

# **LOS ANDES COPPER LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016 and 2015**

## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Los Andes Copper Ltd.

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

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board 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.

### Auditors' 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 of 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 is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Los Andes Copper Ltd. as at September 30, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 of the consolidated financial statements which describe matters and conditions that indicate the existence of a material uncertainty which may cast significant doubt about Los Andes Copper Ltd.'s ability to continue as a going concern.



**LOS ANDES COPPER LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian Dollars)

	September 30, 2016 (\$)	September 30, 2015 (\$)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (Note 12)	9,663	1,162,515
Trade and other receivables	1,565	4,858
Prepaid expenses and deposits	170,624	165,348
	181,852	1,332,721
<b>Non-current assets</b>		
Unproven mineral right interests (Notes 4 and 5)	73,460,048	70,321,925
Hydro-electric project water rights (Note 6)	8,250,000	8,250,000
Equipment	112	4,872
	81,892,012	79,909,518
<b>LIABILITIES</b>		
<b>Current</b>		
Trade and other payables (Note 9)	1,352,366	350,948
Borrowings (Note 7)	472,882	-
	1,825,248	350,948
<b>Non-current liability</b>		
Deferred income tax	5,843,546	5,338,981
	7,668,794	5,689,929
<b>EQUITY</b>		
Share capital (Note 8)	91,297,107	90,991,538
Equity reserve (Note 8)	2,407,771	2,404,891
Deficit	(18,356,340)	(17,156,665)
Accumulated other comprehensive loss	(1,271,968)	(2,171,082)
Equity attributable to the owners of the Company	74,076,570	74,068,682
Non-controlling interest	146,648	150,907
	74,223,218	74,219,589
	81,892,012	79,909,518

**Nature and continuance of operations (Note 1)**

**Commitments and contingencies (Note 14)**

**Subsequent events (Note 15)**

On behalf of the Board:

"Klaus Zeitler"  
Director

"Francisco Covarrubias"  
Director

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

**LOS ANDES COPPER LTD.**  
**CONSOLIDATED STATEMENTS OF LOSS and COMPREHENSIVE LOSS**  
(Expressed in Canadian Dollars)

	Year ended September 30,	
	2016	2015
	(\$)	(\$)
<b>EXPENSES</b>		
<b>General and Administrative</b>		
Depreciation	4,872	10,569
Consulting, salaries and management fees (Note 9)	373,824	338,238
Office and administration	28,118	37,017
Professional fees (Note 9)	36,523	78,169
Share-based compensation (Note 8(b))	2,880	84,037
Shareholder communications	12,022	28,275
Transfer agent, filing and regulatory fees	22,882	49,013
	481,121	625,318
<b>Hydro-electric Project</b>		
Depreciation	147	143
Professional fees	55,371	122,872
Project supplies and expenses	49,312	34,914
Studies	119,328	112,397
	224,158	270,326
<b>Loss before other items</b>	(705,279)	(895,644)
<b>OTHER ITEMS</b>		
Foreign exchange gain (loss)	20,951	(92,146)
Interest expense	(15,513)	(11,720)
Interest income	472	503
Gain on sale of non-controlling interest (Note 6)	-	92,598
Gain on settlement of debt	-	48,631
	5,910	37,866
<b>Loss before income taxes</b>	(699,369)	(857,778)
Deferred income tax expense	(504,565)	(2,470,360)
<b>Net loss attributable to:</b>		
Owners of the Company	(1,199,675)	(3,322,295)
Non-controlling interest	(4,259)	(5,843)
<b>Net loss for the year</b>	(1,203,934)	(3,328,138)
<b>Other comprehensive income</b>		
Cumulative translation allowance	899,114	584,192
	899,114	584,192
<b>Loss and comprehensive loss attributable to:</b>		
Owners of the Company	(300,561)	(2,738,103)
Non-controlling interest	(4,259)	(5,843)
<b>Loss and comprehensive loss for the year</b>	(304,820)	(2,743,946)
<b>Basic and diluted loss per share</b>	(0.01)	(0.02)
<b>Weighted average number of shares outstanding</b>	217,841,824	207,190,815

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

**LOS ANDES COPPER LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in Canadian Dollars)

Common shares							
	No. of shares	Amount (\$)	Deficit (\$)	Equity Reserve (\$)	Accumulated Other Comprehensive Loss (\$)	Non- Controlling Interest (\$)	Shareholders' Equity (\$)
Balance -							
October 1, 2014	200,432,599	87,419,489	(13,834,370)	2,320,854	(2,755,274)	-	73,150,699
Private placements (Note 8)	12,609,454	2,774,080	-	-	-	-	2,774,080
Shares for debt (Note 8)	3,627,133	797,969	-	-	-	-	797,969
Share-based compensation (Note 8)	-	-	-	84,037	-	-	84,037
Sale of non-controlling interest (Note 6)	-	-	-	-	-	156,750	156,750
Net loss	-	-	(3,322,295)	-	-	(5,843)	(3,328,138)
Cumulative translation allowance	-	-	-	-	584,192	-	584,192
Balance -							
September 30, 2015	216,669,186	90,991,538	(17,156,665)	2,404,891	(2,171,082)	150,907	74,219,589
Balance -							
October 1, 2015	216,669,186	90,991,538	(17,156,665)	2,404,891	(2,171,082)	150,907	74,219,589
Private placements (Note 8)	1,388,950	305,569	-	-	-	-	305,569
Share-based compensation (Note 8)	-	-	-	2,880	-	-	2,880
Net loss	-	-	(1,199,675)	-	-	(4,259)	(1,203,934)
Cumulative translation allowance	-	-	-	-	899,114	-	899,114
Balance -							
September 30, 2016	218,058,136	91,297,107	(18,356,340)	2,407,771	(1,271,968)	146,648	74,223,218

