

# **SALAZAR RESOURCES LIMITED**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED JUNE 30, 2019**

This discussion and analysis of financial position and results of operation is prepared as at August 29, 2019 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2019 of Salazar Resources Limited (the "Company" or "Salazar"). The following disclosure and associated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars.

### **Forward-Looking Statements**

This MD&A contains certain statements that may constitute "forward-looking statements". Forward-looking statements include but are not limited to, statements regarding future anticipated exploration programs and the timing thereof, and business and financing plans. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward looking statements as a result of various factors, including, but not limited to, the Company's ability to identify one or more economic deposits on its properties, to produce minerals from its properties successfully or profitably, to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

Historical results of operations and trends that may be inferred from this MD&A may not necessarily indicate future results from operations. In particular, the current state of the global securities markets may cause significant reductions in the price of the Company's securities and render it difficult or impossible for the Company to raise the funds necessary to continue operations.

All of the Company's public disclosure filings, including its most recent management information circular, material change reports, press releases and other information, may be accessed via [www.sedar.com](http://www.sedar.com) and readers are urged to review these materials, including the technical reports filed with respect to the Company's mineral properties.

### **Company Overview**

The Company's principal business activity is the acquisition, exploration and development of mineral properties in Ecuador. The Company presently has no proven reserves and, on the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. Consequently the Company considers itself to be an exploration stage company.

The Company is a reporting issuer in British Columbia, Alberta, Ontario and Nova Scotia. The Company's shares trade on the TSX Venture Exchange ("TSXV") under the symbol "SRL" as a Tier 1 mining issuer and on the Frankfurt Exchange under the symbol "CCG". The Company's corporate head office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia.

The Company's main activities have been the ongoing exploration activities on its Curipamba Project in Ecuador. In fiscal 2016 the Company entered into a royalty agreement and sold a 1% net smelter royalty ("NSR") for US \$2,375,000. A further 1% NSR was sold for US \$2,375,000 in fiscal 2017. The Company also entered into an option agreement (the "Curipamba Option") with Adventus Mining Corporation ("Adventus") to option a 75% interest in the Curipamba Project with Adventus funding costs of US \$25,000,000 (the "Earn-In") over five years. Under the Curipamba Option Adventus has agreed to provide the Company with US \$250,000 per year advance payments until achievement of commercial production, to a maximum of US \$1,500,000. As operator, the Company also receives a 10% management fee on certain expenditures, with a prescribed minimum annual amount of US \$350,000. Adventus has notified the Company that it has incurred or funded costs totalling US \$11,883,628 as at June 30, 2019 towards the Earn-In.

Upon achievement of commercial production, Adventus will receive 95% of the dividends from the Curipamba Project until its aggregate investment, including the US \$25,000,000, has been recouped minus the approximate Company carrying value of US \$18,200,000 when the Curipamba Option was signed, after which dividends will be shared on a pro-rata basis according to their respective ownership. In certain circumstances where project development is delayed post earn-in, Adventus' ownership position could be diluted.

The Company and Adventus have also entered into an operation alliance agreement (the "Alliance") to jointly explore Ecuador for zinc rich assets. The venture, Minera Dos Gemas M2G S.A. ("Dos Gemas"), was formed in 2017 and is currently owned 80% by Adventus and 20% by the Company with Adventus funding all activities incurred up to a construction decision. As operator the Company receives a 10% operator's fee on certain expenditures incurred, subject to an annual maximum fee of US \$200,000 on costs pertaining to surface rights acquisitions.

In March 2018 the Company and Adventus agreed to transfer the Pijili Project to the Alliance upon completion by Adventus of the following consideration:

- (i) payment of US \$150,000 cash, of which US \$100,000 has been received by the Company as of the date of this MD&A and the remaining US \$50,000 is due upon official transfer of the Pijili Project to the Alliance;
- (ii) on July 17, 2018 the Company received 2,536,232 Adventus common shares; and
- (iii) funding by Adventus of a US \$1,000,000 exploration budget on the Pijili Project by September 28, 2020. Adventus has notified the Company that, as at June 30, 2019, it has incurred or funded costs totalling US \$2,248,215 towards the exploration budget.

The Company will officially transfer the Pijili Project to Dos Gemas after August 2019, due to a two-year transfer restriction under Ecuadorian Mining Law.

In May 2018 the Company and Adventus agreed to the transfer of the Santiago Project to the Alliance upon completion by Adventus of the following:

- (i) cash payments totalling US \$75,000 which has now been paid to the Company as of the date of this MD&A;
- (ii) on July 17, 2018 the Company received 1,268,116 Adventus common shares; and
- (iii) funding by Adventus of a US \$500,000 exploration budget on the Santiago Project by May 22, 2020. As at June 30, 2019 Adventus had funded US \$663,971 towards the exploration budget.

With the completion of all of the consideration the Company transferred the Santiago Project to the Alliance in July 2019. The Santiago Project is subject to a 1.5% NSR that can be bought out for US \$1,000,000 as well as a 4% net profits interest royalty that is in favour of INV Metals Inc.

On May 2, 2019 the Company announced the results of the Preliminary Economic Assessment ("PEA") prepared for the Curipamba Project and on June 14, 2019 the Company filed a National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("NI 43-101") technical report for the PEA. The report is titled "*Technical Report on the Preliminary Economic Assessment for the Curipamba Project - El Domo Deposit, Central Ecuador - NI 43-101 Report*" (the "Report"). See "Properties Update Curipamba Project".

We encourage readers to review the Report which can be downloaded under the Company's profile on [www.sedar.com](http://www.sedar.com).

## **Properties Update**

### ***Curipamba Project***

#### *Agreements*

On April 5, 2016 the Company entered into a letter agreement to sell a 2% NSR in its Curipamba Project for US \$4,750,000. On July 18, 2016 the Company and RCF VI SRL LLC ("RCF SRL"), an affiliate of Resources Capital Fund VI L.P., entered into a royalty agreement whereby the Company sold to RCF SRL a 1% NSR for US \$2,375,000. On April 19, 2017 the Company closed on the sale of the remaining 1% NSR for a further US \$2,375,000.

On October 13, 2017 the Company closed on the Curipamba Option whereby Adventus may earn a 75% interest in the Company's Curipamba Project by funding the Earn-In. A feasibility study is expected to be completed within three years, after which Adventus is required to fund 100% of the development and construction expenditures to commercial production.

During the Curipamba Option period Adventus will pay the Company a 10% management fee, with a prescribed minimum annual amount of US \$350,000. In addition, Adventus will provide the Company with a US \$250,000 per year advance payment until achievement of commercial production, to a maximum cumulative total of US \$1,500,000. The advance is to be paid preferentially to Adventus upon start of commercial production.

#### *Preliminary Metallurgical Results for El Domo*

On April 15, 2019 the Company and Adventus announced preliminary metallurgical results from composites which were meeting or exceeding grades and recoveries derived from historical metallurgical testwork.

For this testwork, Adventus adopted a strategy similar to the design of metallurgical composites from the historical PEA study completed for Salazar (see Salazar January 22, 2015 news release). Metallurgical composite samples were designed to produce commercial concentrates based on the relative abundance of base and precious metals in the feed material supplied from 2018 Phase 1 infill drilling at El Domo VMS deposit that would be both spatially and volumetrically representative of the current open-pit constrained Mineral Resource estimate that has been classified in accordance with CIM (2016) Definition Standards - Disclosure for Mineral Projects.

Sample material was derived from the drill core assay coarse reject material that was vacuum sealed with a nitrogen purge after laboratory sample preparation and stored securely at Bureau Veritas ("BV") facilities in Quito, Ecuador. A total of 1,512 kilograms were shipped from storage to Base Metallurgical Laboratories Ltd. ("BML"), Kamloops, British Columbia, Canada, an independent laboratory, which is under contract for the metallurgical work. Roscoe Postle and Associates Inc. ("RPA") is under contract to manage the metallurgical work and integrate its results into the PEA.

Conventional rougher and cleaner flotation testing was completed on the composites and the selected optimum metallurgical settings for the composites were taken to locked cycle testing ("LCT"), which simulates the metal recovery process. LCT indicates the expected metallurgical performance from the test materials that could result in the production of commercial concentrate material. Selected LCT results are presented below.

