



**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the Three Months Ended July 31, 2018 and 2017  
Report Dated **September 26, 2018**

# **INCA ONE GOLD CORP.**

## Management Discussion & Analysis

For the Three Months Ended July 31, 2018 and 2017

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This Management's Discussion and Analysis ("MD&A") of Inca One Gold Corp. (the "Company" or "Inca One") has been prepared by management as of September 26, 2018, and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended July 31, 2018 and 2017 and the related notes thereto. This MD&A has been reviewed and approved by the Board of Directors of the Company. Unless otherwise specified, all financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar amounts herein are expressed in United States Dollars unless stated otherwise. During the quarter ended July 31, 2018, the Company changed its presentation currency to the United States Dollar. References to CAD\$ are to Canadian dollars and references to restated ("Restated") financial information are to amounts previously reported in Canadian dollars.

This MD&A contains forward-looking statements and should be read in conjunction with the risk factors described in "**Risks and Uncertainties**" and "**Cautionary Statement on Forward-Looking Information**" at the end of this MD&A.

### **Description of the Business**

Inca One was incorporated on November 9, 2005 and is engaged in the business of developing gold-bearing mineral processing operations in Peru, to service government permitted small scale miners. In recent years the Peruvian government instituted a formalization process for informal miners as part of its efforts to regulate their activities. The Company, has two Peruvian gold milling facilities ("Chala One" and "Kori One") with total permitted capacity of 450 tonnes per day ("TPD") capacity and has been in commercial production since 2015. The Company purchases high grade gold mill feed from legally recognized Peruvian artisanal and small scale miners and processes the material for export of gold doré and refined gold.

The Company is actively evaluating other potential mineral projects including additional mineral processing operations.

Inca One is listed on the TSX Venture Exchange (the "TSX-V") under the symbol "IO", on the Frankfurt Stock Exchange under the symbol "SU9.F", and the Santiago Stock Exchange Venture under the symbol "IOCL".

### **Key Period Definitions (used below)**

- three months ended July 31, 2018 ("**the Quarter**" or "**Q1 2019**");
- three months ended April 30, 2018 ("**Q4 2018**")
- three months ended January 31, 2018 ("**Q3 2018**")
- three months ended October 31, 2017 ("**Q2 2018**"); and
- three months ended July 31, 2017 ("**Q1 2018**");

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### First Quarter 2019 Highlights and Key Business Developments

- Subsequent to Q1 2019, on August 21, 2018 the Company completed the acquisition of a 100% interest on Anthem United Inc. (“Anthem”), which owns a 90.14% interest in the 350 tonnes per day (“TPD”) Koricancha ore processing facility in Peru (“Kori One”), from Equinox Gold Corp. (TSXV: EQX) (“Equinox”) for cash and shares totaling approximately \$16.3 million, less any IGV tax credits collected to the benefit of Inca One. Kori One is located approximately 50km from the Company’s Chala One mineral processing plant and should give rise to cost synergies and provide a platform for growth.
- During Q1 2019, the Company processed 9,404 tonnes compared to 6,699 processed during Q4 2018, an increase of 40.4% and processed an average of 102 TPD, which represent an increase of 30.46% when compared with Q4 2018.
- During September 2018, the Company renegotiated the terms of a \$0.3 million secured debenture, extending the term to maturity for additional 24 months to August 31, 2020.

### Operational Highlights – Chala One

Quarter over Quarter highlights	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Variance % Q1 2019 to Q4 2018	Variance % Q1 2019 to Q1 2018
Tonnes processed in COGS (t)	8,056	6,416	5,316	6,094	5,711	25.56%	41.05%
Tonnes processed in period (t)	9,404	6,699	5,254	5,965	5,806	40.37%	61.98%
Average daily processing volume (t)	102.2	78.4	61.5	64.8	63.1	30.46%	61.98%
Mineral grade processed (oz/t gold)	0.51	0.53	0.48	0.54	0.47	(3.94%)	7.75%
Gold sold (equivalent) (oz)	4,324	2,658	2,290	2,846	2,417	62.66%	78.93%
Gold sold (oz)	4,250	2,587	2,226	2,782	2,366	64.26%	79.63%
Silver sold (oz)	6,491	5,664	4,901	4,853	3,824	14.59%	69.75%
Sales revenue (\$) <sup>(1)</sup>	5,645,321	3,533,048	2,947,100	3,686,942	3,054,908	59.79%	84.80%
Cost of goods sold (“COGS”) (\$) <sup>(1)</sup>	5,217,138	3,610,453	3,113,563	3,643,592	3,176,240	44.50%	64.26%
Gross operating margin (deficit) (\$) <sup>(1)</sup>	428,183	(77,405)	(166,463)	43,350	(121,332)	653.17%	452.90%
Revenue per tonne (\$) <sup>(1)</sup>	701	551	554	605	535	27.26%	31.01%