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

**LOS ANDES COPPER LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)

	Year ended September 30,	
	2016	2015
	(\$)	(\$)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	(1,203,934)	(3,328,138)
Items not affecting cash:		
Deferred income tax expense	504,565	2,470,360
Share-based expense	2,880	84,037
Interest expense	15,513	-
Depreciation	5,019	10,712
Gain on sale of subsidiary non-controlling interest	-	(92,598)
Gain on settlement of debt	-	(48,631)
Change in non-cash working capital items:		
Trade and other receivables	3,293	(2,708)
Prepaid expenses and deposits	(5,276)	(141,160)
Trade and other payables	397,863	(164,260)
<b>Net cash used in operating activities</b>	<b>(280,077)</b>	<b>(1,212,386)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares	305,569	2,774,080
Proceeds from borrowings	453,939	-
Proceeds from sale of subsidiary non-controlling interest	-	249,348
<b>Net cash provided by financing activities</b>	<b>759,508</b>	<b>3,023,428</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Unproven mineral right interests	(1,661,161)	(824,507)
<b>Net cash used in investing activities</b>	<b>(1,661,161)</b>	<b>(824,507)</b>
<b>Change in cash for the year</b>	<b>(1,181,730)</b>	<b>986,535</b>
<b>Effect of exchange rate changes on cash</b>	<b>28,878</b>	<b>160,127</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,162,515</b>	<b>15,853</b>
<b>Cash and cash equivalents, end of year</b>	<b>9,663</b>	<b>1,162,515</b>

**Supplemental cash flow information (Note 12)**

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

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Los Andes Copper Ltd. ("Los Andes") is a company involved in the acquisition and exploration of mineral right interests and the development of a hydroelectric project in Chile. Los Andes was incorporated under the Business Corporations Act (British Columbia) in 1983 and is listed on the TSX Venture Exchange ("TSX-V") under the symbol "LA". Its principal office is located at Suite 1260-355 Burrard Street, Vancouver, B.C. V6C 2G8, Canada.

These consolidated financial statements include the accounts of Los Andes and of its controlled subsidiaries (collectively, the "Company"): Vizcachitas Limited, Compañía Minera Vizcachitas Holding, Sociedad Legal Minera San José Uno de Lo Vicuña, El Tártaro y Piguchén de Putaendo, Gemma Properties Group Limited, Inversiones Los Patos S.A, DK Corporation, Rocín SPA and Hidroeléctrica de Pasada Rio Rocín SPA.

At the date of these financial statements the Company has not yet determined whether any of its mineral right interests contain mineral reserves that are economically recoverable. Accordingly, the carrying amount of its mineral right interests represents the cumulative acquisition costs and exploration expenditures incurred to date, which does not necessarily reflect present or future values. The recovery of these costs is dependent on the discovery of economically recoverable mineral reserves and the ability of the Company to obtain the necessary financing to undertake continuing exploration and development, and to resolve any environmental, regulatory or other constraints.

These financial statements have been prepared on a going concern basis, which assume that the Company will be able to continue in operation for a reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has made an assessment of its ability to continue as a going concern and is aware of several material adverse conditions as set out below that cast significant doubt on the validity of this assumption.

The Company's business activities are in the development stage. The Company has a history of recurring losses and no source of revenue or operating cash flow. Operations in recent years have been funded from the issuance of share capital and cash on hand.

Given its current stage of operations, the Company's ability to continue as a going concern is contingent on its ability to obtain additional financing. In the event the Company is unable to raise adequate financing or meet its current obligations, the carrying value of the Company's assets could be subject to material adjustments.

These financial statements do not reflect adjustments to the carrying values of assets and liabilities which may be required should the Company be unable to continue as a going concern.

These financial statements are presented in Canadian dollars and all values are rounded to the nearest dollar except where otherwise indicated.

These financial statements were authorized for issue by the Board of Directors on January 27, 2017 and have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

## **2. BASIS OF PREPARATION**

### *a) Basis of presentation*

The financial statements have been prepared on an accrued basis and are based on the historical cost basis and modified where applicable.

### *(b) Adoption of new and revised standards and interpretations*

Effective October 1, 2015, the Company has applied the following new accounting standards or amendments which were issued by the IASB:

- Amendments to IFRS 2, Share-based Payment
- Amendments to IFRS 8, Operating Segments
- Amendments to IFRS 13, Fair Value Measurement
- Amendments to IAS 16, Property, Plant and Equipment
- Amendments to IAS 24, Related Party Disclosures

The adoption of these new standards or amendments had no material impact on the Company's financial statements.

