

**PARA RESOURCES INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018**

**BACKGROUND**

This management's discussion and analysis of financial position and results of operations is prepared at November 09, 2018 and should be read in conjunction with the condensed interim consolidated financial statements of Para Resources Inc. (the "Company" or "Para") for the three and nine months ended September 30, 2018 and the consolidated financial statements for the fifteen months ended December 31, 2017 as presented in accordance with International Financial Reporting Standards. The Company's reporting currency is Canadian dollars; all figures are express in Canadian dollars unless otherwise stated.

The Company was a capital pool company pursuant to the policies of the TSX Venture Exchange ("Exchange"). On April 30, 2012, the Company completed its Qualifying Transaction by acquiring all of the issued and outstanding shares of Angra Metals Mineração Ltda. (previously named Stronghold Brasil Mineracao Ltda) ["ANGRA"] from Eagle Mountain Gold Corp. [formerly Stronghold Metals Inc. and now Goldsource Mines Inc.] after obtaining approval from the TSX Venture Exchange (the " Exchange"). Effective May 2, 2012, the Company commenced trading as a Tier 2 Issuer and currently trades under the symbol "PBR".

Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com)

**FORWARD-LOOKING INFORMATION**

This MD&A contains certain statements that may constitute "forward-looking statements". All statements, other than statements of historical fact, included herein, including but not limited to, statements regarding future anticipated property acquisitions, the nature of future anticipated exploration programs and the results thereof, discovery and delineation of mineral resources/reserves, business and financing plans and business trends, are forward-looking statements. 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, variations in the nature, quality and quantity of any mineral deposits that may be located, variations in the market for, and pricing of, any mineral products the Company may produce or plan to produce, the Company's inability to obtain any necessary permits, consents or authorizations required for its activities, the Company's inability 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, and other risks and uncertainties identified herein under "Risks and uncertainties".

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in any of those forward-looking statements. For this reason, investors should not attribute undue certainty to or place undue reliance on forward-looking statements.

Historical results of operations and trends that may be inferred from the following discussion and analysis may not necessarily indicate future results from operations. In particular, the current state of the global securities markets may cause significant fluctuations in the price of the Company's securities and render it difficult or impossible for the Company to raise the funds necessary to develop any of its present or future mineral properties.

## **DESCRIPTION OF BUSINESS**

The Company is a natural resource company engaged in the business of acquiring, exploring, developing and mining properties in North and South America.

The Company has been focused on developing the El Limon mine in an effort to move towards commercial production which, as at September 30, 2018 had not been achieved. As at September 30, 2018 the Company has capitalized all development and ramp up related expenditures and continues to work towards commercial production.

### **El Limon Mine**

The El Limon mine has recently completed commissioning trials and implementation of rehabilitation and upgrades to the processing plant. The startup at El Limon occurred in November/December of 2017, after a US\$7 million rehabilitation and plant upgrade. After the elimination of multiple bottlenecks and process improvements the plant has achieved its design throughputs, recoveries and availability. During this period the plant primarily reprocessed old tailing. Now that design criteria have been achieved, underground mining at El Limon mine will restart and the plant will begin to accept ore purchases from third parties. Third party purchases are expected to be primarily from miners who have entered the formalization process with the Company and the Government of Colombia allowing informal small artisanal mining operations on concessions of Zara, a wholly owned subsidiary of CML.

For the full year 2018, the Company anticipates processing a total 16,655 tons of material to yield 1,832 ounces of gold. The formalization of the artisanal miners through the process laid out by legislation, is continuing with several contracts in the process of formalization. This in addition to, the three contracts that have been signed, and from which ore is being received. Production figures assume sustained production with an average 85% recovery rate, the average head grade is between 7.0 and 8.0 grams per ton of gold and mill throughput growing from 135 tons per day in December to 225 tons per day by December 2018 at which point the Company expects to declare Commercial Production.