Composite	Product	Weight (%)	Assay					Contained Metal				
			Cu (%)	Pb (%)	Zn (%)	Au (g/t)	Ag (g/t)	Cu (kt)	Pb (kt)	Zn (kt)	Au (koz)	Ag (koz)
Mixed Composite (LCT 49)	Cu Con	5.31	24.70	2.91	8.00	340.00	22.17	79.17	66.50	14.95	41.64	43.92
	Zn Con	4.29	3.12	0.72	53.40	270.00	13.45	8.07	13.28	80.54	26.69	21.51
	Flotation Feed	100.00	1.66	0.23	2.84	43.36	2.68	100.00	100.00	100.00	100.00	100.00
Mixed Composite (LCT 52)	Cu Con	6.10	22.40	2.90	11.50	320.00	23.60	86.30	85.50	26.10	50.60	56.40
	Zn Con	3.50	1.38	0.32	53.80	210.00	6.90	3.10	5.50	70.30	19.10	9.50
	Flotation Feed	100.00	1.58	0.20	2.69	39.00	2.55	100.00	100.00	100.00	100.00	100.00
Copper Composite (LCT 59)	Cu Con	8.95	21.40	0.31	3.40	110.00	4.09	88.25	68.62	73.44	50.20	26.55
	Flotation Feed	100.00	2.17	0.04	0.41	20.00	1.40	100.00	100.00	100.00	100.00	100.00

The LCT results indicate a significant improvement in the metallurgical performance in comparison to previously released metallurgical results by Salazar (see February 25, 2014 news release). The improvements to the metallurgical performance are the result of a different approach with respect to conventional flotation processes by rejecting more gangue material in the initial rougher stages from the source feed prior to commencing selective flotation to produce both copper and zinc concentrates. Details of the metallurgical testwork and the flowsheet are available in the PEA.

The metallurgical information has been reviewed and approved by Avakash Patel, P.Eng., Vice President - Metallurgy and Processing, RPA, a "Qualified Person" as defined in NI 43-101, is independent of Adventus and the Company, and has been involved in the planning, observation and reporting all metallurgical test work.

*Preliminary Economic Assessment for El Domo*

On May 2, 2019 the Company announced results of a PEA for El Domo in which the Mineral Resource estimate for El Domo has been updated. Details of the PEA are discussed elsewhere in this MD&A. **All dollar figures referred to by the PEA are in US Dollars.** A summary of the results is as follows:

US \$M unless otherwise stated	PEA Base Case	-10% Pricing	+10% Pricing	Long-term Consensus Forecast <sup>(3)</sup>	Spot Prices as of April 30, 2019
After-Tax NPV (\$M, 8% discount rate) <sup>(2)</sup>	<b>\$288</b>	\$225	\$342	\$330	\$271
After-Tax IRR (%) <sup>(2)</sup>	<b>40%</b>	35%	45%	44%	39%
First 6 Years of After-Tax Cashflow (\$M)	<b>\$449</b>	\$392	\$500	\$488	\$434
Initial Capital Cost (\$M, includes refundable VAT) <sup>(4)</sup>			<b>\$185</b>		
Life of Mine (“LOM”) Sustaining Capital Cost (\$M)			<b>\$105</b>		
Total Capital Cost (\$M)			<b>\$289</b>		
C1 Cost (\$/lb CuEq, see below production) <sup>(5)</sup>	<b>\$0.96</b>	\$0.94	\$0.98	\$0.98	\$0.91
Payback Period (years)			<b>Approximately 2 years</b>		
Nominal processing capacity (tpd)			<b>1,750</b>		
LOM CuEq Head Grade over 15 years			<b>4.9%</b>		
Average annual payable production (Years 1 -14)			Cu = 8,495 t Au =24,433 oz Zn = 10,831 t Ag = 558,160 oz Pb = 564 t CuEq = ~19,000 t		
Metal prices assumed	<b>\$3.15/lb Cu</b>	\$2.84/lb Cu	\$3.47/lb Cu	\$3.38/lb Cu	\$2.91/lb Cu
	<b>\$1,350/oz Au</b>	\$1,215/oz Au	\$1,485/oz Au	\$1,436/oz Au	\$1,285/oz Au
	<b>\$1.15/lb Zn</b>	\$1.04/lb Zn	\$1.27/lb Zn	\$1.22/lb Zn	\$1.33/lb Zn
	<b>\$18.00/oz Ag</b>	\$16.20/oz Ag	\$19.80/oz Ag	\$19.80/oz Ag	\$14.91/oz Ag
	<b>\$1.00/lb Pb</b>	\$0.90/lb Pb	\$1.10/lb Pb	\$1.00/lb Pb	\$0.88/lb Pb

*Notes:*

- (1) Unless otherwise noted, all currencies are reported in US dollars on a 100% basis
- (2) Assumes an 18-month construction period as the basis for the internal rate of return (“IRR”) and net present value (“NPV”) calculations
- (3) Long-term, consensus metal forecasting has been provided by RPA
- (4) Capital cost estimates used for the PEA are based off benchmarking and not engineering design
- (5) C1 Cash Cost is net of direct operating costs and royalties

*Exploration Activities*

The Company’s principal asset, which has been the focus of its work programs, is the Curipamba Project where the precious metals rich El Domo VMS deposit has been discovered.

At the end of January 2018, a 18,000 metre drill program commenced at the Curipamba Project with two drill rigs working for most of the year. One drill rig worked to complete infill and definition drilling within the Whittle starter open-pit to collect material for a metallurgical program completed in the second half of 2018. The second drill rig primarily tested targets proximal to El Domo.

In February 2019 Roscoe Postle and Associates Inc. (“RPA”) was engaged to produce a Preliminary Economic Assessment (“PEA”) for the Curipamba Project that will include a Mineral Resource update with all 2018 drilling results. RPA was also retained to conduct additional engineering work including but not limited to overseeing the ongoing metallurgical work at Base Metallurgical Laboratories Ltd. (“BML”), Kamloops, British Columbia, Canada, an independent laboratory.

An update to the Mineral Resource estimate for El Domo has been completed as part of the PEA. The updated, open pit constrained, Mineral Resource estimate for El Domo has an effective date of May 2, 2019 and is supported on

information provided from 309 core boreholes, totalling 60,449 metres, completed between 2007 and 2018. The Measured Mineral Resources for El Domo total 1.4 million tonnes grading 1.92% copper, 0.37% lead, 3.52% zinc, 3.75 g/t gold and 58 g/t silver. The Indicated Mineral Resources for El Domo total 7.5 million tonnes grading 2.02% copper, 0.26% lead, 2.81% zinc, 2.33g/t gold and 49 g/t silver. The Inferred Mineral Resources for El Domo total 1.3 million tonnes grading 1.52% copper, 0.20% lead, 2.25% zinc, 1.83 g/t gold and 42 g/t silver. Details of the updated Mineral Resource are discussed elsewhere in this MD&A.

Additional exploration drill holes are planned for 2019 at the Curipamba Project after completion of a MobileMT airborne geophysical survey, was expected to be completed by mid-2019, but work continues and completion is now expected by fall of 2019. Following the processing of acquired geophysical data, a detailed target generation initiative will commence, and diamond drills will be deployed to test newly developed exploration targets. Some drill targets may require access agreements by land owners. Drill programs are subject to receipt of water permits, which are expected to be received within the next few months. In the event any of these permits are not received when required, alternative sources for importing water to support the drilling are being investigated.

#### *Infill Drilling Results*

The first phase of the infill drilling program commenced in early March 2018 within the Whittle starter open-pit area by decreasing drill spacing, which also generated material for a planned metallurgical program that would be used in a future engineering study. After successful completion of the first phase of infill drilling, a second, optimized phase commenced in September 2018 focusing on the northern portion of the open-pit area. Overall, drilling results confirmed the quality of the semi-massive to massive sulphide mineralization. All infill and exploration drilling results that have been previously disclosed, including CURI-240 to CURI-337, can be reviewed in detail on the Company's website at [www.salazarresources.com](http://www.salazarresources.com).

#### *Other Results*

In the Sesmo area, technical staff conducted a thorough assessment of the 2018 drill holes due to the subtle nature of mineralization in order to relate their observations back to study positive assay results from CURI-254, CURI-254A, and CURI-274 (see April 30, 2018 and September 6, 2018 news releases). Several drill holes were selected for resampling including CURI-258, CURI-263, CURI-267 and CURI-271; unfortunately, except for some geochemically anomalous narrow intervals, no significant results have been returned. Subsequent drill holes CURI-307, CURI-308, CURI-313, and CURI-321 at the main showing similarly returned only geochemically anomalous narrow intervals, and no significant results. Technical staff continues their assessment of this interesting target area through prospecting, geological mapping, and 2019 airborne geophysical survey results to further enhance future targeting.