Effective for annual periods beginning on or after January 1, 2018:

- IFRS 9, Financial Instruments – Classification and Measurement. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

The Company has not early adopted this new standard to existing standards and does not expect the impact of this standard on the Company's consolidated financial statements to be material.



### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Use of judgments and estimates**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical accounting estimates and judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements are discussed below:

#### *Judgments*

##### **a) Unproven mineral right interests**

The application of the Company's accounting policy for unproven mineral right interests requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of the expenditures is unlikely, the amount capitalized is impaired with a corresponding charge to profit or loss in the period in which the new information becomes available.

##### **b) Title to unproven mineral right interests**

Although the Company has taken steps to verify title to its unproven mineral right interests, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

##### **c) Going concern**

Critical judgement and estimates are applied for the determination that the Company will continue as a going concern for the next year.

#### *Estimates*

##### **a) Share-based payments**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date in which they are granted. Estimating fair values for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The estimate also requires determining the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield, and making assumptions about them. The model and assumptions used by the Company to estimate the fair value of share-based payments are disclosed in Note 8(b).

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) Deferred income tax**

In the year ended September 30, 2016, the Company booked an increase in deferred income tax liability and corresponding deferred income tax expense of \$504,565 (fiscal 2015: \$2,470,360). The Company's deferred income tax liability arises mostly from the difference between the book and tax value of its mineral right interests.

**Subsidiaries and the basis of consolidation**

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies on an entity so as to obtain benefits from its activities, generally, but not in all cases, accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

The financial statements of subsidiaries (Note 1) are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions and balances have been eliminated on consolidation.

Where the Company's interest is less than 100%, the interest attributable to outside shareholders is reflected in non-controlling interest. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

The current non-controlling interest represents a 1.9% (2015: 1.9%) interest in Hidroelectrica de Pasada Rio Rocin SPA.

**Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and highly liquid investments with an original maturity of three months or less, which are readily convertible into a known amount of cash.

**Equipment**

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Equipment items are depreciated over their estimated useful lives on a straight-line basis over 2 to 5 years.

An item of equipment is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive loss.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for equipment, and any changes arising from the assessment are applied by the Company prospectively.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**VAT tax credits**

Expenses incurred by the Company in Chile, including deferred exploration expenses, are subject to a Chilean Value Added Tax ("VAT"). The VAT is not refundable to the Company, but can be used in future to offset amounts due to the Chilean Revenue Service by the Company resulting from VAT charged to clients on future sales. VAT tax credits are included in unproven mineral right interests as they originated from deferred exploration expenses.

**Unproven mineral right interests**

All acquisition costs, exploration and direct field costs are capitalized into intangible assets until the rights to which they relate are placed into production, at which time these deferred costs will be amortized over the estimated useful life of the rights upon commissioning the property, or written-off if the rights are disposed of, impaired or abandoned.

Management reviews the carrying amounts of mineral right interests on a periodic basis and will recognize impairment based upon current exploration results and upon assessment of the probability of profitable exploitation of the rights. Management's assessment of the mineral right's fair value is also based upon a review of other mineral right transactions that have occurred in the same geographic area as that of the rights under review. Administration costs and other exploration costs that do not relate to a specific mineral right are expensed as incurred.

Costs include the cash consideration and the fair value of shares issued on the acquisition of mineral rights. Rights acquired under option or joint venture agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. Proceeds from property option payments received by the Company are netted against the deferred costs of the related mineral rights, with any excess being included in operations.

There may be material uncertainties associated with the Company's title and ownership of its unproven mineral interests. Ordinarily the Company does not own the land upon which an interest is located, and title may be subject to unregistered prior agreements or transfers or other undetected defects.

**Hydroelectric project**

The Company capitalizes all costs, net of any recoveries, of acquiring the rights associated with hydroelectric projects, until the rights to which they relate commence commercial operations, at which time these deferred costs will be amortized over the estimated useful life of the project, or written-off if the rights are disposed of, impaired or abandoned. Acquisition costs include the cash consideration and the fair value of shares issued on the acquisition of hydroelectric project rights.

Management reviews the carrying amounts of hydroelectric project rights annually or when there are indicators of impairment and will recognize impairment based upon assessment of the probability of profitable exploitation of the rights. Management's assessment of the project's fair value is also based upon a review of other hydroelectric project transactions that have occurred in the same geographic area as the project.

Hydroelectric project development costs are expensed as incurred.

**Impairment of non-financial assets**

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of loss and comprehensive loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Management estimates of mineral prices, recoverable reserves, and operating, capital and restoration costs are subject to certain risks and uncertainties that may affect the recoverability of unproven mineral right interests. Although management has made its best estimate of these factors, it is possible that changes could occur in the near term that could adversely affect management's estimate of the net cash flow to be generated from its projects.