El Limon has not yet reached commercially viable operations. Based on this assessment, the Company has capitalized the operating costs less the proceeds from the sale of gold dore to Mineral Properties. A total of 581 ounces of gold dore were sold during the nine month period ending September 30, 2017 and 1,125 in the nine months period to September 30, 2018.

### **North Otu Properties**

On July 7, 2016, the Company announced that its purposely incorporated, 100% Colombian subsidiary, Zara Holdings S.A.S. ("Zara"), had entered into a Definitive Agreement with OTU Gold Ltd ("OTU") to acquire certain mining titles, as well as several mining applications, which are located within the Republic of Colombia, (collectively the "North Otu Properties") The acquisition of the mining titles was recorded as an asset acquisition at cost. The mining titles and application of the North Otu Properties are the only assets of Zara.

The purchase of the North Otu Properties and the assignment and transfer to Zara of these properties includes all the rights and interests of OTU except for the rights pertaining to non-metallic minerals on the North Otu Properties. The purchase price was US\$1,000,000 to be paid to OTU as follows:

- US\$500,000 non-refundable deposit (paid)
- US\$250,000 payable July 7, 2017 (paid - \$312,000)
- The issuance of 1,270,000 common shares of the Company. The shares were issued on September 9, 2016 and fair valued at \$317,500

Additionally, Zara will pay a 2% NSR royalty from the sale of minerals produced from the North Otu Properties. The NSR will be calculated from the results of direct exploitation, through formalization contracts or subcontracts of operations or any method that generate economic benefit as a result of the exploitation of minerals in these areas. Zara may, at its discretion, at any time until June 28, 2021, reduce the NSR from 2% to 1%, by paying the amount of US\$1,000,000 to Otu. This amount will be constituted by US\$750,000 in cash and US\$250,000 by the issuance of that number of common shares of Para calculated based on the volume weighted average closing price of Para's shares on the Exchange for the five trading days immediately before reduction of the NSR.

As at September 30, 2018 the North Otu Properties were not in production. The North Otu project will bring additional sources of feed material for the El Limon processing plant. The Company plans to quantify the amount of recoverable gold on these properties through an exploration program. The results of that program may justify an investment to further increase the through-put of the El Limon Mill. During the 15 months ended December 31, 2017 the Company incurred \$72,500 of exploration costs and considers the North Otu an exploration property.

### **GOLD ROAD ACQUISITION**

On August 23, 2017, the Company finalized an agreement to acquire 88% all of the assets comprising the "Gold Road Mine ("Gold Road") located in Oatman, Arizona. The assets include all of the patented and unpatented claims, the existing mill site and water rights claims, the mining and milling equipment consisting of a 500 tons per day cyanide leach facility, the related buildings, vehicles and all assets comprising the facility. Gold Road was last an operating mine in June 2016. The Company accounted for the acquisition as an asset acquisition as Gold Road does not constitute a business, it is a set of separate inputs that will require several processes to allow for these inputs to be converted into a business. The PEA on the Gold Road property is expected by the end of April which define the resource and the mine life.

The consideration for the assets is as follows:

- US\$767,540 paid on closing (\$963,416)
- US\$6,000,000 promissory note with annual principal repayments of US\$1,000,000, maturing on August 23, 2023. Interest on the loan is only accrued if the Company defaults on a payment, at which time the interest rate would be 10% per annum. The Company fair valued the note using a discount rate of 12% and determined the fair value to be US\$4,354,577 (\$5,465,865)
- The Company has also granted a 2% NSR on all mined products from the Gold Road Mine and a 1% NSR on all processed products from other than the Gold Road Mine.

The Company incurred US\$279,953 (\$351,397) of acquisition costs which are capitalized. The allocation of the total purchase price of \$6,780,678 is as follows:

<b>Allocation of Purchase Price</b>	<b>\$</b>
Mining Equipment	4,040,865
Gold Road mineral property	3,664,451
Non-controlling interest	(924,638)
	<b>6,780,678</b>

The Company has recorded the mining equipment as plant and equipment.