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Quarter over Quarter highlights	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Variance % Q1 2019 to Q4 2018	Variance % Q1 2019 to Q1 2018
Cost per tonne (\$)	648	563	586	598	556	15.08%	16.45%
Gross margin per tonne (\$)	53	(12)	(31)	7	(21)	541.67%	452.90%
Average gold price per oz sold (\$)	1,306	1,329	1,287	1,295	1,264	(1.77%)	3.28%
Cost per oz sold (\$)	1,207	1,358	1,360	1,280	1,314	(11.17%)	(8.20%)
Gross margin per oz sold (\$)	99	(29)	(73)	15	(50)	441.38%	298.00%
Average London Close price (\$)	1,274	1,330	1,295	1,292	1,247	(4.24%)	2.12%

(1) Amounts previous to Q1 2019 have been Restated to United States dollars

### **Acquisition of the Koricancha Processing Facility in Peru**

Subsequent to Q1 2019, on August 21<sup>st</sup>, 2018 the Company completed the acquisition of a 100% ownership of Anthem United Inc., which owns a 90.14% interest in the 350 TPD Kori One ore processing facility in Peru, from Equinox for cash and shares totaling approximately \$16.3 million, less any IGV tax credits collected to the benefit of Inca One. Kori One is located approximately 50km from the Company's Chala One mineral processing plant and should give rise to cost synergies and provide a platform for growth.

Under the terms of the Purchase Agreement, Inca One acquired a 90.14% ownership of Kori One (the "Transaction") from Equinox and certain minority shareholders and terminated a 3.5% gold stream that was previously payable by Kori One for total consideration as follows:

- CAD\$6 million was paid by the issuance of 110,050,225 common shares of Inca One ("Inca One Shares") on completion of the Purchase Agreement at a deemed price of CAD\$0.055 per common share, of which 51,269,708 Inca One Shares were issued to Equinox, 51,269,708 Inca One Shares were issued to SA Targeted Investing Corp. ("SATIC") a subsidiary of Sandstorm Gold Ltd. (TSX: SAND) in consideration for the termination of the gold stream and the remaining Inca One Shares were issued to certain minority shareholders who hold an interest in Kori One. Equinox and SATIC acquired the Inca One shares for investment purposes only.
- CAD\$2.5 million payment to Equinox on the first anniversary of the completion of the Purchase Agreement to be paid in cash or Inca One Shares at the discretion of Inca One, based on the higher of CAD\$0.065 per share and the preceding 20-day volume weighted average price of Inca One Shares, subject to Equinox's ownership of Inca One Shares not exceeding 19.99% of the outstanding Inca One Shares (the "Equinox Ownership Limit").
- CAD\$2.5 million payment to Equinox on the second anniversary of the completion of the Purchase Agreement to be paid in cash or Inca One Shares at the discretion of Inca One, based on the higher of CAD\$0.065 per share and the preceding 20-day volume weighted average price of Inca One Shares, subject to the Equinox Ownership Limit.

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- CAD\$1.5 million payment to Equinox in cash on the second anniversary of the completion of the Purchase Agreement.
- CAD\$2.5 million payment to Equinox on the third anniversary of the completion of the Purchase Agreement to be paid in cash or Inca One Shares at the discretion of Inca One, based on the higher of CAD\$0.065 per share and the preceding 20-day volume weighted average price of Inca One Shares, subject to the Equinox Ownership Limit.
- Payment in cash to Equinox on or before the third anniversary of the completion of the Purchase Agreement for the difference between the amount of working capital at closing and \$3 million and certain payments related to outstanding value-added taxes receivable by Koricancha, subject to receipt.
- As part of the Transaction, the Company acquired approximately \$4.2 million in historical IGV related to the construction of Koricancha and has agreed to pay Equinox for 50% of amounts collected less costs to collect, the remainder of which is for the benefit of the Company.