**Income taxes**

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets for unused tax losses, tax credits and deductible temporary differences are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity or other comprehensive income (“OCI”) is recognized in equity or OCI and not in the statement of loss and comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

**Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount, which is determined on a cost recovery basis.

**Share-based payments**

Employees (including directors and senior executives) of the Company may receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

In situations where equity instruments are issued for goods or services, the share-based payment is measured at the fair value of the goods and services received. Where the fair value of such goods and services cannot be specifically identified, it is measured at the fair value of the share-based payment.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date the equity is issued.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected in the computation of diluted earnings per share.

**Share capital**

The Company records proceeds from share issuances in share capital, net of issue costs and any tax effects. The fair value of common shares issued as consideration for mineral right interests is based on the trading price of those shares on the TSX-V on the date of agreement to issue shares or other fair value equivalent amount as determined by the Board of Directors. Stock options and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value.

**Basic loss per share**

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. Under this method, the weighted average number of common shares used to calculate the dilutive effect in the statement of loss and comprehensive loss assumes that the proceeds that could be obtained upon exercise of options, warrants and similar instruments would be used to purchase common shares at the average market price during the period. In periods where a net loss is incurred, and the effect of outstanding stock options and warrants would be anti-dilutive, basic and diluted loss per share is the same.

**Financial assets**

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for when there is a significant or prolonged decline in the fair value of that investment below its cost, at which time the impairment is recognized in profit or loss.

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial liabilities**

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Trade and other payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Borrowings are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of the asset until the asset is substantially ready for its intended use. Other borrowing costs are recognized as an expense in the period incurred.

**Impairment of financial assets**

The Company assesses at each date of the statement of financial position whether any indicators exist that the Company's financial assets are impaired.

Assets measured at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Assets classified as available for sale

If an available for sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available for sale are not recognized in profit or loss.

**Reclamation provision**

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

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. Any increase in a provision due solely to passage of time is recognized as interest expense.

**Foreign currency translation**

The functional currency of subsidiaries is the currency of the primary economic environment in which the entity operates, which has been determined to be the Chilean peso. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the period end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the parent entity is the Canadian dollar. The presentation currency of the Company is also the Canadian dollar.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's subsidiaries are translated into the Canadian dollar using exchange rates prevailing at the end of the period. Income and expense items are translated at the average rate for the period. Exchange differences are recognized as the cumulative translation adjustment in other comprehensive income and accumulated in equity.



#### **4. THE VIZCACHITAS PROPERTY**

In 2007, the Company acquired all of the issued and outstanding shares of Vizcachitas Limited, a company that at that time directly and indirectly owned the following assets that comprised a majority interest in the claims making up the Vizcachitas Property (the "Initial Acquisition"):

1. 51% of the shares of Sociedad Legal Minera San José Uno de Lo Vicuña, El Tártaro y Piguchén de Putaendo ("San José SLM"), a Chilean Sociedad Legal Minera which is the owner of the San José mining concessions (the "SJ Concessions");
2. 30 mining rights (the "Mining Rights"), of which 27 were existing exploitation mining concessions encircling the SJ Concessions and 3 were exploration mining concessions in process of constitution (exploration claims); and
3. 5 additional exploitation mining concessions (the "Additional Concessions"), which also encircle the SJ Concessions, and were subject to an option agreement completed in 2010.

The SJ Concessions, the Mining Rights and the Additional Concessions are collectively referred to as the "Property".

All of the Property, with the exception of the SJ Concessions, is subject to NSR royalties of 2% on any surface production and 1% on any underground production. The SJ Concessions are subject to NSR royalties of 1.02% on surface mining and 0.51% on underground mining.

In 2010, the Company completed the consolidation of the Vizcachitas Property through the acquisition from Turnbrook Corporation ("TBC") of all of the issued and outstanding securities of Gemma Properties Group Limited, who indirectly owned 49% of the issued and outstanding shares of the San Jose SLM. With this transaction, the entire resource contained in the Vizcachitas property came under unified ownership.

In 2014, TBC and Turnbrook Mining Limited ("TBML") entered into a subscription agreement whereby TBC subscribed for common shares in the capital of TBML for consideration consisting of all of the common shares in the capital of the Company owned by TBC at that date. As at September 30, 2016, TBML owns a total of 113,136,144 or approximately 51.9% of the common shares of the Company (Notes 6 and 8). TBC is the controlling shareholder of TBML, and TBC no longer has direct ownership of any of the Company's common shares.

**LOS ANDES COPPER LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016 and 2015**  
(Expressed in Canadian Dollars)

**5. UNPROVEN MINERAL RIGHT INTERESTS**

As at September 30, 2016, the Company had the right to a total of 68 exploration concessions and 38 exploitation concessions located in Region V, Chile. Title to mining right interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining right interests. The Company has investigated title to all of its mineral right interests and, to the best of its knowledge, all of its mineral right interests are in good standing.