The Gold Road property has a rich gold mining history where over 700,000 ounces of gold were produced. There are good prospects for establishing a larger resource based on ore continuity at depth and on strike where very little drilling has occurred. The Company completed a NI 43-101 Technical Report on the property detailing historic production and demonstrating the extent of the Gold Road Vein and is currently conducting a NI 43-101 compliant Preliminary Economic Assessment with updated resource estimate.

On January 9, 2018, the Company received an evaluation report from its consultant RPM Global ("RPM") on the condition of the Gold Road Mill and an estimate of the capital necessary to begin processing mineralized material once the anticipated operation of the mine begins. In addition to the mill evaluation,

RPM also reviewed the project infrastructure to confirm it was sufficient to support the successful operation of the mill.

On February 16, 2018, the Company filed a revised NI 43-101 Technical Report on the Gold Road Mine and surrounding mineral claims, 88% owned by Para, on SEDAR. Key clarifications include cautionary parameters around historical estimates, improved disclosures of exploration targets and data verification.

### **Tucumã gold project**

The Company completed its Qualifying Transaction on April 30, 2012 by acquiring all of the issued and outstanding shares of Angra from Eagle Mountain Gold Corp. (formerly known as Stronghold Metals Inc. and now as Goldsource Mines Inc. (“Goldsource”)) as per a definitive share purchase agreement dated January 4, 2012. ANGRA holds 100% interest in the Tucumã gold project (“Tucumã”). In consideration, the Company issued 16,300,000 common shares to Goldsource. The Company also granted to Goldsource a 2% Net Smelter Royalty [“NSR”] from the production of minerals from the Tucumã property, subject to the Company’s right to purchase the NSR from Goldsource for \$1,500,000, which is exercisable at any time.

The Tucumã Project is a gold and copper/gold exploration project, which consists of six mineral concessions covering a total of 11,456 hectares located in the Carajas metallogenic province in the State of Pará, Brazil.

The Company has applied for a Trial Mining and Environmental license that will allow the Company to extract up to 50,000 cubic metres of saprolite. This mining trial will allow the company to refine processing methodology and to test the economic viability of mining at Tucuma before it applies for a definitive Mine Permit. Once the trial mining and plant processing has proven to be economically viable, the Company may decide to expand the trial mine and build a larger operation on site. The Company expects to make a profit from the trial mining operation.

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	<b>\$</b>	<b>\$</b>
<b>Acquisition Cost</b>		
Balance, beginning of period	1	1
Addition, during the period	-	-
Impairment charge	-	-
Balance, end of the period	1	1
<b>Deferred Exploration Costs</b>		
Balance, beginning of the period	1,741,451	1,509,409
Addition during the period		
Assays	-	1,468
Consulting	109,751	213,487
Field supplies	12,499	56,627
Licenses	21,363	22,392
Personnel	30,626	59,552
Project administration	43,762	93,933
Vehicle expenses	6,300	23,947
Foreign exchange on mineral property	(355,009)	(239,365)
Total additions during the period	(130,708)	232,041
Balance, end of the period	1,610,743	1,741,450
<b>Total Acquisition Cost and Deferred Exploration Costs</b>	<b>1,610,744</b>	<b>1,741,451</b>

During the 15 months ended December 31, 2017, the Company entered into a Letter of Intent with Northwestern Enterprises Limited (“Northwestern”), based in Tortola, BVI, whereby, Northwestern will acquire all of the quotas (Shares) of Angra Metals Mineracao Ltda. (“Angra”) (100% Para owned Brazilian

subsidiary), from Para in return for a commitment to continue to fund the day to day operations of Angra, to assist to expedite with the issuance of the Trial Mining permits and licenses and to finance the construction of a mine and processing mill. In addition, Angra will pay to Para a 4% NSR royalty until such time as Para has recovered all its investment to date (approximately \$2.5 million). Once the investment has been recovered, the NSR reduces to 2%. Angra has the right to reduce the NSR to 1% by paying Para an additional US\$1 million.

