mineral properties provided to the joint operation would be returned to the exclusively property of the Company and the equipment provided would be bought by the third party. The net proceeds on the disposal of the property, plant and equipment were \$236,000 and a loss of \$64,797 was recognized. As at December 31, 2014, the net proceeds were a receivable, and the cash was received in 2015.

During the Company's participation in the joint operations, the plant never started to produce.

**Plexmar Resources Inc.**  
Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

(expressed in US dollars)

**8 Share capital**

The authorized share capital of the Company is as follows:

Unlimited common shares, without par value

The share capital issued is as follows:

	2015		2014	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance - January 1	228,177,223	32,521,812	228,177,223	32,521,812
Balance - December 31	228,177,223	32,521,812	228,177,223	32,521,812

**9 Consolidated segment information by geographic region**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company's operations comprise a single reporting operating segment engaged in mineral exploration in Peru.

For the year ended December 31:

	2015		
	Peru \$	Corporate \$	Total \$
General and administrative expenses	(103,006)	(19,551)	(122,557)
Amortization of property, plant and equipment	(1,508)	-	(1,508)
Foreign exchange gain (loss)	1,202,045	(371,670)	830,375
Net earnings (loss) for the year	1,097,531	(391,221)	706,310
Mining properties	6,884,776	-	6,884,776
Other segment assets	14,042	8,455	22,497

# Plexmar Resources Inc.

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(expressed in US dollars)

	<b>2014</b>		
	<b>Peru</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
General and administrative expenses	(118,740)	-	(118,740)
Amortization of property plant and equipment	(18,157)	-	(18,157)
Loss on disposal of property, plant and equipment	(64,797)	-	(64,797)
Foreign exchange gain (loss)	466,531	(175,476)	291,055
Net earnings (loss) for the year	<u>264,837</u>	<u>(175,476)</u>	<u>89,361</u>
Mining properties	6,733,743	-	6,733,743
Other segment assets	270,834	10,087	280,921

### 10 Net earnings per share

Basic earnings per share is calculated by dividing the net earnings (loss) for the year attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year.

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Net earnings attributable to equity holders of the Company	706,310	89,360
Weighted average number of common shares outstanding	228,177,223	228,177,223
Basic earnings per share	-	-

### 11 Related party transactions

Dia Bras Peru, S.A.C (Dia Braas Peru), a related company, provided the Company with a credit facility, the proceeds of which are to be used to pay amounts due on mining concessions and fund ongoing working capital costs. The US dollar credit facility is non-interest bearing and does not have a maturity date. The amount outstanding on the loan is \$4,224,926 and has been presented within current liabilities.

# Plexmar Resources Inc.

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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(expressed in US dollars)

### 12 Expenses by nature

General and administrative expenses include good standing fee and administrative penalties and consulting and professional fees but not the primary development costs (mainly employee compensation and benefits) related with the mineral properties which are capitalized and will be depreciated over the specific useful life or reserves related to that development.

	2015 \$	2014 \$
Good standing fee and administrative penalties	48,986	47,690
Consulting and professional fees	3,292	4,780
Travelling expense	3,595	2,454
Others	66,684	63,817
	<hr/>	<hr/>
	122,557	118,741
	<hr/>	<hr/>

### 13 Income taxes

The income tax rate is 26.5% in Canada (federal and provincial) and 28% in Peru. The tax benefit of the net loss is not recorded in the consolidated financial statements.

The Company is entitled to the following tax benefits:

- As at December 31, 2015, the Company has accumulated, for Canadian federal and provincial income tax purposes, non-capital losses (gross value) totalling \$7,165,423 (December 31, 2014 - \$7,010,498) which can be applied against future years' taxable income and which will expire as follows:

	\$
2025	1,146,290
2026	1,200,675
2027	681,987
2028	699,316
2029	1,336,849
2030	583,704
2031	1,181,801
2032	66,385
2033	73,857
2034	39,634
2035	154,925
	<hr/>
	7,165,423
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**Plexmar Resources Inc.**  
Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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(expressed in US dollars)

- The Company has accumulated, for Peruvian income tax purposes, non-capital losses totalling \$855,920 (December 31, 2014 - \$991,889). These losses can be applied against taxable income and will expire as follows:

	\$
2016	149,618
2017	200,542
2018	166,034
2019	339,726
	<u>855,920</u>

Significant components of the Company's deferred income tax assets are as follows:

	2015 \$	2014 \$
Mining properties	2,594,800	2,594,800
Property, plant and equipment	2,600	2,600
Advances to related parties	157,306	69,262
Other	1,040	1,040
	<u>2,775,746</u>	<u>2,667,702</u>

Deferred tax assets (including the detailed tax loss carry-forwards) are not recognized because it is not probable there will be sufficient future taxable income generated by the Company and subsidiaries where the losses are allocated.