	Total costs to September 30, 2014	Costs incurred in year ended Sept. 30, 2015	Total costs to Sept. 30, 2015	Costs incurred in year ended September 30, 2016	Total costs to September 30, 2016
<b>VIZCACHITAS</b>					
Acquisition costs	54,562,243	-	54,562,243	-	54,562,243
Water rights	4,122,611	-	4,122,611	-	4,122,611
VAT tax credits	1,491,600	121,142	1,612,742	212,024	1,824,766
<b>Deferred exploration</b>					
Automobile and travel	97,863	20,424	118,287	67,638	185,925
Assaying	139,658	-	139,658	47,717	187,375
Camp rehabilitation, maintenance and security	939,748	179,214	1,118,962	382,139	1,501,101
Core handling and storage	32,914	-	32,914	-	32,914
Drilling	3,477,236	-	3,477,236	531,485	4,008,721
Equipment and equipment rental	434,013	128	434,141	77,958	512,099
Exploration administration	1,299,153	262,152	1,561,305	378,304	1,939,609
Food and accommodation	180,525	7,489	188,014	50,796	238,810
Geological consulting	480,689	110,796	591,485	336,190	927,675
Other	66,957	-	66,957	5,352	72,309
Property & surface rights, taxes & tenure fees	872,748	119,996	992,744	135,306	1,128,050
Road repairs	34,105	-	34,105	-	34,105
Studies and other consulting	1,475,822	2,976	1,478,798	9,820	1,488,618
Subcontractors	1,269,366	-	1,269,366	-	1,269,366
Supplies	535,485	1,306	536,791	29,987	566,778
Sustainable development	29,501	-	29,501	-	29,501
	11,365,783	704,481	12,070,264	2,052,692	14,122,956
Exchange rate differences	(2,511,899)	465,964	(2,045,935)	873,407	(1,172,528)
	\$ 69,030,338	\$ 1,291,587	\$ 70,321,925	\$ 3,138,123	\$ 73,460,048

Included within unproven mineral right interests are:

- a) Water rights to a permanent, continuous and consumptive use of 250 liters per second flow from the Aconcagua River, located near the Vizcachitas Property, and
- b) VAT tax credits available in Chile, originating from deferred exploration expenses.

## **6. THE ROCIN RIVER HYDROELECTRIC PROJECT**

In 2014, the Company acquired from TBML non-consumptive water rights over a section of the Rocin River, Putaendo, Fifth Region, Chile, together with the engineering and other studies and reports for the development of a hydroelectric facility (the “Hydroelectric Facility”).

The Rocin River water rights and associated studies are indirectly held by the Company’s subsidiary Rocin SPA (“Rocin”). In 2014, Rocin entered into an agreement (the “Agreement”) with Icafal Inversiones S.A. (“Icafal”) for the development and financing of the Hydroelectric Facility with an expected installed capacity of 28 to 30 MW on the Rocin River. Rocin in turn incorporated a subsidiary (the “Rocin Subsidiary”) to own, develop, build and operate the Hydroelectric Facility. As of September 30, 2016, 1.90% of the issued and outstanding shares of the Rocin Subsidiary had been sold to various parties for proceeds of US\$250,000.

Icafal is the investment subsidiary of Icafal S.A., one of the leading engineering and construction conglomerates in Chile. The main terms of the Agreement are:

1. Rocin agreed to incorporate the Rocin Subsidiary to own, develop, build and operate the Hydroelectric Facility and transfer its Rocin River water rights and associated studies to the Rocin Subsidiary;
2. Icafal agreed to make an investment of US\$7.5 million (the “Total Investment”) in shares of the Rocin Subsidiary;
3. US\$2 million of the Total Investment is currently being used to finance the pre-construction development of the Hydroelectric Facility;
4. The remaining US\$5.5 million will be used to partially finance construction, and will be invested by Icafal once the Rocin Subsidiary has obtained all required permits and construction and other material contracts are in place;
5. Icafal will be entitled to a 36.3% interest in the Rocin Subsidiary after it has made the Total Investment;
6. The Rocin Subsidiary and Icafal have agreed to enter into a fixed price contract for the initial development of the Hydroelectric Facility.

## **7. BORROWINGS**

- a) On February 1, 2016, Los Andes received an unsecured US\$200,000 working capital loan from TBML, subject to an interest rate of 0.5% per month compounded annually not in advance, both before and after maturity or default. On July 7, 2016, the Company made a partial repayment of US\$15,000 in respect of this loan. At September 30, 2016, the TBML loan and accrued interest amounted to \$253,120. The TBML loan was repaid subsequent to year end (Note 15(b)).
- b) On May 20, 2016, Compañía Minera Vizcachitas Holding (“CMVH”), a wholly-owned subsidiary of Los Andes, received a loan of 2,695.89 Chilean Unidades de Fomento (approximately \$131,300 on the date of grant of the loan) from an arms-length party. The loan was originally due on the thirtieth day after May 20, 2016 but the maturity date was automatically extended in subsequent periods of thirty days each, unless the lender notified CMVH otherwise, with notice to be provided at least ten days prior to the next loan maturity date. The loan was subject to an annual interest rate of 8% on the total amounts outstanding, payable at the time of repayment of the loan principal. Additional penalty charges applied if the loan was not paid within the prescribed time frame. At September 30, 2016, this loan and accrued interest amounted to \$142,347. The loan was repaid subsequent to year end (Note 15(b)).