In connection with the Transaction, Equinox is entitled to one seat on the Company's Board of Directors and an equity participation right equal to their ownership so long as they hold in excess of 9.9% of Inca One's outstanding shares. Inca One also granted Equinox security over the non-interest bearing deferred payments by way of a pledge of the shares of Anthem.

Kori One is a custom built, fully operational, industrial gold ore processing facility strategically situated in the Arequipa region of Peru. It is located at sea level, fully serviced by excellent infrastructure just 10 minutes from the Pan American Highway, within the Nazca-Ocona gold belt in Southern Peru. It is permitted for 350 TPD. Kori One was first commissioned in July 2015 and achieved commercial production on October 1, 2015. It has been servicing the small-scale mining sector of Peru for three years and has a stockpile of material currently being processed. The fully integrated plant features a carbon-in-leach gold circuit, and it is a condition of the Transaction that there will be at least \$3 million of existing working capital in place that Inca One will deploy toward ore purchases as required.

### **Future Outlook**

The Company believes that it now has a platform for growth with 450 TPD of permitted capacity and has established itself as the leader for publicly listed gold processing companies in Peru. Chala One is operating at or near its permitted capacity of 100 TPD and the Company believes that it has the working capital to operate Kori One profitably at approximately 150 TPD.

Upon taking control of the day to day management of Kori One in late August, the Company rolled out a new pricing program to align Kori One mineral purchasing with that of Chala One. Additionally, several mineral suppliers from both plants have been rerouted to the other, in order to minimize transportation and logistic costs and maximize delivery efficiency. As a result of the new pricing to increase profitability, there has been a temporary reduction in mineral deliveries. The Company believes that in the short term, this could mean a reduction in production at Kori One but will also create a solid supplier base with much more profitable conditions. The Company's mineral purchasing team has a detailed plan for ramping up production at Kori One to 150 TPD within three to six months.

With the addition of Kori One, there are many opportunities for cost savings and synergies. The Company has commenced a cost reduction program, whereby the mineral purchasing teams have been consolidated and the redundant satellite offices and rental vehicles have been eliminated. Additionally, several members of the Kori

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One senior management team have stepped down and left the Company, making way for the Chala One team to take control.

The Company is also exploring several opportunities to reduce the cost of mobile equipment at Kori One and for using the excess capacity at Chala One's desorption facilities to process Kori One's loaded carbon. Currently, Kori One's carbon is being desorbed by a third party facility in Lima. The Company believes that these two projects alone could save more than \$75,000 per month. There are other opportunities and potential for centralized purchasing and tax restructuring.

In addition to the cost savings and synergies, the Company believes that having Equinox as a new significant and supportive long-term shareholder will enhance Inca One's scale and capital markets profile. Equinox is a leader in the mining space and now holds 19.99% of the common shares of the Company

The working capital of the Company, combined with the working capital of Kori One, is expected to be in excess of \$4 million. The Company believes that this will allow the combined companies to maintain a minimum of 250 TPD and at the same time allow for organic growth. The Company is confident that with both Chala One and Kori One operations it should be able to achieve ongoing profitability in fiscal 2019.

### Selected Quarterly and Annual Information

The following selected financial data with respect to the Company's financial condition and results of operations has been derived from the unaudited condensed interim consolidated financial statements of the Company for the three months ended July 31, 2018 and 2017 and from the restated audited consolidated financial statements for the year ended April 30, 2018 as applicable. The selected financial data should be read in conjunction with those financial statements and the notes thereto.