Tax reconciliation:

	2015 \$	2014 \$
Net earnings before income taxes	<u>706,310</u>	<u>89,360</u>
At statutory income tax rate	183,641	23,234
Non-deductible (taxable) item		
Unrealized foreign exchange income	(279,641)	(39,234)
Expired non-capital losses	139,000	167,000
Current year losses for which no deferred tax asset recognized	40,000	43,000
Change in benefit of other temporary differences not recognized	(83,000)	(194,000)
Total income tax expense	<u>-</u>	<u>-</u>

# Plexmar Resources Inc.

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(expressed in US dollars)

### 14 Financial instruments

#### Financial instruments by category

	<b>2015</b>		
	<b>Loans and receivables \$</b>	<b>Financial liabilities at amortized cost \$</b>	<b>Total \$</b>
Assets			
Cash	14,422	-	14,422
Amounts receivable	4,326	-	4,326
	<u>18,748</u>	<u>-</u>	<u>18,748</u>
Liabilities			
Accounts payable and accrued liabilities	-	(152,235)	(152,235)
Related party loan	-	(4,224,926)	(4,224,926)
	<u>-</u>	<u>(4,377,161)</u>	<u>(4,377,161)</u>
	<u>18,748</u>	<u>(4,377,161)</u>	<u>(4,358,413)</u>
			<b>2014</b>
	<b>Loans and receivables \$</b>	<b>Financial liabilities at amortized cost \$</b>	<b>Total \$</b>
Assets			
Cash	26,891	-	26,891
Amounts receivable	248,773	-	248,773
	<u>275,664</u>	<u>-</u>	<u>275,664</u>
Liabilities			
Accounts payable and accrued liabilities	-	(160,863)	(160,863)
Related party loan	-	(4,014,527)	(4,014,527)
	<u>-</u>	<u>(4,175,390)</u>	<u>(4,175,390)</u>
	<u>275,664</u>	<u>(4,175,390)</u>	<u>(3,899,726)</u>

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate fair value because of the limited term of these instruments.

**Plexmar Resources Inc.**  
Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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(expressed in US dollars)

**15 Financial risk management**

**Financial risk**

The Company is exposed to various types of risks due to the nature of the business activities it carries on, including those related to the use of financial instruments. The Company does not use financial derivatives.

**Market risk**

Market risk corresponds to the financial losses the Company could incur because of unfavourable fluctuations in the value of financial instruments, following variations in the parameters underlying their evaluation, such as interest rates and exchange rates.

**Foreign exchange risk**

Foreign currency risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the entity's functional currency. The Company's functional currency is Canadian dollars (CA\$) for Plexmar Resources Inc. and Plexmar Ecuador S.A. and US dollars (US\$) for San Miguelito. The Company and subsidiaries conduct some of their operating and investing activities in currencies other than the mentioned functional currency, such as the Peruvian New Sol (PEN). The Company and subsidiaries are therefore subject to gains or losses due to fluctuations in these currencies relative to their functional currency.

The Company had the following foreign currency balances:

		<b>2015</b>	
	<b>Foreign currency</b>	<b>Foreign balance \$</b>	<b>\$</b>
Cash	PEN	13,509	3,959
Accounts receivable	PEN	2,345	687
Accounts payable and accrued liabilities	PEN	9,768	2,863
Advances from parent company	US\$	4,224,926	4,224,926
		<b>2014</b>	
	<b>Foreign currency</b>	<b>Foreign balance \$</b>	<b>\$</b>
Cash	PEN	28,540	9,558
Accounts receivable	PEN	34,278	11,479
Accounts payable and accrued liabilities	PEN	40,873	13,688
Advances from parent company	US\$	4,014,527	4,014,527

**Plexmar Resources Inc.**  
Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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(expressed in US dollars)

**Interest rate risk**

As at December 31, 2015, the Company has no exposure to interest rate risk.

**Credit risk**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and amounts receivable. Cash is maintained with high credit quality financial institutions. Consequently, management considers the risk of non-performance related to cash to be minimal.