#### *Technical Information Quality Control & Quality Assurance*

The Curipamba project work program is being managed and reviewed by Vice President Exploration for Adventus, Jason Dunning, M.Sc., P.Geo., a Qualified Person within the meaning of NI 43-101. Salazar staff collect and process samples that are securely sealed and shipped to Bureau Veritas ("BV") in Quito for sample preparation that includes crushing and milling to prepare pulps that are then split for shipment to their facility in Lima, Peru for analysis. All assay data have undergone internal validation of QAQC; noting there is an established sampling control program with blind insertion of assay blanks, certified industry standards and sample duplicates for the Curipamba project. A QAQC program is also in place at BV and includes insertion of blanks, standards and duplicate reanalysis of selected samples. BV's quality system complies with the requirements for the International Standards ISO 9001:2000 and ISO 17025: 1999. At BV, gold is analyzed by classical fire assay techniques with an ICP-AES finish, and both silver and base metals are analyzed by a 44-element aqua regia ICP-AES technique. Overlimit protocols are in place for gold, silver, copper, lead, and zinc.

#### **Preliminary Economic Assessment**

The PEA was commissioned by the Company and carried out by RPA in order to provide a base case assessment for the development of El Domo by both open-pit and underground methods with onsite production of concentrates for copper, zinc, and lead.

The PEA results summary in this MD&A contains economic analysis that is based, in part, on Inferred Mineral Resources and is preliminary in nature. Inferred Mineral Resources are considered too geologically speculative to

have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves. There is no certainty that economic forecasts on which this PEA is based will be realized. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.

### **PEA Contributors**

The following companies have undertaken focused work programs since July 2018 that have been referenced in preparation of the PEA for El Domo:

- RPA - Lead author and Independent Qualified Person (“IQP”), Mineral Resource estimation, open pit and underground mine design, mine plan, and mine layout
- Klohn Crippen Berger - Tailings storage and waste rock facilities
- Knight Piésold Ltd. - Social and environmental matters, access roads and power transmission line
- Base Metallurgical Laboratory Ltd. - Metallurgical laboratory work
- Independent Mining Consultants, Inc. - Open pit production throughput analysis

### **Geology and Updated Mineral Resource Estimate**

The updated Mineral Resource estimate possesses a similar footprint to the previous Mineral Resource estimate, as reported in Adventus’ January 31, 2018 news release, but infill drilling in 2018 resulted in the upgrading of portions of the Mineral Resource from previously classified Indicated to Measured and Inferred to Indicated categories. The new Mineral Resource estimate has a total tonnage distribution of approximately 14%, 73%, and 13% classified in the Measured, Indicated and Inferred categories, respectively, which includes the Measured category for the first time. The increases in average grades in the Measured and Indicated Mineral Resource categories of approximately 24% for copper, 10% for gold, and 21% for zinc are the result of higher NSR cut-off values, the improved geological model and related grade estimation domains, and changes to capping levels.

#### **Total Mineral Resource for El Domo**

Resource Category	Tonnes (Mt)	Grade					Contained Metal				
		Cu (%)	Pb (%)	Zn (%)	Au (g/t)	Ag (g/t)	Cu (kt)	Pb (kt)	Zn (kt)	Au (koz)	Ag (koz)
Measured	1.4	1.92	0.37	3.52	3.75	58	27.8	5.3	50.9	174	2,704
Indicated	7.5	2.02	0.26	2.81	2.33	49	150.9	19.7	210.3	559	11,884
M+I	8.9	2.00	0.28	2.93	2.56	51	178.7	25.0	261.3	733	14,588
Inferred	1.3	1.52	0.20	2.25	1.83	42	20.1	2.7	29.7	78	1,783

#### **Pit Constrained Mineral Resource for El Domo**

Resource Category	Tonnes (Mt)	Grade					Contained Metal				
		Cu (%)	Pb (%)	Zn (%)	Au (g/t)	Ag (g/t)	Cu (kt)	Pb (kt)	Zn (kt)	Au (koz)	Ag (koz)
Measured	1.4	1.92	0.37	3.52	3.75	58	27.8	5.3	50.9	174	2,704
Indicated	5.7	1.74	0.28	2.60	2.47	51	99.0	16.1	147.8	452	9,417
M+I	7.1	1.78	0.30	2.78	2.73	53	126.8	21.4	198.7	627	12,121
Inferred	0.7	0.67	0.21	1.72	1.60	46	4.6	1.5	11.9	36	1,032

#### **Underground Mineral Resource for El Domo**

Resource Category	Tonnes (Mt)	Grade					Contained Metal				
		Cu (%)	Pb (%)	Zn (%)	Au (g/t)	Ag (g/t)	Cu (kt)	Pb (kt)	Zn (kt)	Au (koz)	Ag (koz)
Indicated	1.8	2.91	0.20	3.51	1.85	43	51.9	3.6	62.5	106	2,467
Inferred	0.6	2.46	0.19	2.82	2.09	37	15.5	1.2	17.8	42	751

Notes for the above Mineral Resource Tables:

1. Mineral Resources in these tables are effective as of as of May 2, 2019
2. CIM (2014) definitions were followed for Mineral Resources
3. A nominal minimum thickness of two metres was applied to the Mineral Resource wireframes
4. Bulk density assigned on a block per block basis using the correlation between measured density values and base metal grade

5. *Mineral Resources are reported above a cut-off net smelter return ("NSR") value of US \$25 per tonne for potential open-pit Mineral Resources and US \$100 per tonne for potential underground Mineral Resources*
6. *NSR value is based on estimated metallurgical recoveries, assumed metal prices and smelter terms; which include payable factors treatment charges, penalties, and refining charges*
7. *Metal price assumptions were: US \$3.15/lb Cu, US \$1.00/lb Pb, US \$1.15/lb Zn, US \$1,350/oz Au and US \$18/oz Ag*
8. *Metallurgical recoveries assumptions were based on three mineral types defined by the metal ratio Cu/(Pb+Zn):*
  - *Zinc Mineral (Cu/(Pb+Zn)<0.33): 84% Cu, 84% Pb, 95% Zn, 51% Au and 71% Ag*
  - *Mixed Cu/Zn Mineral (0.33≤Cu/(Pb+Zn)≤3.0): 88% Cu, 85% Pb, 96% Zn, 66% Au and 69% Ag*
  - *Copper Mineral (Cu/(Pb+Zn)>3.0): 88% Cu, 69% Pb, 73% Zn, 27% Au and 50% Ag*
9. *NSR factors were also based on the metal ratio Cu/(Zn+Pb):*
  - *Zinc Mineral (Cu/(Pb+Zn)<0.33): 29.94 US\$/% Cu, 9.17 US\$/% Pb, 11.52 US\$/% Zn, 14.17 US\$/g Au and 0.27 US\$/g Ag*
  - *Mixed Cu/Zn Mineral (0.33≤Cu/(Pb+Zn)≤3.0): 44.20 US\$/% Cu, 11.34 US\$/% Zn, 22.90 US\$/g Au and 0.27 US\$/g Ag*
  - *Copper Mineral (Cu/(Pb+Zn)>3.0): 46.27 US\$/% Cu, 6.86 US\$/g Au and 0.19 US\$/g Ag*
10. *Numbers may not add due to rounding*

## ***Mining and Processing***

The principal mining method proposed in the PEA is open-pit mining at 1,750 tonnes per day ("tpd") throughput at the mill that can be conventionally extracted using trucks, loaders and backhoes. The open pit mine design consists of a single pit with a mining sequence optimized through four main phases to maximize grade, reduce stripping ratios, and maintain the mill at optimum capacity for production of saleable concentrates of copper, zinc and possibly lead.

Mining is expected to begin with eighteen months of pre-production waste mining on steep terrain. Mining operations consist of four open pit phases and underground operation. Mining equipment in the open pit is expected to include 40-tonne haul trucks, 3.8 m<sup>3</sup> backhoe loaders and 114 mm blasthole production drills. Additional support heavy equipment is expected to include dozers, graders, and water trucks.