**7. BORROWINGS (continued)**

- c) On July 1, 2016, CMVH received a loan of 1,300 Chilean Unidades de Fomento (approximately \$49,786 on the date of grant of the loan) from an arms-length party. The loan was due on the sixtieth day after July 1, 2016 and the maturity date was automatically extended in subsequent periods of sixty days each, unless the lender notified CMVH otherwise, with notice to be provided at least ten days prior to the next loan maturity date. The loan was subject to an annual interest rate of 7% on the total amounts outstanding, payable at the time of repayment of the loan principal. Additional penalty charges applied if the loan was not paid within the prescribed time frame. At September 30, 2016, this loan and accrued interest amounted to \$68,098. The loan was repaid subsequent to year end (Note 15(b)).
- d) On September 15, 2016, CMVH received a loan of US\$7,000 (approximately \$9,088 on the date of grant of the loan) from a Company director. The loan was due on thirtieth day after September 15, 2016 and the maturity date was automatically extended in subsequent periods of sixty days each, unless the lender notified CMVH otherwise, with notice to be provided at least ten days prior to the next loan maturity date. The loan was subject to an annual interest rate of 8% on the total amounts outstanding, payable at the time of repayment of the loan principal. Additional penalty charges applied if the loan was not paid within the prescribed time frame. At September 30, 2016, this loan and accrued interest amounted to \$9,317. The loan was repaid subsequent to year end (Note 15(b)).

**8. EQUITY**

**Capital**

- a) Share capital

Authorized share capital consists of an unlimited number of common shares without par value.

On November 26, 2015, Los Andes closed the second tranche of a financing of \$305,569 in total proceeds from a non-brokered private placement. A total of 1,388,950 shares were issued at a price of \$0.22 per share, of which 1,333,950 shares were issued to TBML.

On September 29, 2015, Los Andes closed the first tranche of a financing of \$1,469,462 in total proceeds, including \$1,324,080 in gross proceeds from a non-brokered private placement and \$145,382 pursuant to shares for debt settlement agreements with an insider shareholder and four directors of the Company. All shares were issued at a price of \$0.22 per share. A total of 6,018,545 shares were issued to TBML, in accordance with the terms of the private placement, and a total of 660,827 shares were issued to Zeitler Holdings Corp. ("ZHC", the management company of the Chairman of Los Andes) and four directors of Los Andes in full and final settlement of amounts owing to each of ZHC and the four directors. In accordance with the settlement agreements, \$60,332 of fees owing to the Los Andes directors and \$85,050 owing to ZHC were settled through the issue of the 660,827 settlement shares.

On January 27, 2015, Los Andes closed a financing of \$2,102,587 in total proceeds, including \$1,450,000 in gross proceeds from a non-brokered private placement and \$652,587 pursuant to shares for debt settlement agreements with two insider shareholders of the Company. All shares were issued at a price of \$0.22 per share. A total of 6,590,909 shares were issued to TBML, in accordance with the terms of the private placement, and a total of 2,966,306 shares were issued to TBML and ZHC in full and final settlement of amounts owing to each of TBML and ZHC. In accordance with the settlement agreements, \$608,487 of interest and principal owing to TBML pursuant to loans made in fiscal 2014 by TBML to Los Andes, and \$44,100 owing to ZHC were settled through the issue of the 2,966,306 settlement shares.

**8. EQUITY (continued)**

b) Equity reserve

Equity reserve consists of the accumulated fair value of common share options and share purchase warrants recognized as share-based payments and share purchase warrants issued on acquisitions of unproven mineral rights.

During the year ended September 30, 2015, the Company:

- Amended the vesting terms of 500,000 share options granted in June 2013 to a consultant company controlled by a current officer of the Company (Note 9). Prior to the amendment, 100,000 share options had vested. A further 150,000 share options then vested as a result of the amended terms. The share options have an exercise price of \$0.50 per share to June 1, 2018. The weighted average fair value of these options was estimated at \$0.1678 per option at the grant date based on the Black-Scholes option-pricing model.
- Granted an aggregate of 175,000 share options to an employee and to a consultant company controlled by an officer of the Company (Note 9). The options vested on grant and have an exercise price of \$0.50 per share to May 12, 2020. The weighted average fair value of these options was estimated at \$0.0796 per option at the grant date based on the Black-Scholes option-pricing model.
- Granted 750,000 share options to a consultant company controlled by a director of the Company (Note 9). The options vested on grant and have an exercise price of \$0.50 per share to September 1, 2020. The weighted average fair value of these options was estimated at \$0.0599 per option at the grant date based on the Black-Scholes option-pricing model.

No options were granted in the year ended September 30, 2016. 150,000 options granted to a consultant company controlled by a current officer of the Company in June 2013 vested in the current year, upon the officer meeting performance milestones set by the Company.