**Liquidity risk**

Liquidity risk represents the possibility the Company may not be able to gather sufficient cash resources when required and under reasonable conditions to meet its financial obligations. The Las Lomas Project is the exploration stage. At this time the Company has no operating revenue and does not anticipate earning any operating profits until it is able to place a project into production, or acquire a mining asset with operating cash flow. Until such time, the Company will be required to: (i) raise funds through equity financing, possibly supplemented by the issuance of options and warrants; (ii) have sufficient committed credit facilities in place to meet its operating needs; or (iii) secure other ways to continue its exploration and, if warranted, development activities. If additional financing is not available, the Company may have to postpone its capital expenditures and exploration programs, which could materially impact the long term financial performance of the Company.

The following table summarizes contractual obligations as at December 31, 2015:

	Net value \$	0 - 12 months \$	12 - 24 months \$	Thereafter \$
Accounts payable	152,236	152,236	-	-
Related party loan	4,224,926	4,224,926	-	-
	<u>4,377,162</u>	<u>4,377,162</u>	-	-

**Sensitivity**

As a result of a sensitivity analysis based on management's knowledge of and experience with the financial markets, the Company believes the following movements are reasonably possible over a year:

- (i) The Company is exposed to foreign currency risk on fluctuations of financial instruments primarily relating to the intercompany loans. As at December 31, 2015, had both the Canadian dollar and the Peruvian New Sol weakened by 15% against the US dollar with all other variables held constant, the Company's reported net loss for the year ended December 31, 2015 would have been approximately \$320 thousands lower.

# Plexmar Resources Inc.

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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(expressed in US dollars)

- (ii) Commodity price risk could affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market of precious metals. As at December 31, 2015, the Company was not a commercial producing entity. As a result, commodity price risk could affect the completion of future equity transactions such as equity offerings. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including foreign exchange rate and price risk). There have been no changes in the risk management department or in any risk management policies since year-end.

### 16 Capital management

The Company defines capital as its shareholders' equity and related party loan.

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide an adequate return to shareholders and maintain a sufficient level of funds to finance its exploration activities, including acquisition of mining properties, general and administrative expenses and working capital.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets, all of which are subject to market conditions and the terms of the underlying third party agreements.

The Company is not subject to any capital requirements arising from regulatory authorities.

### 17 Subsequent events

Management evaluated subsequent events since December 31, 2015 through to the date the consolidated financial statements were issued. Management concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.

# **Plexmar Resources Inc.**

(an exploration stage company)

Condensed Interim Consolidated  
Financial Statements  
(Unaudited)

**For the three and nine months ended  
September 30, 2016**

(expressed in US dollars)

# Plexmar Resources Inc.

## Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(expressed in US dollars)

	September 30, 2016 \$	December 31, 2015 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	21,186	14,422
Receivables	1,374	4,327
	<u>22,560</u>	<u>18,749</u>
<b>Mining properties</b> (note 3)	7,728,380	6,884,776
<b>Property, plant and equipment</b> (note 7)	2,677	3,749
	<u>7,753,617</u>	<u>6,907,274</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	150,328	152,236
<b>Related party loan</b> (note 7)	4,780,105	4,224,926
	<u>4,930,433</u>	<u>4,377,162</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 4)	32,521,812	32,521,812
<b>Contributed surplus</b>	7,159,698	7,159,698
<b>Deficit</b>	(35,017,310)	(35,030,418)
<b>Foreign currency reserve</b>	(1,841,016)	(2,120,980)
	<u>2,823,184</u>	<u>2,530,112</u>
	<u>7,753,617</u>	<u>6,907,274</u>
<b>General information and going concern</b> (note 1)		

### Approved by the Board of Directors

*"Alberto Arias"*

Alberto Arias  
Director

*"Doug Cater"*

Doug Cater  
Director

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

## Plexmar Resources Inc.

### Condensed Interim Consolidated Statements of Earnings and Comprehensive (Loss) Income (Unaudited)

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2016 \$	2015 \$	2016 \$	2015 \$
<b>Expenses</b>				
General and administrative (note 8)	(9,836)	(13,271)	(112,504)	(108,892)
Amortization of property, plant and equipment	(360)	(375)	(1,072)	(1,145)
Foreign exchange gain	67,192	96,387	126,684	716,914
<b>Net earnings</b>	56,996	82,741	13,108	606,877
<b>Other comprehensive (loss) income</b>				
Unrealized (loss) gain on translation of financial statements	(85,817)	(368,325)	279,964	(826,586)
<b>Comprehensive (loss) income</b>	(28,821)	(285,584)	293,072	(219,709)
<b>Weighted average shares outstanding</b> - basic	228,177,223	228,177,223	228,177,223	228,177,223
<b>Net (loss) earnings per share</b> (note 6)	-	-	-	-