	Three months ended		
	July 31, 2018	April 30, 2018	July 31, 2017
		<i>Restated</i>	<i>Restated</i>
	\$	\$	\$
Revenue	<b>5,645,321</b>	3,533,048	3,054,908
Cost of goods sold	<b>(5,217,138)</b>	(3,610,453)	(3,176,240)
Gross margin (deficit)	<b>428,183</b>	(77,405)	(121,332)
Finance and other (expense) income, net	<b>(96,682)</b>	(141,065)	(60,173)
Reversal of prior year impairments <sup>(i)</sup>	-	-	224,142
Restructuring gain (loss)	-	(165,534)	-
Net loss for the year	<b>(186,479)</b>	(1,112,921)	(435,187)
Net loss per share (basic and diluted)	<b>(0.00)</b>	(0.01)	(0.01)
Other comprehensive income (loss)	<b>(129,891)</b>	(1,019,746)	(713,938)

<sup>(i)</sup> During Q1 2018, the Company recovered amounts receivable of \$224,142 which were previously impaired as result of the 2017 restructuring process.

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	Three months ended		
	July 31, 2018	April 30, 2018 <i>Restated</i>	July 31, 2017 <i>Restated</i>
	\$	\$	\$
Total assets	<b>8,597,041</b>	9,468,09	7,949,362
Total current liabilities	<b>2,784,438</b>	3,485,635	2,155,039
Total long term liabilities	<b>2,713,920</b>	2,788,264	3,499,863

The following table sets out selected quarterly financial data from the Company's unaudited quarterly financial statements for the last eight quarters.

Quarter ended	Working capital (deficiency)	Total assets	Long term liabilities	Net loss	Basic loss per share
	\$	\$	\$	\$	\$
<b>July 31, 2018</b>	<b>727,893</b>	<b>8,597,041</b>	<b>2,713,920</b>	<b>(186,479)</b>	<b>(0.00)</b>
April 30, 2018 <sup>(1)</sup>	776,225	9,468,096	2,788,264	(1,112,921)	(0.01)
January 31, 2018 <sup>(1)</sup>	(578,013)	8,976,399	1,511,505	(879,833)	(0.01)
October 31, 2017 <sup>(1)</sup>	(1,604,808)	7,858,765	1,394,355	(742,652)	(0.01)
July 31, 2017 <sup>(1)</sup>	528,351	7,949,362	3,499,863	(435,187)	(0.01)
April 30, 2017 <sup>(1)</sup>	220,383	7,060,394	3,263,980	(706,915)	(0.01)
January 31, 2017 <sup>(1)</sup>	358,848	7,312,185	1,977,881	(1,325,240)	(0.02)
October 31, 2016 <sup>(1)</sup>	1,791,406	7,944,122	2,363,567	677,821	0.02

(1) Amounts previous to Q1 2019 have been Restated to United States dollars

## Results of Operations

### Three months ended July 31, 2018 compared to three months ended July 31, 2017

Revenue for Q1 2019 was \$5.6 million (Q1 2018 - \$3.1 million) and cost of goods sold was \$5.2 million (Q1 2018 - \$3.2 million) resulting in a gross operating margin of \$0.4 million (Q1 2018 - gross operating deficit of \$0.1 million). The gross operating margin improved mainly due to the increase of 2,345 tonnes processed to 8,056 when compared to 5,711 tonnes processed in Q1 2018 which resulted in the increase in the gross margin per ton of \$74 for Q1 2019 when compared to Q1 2018.

During Q1 2019, the Company reported a net loss of \$0.2 million, a decrease in loss of \$0.2 compared to a net loss of \$0.4 million during Q1 2018. This change is partially explained by the combination of the increase in operating margin of \$0.5 million (Q1 2019 operating margin of \$0.4 compared to Q1 2018 operating deficit of \$0.1 million) and:

- The increase in corporate and administrative expenses by \$0.04 million (Q1 2019 - \$0.52 million compared to Q1 2018 - \$0.48 million), which is mainly explained by an increase in share-based payment of \$0.03 million (Q1 2019 - \$0.03 million compared to Q1 2018 - \$nil)

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- b) The increase in finance expenses by \$0.04 million (Q1 2019 - \$0.1 million compared to Q1 2018 - \$0.06 million); and
- c) The decrease in reversal of prior year impairments by \$0.22 million (Q1 2019 \$nil compared to Q1 2018 \$0.2 million).