The assumptions used by the Company to price share options vested in the year ended September 30, 2016 were the following:

- |   |           |
|---|-----------|
| • Weighted average share price:             | \$0.50    |
| • Weighted average exercise price:          | \$0.50    |
| • Dividend yield:                           | 0%        |
| • Weighted average risk-free interest rate: | 0.42%     |
| • Pre-vest forfeiture rate:                 | 0%        |
| • Expected life (years):                    | 2.4 years |
| • Weighted average expected volatility:     | 74.59%    |

The assumptions used by the Company to price share options vested in the year ended September 30, 2015 were the following:

- |   |         |
|---|---------|
| • Weighted average share price:             | \$0.50  |
| • Weighted average exercise price:          | \$0.50  |
| • Dividend yield:                           | 0%      |
| • Weighted average risk-free interest rate: | 0.90%   |
| • Pre-vest forfeiture rate:                 | 0%      |
| • Expected life (years):                    | 5 years |
| • Weighted average expected volatility:     | 80.31%  |

**LOS ANDES COPPER LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016 and 2015**  
(Expressed in Canadian Dollars)

**8. EQUITY (continued)**

A compensation expense of \$2,880 associated with vested options was recognized during the year ended September 30, 2016 (2015: 84,037).

c) Share options

The continuity of the number of share options outstanding is summarized as follows:

	Number of Options	Weighted Average Exercise Price (\$)
At start of the period	1,425,000	0.50
Granted	-	-
At end of period	1,425,000	0.50
Vested and exercisable	1,325,000	0.50

At September 30, 2016, the weighted average exercise price of options outstanding was \$0.50 (September 30, 2015: \$0.50) and their weighted average remaining contractual life was 3.10 years (September 30, 2015: 4.10 years)

**9. RELATED PARTY TRANSACTIONS**

a. Trading Transactions

The Company's related parties consist of a company controlled by a Company director, a company controlled by the Company's Chairman, a company controlled by the Company's President and Chief Executive Officer ("CEO"), a company controlled by the Company's Chief Financial Officer ("CFO") and a company controlled by the Company's former Corporate Secretary.

	Nature of Transaction
Karlsson Corporation	Geological Consulting
Kasheema International Ltd.	Management
Zeitler Holdings Corp	Management
Michael J. Kuta Law Corporation	Legal Services
Delphis Financial Strategies Inc	Management

The Company incurred the following fees in the normal course of operations with companies controlled by key management and/or with directors. Transactions have been measured at the exchange amount which is determined on a cost recovery basis.

**LOS ANDES COPPER LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016 and 2015**  
(Expressed in Canadian Dollars)

**9. RELATED PARTY TRANSACTIONS (continued)**

	For the years ended September 30,	
	2016	2015
Management legal fees	352,324	311,238
Geological fees	119,092	41,971
Directors' fees	21,500	27,000
Legal services	-	44,940
	492,916	425,149

Included in trade and other payables as at September 30, 2016 is \$362,892 (September 30, 2015: \$70,630) owing to directors and officers of the Company.

Amounts due to related parties are unsecured, non-interest bearing and due on demand.

b. Key Management Compensation

The remuneration of members of key management during the years ended September 30, 2016 and 2015 is as follows:

	For the years ended September 30,	
	2016	2015
Management, consulting, geological and legal fees	471,416	398,149
Share-based compensation	2,880	33,124
	474,296	431,273

**10. FINANCIAL AND CAPITAL RISK MANAGEMENT – FINANCIAL INSTRUMENTS**

Financial risk management

The Company's activities expose it to a variety of financial risks, which include liquidity risk, interest rate risk, currency risk and credit risk.

a) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through close controls on cash requirements and regular updates to short-term cash flow projections, and by raising additional capital as required from time to time.

**10. FINANCIAL AND CAPITAL RISK MANAGEMENT – FINANCIAL INSTRUMENTS (continued)**

The Company's financial liabilities fall due as indicated in the following table:

At September 30, 2016	Total	Less than 1 year	Between 1 and 2	Between 2 and 5	Over 5 years
			years	years	
Trade and other payables	1,352,366	1,352,366	-	-	-
Borrowings	472,882	472,882	-	-	-
	1,825,248	1,825,248	-	-	-

  

At September 30, 2015	Total	Less than 1 year	Between 1 and 2	Between 2 and 5	Over 5 years
			years	years	
Trade and other payables	350,948	350,948	-	-	-
	350,948	350,948	-	-	-

b) Currency risk

The Company faces foreign exchange risk exposures arising from transactions denominated in foreign currencies. The Company's main foreign exchange risks arise with respect to the Chilean peso ("CLP") and to a lesser degree, the U.S. dollar. The Company has elected not to actively manage this exposure at this time. Notwithstanding, the Company continuously monitors this exposure to determine if any mitigation strategies become necessary. Based on the balances as at September 30, 2016, a 1% increase (decrease) in the Canadian dollar/CLP or Canadian/U.S. dollar exchange rates on that day would have resulted in an increase or decrease of approximately \$135,408 in the Company's net loss and an increase or decrease of approximately \$234,599 in other comprehensive loss.

c) Interest Rate Risk

Included in the results of operations of the Company are interest income on U.S. dollar, and Canadian dollar cash. The Company receives interest on cash based on market interest rates. As at September 30, 2016, with other variables unchanged, a 1% change in Prime rates would have had no material impact on the Company's net loss and no effect on other comprehensive loss.

d) Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. Cash is maintained with financial institutions in Canada and Chile and is redeemable on demand. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

Capital Risk Management

The Company's capital structure is comprised of working capital (current assets minus current liabilities) and equity. The Company's objectives when managing its capital structure is to maintain financial flexibility to preserve the Company's access to capital markets and its ability to meet its financial obligations. The Company's management is responsible for capital management. This involves the use of corporate forecasting models, which facilitate analysis of the Company's financial position including cash flow forecasts to determine the future capital management requirements. In preparing its budgets and corporate forecasting models, the Company considers operating commitments imposed by its subsidiaries and the stability of the global capital markets.