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



# Plexmar Resources Inc.

## Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)

(expressed in US dollars)

	Share capital \$ (note 4)	Contributed surplus \$	Foreign currency reserve \$	Deficit \$	Total \$
<b>Balance - December 31, 2014</b>	32,521,812	7,159,698	(1,105,509)	(35,736,728)	2,839,273
Net earnings	-	-	-	606,877	606,877
Other comprehensive (loss)	-	-	(826,586)	-	(826,586)
Total comprehensive (loss) earnings	-	-	(826,586)	606,877	(219,709)
<b>Balance - September 30, 2015</b>	32,521,812	7,159,698	(1,932,095)	(35,129,851)	2,619,564
<b>Balance - December 31, 2015</b>	32,521,812	7,159,698	(2,120,980)	(35,030,418)	2,530,112
Net earnings	-	-	-	13,108	13,108
Other comprehensive income	-	-	279,964	-	279,964
Total comprehensive earnings	-	-	279,964	13,108	293,072
<b>Balance - September 30, 2016</b>	32,521,812	7,159,698	(1,841,016)	(35,017,310)	2,823,184

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

# Plexmar Resources Inc.

## Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended September 30, 2016 and 2015

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(expressed in US dollars)

	2016 \$	2015 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the period	13,108	606,877
Items not affecting cash		
Amortization of property, plant and equipment	1,072	1,144
Foreign exchange gains	(126,684)	(716,914)
	<u>(112,504)</u>	<u>(108,893)</u>
Changes in non-cash working capital items		
Amounts receivable	2,953	9,158
Accounts payable and accrued liabilities	(2,654)	(5,059)
	<u>(112,205)</u>	<u>(104,794)</u>
<b>Financing activities</b>		
Proceeds from related party loan	<u>855,305</u>	<u>191,206</u>
<b>Investing activities</b>		
Purchase of mining properties and exploration costs	(736,803)	(267,472)
Proceeds on disposal of property, plant and equipment	-	236,000
	<u>(736,803)</u>	<u>(31,472)</u>
<b>Effect of foreign exchange rate changes on cash held in foreign currency</b>	<u>467</u>	<u>(1,319)</u>
<b>Increase in cash during the period</b>	6,764	53,621
<b>Cash - Beginning of period</b>	<u>14,422</u>	<u>26,891</u>
<b>Cash - End of period</b>	<u>21,186</u>	<u>80,512</u>

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

# Plexmar Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2016

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(expressed in US dollars)

### 1 General information and going concern

#### General information

Plexmar Resources Inc. (the Company), incorporated under the Canada Business Corporations Act, is an exploration company focused on acquiring, exploring and, if warranted, developing mineral properties. The Company's registered office is located at 181 Bay Street, Suite 2100, Toronto, Ontario, M5J 2T3, Canada.

The Company is wholly owned by Sierra Metals Inc. (Sierra), which was incorporated under the Canada Business Corporations Act on April 11, 1996, and is principally engaged in the business of acquisition, exploration, extraction, production and commercialization of mineral concentrates containing silver, copper, lead, zinc and gold in Mexico and Peru. Sierra's shares are listed on the TSX and the Bolsa de Valores de Lima (BVL) and its registered office is 181 Bay Street, Suite 2100, Toronto, Ontario, M5J 2T3 Canada.

#### Going concern

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

For the nine months ended September 30, 2016, the Company did not earn operating income and reported an accumulated deficit of \$35,017,310 at that date. It has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mining properties is dependent on the existence of economically recoverable reserves, the ability to obtain necessary financing to complete exploration and development of the Company's properties, and on the future profitable production or proceeds from the disposal of properties. These circumstances may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In recognition of these circumstances, the Company plans to maintain the status of its mining concessions and continue to progress the exploration and evaluation of these areas of interest, which may include divesting certain mineral properties. Nevertheless, there is no assurance that these initiatives will be successful. While the Company has reviewed and is satisfied with the titles to the claims of the Las Lomas Project, and, to the best of its knowledge, such titles are in good standing, there is no guarantee that titles to such claims will not be challenged or impugned. The Las Lomas Project could be subject to prior unregistered agreements of transfer or aboriginal land claims, and title may be affected by undetected defects.