Underground mining operations would start in year 10 of the production schedule proposed in the PEA at a target rate of 1,000 tpd, using variations of room and pillar methods. Access to the mine would be from a single decline that will transport run of mine ("ROM") to the surface facilities. In conjunction with the owner's development team, it is conceived that a contractor would be engaged for the initial development of the mine. Mining equipment selection is based on production requirements and stope dimensions. Under the PEA mine plan, ventilation is expected to be established in phases as mine development progresses to facilitate mining through the various zones of mineralization.

Metallurgical test-work had previously been conducted between 2009 and 2014 on composite samples taken from both drill core and assay sample reject material. In 2018, the Corporation funded a new metallurgical test-work program designed to provide indicative metallurgical performance that could be expected during the production of saleable concentrates.

Conventional rougher and cleaner flotation testing was completed on the composites and the selected optimum metallurgical settings for the composites were taken to locked cycle tests, which simulates the metal recovery process. Locked cycle testing indicates the expected metallurgical performance from the test materials that could result in the production of commercial concentrate material. Details of the most recent metallurgical test results can be found elsewhere within this MD&A.

Net recoveries to copper, zinc, and lead concentrates total 80.7% for copper, 38.3% for lead, 78.5% for zinc, 57.5% for gold, and 69.0% for silver. The net recoveries only include metals that are payable in their respective concentrates.

The process plant is expected to ramp-up operations over a six-month period after completion of construction to a steady state throughput rate of 612,500 tonnes/year (1,750 tpd). The processing plant design includes a comminution circuit consisting of a crushing circuit followed by ball milling, and a sequential flotation circuit producing copper, zinc, and lead concentrates.

The tailings storage and waste rock facilities proposed for construction and development at El Domo are conventional in nature for the base case scenario and both facilities are located on owned concessions close to mine infrastructure. Klohn Crippen Berger completed an analysis of nine different tailings storage locations, with various designs and technologies in order to arrive at the preferred location. The tailings storage facility is designed for a 1 in 10,000-year earthquake event, with similar international design standards for storms and floods.

The PEA proposed open pit production totals 7.5 M tonnes, which has been estimated through the application of a \$25/t NSR cut-off value to the open pit constrained Mineral Resource estimate and then allowing for a dilution factor, mining recovery and design losses. The open pit mine life, including pre-stripping, is estimated at approximately 16 years, with a total strip ratio of 6.3.

Potential underground production totals 1.2 M tonnes, which has been estimated through the application of a \$100.00/t NSR cut-off value to the underground constrained Mineral Resource estimate and then allowing for a dilution factor, and mining recovery design losses. The underground mine life is estimated at approximately 6 years, with additional time required for underground access development and infrastructure construction.

### ***Initial Capital Costs***

The initial capital expenditures for the project as estimated by RPA is summarized in the following table. Capital expenditures to be incurred after the start-up of operations are assigned to sustaining capital and are projected to be covered by operating cash-flows. Project contingencies have been added where applicable, excluding capitalized operating costs, which results in an overall contingency of \$33.0 M or 25% for the PEA (excluding VAT). The Company believes that El Domo will benefit from established infrastructure in Ecuador, noting that El Domo is only 150 km by road to the major port city of Guayaquil.

#### **Initial Capital Cost Estimates**

<b>Item</b>	<b>Pre-Production (Initial Capital, \$M)</b>
Contractor Mining	\$17
Processing	\$52
Infrastructure	\$24
Tailings	\$7
EPCM / Owners Cost / Indirect Costs	\$32
Contingency (25%)	\$33
VAT (12%, which is a credit against taxes once exporting)	\$20
<b>Total (100% basis)</b>	<b>\$185</b>

*Notes:*

- (1) Totals do not necessarily equal the sum of the components due to rounding adjustments
- (2) Direct process plant capital costs are based on benchmarking and not from engineering design

### ***Sustaining Capital Costs***

RPA estimates the life-of-mine (“LOM”) sustaining capital for El Domo to be \$105,000,000, which is expected to be funded by operating cash flows. The sustaining capital estimate is primarily for the expansion of the tailings storage facility, development of the underground mine, and reclamation and closure. Adventus has assumed \$10,000,000 at the end of LOM, and that has been credited against \$34,000,000 in closure and reclamation costs.

### ***On Site Direct Operating Costs (“Opex”)***

The estimated Opex for El Domo is \$54.80/t of mill feed - see the following table. RPA has estimated the Opex based on industry benchmarking, proprietary information and its professional experience.

#### **On Site Operating Cost for Base Case**

<b>Area</b>	<b>Cost (\$/t)</b>
Mining	\$3.15/tonne moved for the open pit and \$71.50/tonne for processed underground mining
Processing	\$21.80/tonne processed
G & A	\$4.74/tonne processed
<b>Total:</b>	<b>\$54.80/tonne processed for the life of mine (blended open pit and underground mining cost)</b>

*Notes:*

- (1) Totals do not necessarily equal the sum of the components due to rounding adjustments

### ***Off-Site Costs (Concentrate Transport, Treatment, and Refining Charges)***

Projected Treatment Charges (“TCs”) and transport charges for the copper, zinc and lead concentrates were developed by RPA based on their extensive experience on engineering projects in Latin America.

Adventus and the Company anticipate that the copper, zinc, and lead concentrates are likely to be sold primarily to smelters in Asia. Off-site costs are comprised of freight charges (highway and ocean), port handling fees, and smelter treatment and refining charges - see the following table.

#### **Off Site Costs - Copper, Zinc and Lead Concentrates:**

<b>Item</b>	<b>Treatment Charges</b>
Silver refining	\$0.50/oz
Gold refining	\$5.00/oz
Copper TCs	\$80/t
Copper RCs	\$0.08/lb
Lead TCs	\$200/t
Zinc TCs	\$230/t
Transportation	\$98/t conc.

The concentrates are of good quality, with strong precious metals credits. A minor penalty for the zinc grade over 4% in the copper concentrate was assumed, at a rate of US\$2 for every 1% over 4% zinc. Life-of-mine penalties for the copper concentrates are assumed at approximately US\$3.3M, which could be decreased with future blending strategies.

### ***Taxes***

Income and other taxes, and royalties that are presented in the PEA were based on Ecuadorian legislated tax rates and do not reflect any tax planning opportunities identified by the Corporation, RPA, or third-party tax advisors. LOM royalties to the government are estimated to be \$63M. VAT taxes are estimated to be \$34M, while additional profit sharing of \$73M and income taxes of \$83M project an estimated total of greater than \$253M in government royalties and taxes over the 15-year mine life. A 2% NSR royalty is payable to Altius Minerals Corporation. The VAT is assumed as refundable if the concentrates are exported internationally.

### ***Infrastructure***

The major infrastructure items considered and costed in the PEA support a mining and milling operation that is expected to operate 24-hours per day, seven-days per week. The design of project infrastructure has prioritized environmental protection, workforce safety, and operating efficiency while minimizing community impacts. Major infrastructure items include, but are not limited to the following:

- **Power Supply:** It is assumed that El Domo will connect to the Ecuadorian power grid along existing road access and a new mine access road based on work completed by Knight Piésold in early 2019. RPA has benchmarked and estimated the cost for power at \$0.11/kWh.
- **Road Access:** Access to the project site is planned to use both new and existing road networks based off work completed by Knight Piésold in 2019. A new 12.5 km access road is expected to connect the project site to the existing road network. Secondary access roads to El Domo will also be maintained.
- **Mine haul road access** for waste and feed to the mill that can accommodate 40-tonne trucks.
- **Mine facilities** including but not limited to buildings for maintenance, warehousing, administration, laboratories, security, first aid, explosive storage, and fuel storage.
- **Mill and process plant** including crushing, grinding, and flotation based on detailed metallurgical work done by Base Metallurgical Laboratories Ltd. under the direction of RPA.
- **Water supply and management systems.**
- **Lined tailings storage facility and waste rock storage pads** leveraging off studies completed by Klohn Crippen Berger in early 2019.

## ***Environmental and Community Matters***

Knight Piésold has reviewed the work completed at El Domo to date and concluded that the ongoing environmental monitoring and community engagement programs have provided appropriate support to the project. All exploration permits with the Ecuadorian Ministry of Environment are in good standing.

Knight Piésold has subsequently been contracted to prepare a study plan to complete the Environmental Impact Assessment and environmental permitting to Ecuadorian and international standards. Baseline studies are underway and include geosciences, climate and water, terrestrial biota, the human environment, and natural and cultural heritage. An enhanced program to support mine development will commence in the second quarter of 2019.