### **Liquidity and Capital Resources**

As at July 31, 2018, the Company has financed its operations and met its capital requirements primarily through operational cash flow re-investment at the Chala One plant and the issuance of capital stock by way of private placements. The Company had cash of \$0.07 million at July 31, 2018, representing a decrease of \$0.19 million compared with cash of \$0.27 million at April 30, 2018.

The Company reported working capital of \$0.7 million at July 31, 2018 as compared to a working capital of \$0.7 million at April 30, 2018.

Management intends to fund operating and administration costs and debt and debt service costs over the year with the proceeds from gold doré and refined gold sales at the Company's Chala One and Kori One plants, from debt and equity financing and proceeds from option and warrant exercises. Notwithstanding these proceeds the Company expects to continue to be dependent on its capital resources which are largely determined by the strength of the junior resource markets, by the status of the Company's projects in relation to these markets and by its ability to compete for investor support of its projects.

### **Debt Restructuring and Debt Settlement**

As a result of the Restructuring and Debt Settlement of CAD\$2.7 million, on March 29, 2018 the Company issued a CAD\$1.6 million secured debenture with a maturity date on September 1, 2021, which bears an interest rate of 11% per annum, and has priority security over the assets of the Company (the "CAD Secured Debenture"). Principal is due on maturity, and the Company is required to make quarterly interest payments commencing on September 1, 2018. Accrued interest of \$0.06 million has been included in accounts payable at July 31, 2018.

Subsequent to the end of Q1-2019, the Company renegotiated the terms of a \$0.3 million secured debentures extending the term to maturity for an additional 24 months to August 31, 2020. Interest of 11% per annum is payable in six equal installments commencing May 31, 2019.

### **Share Issuances**

At July 31, 2018, there were 146,426,552 issued and fully paid common shares (April 30, 2018 – 146,426,552, post consolidation).

There were no share capital transactions for the three months ended July 31, 2018.

### **Summary of Outstanding Share Data**

As at the date of this MD&A, the Company had 256,810,110 common shares issued outstanding and 9,352,867 share-based options and 95,821,809 warrants outstanding (with exercise prices ranging between CAD\$0.075 and CAD\$3.01 per share). The fully diluted shares outstanding at the date of this MD&A is 361,984,776.



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### Transactions with Related Parties

#### (a) Related Party Transactions

The Company's related parties consist of the Company's directors, officers, former officers and companies associated with these individuals including the following:

- A company owned by Edward Kelly, the Company's CEO (also a director).
- A company controlled by Oliver Foeste, the Company's former CFO.
- A company owned by both George Moen, the Company's former Chief Operating Officer and Mark Wright, the Company's VP Operations & New Projects.
- A company owned by Mark Wright, the Company's VP Operations & New Projects.

The following expenditures were charged by related parties during the three months ended July 31, 2018 and 2017:

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	Three Months Ended July 31,	
	2018	2017
	\$	\$
Accounting and professional fees	-	20,058
Management salaries and consulting fees	69,529	77,924
Director fees	7,446	5,676
Share-based payments	28,318	-
Rent	-	14,237
	<b>105,293</b>	<b>117,895</b>

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Accounting and professional fees were paid to a company controlled by the former CFO. Consulting and management fees were paid to companies controlled by the CEO, former CFO and VP Operations & New Projects. Finance costs on interest bearing debt instruments were paid or accrued to companies controlled by the CEO and to a company controlled by a director. Office rent was paid or accrued to a company controlled by the former CFO.

#### (b) Compensation of Key Management Personnel

The Company's key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and includes the Directors, CEO, CFO, former CFO, former COO and VP Operations & New Projects. Compensation in respect of services provided by key management consists of consulting and management fees paid to companies controlled by the CEO, former CFO, former COO and VP Operations & New Projects, accounting fees paid to companies controlled by a director or company controlled by the former CFO, and by the issue of options. The compensation for key management personnel paid as management, accounting and former CFO fees was for the three months ended July 31, 2018 and 2017 as follows:

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	Three Months Ended July 31,	
	2018	2017
	\$	\$
Management fees	46,009	77,924
Salaries	23,520	-
Share-based payments	28,318	-
	97,847	77,924

### (c) Related Party Balances

All related party balances payable, including for business expenses reimbursements, interim advances to the Company, annual bonuses as approved by the board of directors, and for services rendered as at July 31, 2018 are non-interest bearing and payable on demand, and are comprised of \$121,336 (April 30, 2018 - \$121,206) payable to the CEO and a company controlled by the CEO, \$23,740 (April 30, 2018 - \$24,392) payable to the VP Operations & New Projects or a company controlled by the VP Operations & New Projects, \$78,922 (April 30, 2018 - \$85,006) payable to the CFO and \$12,510 receivable, net of \$45,107 payable (April 30, 2018 - \$20,251 receivable, net of 38,178 payable) to the Directors or companies controlled by the Directors.