The Company's ability to continue as a going concern is dependent upon its ability to obtain necessary financing or raise equity to fund its exploration and development of its mineral properties, and generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

# Plexmar Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2016

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(expressed in US dollars)

### 2 Summary of significant accounting policies

#### Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with 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. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015. The Company's significant accounting policies were presented in note 3 to the consolidated financial statements for the year ended December 31, 2015, and have been consistently applied in the preparation of these condensed interim consolidated financial statements. These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on January 10, 2017.

#### Basis of consolidation

The consolidated financial statements of the Company include the accounts of its wholly owned subsidiaries, Sociedad Minera San Miguelito S.A.C. (San Miguelito), located in Peru, and Plexmar Ecuador S.A., located in Ecuador. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

### 3 Mining properties

Mining properties comprise exploration and evaluation assets and mineral rights acquired as follows:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	\$	\$
Exploration and evaluation assets	<u>7,728,380</u>	<u>6,884,776</u>

# Plexmar Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2016

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(expressed in US dollars)

	\$
Balance as at January 1, 2015	6,733,743
Costs incurred	524,437
Effect of foreign currency translation	<u>(373,404)</u>
Balance as at December 31, 2015	6,884,776
Costs incurred	736,803
Effect of foreign currency translation	<u>106,801</u>
Balance as at September 30, 2016	<u>7,728,380</u>

The exploration and evaluation assets relate to the Las Lomas Project, which consists of 44 mining concessions, located in the Department of Piura in northern Peru, near the Ecuador border. San Miguelito and Minerta Ate collectively hold 41 concessions.

Mining concessions are granted for an unlimited period of time over areas consisting of a minimum of 100 ha and a maximum of 1,000 ha (though concessions located at sea may extend to 10,000 ha). There is no limit to the number of mining concessions that one individual company may hold. Mining concessions are irrevocable, except when the titleholder does not fulfill their obligations which include the payment of the good standing fee.

#### 4 Share capital

The authorized share capital of the Company is as follows:

Unlimited common shares, without par value

The share capital issued is as follows:

	<u>September 30, 2016</u>		<u>December 31, 2015</u>	
	<b>Number of shares</b>	<b>Amount \$</b>	<b>Number of shares</b>	<b>Amount \$</b>
Balance - Beginning and end of period	<u>228,177,223</u>	<u>32,521,812</u>	<u>228,177,223</u>	<u>32,521,812</u>

# Plexmar Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2016

(expressed in US dollars)

### 5 Condensed consolidated segment information by geographic region

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company's operations comprise a single reporting operating segment engaged in mineral exploration in Peru.

For the nine months ended September 30:

	<b>2016</b>		
	<b>Peru</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
General and administrative expenses	(112,504)	-	(112,504)
Amortization of property, plant and equipment	(1,072)	-	(1,072)
Foreign exchange (gain) loss	(2,864)	129,548	126,684
<b>Net (loss) earnings</b>	<b>(116,440)</b>	<b>129,548</b>	<b>13,108</b>
Mining properties	7,728,380	-	7,728,380
Other segment assets	16,315	8,922	25,237
			<b>2015</b>
	<b>Peru</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
General and administrative expenses	(89,050)	(19,843)	(108,893)
Amortization of property plant and equipment	(1,145)	-	(1,145)
Foreign exchange (gain) loss	(8,198)	725,112	716,914
<b>Net earnings (loss)</b>	<b>(98,393)</b>	<b>705,269</b>	<b>606,876</b>
Mining properties	6,699,548	-	6,699,548
Other segment assets	79,471	8,768	88,239

# Plexmar Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2016

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(expressed in US dollars)

### 6 Net (loss) earnings per share

Basic loss per share is calculated by dividing the net earnings for the nine months ended September 30, 2016 and 2015 attributable to equity holders of the Company by the weighted average number of common shares outstanding during the period.

	September 30, 2016 \$	September 30, 2015 \$
Net earnings attributable to equity holders of the Company	13,108	606,877
Weighted average number of common shares outstanding	228,177,223	228,177,223
Basic earnings per share	-	-

### 7 Related party transactions

Sierra provided the Company with a credit facility, the proceeds of which are to be used to pay amounts due on mining concessions, for working capital purposes, and lastly to continue operations. The credit facility is non-interest bearing and does not have a maturity date. The current amount outstanding on the loan is \$4,780,105 (December 31, 2015 - \$4,224,926) and has been presented within current liabilities.