### Gold Road Project

On April 4, 2018, the Company entered into option agreements to acquire parcels of land adjacent to the Gold Road mine. The terms of option agreements are shown below:

Agreement	Max Term (Years)	License Fee Year 1, US\$	License Fee Year 2, US\$	License Fee Year 3, US\$	License Fee Year 4, US\$	Termination Date, US\$	Purchase Price <sup>1</sup> US\$
United Western to Telluride <sup>2</sup>	4	50,000	75,000	100,000	200,000	4/3/2022	4,179,535
Blue Ridge	3	5,000	5,000	5,000	n/a	4/3/2021	347,490
United Western Extension	3	5,000	5,000	5,000	n/a	4/3/2021	365,910
Gold Ore	3	5,000	5,000	5,000	n/a	4/3/2021	375,000
Gold Road	3	5,000	5,000	5,000	n/a	4/3/2021	240,000
Silver Creek	2	5,000	5,000	n/a	n/a	4/3/2020	327,000
		<b>75,000</b>	<b>100,000</b>	<b>120,000</b>	<b>200,000</b>		<b>5,834,935</b>

1 – Purchase prices are subject to adjustment based on acreages as determined by surveys.

2 – Exercise and closing contingent upon completion of acquisition of Oatman Water Company LLC.

The option agreements also provide, in aggregate, of up to 2,500,000 share purchase warrants of the Company, exercisable at the Company's discretion under a particular option agreement. The issuance of the share purchase warrants is subject to approval of the TSX Venture Exchange.

The Company paid the license fees of \$103,561 (US\$75,000 equivalent) on April 4, 2018.

## RESULTS OF OPERATIONS

### Nine months ended September 30, 2018

The Company had net income of \$1,040,386 for the nine months ended September 30, 2018, compared to net loss of \$5,722,997 for the nine months ended September 30, 2017. During the nine months ended September 30, 2018 the Company recorded a gain on debt forgiveness of \$7,420,579 related to the settlement of the Helm Bank, Rayforte and Red Rock Resources loans. The change is due to the following:

- Interest expense (\$2,121,069 vs \$1,277,994) increased during the nine months ended September 30, 2018 as it now includes interest due on the Gold Road and Conterra loans, and interest is accrued on additional loan tranches received from Conex.
- Consulting (\$925,885 vs \$1,031,692) decreased as the Company capitalized certain consulting expenditures related to the Gold Road Mine.
- Share-based compensation (\$743,310 vs \$627,725) increased due as more options were granted and vested during the nine months ended September 30, 2018.
- Investor relations (\$227,608 vs \$63,210) increased as the Company was more active in promoting the Company to investors.
- Office and miscellaneous (\$407,366 vs \$1,377,370) reduced as the contracted amount with the related party entity providing corporate services was reduced, and reductions in several other cost items.

- Salaries (\$1,068,982 vs \$758,984) increased due to an increase in number of employees at the Gold Road mine and head office compared to the prior year.

### Three months ended September 30, 2018

During the three months ended September 30, 2018 the Company recorded net loss of \$2,375,258 compared to net loss of \$1,826,217 for the three months ended September 30, 2017. The reduction of net loss is mainly due to lower consulting expenses incurred in the three months ended September 30, 2018.

### SUMMARY OF QUARTERLY RESULTS

The following table sets out financial information for the past eight quarters:

	Three Months Ended (\$)			
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Total Revenues	-	-	-	-
Net Income (Loss) Income	(2,375,258)	5,620,748	(2,205,104)	(2,889,636)
Net Loss Per Share	(0.01)	0.03	(0.01)	(0.02)

	Three Months Ended (\$)			
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Total Revenues	-	-	-	-
Net (Loss) Income	(1,826,218)	(1,708,120)	(2,188,660)	(1,371,325)
Net Loss Per Share	(0.02)	(0.02)	(0.02)	(0.01)