### Commitments

In addition to the commitments in connection with the Company's financings, the Company has:

- a three-year rent agreement for its corporate office in Lima, Peru, with a monthly payment of \$3,574 and termination date on July 31, 2021, and
- a five-year rent agreement for its corporate office in Vancouver, Canada with a monthly payment of CAD\$3,726 and termination date on July 31, 2023.

During the three months ended July 31, 2018 the Company had commitments through a financial liability to sell approximately 742 ounces of gold doré to a third party, which would be settled at a future date in either cash or through the delivery of gold. At July 31, 2018, the fair value of amount owing under these contracts at the gold spot rate were \$905,945 (April 30, 2018 - \$974,394) and is included in derivative financial liability.

As at July 31 2018 the Company had commitments to sell approximately 226 ounces of gold doré to third parties, which was settled subsequent to July 31, 2018 through the delivery of gold. At July 31, 2018 the fair value of these commitments is \$246,359. Additionally, the Company received advances of \$500,000 to be offset against future sales of gold doré. Both amounts, totaling \$746,359 (April 30, 2018 - \$1,064,585) have been included as current deferred revenues.

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A summary of undiscounted liabilities and future operating commitments at July 31, 2018 are as follows:

	Total	Within One Year	One to Five Years
<b>Maturity analysis of financial liabilities</b>	\$	\$	\$
Accounts payable and accrued liabilities	1,738,079	1,738,079	-
Mineral notes payable	48,779	-	48,779
Secured debentures	1,470,737	300,000	1,170,737
	<b>3,257,595</b>	2,038,079	1,219,516
<b>Commitments</b>			
Office lease rental	300,444	77,244	223,200
Gold sale deferred revenue	746,359	746,359	-
Derivative financial liability	905,945	-	905,945
Asset retirement and reclamation obligations	588,459	-	588,459
	<b>2,541,207</b>	823,603	1,717,604
	<b>5,798,802</b>	2,861,682	2,937,120

#### Contingent Debenture

As a result of the 2016 Restructuring and Debt Settlement, the Company issued a \$0.78 million contingent debenture certificate (the “Contingent Debenture”), which only becomes payable on the date that the Company achieves two production milestones including (i) achieving 300 tonnes per day mineral processing capacity in Peru, and (ii) achieving three months of 200 tonnes per day average daily production. Upon re-instatement, the Contingent Debenture will have a 12% annual interest rate paid quarterly in arrears, twelve month term to maturity, certain early redemption features, and a general security agreement will be issued. If the performance milestones are not achieved before August 31, 2026, the Contingent Debenture will be cancelled. As at July 31, 2018 the value of the contingent debenture was \$nil.

#### Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements.

#### Critical Accounting Policies and Estimates

The preparation of the Company’s consolidated financial statements in accordance with IAS 1, *Presentation of Financial Statements*, requires management to make certain critical accounting estimates and to exercise judgment that affect the accounting policies and the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities in future periods.

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Significant accounting judgments that Management has made in the process of applying accounting policies which it considers have had the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to going concern, title to and economic recoverability and probability of future economic benefits of exploration and evaluation assets, date of commencement of commercial production, and determination of functional currency. Management considers the areas currently requiring a significant degree of estimation and assumption and which have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year, to include, but not be limited to, the value attributed to share-based compensation, convertible debentures and debentures with warrants, marketable securities, asset retirement and reclamation obligation, and deferred taxes.

These accounting policies and estimates are further discussed in the Company's annual audited consolidated financial statements at April 30, 2018.