### 8 Expenses by nature

#### General and administrative expenses

General and administrative expenses include good standing fee and administrative penalties, and consulting and professional fees, but not the primary development costs (mainly employee compensation and benefits) related to the mineral properties, which are capitalized. For the nine months ended September 30:

	2016 \$	2015 \$
Good standing fee and administrative penalties	75,453	48,853
Consulting and professional fees	6,024	23,162
Travelling expense	4,767	2,356
Other	26,260	34,521
	<hr/> 112,504	<hr/> 108,892

# **Plexmar Resources Inc.**

## **Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2016**

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(expressed in US dollars)

### **9 Subsequent events**

Management evaluated subsequent events since September 30, 2016 through to the date the condensed interim consolidated financial statements were issued. Management concluded that no subsequent events have occurred that would require recognition or disclosure in the condensed interim consolidated financial statements.



**CAUTIVO MINING INC.**

Unaudited Pro Forma Consolidated Financial Statements

As at December 6, 2016

**Cautivo Mining Inc.**  
**Pro Forma Consolidated Statement of Financial Position**  
**As at December 6, 2016**  
*(Expressed in United States Dollars, unaudited)*

As at December 6, 2016	Cautivo \$	Plexmar \$	Pro Forma Adjustments \$	Note	Cautivo Pro Forma Consolidated \$
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	100	21,186	-		21,286
Receivables	-	1,374	-		1,374
Related party receivable	-	-	-	4a	-
	<u>100</u>	<u>22,560</u>	<u>-</u>		<u>22,660</u>
<b>Non-current assets:</b>					
Mining properties	-	7,728,380	-		7,728,380
Property, plant and equipment	-	2,677	-		2,677
<b>Total assets</b>	<u>100</u>	<u>7,753,617</u>	<u>-</u>		<u>7,753,717</u>
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued liabilities	-	150,328	-		150,328
Related party loan	-	4,780,105	4,780,105	4b	-
	<u>-</u>	<u>4,930,433</u>	<u>4,780,105</u>		<u>150,328</u>
<b>SHAREHOLDER'S EQUITY</b>					
Share capital	100	32,521,812	4,780,105	4a, b	37,302,017
Retained earnings (deficit)	-	(35,017,310)	-		(35,017,310)
Contributed surplus	-	7,159,698	-		7,159,698
Foreign currency reserve	-	(1,841,016)	-		(1,841,016)
	<u>100</u>	<u>2,823,184</u>	<u>4,780,105</u>		<u>7,603,389</u>
	<u>100</u>	<u>7,753,617</u>	<u>-</u>		<u>7,753,717</u>

Approved on behalf of the Board and authorized for issue on January 7, 2017:

*"Alberto Arias"*

Alberto Arias  
Chairman of the Board

*"Doug Cater"*

Doug Cater  
Chairman of the Audit Committee

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

**Cautivo Mining Inc.**  
**Pro Forma Statement of Net Earnings and Comprehensive Income**  
For the period ended December 6, 2016  
*(Expressed in United States dollars, unaudited)*

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	Cautivo \$	Plexmar \$	Pro Forma Adjustments \$	Note	Cautivo Pro Forma Consolidated \$
<b>Expenses</b>					
General and administrative expenses	-	(112,504)	-		(112,504)
Amortization of property, plant and equipment	-	(1,072)	-		(1,072)
Foreign exchange gain	-	126,684	-		126,684
<b>Net earnings</b>	-	13,108	-		13,108
<b>Other comprehensive (loss) gain</b>					
Unrealized (loss) gain on translation of financial statements	-	279,964	-		279,964
<b>Comprehensive (loss) earnings</b>	-	293,072	-		293,072
<b>Weighted average shares outstanding</b>					
Basic	1,000	228,227,223	-		228,228,223
<b>Basic earnings per share</b>	-	-	-		-
<b>Diluted earnings per share</b>	-	-	-		-

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

## **1 Description of business and nature of operations**

Cautivo Mining Inc. (“Cautivo Mining” or the “Company”) was incorporated under the Business Corporations Act (Ontario) on December 6, 2016, and is domiciled in Canada. The Company’s registered office is 181 Bay Street, Toronto, Ontario, M5J 2T3, Canada.