### LIQUIDITY AND CAPITAL RESOURCES

The Company's operations consumed \$10,218,214 in cash during the nine months ended September 30, 2018. The Company was able to offset this by raising gross proceeds of \$16,877,023 from financings completed during the nine months ended September 30, 2018. The Company's aggregate operating, investing and financing activities during the nine months ended September 30, 2018 resulted in an increase in its cash balance from \$104,233 at December 31, 2017 to \$2,391,580 at September 30, 2018. The Company's working capital at September 30, 2018 was \$7,411,780 (December 31, 2017 – working capital deficit of \$14,527,463). The Company will need additional capital to finance to develop the El Limon and the Gold Road mines.

As part of the consideration paid by CML to acquire Four Points, CML issued a promissory note for USD \$1,000,000 with an annual interest rate of 5% payable on May 15, 2018 to Redrock Resources. The Company fair valued the loan using an effective interest of 24.5% and determined the fair value of the loan to be \$952,818. During the nine months ended September 30, 2018 the Company recorded \$106,406 of interest and accretion expense and made cash payments of \$1,026,163 to settle the balance of the loan. The Company recorded a gain on debt forgiveness of \$79,029.

As at September 30, 2016 Four Points had an outstanding interest-bearing loan of US\$3,500,000 with the Helm Bank Colombia with a 5% annual interest rate. During the nine months ended September 30, 2018 the Company recorded a gain on debt forgiveness of \$5,914,370 as the loan was forgiven.

Upon completing the acquisition of CML the Company assumed its loan payable to Rayforte of US\$960,623 with an interest rate of 3% and an April 1, 2018 maturity date. The Company fair valued the loan using an effective interest of 24.5% and determined the fair value of the loan to be \$852,105. During the nine months

ended September 30, 2018 the Company recorded a gain on debt forgiveness of \$1,427,179 as the loan was forgiven.

During the 15 months ended December 31, 2017 the Company, through its 88% owned subsidiary Gold Road, entered into a loan agreement for \$3,000,000 USD with an annual interest rate of 12%, maturing on August 4, 2020. During the nine months ended September 30, 2018 the Company recorded \$297,750 of interest and accretion expense and repaid the restructured the loan by effectively converting it into a five-year convertible subordinated note.

As part of the consideration for the Gold Road Mine acquisition the Company issued a US\$6,000,000 promissory note with annual principal repayments of US\$1,000,000 maturing on August 23, 2023. Interest on the loan is only accord if the Company defaults on a payment, at which time the interest rate would be 10% per annum. The Company measured the note using a discount rate of 10% and determined the value to be US\$4,354,577 (\$5,465,865). The Company repaid the note on August 3, 2018 and recognized a loss of \$628,664.

During the nine months ended September 30, 2018 the Company received an additional \$2,746,210 in loans from Conex. On August 3, 2018, the Company restructured a significant portion of the Conex loans to replace them with a five-year convertible subordinated note.

On December 15, 2016, the Company entered into a Gold Secured Loan ("Gold Loan") in the amount of US\$1,000,000 to be repaid over 12 months in gold deliveries commencing September 15, 2017. As per the terms of the agreement the Company will deliver 104 ounces of gold at each delivery date, assuming a gold price of \$1,160, or the cash equivalent. The amount of each gold delivery will be based on the closing gold price at each delivery date and therefore the lender will not be exposed to any future gold price fluctuations. During the period ended December 31, 2017, the Company entered into an amended agreement to extend the gold repayments from September 15, 2017 to September 15, 2018. On August 3, 2018, the Company restructured a loan to replace it with a five-year convertible subordinated note.

On August 3, 2018, the Company restructured the Conex loans, Conterra loan and Gold secured loan, whereby all outstanding loans and accrued interest, previously made to the Company and to its subsidiary Gold Road Mining Corp. were converted into a five-year Convertible Subordinated Note, convertible into common shares of the Company. The interest is compounded monthly at 12% and principal and compounded interest are repayable at the end of the term to Conex Services Inc., a related party. The Company recognized a loss of \$29,047 from debt extinguishment due to transaction costs incurred.