## ***Opportunities and Future Work***

RPA and Adventus have identified several areas and opportunities that may provide significant costs savings and improved economics for the project. Post-PEA Adventus will embark on additional technical work and trade-off engineering studies to better position and further de-risk the project, including but not limited to the following:

### ***a. Mining***

- Optimization of the production schedule, including transition between the open-pit and the underground mining operations;
- Optimization of the open-pit and underground designs through collection of additional geomechanical information;
- Further work to increase confidence in the Mineral Resource and lead to the definition of a Mineral Reserve;
- Detailed equipment costing to determine potential discounts to list price for all major components, as well as review purchase versus leasing options for mining heavy equipment, and;
- Back-filling of waste rock into the open pit.

### ***b. Milling and Metallurgy***

- Additional metallurgical work to optimize results from the mixed and copper geometallurgical domains and continue research on the optimum grind size, analyze recoveries of the various metals and the effects of the higher grade coming from the mineral sorters on metal recoveries;
- Complete metallurgical test-work on the zinc geometallurgical domain through more detailed test-work and optimization;
- Optimize reagents to reduce costs and improve metallurgy;
- Investigate the potential for a gold recovery circuit from a pyrite concentrate not currently in the PEA, and;
- Investigate ore blending as an option to simplify the three geometallurgical domains and find efficiencies in process design.

### ***c. Tailings Storage and Waste Rock Facilities***

- Detailed analysis of tailings storage and waste rock storage facilities for an integrated waste management plan and design to reduce overall costs.

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### ***d. Other***

- Construction camp location, and a trade-off study between at site accommodation versus daily commutes to the project from local communities
- Investigate regional quarry sites and quality of quarry material for construction purposes, notably the tailing storage facility;
- Water supply for the project site, and a trade-off study between a constructed reservoir with project infrastructure or a water pipeline from a local source, and;
- Power sources for the project site, including a trade-off study between diesel generators as part of the project infrastructure or a power transmission line that links to the Ecuadorian power grid.

Adventus aims to commission and commence a detailed Feasibility Study later in 2019. There is no assurance that the results of a Feasibility Study will recommend proceeding with a development project on El Domo, and any recommendation to proceed with development may differ significantly from the scope and design recommended in this PEA.

Changes to the mine plan and mine design that may be recommended in the Feasibility Study, if approved and implemented, could impact the construction schedule, capital and operating costs, profitability and cash flows and timeline to production, the impact of which cannot be quantified at this time. As a result, there are additional uncertainties with respect to the size and grade of the Mineral Resources that may become Mineral Reserves and that will serve as the basis for the Feasibility Study, the extent of capital and operating costs, mineral recoveries and financial viability.

In addition, Adventus will continue to conduct exploration activities within the 21,500-hectare Curipamba project which encompasses El Domo. The objective of continuing regional exploration is to develop and assess targets that could further maximize the Company's and Adventus' flexibility with respect to future development decisions on the El Domo, Curipamba project.

### ***Additional Considerations Related to the PEA***

Approximately 5% of the tonnage from the open-pit constrained Mineral Resource and 24% of the tonnage from the underground constrained Mineral Resource that forms the basis of the PEA is derived from Inferred Mineral Resources. The estimated costs in this PEA are subject to an estimated margin of error of plus or minus 30-35%. Investors should be cautioned that there is no guarantee that the future construction and development of El Domo will be completed in accordance with the 2019 PEA results set forward in this news release. There is no certainty that production will begin, or that operating capital, or that financial results will be consistent with the 2019 PEA.

### ***Qualified Persons***

The following independent qualified persons ("IQPs") co-authored the technical report. These IQPs have approved the information that pertains to the sections of the PEA technical report that they are responsible for.

- Geology: David Ross, P.Geo., RPA
- Metallurgy and Processing: Avakash Patel, P.Eng., RPA
- Mineral Resource: Dorota El Rassi, P.Eng., RPA
- Mining: Hugo Miranda, P.Eng., RPA
- Infrastructure and Economic Evaluation: Torben Jensen, P.Eng., RPA
- Environmental & Community: Ken Embree, P.Eng., Knight Piésold

Each of the individuals above are IQPs for the purposes of NI 43-101. All scientific and technical information in this MD&A in respect of El Domo and or the PEA is based on information prepared by or under the supervision of those individuals. The Mineral Resource estimate in this MD&A has been classified in accordance with CIM Definition Standards - For Mineral Resources and Mineral Reserves (May 14, 2014).

In accordance with NI 43-101, a technical report was filed on SEDAR on June 14, 2019. The technical and scientific information in the MD&A has been reviewed and approved as accurate by Mr. Jason Dunning, M.Sc., P.Geo., Vice President Exploration for Adventus, a non-Independent Qualified Person, as defined by NI 43-101.

### ***Exploration Alliance - Pijilí Project***

The Pijilí Project consists of three concessions totalling 3,246 hectares that is subject to a US \$5,000,000 spending commitment over four years. The Pijilí Project is located in the province of Azuay, approximately 150 km from the major port city of Guayaquil. The Pijilí Project is an untested epithermal gold-silver target, although there are opinions that there is a broader, larger scale porphyry target may be present.

The Pijilí Project has never been explored with modern exploration techniques, such as geophysics, nor has there been any systematic geological mapping, geochemical sampling, trenching and/or drilling undertaken. Small-scale, legally permitted artisanal mining operations adjacent to the property are following precious metal-bearing structures via several small open pits and underground tunnels. It is also important to note the presence of secondary copper mineralization that is visible along the walls of the small open pits. Company staff have noted copper sulphide-bearing (chalcopyrite) veins in a valley bottom at the confluence of major creeks that also requires additional follow-up.

The initial 18-month program is ongoing and entails detailed prospecting, surficial sampling, geological and structural mapping, implementation of a PIMA/TerraSpec for detailed hydrothermal alteration mineral studies, and geophysics. An airborne geophysical survey was completed on concessions for Pijilí Project that were flown in a

systematic grid pattern to ensure full coverage and depth penetration. Field crews successfully completed 91.4% of the planned line-kilometers at the Pijilí Project. Drilling at Pijilí could begin in the last quarter of 2019, subject to the completion of target generation. Some drill targets may require access agreements by land owners. Drill programs are subject to receipt of water permits, which are expected to be received within the next few months. In the event any of these permits are not received when required, alternative sources for importing water to support the drilling are being investigated.

### ***Exploration Alliance - Santiago Project***

The Santiago Project consists of a single concession that encompasses 2,350 hectares. It is located in a geological setting similar to the nearby Loma Larga deposit owned by INV Metals Inc. and is considered prospective for epithermal gold and silver and porphyry copper gold deposits. It features three large, surficial geochemistry anomalies for gold, copper, and zinc. Numerous vein occurrences have been identified on the property thus far, which have yielded good chip sampling results for both gold and silver, including the following highlights:

Española Vein: (up to 3 metres width)

- 2.0 m @ 28.10 g/t gold and 231.0 g/t silver
- 1.0 m @ 26.00 g/t gold and 242.0 g/t silver
- 1.0 m @ 18.20 g/t gold and 252.0 g/t silver
- 1.0 m @ 4.80 g/t gold and 442.0 g/t silver

Structure Quartz-Tourmaline: (3 metres width)

- 1.9 m @ 1.19 g/t gold, 14.3 g/t silver and 296 ppm molybdenum
- 3.3 m @ 0.59 g/t gold, 36.6 g/t silver and 390 ppm molybdenum

Ribs Zone and Ancha Vein: (up to 5 metres width)

- 1.0 m @ 1.29 g/t gold and >100 g/t silver
- 1.0 m @ 1.65 g/t gold and >100 g/t silver

Structure F.U.: (1.5 metres width)

- 1.4 m @ 4.80 g/t gold and 378.0 g/t silver
- 1.2 m @ 6.40 g/t gold and 136.0 g/t silver
- 1.2 m @ 4.20 g/t gold and 183.0 g/t silver

There have also been historically modest drilling campaigns by two operators on the property, including Newmont Mining Corporation in the mid-1990s that reported wide drill intercepts for copper-gold from surface. Unfortunately, these historic drill results cannot be verified, as the drill core is unavailable. Additional work, including drilling, will be required to validate these reported historical drill results.