Subsequent to September 30, 2016, the Company closed a private placement to continue development of the Vizcachitas and Rocín projects and to fund on-going operations (Note 15(a)).



**10. FINANCIAL AND CAPITAL RISK MANAGEMENT – FINANCIAL INSTRUMENTS (continued)**

Capital management is undertaken to ensure a secure, cost-effective supply of funds and that the Company’s corporate and project requirements are met.

Financial instruments by Category

The Company’s financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables and borrowings. Financial instruments are initially recognized at fair value with subsequent measurement depending on classification as described below. Classification of financial instruments depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company’s designation of such instruments.

The fair value of cash and cash equivalents, trade and other receivables, trade and other payables and borrowings approximate their carrying values due to the short-term maturities of these financial instruments.

The Company is required to make disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability directly or indirectly;
- Level 3 – Inputs that are not based on observable market data.

The Company has made the following classifications for its financial instruments:

	2016	2015
	\$	\$
Loans and receivables		
Cash	9,663	1,162,515
	9,663	1,162,515
Other liabilities at amortized cost		
Trade and other payables	1,352,366	350,948
Borrowings	472,882	-
	1,825,248	350,948

**LOS ANDES COPPER LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016 and 2015**  
(Expressed in Canadian Dollars)

**11. SEGMENTED INFORMATION**

At September 30, 2016, the Company has three reportable operating segments: mineral exploration, hydroelectric project and corporate, and has operations in two geographical areas, Canada and Chile.

**Operating segments**

	Years ended September 30,	
	2016	2015
Net loss:		
Mineral exploration	\$ (516,504)	\$ (2,483,846)
Hydroelectric project	(224,158)	(212,710)
Corporate	(463,272)	(631,582)
	\$ (1,203,934)	\$ (3,328,138)
	September 30,	September 30,
	2016	2015
Assets:		
Mineral exploration	\$ 73,623,077	\$ 70,726,202
Hydroelectric project	8,250,908	8,251,099
Corporate	18,027	932,217
	\$ 81,892,012	\$ 79,909,518

**Geographic segments**

	Years ended September 30,	
	2016	2015
Net loss:		
Canada	\$ (463,272)	\$ (631,582)
Chile	(740,662)	(2,696,556)
	\$ (1,203,934)	\$ (3,328,138)
	September 30,	September 30,
	2016	2015
Assets:		
Canada	\$ 18,027	\$ 932,217
Chile	81,873,985	78,977,301
	\$ 81,892,012	\$ 79,909,518



**LOS ANDES COPPER LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016 and 2015**  
(Expressed in Canadian Dollars)

**13. INCOME TAXES (continued)**

The Company's unrecognized deductible temporary differences and unused tax losses consist of the following amounts:

	2016	2015
	\$	\$
Non-capital losses	8,432,000	7,713,000
Share issue costs	-	3,139
Mineral properties	998,913	998,913
Capital losses	2,411,861	2,411,861
Unrecognized deductible temporary differences	11,842,774	11,126,913

At September 30, 2016, the Company had non-capital operating losses of approximately \$7,202,000 (2015: \$6,718,000) and had resource related amounts available, subject to certain restrictions, for deduction against future taxable income in Canada. The operating losses expire as follows:

	\$
2026	278,000
2027	458,000
2028	997,000
2029	819,000
2030	793,000
2031	1,040,000
2032	630,000
2033	516,000
2034	607,000
2035	580,000
2036	484,000
Total	7,202,000

The Company also has Chilean estimated net operating loss carry-forwards for tax purposes of approximately \$1,230,000 (2015: \$869,000). These losses carry-forward indefinitely.

**14. COMMITMENTS AND CONTINGENCIES**

One of the Company's Chilean subsidiaries has entered into a lease agreement for the lease of office premises in Santiago, Chile. The commencement date of the lease was July 1, 2012, for an initial two year term, which has been extended to June 30, 2017. The share of basic rent commitments for the remaining term of the contract is approximately \$37,914.

**15. SUBSEQUENT EVENTS**

Subsequent to September 30, 2016:

- a) On December 8, 2016, Los Andes closed the first tranche of a non-brokered private placement raising \$8,040,000. The Company issued 26,800,000 units (the "Units") priced at \$0.30 per Unit. Each Unit consists of one common share of the Company (a "Unit Share") and one detachable share purchase warrant (a "Warrant") entitling the holder thereof to purchase one additional common share of the Company (a "Warrant Share") at a price of \$0.45 per Warrant Share for a period of three years. The Unit Shares, Warrants and Warrant Shares are subject to a hold period expiring on April 9, 2017.
- b) The Company repaid the principal and accrued interest owed on the loans described in Note 7 (a), (b), (c) and (d).