### **Risks and Uncertainties**

Mineral processing and natural resources exploration, development, and production involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

#### *Operational Risks:*

The Company continuously monitors and responds to changes in operational risks, such as those noted below, and seeks to adhere to all regulations governing its operations.

**Mineral Supply:** The Company may not be able to source sufficient mill feed to economically operate both the Chala One and Kori One plants. In particular, the Company currently sources material exclusively from third party sources and faces a competitive marketplace for purchase of supply from Peruvian government-approved mineral sources. Consequently, the Company does not have control over the mineral grade, metallurgical recovery, nor quantities received, noting that the Company mitigates this risk by working with minimum cut-off purchase grades, providing fair terms to their customers, and sourcing material from established suppliers to ensure best efficiency and profitability of its plant operation.

**Production Schedules:** In relation to the mineral supply risks, no assurances can be provided that production schedules at the Chala Plant, and the related operating margins and cash flows, are achieved, noting that failure to meet these schedules can have an adverse impact on the Company's profitability, results of operations, cash flows, and overall financial conditions.

**Qualified Staff:** Due to the competitive marketplace, the Company may have difficulty in hiring and retaining skilled employees and contractors to source sufficient mineral feed, operate the Chala Plant effectively (noting the diversity of mill feed received), and effectively administer the Peruvian permitting, compliance, exportation, and regulatory functions.

**Regulations, Permits, and Hazards:** The Company must also manage changing governmental laws and regulations, and the Company cannot guarantee title to its properties and permits. The Company must also contend with environmental hazards (including discharge of pollutants or hazardous chemicals), as well as industrial accidents and occupational and health hazards, mechanical failures, the unavailability of materials and equipment, and lack of accessibility to required expertise.

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For the Three Months Ended July 31, 2018 and 2017

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**Resource Properties:** The Company may not be able to find and develop resource properties economically. In addition, the Company may have to deal with development and mining issues including pit slope failures, unusual or unexpected rock formations, poor or unexpected geological or metallurgical conditions, poor or inadequate ventilation, failure of mine communication systems, poor water conditions, interruptions to gas and electricity supplies, human error and adverse weather conditions.

**Acquisitions:** There is no assurance that the Company will acquire additional mineral properties and/or processing plants and any acquisitions may expose the Company to new risks, and the mining industry is intensely competitive for the acquisition of new properties and plants.

## *Financial risks:*

Financial risks include commodity prices, interest rates and fluctuating foreign exchange rates, all of which are beyond the Company's control. Additional financial risks are the Company's ability to raise capital to continue funding its operations.

## *Regulatory risks:*

Regulatory risks include the possible delays in getting regulatory approval to, and permits for, the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the Company must meet in order to maintain its exchange listing.

## *Financial Instruments and Risk:*

For a description of the risks faced by the Company with respect to financial instruments, see the Company's unaudited condensed interim consolidated financial statements for the three months ended July 31, 2018.

## **Cautionary Statement on Forward-Looking Information**

This MD&A contains forward-looking statements. All statements, other than statements of historical fact, constitute "forward-looking statements" and include any information that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future including the Company's strategy, plans or future financial or operating performance and other statements that express management's expectations or estimates of future performance.

Forward-looking statements are generally identifiable by the use of the words "may", "will", "should", "continue", "expect", "anticipate", "estimate", "believe", "intend", "plan" or "project" or the negative of these words or other variations on these words or comparable terminology. All such forward-looking information and statements are based on certain assumptions and analyses made by the Company's management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed, implied by or projected in the forward-looking information or statements.

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Important factors that could cause actual results to differ from these forward-looking statements include but are not limited to: risks related to the exploration and potential development of the Company's projects, risks related to international operations, the actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, future prices of minerals, as well as those factors discussed in the sections relating to risk factors of the Company set out in this MD&A.

There can be no assurance that any forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader should not place any undue reliance on forward-looking information or statements. Except as required by law, the Company does not intend to revise or update these forward-looking statements after their date of issue, or to revise them to reflect the occurrence of future unanticipated events.

## **Disclosure Controls and Procedures**

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited condensed interim consolidated financial statements for the period ended July 31, 2018 and this accompanying MD&A (together, the "Annual Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Annual Filings on SEDAR at [www.sedar.com](http://www.sedar.com).