The initial 24-month program is ongoing and entails detailed prospecting, surficial sampling, geological and structural mapping, implementation of a PIMA/TerraSpec for detailed hydrothermal alteration mineral studies, and geophysics. An airborne geophysical survey was flown in a systematic grid pattern to ensure full coverage and depth penetration. Field crews successfully completed 94.2% of the planned line-kilometers at Santiago Project. Drilling at the Santiago Project could begin in the last quarter of 2019, subject to the completion of target generation. Some drill targets may require access agreements by land owners. Drill programs are subject to receipt of water permits, which are expected to be received within the next few months. In the event any of these permits are not received when required, alternative sources for importing water to support the drilling are being investigated.

### **Wholly-Owned Portfolio**

The Company is also working on its strategy of advancing its 100%-owned projects prior to seeking partnership with mid-tier or major mining companies.

### ***Macara Project***

The Macara Project currently comprises concessions: (i) Macara Mina concession (288 hectares) leased from a third-party; and (ii) Bonanza mining concession (1,519 hectares) granted by the Ecuadorian government as follows:

- (i) On November 6, 2017 the Company entered into an option agreement with Edgar Orlando Torres Cunalata (“Torres”) whereby the Company was granted an option (the “Macara Option”) to acquire a 100% interest in one concession (the “Macara Mina Concession”) located in the province of Loja, Ecuador. Pursuant to the terms of the Macara Option the Company has agreed to make cash payments totalling US \$600,000 (the “Option Proceeds”), as follows:

- US \$100,000 on signing (paid);
- US \$50,000 on November 6, 2018 (paid);
- US \$50,000 on November 6, 2019;
- US \$200,000 on the earlier of a NI43-101 resource calculation or November 6, 2021; and
- US \$200,000 on the earlier of a preliminary economics assessment of November 21, 2024.

The Company is also required to incur US \$142,000 minimum exploration expenditures on the Macara Mina Concession over two years. Torres also retains a 0.5% NSR, which may be purchased by the Company for US \$1,000,000 at any time.

Torres has entered into a participation agreement with an employee of the Company and the son of the Company’s President to share the Option Proceeds equally.

- (ii) In July 2017 the Company was awarded a concession (the “Bonanza Concession), located in the provinces of Loja and Tacamoros, Ecuador.

The Macara Project lies within Cética volcano-sedimentary Formation (known as the Lancones Formation in neighboring Peru), which is intruded by the Cretaceous-age Tangua granodiorite batholith. This project is highly prospective for epithermal gold-silver, gold-copper porphyry and volcanogenic massive sulfide (VMS) deposits. The Macara Project is located 100km to the north of the Tambogrande VMS deposit in the Cretaceous Lancones basin of northwestern Perú, which hosts some of the largest Cu-Zn-Au-Ag-bearing massive sulfide deposits in the world.

Phase 1 exploration at the Macara Project, consisting of mapping and sampling (soils and rocks), has been completed. 240 soil samples, on a 100m x 100m grid were taken, with results as high as 9.94 g/t Au helping to define a 600m x 300m anomaly. 152 rock samples (outcrop and float) were taken, with the highest grade chip sample returning 29.6 g/t Au over 1.0 metre. Applications for appropriate drill, water-use and environmental permits have been submitted. The Company anticipates executing a first pass drill program of up to 3,000m during 2020.

Mapping at the Macara Project has identified a suite of basalts, andesites, and pillow lavas interpreted to be part of a tholeiitic volcanic arc. Gold and base metal mineralisation is spatially related to a complex of hydrothermal breccias and stockworks in pillow lavas that are silicified to varying degrees and that occasionally host barite. Where the pillow lavas are brecciated the pillows contains <1% pyrite, chalcopyrite and bornite with occasional sphalerite in the matrix, and there is less intense mineralization in the pillows themselves. Where the stockworks contain barite veinlets and exhibit more intense silicification, often characterized by iron oxide staining, the gold and silver grades are elevated.

### ***Rumiñahui Project***

In the first half of fiscal 2019, the Company continued community liaison at Rumiñahui, supporting the Community Association with projects such as road repairs and agri-initiatives. A scout drilling plan and associated environmental impact assessment have been approved. The application for a water-use permit is underway. The Company anticipates a Phase 1 drill programme of approximately 3,000m to start in late fiscal 2019 or early fiscal 2020.

### ***Los Osos Project***

On March 21, 2019 the Company entered into an option agreement with the vendor, Mr Francisco Soria Venegas, an employee of the Company, to acquire up to a 100% interest in one mineral concession (the “Los Osos Concession”) via a series of staged payments over 48 months for a total sum of US \$250,000 (US \$35,000 paid as of the date of this MD&A).

The Los Osos Concession is a 229 hectare, single concession, exploration licence located in the Cerro Pelado-Cangrejos mineral district within the Province of El Oro in southwest Ecuador. The licence area hosts a system of veins rich in gold and silver, combined with hydrothermal breccias and mineralised gold-copper porphyries. Several quartz-tourmaline breccias mineralised with chalcopyrite and pyrrhotite are present on the property.

Under previous tenure, the area has been mapped, sampled, and subject to airborne geophysical surveys (magnetic and radiometric). Artisanal miners have historically worked some of the veins, and small scale mining has been active on the Los Osos Concession and the adjacent properties for over fifteen years. The Company is currently digitizing available historic exploration and other data on the property.

In the second half of fiscal 2019 the Company intends to carry out Phase 1 geological exploration fieldwork at the Los Osos Project.

### Qualified Person

Kieran Downes, P. Geo., a Qualified Person (“QP”) as defined by National Instrument 43-101, is the Company’s QP for the Company’s wholly-owned properties and has reviewed and verified the technical information provided in this MD&A.

### Selected Financial Data

During fiscal 2018 the Company’s subsidiaries changed their functional currency from the Canadian dollar to the United States dollar. See also “Changes in Accounting Policies - Change in Functional Currency”.

The following selected financial information is derived from the unaudited condensed consolidated interim financial statements of the Company.

Three Months Ended	Fiscal 2019		Fiscal 2018				Fiscal 2017	
	Jun. 30 2019 \$	Mar. 31 2019 \$	Dec. 31 2018 \$	Sep. 30 2018 \$	Jun. 30 2018 \$	Mar. 31 2018 \$	Dec. 31 2017 \$	Sep. 30 2017 \$
<b>Operations:</b>								
Revenues	Nil							
Expenses	(274,972)	(1,214,910)	(243,898)	(381,675)	(300,740)	(198,615)	(291,882)	(483,564)
Other items	106,328	365,978	(2,770,870)	4,353,353	420,817	428,822	124,132	(59,531)
Net (loss) income	(168,644)	(848,932)	(3,014,768)	3,971,678	120,077	230,207	(167,750)	(543,095)
Other comprehensive income (loss)	(563,476)	(253,529)	1,582,193	Nil	Nil	Nil	435	435
Comprehensive (loss) income	(732,120)	(1,102,461)	(1,432,575)	3,971,678	120,077	230,207	(167,315)	(542,660)
Basic and diluted (loss) income per share	(0.00)	(0.01)	(0.02)	0.03	(0.00)	(0.00)	(0.00)	(0.01)
<b>Balance Sheet:</b>								
Working capital	4,945,970	5,472,417	5,558,915	6,690,557	1,746,981	713,022	574,041	447,255
Total assets	21,470,208	21,958,181	23,409,559	24,028,841	19,791,826	18,289,370	18,371,177	17,882,452
Total long-term liabilities	Nil							

### Results of Operations

#### *Three Months Ended June 30, 2019 Compared to the Three Months Ended March 31, 2019*

During the three months ended June 30, 2019 (“Q2/2019”) the Company reported a net loss of \$168,644 compared to net loss of \$848,932 for the three months ended March 31, 2019 (“Q1/2019”) a decrease in loss of \$680,288. The fluctuation is primarily attributed to the following:

- (i) recognition of share based compensation of \$478,715 on the granting and vesting of 5,472,000 share options in Q1/2019. No share options were granted in in Q2/2019;
- (ii) recognition of general exploration of \$287,308 in Q1/2019 compared to a recovery of \$6,432 in Q2/2019 as the majority of the regional exploration was conducted in Q1/2019; and
- (iii) recognition of drill rig stand-by costs of \$127,938 during Q2/2019 compared to \$298,860 in Q1/2019.

The decrease was partially offset by recognition of a \$367,315 gain in Q1/2019 on the sale of all of the Company's investments.