The Company is an exploration company focused on acquiring, exploring, and, if warranted, developing mineral properties.

The accompanying unaudited Pro Forma Consolidated Financial Statements have been compiled for purposes of inclusion in a preliminary prospectus (the “Preliminary Prospectus”) for the initial public offering of Cautivo Mining by way of a distribution as a return of capital and rights offering.

The unaudited Pro Forma Consolidated Financial Statements have been prepared for illustrative purposes only and give effect to the Reorganization (as such term is defined in the Preliminary Prospectus) and pursuant to pro forma adjustments described in Note 4.

The unaudited Pro Forma Consolidated Financial Statements are not necessarily indicative of the financial position and results of operations that would have been achieved if the Reorganization had been completed on the dates or for any future period presented, nor do they claim to project the results of operations or financial position of the entity for any future period or as of any future date. Any potential implementation costs that may be incurred, or reduction/increase in general administrative expenses that may be realized upon completion of the Reorganization, or general and administrative expenditures or changes in working capital balances incurred by Cautivo Mining subsequent to September 30, 2016 and prior to the effective date of the Reorganization, have been excluded from the unaudited Pro Forma Consolidated Financial Statements.

The unaudited Pro Forma Consolidated Financial Statements should be read in conjunction with: (i) the description of the transactions in the Preliminary Prospectus, and (ii) the audited consolidated financial statements, together with the notes thereto, of Plexmar Resources Inc. included in the Preliminary Prospectus, and (iii) the audited consolidated statement of financial position, together with the notes thereto, of Cautivo Mining included in the Preliminary Prospectus.

In the opinion of Cautivo Mining’s management, these unaudited Consolidated Pro Forma Financial Statements include all adjustments necessary for a fair presentation of the transactions described in the notes to the unaudited Pro Forma Consolidated Financial Statements applied on a basis consistent with the Company’s accounting policies.

## **2 Basis of presentation**

These pro-forma financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and with interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Handbook – Accounting. These financial statements were approved by the Board of Directors on January 7, 2017.

## **3 Significant accounting policies**

The significant accounting policies adopted by the Company in the preparation of its financial statements are set out below.

**Basis of measurement**

These financial statements have been prepared under the historical cost convention

**Foreign currency translation**

These financial statements are presented in United States Dollars, which is the Company's functional currency.

**Accounting standards, interpretations and amendments to existing standards not yet effective**

The Company does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

**Critical accounting judgements, estimates and assumptions**

The preparation of these financial statements requires the Company to make judgements in applying accounting policies and estimates and assumptions about the future. These judgements, estimates and assumptions affect the Company's reported amounts of assets, liabilities, revenues and other items in net earnings, and the related disclosure of contingent assets and liabilities, if any. The Company evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the company believes are reasonable under the circumstances, and these estimates form the basis for making judgements about the carrying value of assets and liabilities and the reported amount of revenues and other items in net earnings that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

**4 Pro Forma Assumptions and Adjustments**

The unaudited Pro Forma Consolidated Financial Statements include the following assumptions and adjustments.

a) To record the transfer of intercompany receivable balance into Cautivo Mining from Sierra Metals.

Dr	Related party receivable	\$4,780,105
Cr	Share capital	\$4,780,105

b) To record the elimination of intercompany balances within the consolidated entity.

Dr	Related party loan	\$4,780,105
Cr	Related party receivable	\$4,780,105

**CERTIFICATE OF THE CORPORATION AND THE PROMOTER**

Dated: January 11, 2017

This Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of each of the provinces and territories of Canada, other than Québec.

**CAUTIVO MINING INC.**

(Signed) Ricardo Arrarte  
Chief Executive Officer

(Signed) Matthew Anderson  
Chief Financial Officer

On Behalf of the Board of Directors

(Signed) Alberto Arias  
Director

(Signed) Douglas Cater  
Director

**SIERRA METALS INC.**  
(as Promoter)

(Signed) Mark Brennan  
Chief Executive Officer

(Signed) Ed Guimaraes  
Chief Financial Officer

**CERTIFICATE OF THE MANAGING DEALER**

Dated: January 11, 2017

To the best of our knowledge, information and belief, this Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of each of the provinces and territories of Canada, other than Québec.

**DUNDEE CAPITAL PARTNERS**

(Signed) John Esteireiro  
Managing Director

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