*Three Months Ended March 31, 2019 Compared to the Three Months Ended December 31, 2018*

During the three months ended March 31, 2019 ("Q1/2019") the Company reported a net loss of \$848,932 compared to net loss of \$1,638,298 for the three months ended December 31, 2018 ("Q4/2018") a decrease in loss of \$789,366. The fluctuation is primarily attributed to the recognition of an overall unrealized loss on investments of \$1,331,522 in Q4/2018 (\$nil in Q1/2019) and partially offset by the recognition of share-based compensation in Q1/2019 of \$478,715 (\$nil in Q4/2018).

*Three Months Ended December 31, 2018 Compared to the Three Months Ended September 30, 2018*

During the three months ended December 31, 2018 ("Q4/2018") the Company reported a net loss of \$3,014,768 compared to net income of \$3,971,678 for the three months ended September 30, 2018 ("Q3/2018") an increase in loss of \$6,986,446. The fluctuation is primarily attributed to:

- (i) during Q4/2018 the recognition of an overall unrealized loss on investments of \$1,331,522 compared to \$nil in Q3/2018;
- (ii) as a result of a detailed review conducted as part of the audit process there was a reclassification of other income of \$1,173,253 and management fees of \$662,265 in Q4/2018 to exploration and evaluation assets; and
- (iii) during Q3/2018 the Company recognized a gain of property disposition of \$2,482,075 compared to \$44,397 in Q4/2018.

*Three Months Ended September 30, 2018 Compared to the Three Months Ended June 30, 2018*

During the three months ended September 30, 2018 ("Q3/2018") the Company reported net income of \$3,971,678 compared to net income of \$120,077 for the three months ended June 30, 2018 ("Q2/2018"). The \$3,851,601 increase in income is primarily attributed to:

- (i) recognition of a \$2,482,073 gain on property dispositions relating to the Pijilí Project and Santiago Concession; and
- (ii) recognition of an unrealized gain on inventory of \$1,141,522 mainly on the appreciation of the quoted prices of the Adventus common shares held by the Company.

*Three Months Ended June 30, 2018 Compared to the Three Months Ended March 31, 2018*

During the three months ended June 30, 2018 ("Q2/2018") the Company reported a net income of \$120,947 compared to net income of \$231,077 for the three months ended March 31, 2018 ("Q1/2018"). The fluctuation is primarily attributed to the recognition of other income of \$293,092 in Q2/2018 compared to \$157,847 in Q1/2018 arising from the rental of its drill rigs for the drilling activities on the Curipamba Project.

*Three Months Ended March 31, 2018 Compared to the Three Months Ended December 31, 2017*

During the three months ended March 31, 2018 ("Q1/2018") the Company reported a net income of \$231,077 compared to net loss of \$167,750 for the three months ended December 31, 2017 ("Q4/2017"). The fluctuation is primarily attributed to:

- (i) during Q1/2018 the Company recorded other income of \$157,847 (Q4/2017 - \$nil) arising from the rental of its drill rigs for the drilling activities on the Curipamba Project;
- (ii) during Q1/2018 the Company received \$129,320 (US \$100,000) payment from Adventus on the Pijilí Project, of which \$43,770 was credited to the capitalized costs on the Pijilí Project and the remaining \$85,550 was recorded as a gain on property disposition of \$85,550; and
- (iii) during Q1/2018 the Company recorded \$4,247 (Q4/2017 - \$122,662) for legal expenses. During Q4/2017 the Company had significant legal expenses with respect to the preparation of agreements with Adventus and submissions to the TSXV.

*Three Months Ended December 31, 2017 Compared to the Three Months Ended September 30, 2017*

During the three months ended December 31, 2017 (“Q4/2017”) the Company reported a net loss of \$167,750 compared to net loss of \$543,095 for the three months ended September 30, 2017 (“Q3/2017”) a decrease in loss of \$375,345. The fluctuation is primarily attributed to the cost recoveries against expenses to reflect Adventus’ funding of certain expenses.

*Six Months Ended June 30, 2019 Compared to the Six Months Ended June 30, 2019*

During the six months ended June 30, 2019 (the “2019 period”) the Company reported a net loss of \$1,017,576, compared to a net income of \$350,284 for the six months ended June 30, 2018 (the “2018 period”). The fluctuation is mainly attributed to the following:

- (i) during the 2019 period the Company recorded share-based compensation of \$478,715 compared to \$60,000 in the 2018 period;
- (ii) an overall increase in corporate activities as a result of its various arrangements with Adventus; and
- (iii) \$426,798 of costs identified as standby costs relating to drill rig operations for the 2019 period.

Excluding cost recoveries, expenses increased by \$990,527, from \$499,355 during the 2018 period to \$1,489,882 during the 2019 period. Specific expenses of note are as follows:

- (i) recorded share-based compensation of \$478,715 on the granting and vesting of share options during the 2019 period compared to \$60,000 during the 2018 period . During the 2019 period the Company granted options to purchase 5,472,000 common shares compared to 600,000 options granted during the 2018 period;
- (ii) incurred salaries, compensation and benefits of \$367,444 (2018 - \$282,892). The increase reflects an increase in in corporate activities as a result of its various arrangements with Adventus;
- (iii) recorded audit fees of \$117,097 (2018 - \$70,482). The increase reflected the escalation in the scope of the audit process in fiscal 2018 due to activities resulting from the various arrangements with Adventus;
- (iv) incurred consulting fees of \$94,020 (2018 - \$43,712). During the 2019 period the Company engaged consultants for financial advisory services;
- (v) incurred drill rig standby costs of \$426,798 in the 2019 period as the Company maintains the drill rig in an operation ready status until it is needed.

**Exploration and Evaluations Assets**

During the 2019 period the Company incurred a total of \$5,360,610 (2018 - \$3,628,215) for exploration and evaluation assets comprising of \$3,356,294 (2018 - \$3,463,144) on the Curipamba Project and \$2,004,316 (2018 - \$165,071) on other projects. During the 2019 period Adventus funded a total of \$5,988,749 (2018 - \$4,468,690) for costs incurred by the Company, of which \$272,897 (2018 - \$333,736) was applied against property, plant and equipment, \$5,168,958 (2018 - \$3,472,607) against exploration and evaluation assets and \$546,894 (2018 - \$471,210) as an expense recovery. As at June 30, 2019, a balance of \$77,687 (December 31, 2018 - \$670,726) is due from the joint-venture partner.

Details of the exploration and acquisition expenditures are as follows:

	Curipamba \$	Exploration Alliance \$	Other \$	Total \$
<b>Balance at December 31, 2017</b>	<u>15,617,197</u>	<u>617,344</u>	<u>150,023</u>	<u>16,384,564</u>
<b>Exploration costs</b>				
Assay analysis	-	37,718	-	37,738
Camp supplies	-	17,516	-	17,516
Camp supervision and personnel	-	85,987	-	85,987
Community relations	1,093,008	-	-	1,093,008
Depreciation	37,416	-	-	37,416
Drilling and related costs	6,410,637	-	-	6,410,637
Exploration site	17,685	71,164	-	88,849

	Curipamba \$	Exploration Alliance \$	Other \$	Total \$
Geological	-	544,007	-	544,007
Legal		23,859	-	23,859
Permits		7,344	-	7,344
Salaries		100,099	-	100,099
Travel	-	20,801		20,801
	<u>7,558,746</u>	<u>908,515</u>	<u>-</u>	<u>8,467,261</u>
<b>Acquisition costs</b>				
Property / concession payments	259,251	114,614	92,171	466,036
<b>Other</b>				
Cost recoveries	(7,807,987)	(816,447)	-	(8,624,434)
Management fees	(662,265)	29,998	-	(692,263)
Drilling services	(1,173,253)	-	-	(1,173,253)
Sale of interest	-	(710,692)	-	(710,692)
Advance payment	(325,250)	-	-	(332,250)
Foreign exchange movement	1,484,978	9,190	26,707	1,520,875
	<u>(8,483,777)</u>	<u>(1,547,947)</u>	<u>26,707</u>	<u>(10,005,017)</u>
<b>Balance at December 31, 2018</b>	<u>14,951,417</u>	<u>92,526</u>	<u>268,901</u>	<u>15,312,844</u>
<b>Exploration costs</b>				
Assay analysis	110,820	86,191	-	197,011
Camp supplies	86,151	117,024	-	203,175
Camp supervision and personnel	271,965	19,357	-	291,322
Community relations	584,592	6,944	-	591,536
Drilling and related costs	132,500	-	-	132,500
Environmental studies	44,052	14,641	-	58,693
Equipment maintenance	83,036	-	-	83,036
Exploration site	111,204	12,133	-	123,337
Geophysics	708,699	1,200,202	-	1,908,901
Legal	17,051	1,050	-	18,101
Salaries	895,011	185,645	-	1,080,656
Travel	45,644	-	-	45,644
Vehicles	5,972	-	-	5,972
	<u>3,096,697</u>	<u>1,643,187</u>	<u>-</u>	<u>4,739,884</u>
<b>Acquisition costs</b>				620,726
Property / concession payments	259,597	169,478	191,651	
<b>Other</b>				
Cost recoveries	(3,356,293)	(1,812,665)	-	(5,168,958)
Management fees	(233,310)	-	-	(233,310)
Foreign exchange movement	(614,536)	(3,877)	(19,230)	(637,643)
	<u>(4,204,139)</u>	<u>(1,816,542)</u>	<u>(19,230)</u>	<u>(6,039,911)</u>
<b>Balance at June 30, 2019</b>	<u>14,103,572</u>	<u>88,649</u>	<u>441,322</u>	<u>14,633,543</u>

See also "Properties Update".

### Financing Activities

No financings were conducted during the 2019 period.

During the 2018 period the Company received \$969,811 on the exercises of warrants and issued 8,081,758 common shares of the Company.

### Investing Activities

During the 2019 period the Company sold all of its investments in common shares of Adventus and Batero Gold Corp. for total proceeds of \$3,223,404 and recorded a gain on sale of investments of \$367,315.

## Financial Condition / Capital Resources

As at June 30, 2019, the Company had working capital of \$4,945,970. Management considers that the Company has adequate resources to maintain its core operations and planned exploration programs for the next twelve months. The Company believes that the option agreement with Adventus will provide the necessary capital to advance its core Curipampa Project to production status. In addition, the Company's Pijilí and Santiago Projects are now being funded by Adventus under the Exploration Alliance. However, the Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing should Adventus terminate the Option and/or the Exploration Alliance. Additional capital may be sought from the sale of additional common shares or other equity or debt instruments. There is no assurance that such additional capital will be available to the Company on acceptable terms or at all. In the longer term, the recoverability of the carrying value of the Company's long-lived assets is dependent upon the Company's ability to preserve its interest in the underlying mineral property interests, the discovery of economically recoverable reserves, the achievement of profitable operations and the ability of the Company to obtain financing to support its ongoing exploration programs.

## Contractual Commitments

When applying for new concessions via the public tender process in Ecuador, the Company, either directly or under option agreement, presented its investment offers for each concession. The investment offer represents the total amount that is required to be spent in order to maintain possession of the concession area at the end of the four-year investment period required by the Government of Ecuador. Accordingly, should the Company wish to retain possession of all the concession areas it holds as at June 30, 2019, the Company's commitment is as follows:

	US \$
Fiscal 2019	23,825
Fiscal 2020	47,650
Fiscal 2021	<u>7,907,421</u>
	<u>7,978,896</u>

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## Proposed Transactions

The Company has no proposed transactions.

## Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenditures during the reporting period. Examples of significant estimates made by management include the determination of mineralized reserves, plant and equipment lives, estimating the fair values of financial instruments, impairment of long-lived assets, reclamation and rehabilitation provisions, valuation allowances for future income tax assets and assumptions used for share-based compensation. Actual results may differ from those estimates

A detailed summary of the Company's critical accounting estimates and sources of estimation is included in Note 4 to the December 31, 2018 audited annual consolidated financial statements.

## Changes in Accounting Policies

There are no changes in accounting policies other than:

### *Adoption of New Accounting Standard - IFRS 16*

Effective January 1, 2019 the Company adopted IFRS 16, which replaces IAS 17 - *Leases* and its associated interpretative guidance. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

There was no impact on the Company's condensed consolidated interim financial statements upon the adoption of this new standard.

A detailed summary of the Company's other significant accounting policies and accounting standards and interpretations issued but not yet effective, is included in Note 4 to the December 31, 2018 audited annual consolidated financial statements.

### **Transactions with Related Parties**

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

#### (a) *Transactions with Key Management Personnel*

During the 2019 and 2018 periods the following amounts were incurred with respect to the Company's President and CEO, Fredy Salazar, and the CFO, Pablo Acosta:

	2019 \$	2018 \$
Mr. Salazar		
- Salaries and compensation	115,982	118,854
- Health benefits	1,954	1,874
- Share-based compensation	95,000	-
	<u>212,936</u>	<u>120,728</u>
Mr. Acosta		
- Salaries and compensation	46,400	46,008
- Health benefits	1,953	1,874
- Share-based compensation	55,000	-
	<u>103,353</u>	<u>47,882</u>
	<u>316,289</u>	<u>168,610</u>

Salaries and fees includes \$67,993 (2018 - \$53,676) billed to the Company by a private company owned by the President and the Chief Financial Officer of the Company, for geological services provided by the President.

As at June 30, 2019 \$nil (December 31, 2018 - \$125,348) remained unpaid.

#### (b) *Transactions with Other Related Parties*

(i) During the 2019 and 2018 periods the following consulting expenses were incurred with respect to non-executive directors of the Company:

	2019 \$	2018 \$
Consulting fees - Etienne Walters	11,931	11,552
Consulting fees - Nick DeMare	23,997	22,966
Consulting fees - Juan Ortiz	-	11,618
Consulting fees - Jennifer Wu	11,988	-
Consulting fees - Merlin Marr-Johnson	45,000	-
Share-based compensation - Etienne Walters	30,000	-
Share-based compensation - Nick DeMare	40,000	-
Share-based compensation - Merlin Marr-Johnson	31,515	-
Share-based compensation - Jennifer Wu	30,000	60,000
	<u>224,431</u>	<u>106,136</u>

As at June 30, 2019 \$11,426 (December 31, 2018 - \$nil) remained unpaid.

- (ii) During the 2019 period the Company incurred a total of \$28,009 (2018 - \$27,154) to Chase Management Ltd. (“Chase”), a private corporation owned by Mr. DeMare, for accounting and administration services provided by Chase personnel, excluding Mr. DeMare. As at June 30, 2019, \$4,500 (December 31, 2018 - \$4,775) remained unpaid.

During the 2019 period the Company also recorded \$15,000 for share-based compensation for share options granted to Chase.

- (c) During the 2019 period the Company incurred \$121,588 (2018 - \$15,336) for equipment rental services provided by Amlatminas S.A. (“Amlatminas”) a private corporation controlled by Mr. Salazar and Mr. Acosta of which \$nil (December 31, 2018 - \$21,827) remained unpaid.
- (d) During the 2019 period the Company incurred \$4,000 (2018 - \$nil) for storage rental provided by Agrosamex S.A. (“Agrosamex”), a private corporation controlled by the son of the President of the Company.
- (g) The Company holds an interest in the Macara Project pursuant to an agreement dated November 6, 2017 with Edgar Orlando Torres Cunalata (“Torres”) whereby the Company was granted an option (the “Macara Option”) to acquire a 100% interest in one concession (the “Macara Concession”). See “Macara Project” for details of the agreement.

Torres has entered into a participation agreement with an employee of the Company and the son of the Company’s President to share the Option Proceeds equally.

- (h) *Cost Recoveries from Adventus*

Certain of the expenses incurred by the Company with related parties and remuneration paid to Company personnel have been recovered from Adventus pursuant to the earn-in under the Curipamba Option and the Alliance. The table below reflects what occurred during the 2019 period.

	Total \$	Recovered from Adventus \$
Salaries and Compensation		
Mr. Salazar	115,982	91,991
Mr. Acosta	46,400	28,797
Rentals		
Agrosamex (storage)	4,000	4,000
Amlatminas (equipment)	121,588	121,588

## **Risks and Uncertainties**

The Company competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral concessions, claims and other interests, as well as for the recruitment and retention of qualified employees.

The Company is in compliance in all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company's material mineral properties are located in Ecuador and consequently the Company is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations relating to the mining industry.

## **Outstanding Share Data**

The Company's authorized share capital is unlimited common shares with no par value. As at August 29, 2019, there were 126,477,790 issued and outstanding common shares, 12,647,000 share options outstanding at exercise prices ranging from \$0.12 to \$0.14 per share, and 1,000,000 share purchase warrants outstanding at an exercise price of \$0.12 per share.