	\$
<b>Balance, December 31, 2017</b>	-
Additions	10,652,533
Interest	204,095
<b>Balance, September 30, 2018</b>	<b>10,856,628</b>

On August 3, 2018, the Company, along with its subsidiaries, Z79 Gold (USA) Corp. and Gold Road Mining Corp. has entered into a pre-paid forward gold purchase agreement (the "PPG Agreement"), with PPG Arizona Holdings LP, an entity affiliated with Pandion Mine Finance LP ("Pandion"). Under the PPG Agreement, Pandion has advanced US\$14,450,000 (equivalent of \$18,800,000) to the Company, as pre-payment for the purchase of 44,100 ounces of gold from Para and its subsidiaries (the "Gold Financing"). No gold is required to be delivered by the Company during the first 12 months. Pandion would pay to the Company, together with each delivery of gold, an amount per ounce of gold equal to the market price at the time, less a specified discount. During the term of the PPG Agreement, Pandion also participates in the upside of any increase in the price of gold. Pandion may elect to reduce the Contract Quantity by up to 2,000 ounces in exchange for the issuance of up to 6,352,683 common shares of the Company. Under the terms of the PPG Agreement, the Company's obligations are secured by a first priority charge in favour of

Pandion on all the assets of the Company and its subsidiary companies, Z79 Gold (USA) Corp., Gold Road Mining Corp., as well as pledges of the shares of Z79 Gold (USA) Corp. and Gold Road Mining Corp.

As at September 30, 2018 the Company had not yet achieved continuous profitable operations and had an accumulated deficit of \$16,372,623 and may incur further losses in the development of its business. These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. As a result, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability to operate profitably and/or to raise adequate funding through equity or debt financings to discharge its liabilities as they come due. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

## CAPITAL EXPENDITURES

During the nine months ended September 30, 2018 the Company incurred \$3,787,091 (2017 - \$4,817,710) in cash development costs related to mineral properties.

The Company incurred more costs on mineral properties during the nine months ended September 30, 2018 (\$2,858,293 in 2018 vs \$2,366,982 in 2017). The Company did not acquire new properties during the nine months ended September 30, 2018, while \$312,000 and \$1,314,813 were spent to acquire North Otu and Gold Road properties, respectively.

## INVESTING AND FINANCING ACTIVITIES

On February 15, 2018, the Company closed a non-brokered private placement (the "Private Placement") for total gross proceeds of \$1,557,160. The Private Placement consisted of 7,785,800 units at a price of \$0.20 per unit (each a "Unit"). Each Unit is comprised of one common share of the Company and one-half common share purchase warrant (each whole such warrant a "Warrant"). Each Warrant entitles the holder to acquire one common share of the Company for a period of 18 months at a price of \$0.30, subject to an accelerated expiry if the closing trading price of the Company's shares is greater than \$0.40 for a period of 10 consecutive trading days.

On June 5, 2018, the Company closed the first tranche of a non-brokered private placement consisting of 14,049,000 units (each a "PP Unit") at \$0.20 per PP Unit for gross proceeds of \$2,809,800.

On June 29, 2018 the Company closed the 2nd tranche consisting of 3,025,000 PP Units at \$0.20 per PP Unit for gross proceeds of \$605,000. Each PP Unit consists of one common share of the Company and one share purchase warrant. Each warrant is exercisable for a period of 3 years from the date of issuance at an exercise price of \$0.30, subject to certain acceleration clauses. The Company fair valued the warrants at \$60,500 using the residual method, first allocating value to the Common shares. The Company incurred cash financing costs of \$57,269.

On July 10, 2018, the Company closed the third tranche of a non-brokered private placement consisting of 1,575,000 PP Units at \$0.20 per PP Unit for gross proceeds of \$315,000.

## RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at the exchange amount of consideration established and agreed to by the related parties. The Company paid or accrued remunerations to its directors and officers during the three and nine months ended September 30, 2018 and 2017 are as follows:

<b>Three months ended</b>		<b>Nine months ended</b>	
<b>September 30,</b>		<b>September 30,</b>	
<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

Consulting fees	68,243	113,502	204,728	378,025
Salaries	112,004	77,912	336,011	321,866
Share-based payments	29,786	90,342	490,716	90,342
	210,033	281,756	1,031,456	790,233

As at September 30, 2018 the Company had \$252,946 (2017 - \$113,050) in amounts owing to related parties. These amounts consisted of the following:

- \$4,739 (2017 - \$52,908) was owing to a private company controlled by the executive, the amount owing bear interest at 1% per month, compounded monthly and due on demand. During the period ended September 30, 2018 the Company also paid \$29,898 of office rent to a Company controlled by CEO (2017 - \$nil).
- \$19,199 (2017 - \$19,199) was owing to Goldsource Mines Inc., a company with common directors and officers.
- \$23,252 (2017 - \$23,252) was owing to a private company which is controlled by the director of the Company.
- \$205,756 (2017 - \$70,730) was due to the executive and director of the Company, the amounts owing are non-interest bearing and due on demand.

Compensation paid to key management personal for the periods ended September 30, 2018 and 2017 is identical to the table above. The Company paid \$29,995 to directors of the Company in the form of share-based payments during the nine months ended September 30, 2018.

## OUTSTANDING SHARE DATA

As at the date of this report, the following securities were outstanding:

Shares issued and outstanding	164,218,240
Warrants	32,668,524
Stock options	11,490,000

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## MATERIAL CONTRACTS

On January 1, 2016, the Company entered into a Consultancy and Management Agreement with Hampson Equities Ltd, a company wholly owned by Geoff Hampson whereby Hampson Equities Ltd. agreed to provide the services of Geoff Hampson to act as President and Chief Executive Officer of the Company. Services to include the provision of the services of James P Taylor to act in the capacity of CFO, the provision of the services of Andrea Laird to act in the capacity of Administrator and Corporate Secretary, the provision of the services of Staff Accountant and all offices supplies, communication and other management services as may be needed from time to time collectively, "the Management Team". In consideration, the Company agreed, among other terms, to pay Hampson Equities a monthly fee of USD \$25,000, which has subsequently been adjusted downward to reflect the change in CFO's.

## RISKS AND UNCERTAINTIES

### Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of risks including interest rate risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is carried out by the

officers of the Company as discussed with the Board of Directors. The officers of the Company are charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the expectations of the Board of Directors.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to interest rate risk with respect to its cash and cash equivalents; however, the risk is minimal because of their short-term maturity. All of the Company's interest-bearing debt instruments have fixed interest rates and are not subject to interest rate risk.

#### Credit risk

Credit risk is the risk of a loss if a customer or third party to a financial instrument fails to fulfill its contractual obligations. The Company's credit risk arises from cash and accounts receivable. The Company mitigates this risk by placing its cash and cash equivalents in large reputable Canadian financial institution. The Company considers the credit risk related to cash and accounts receivable to be minimal.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. To mitigate this risk, the Company develops forecasts and budgets to better manage its obligations while supporting ongoing operations and capital expenditures. The Company relies on debt and equity offerings to raise the financing it needs to meet its ongoing requirements. The Company's cash is available on demand.

#### Foreign currency risk

The Company has operations in Canada, Brazil and Colombia and is exposed to foreign exchange risk due to fluctuations in the US dollar, Brazilian real and Colombian peso. Foreign exchange risk arises from financial assets and liabilities denominated in these foreign currencies. The sensitivity of the Company's net loss to a 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's net income by approximately \$104,038.

The Company's financial assets and liabilities as at September 30, 2018 are denominated in Canadian dollars, Brazilian real, Colombian Peso and US dollars as follows:

	Canadian dollar	US dollar	Colombian Peso	Brazilian real	Total
	\$	\$	\$	\$	\$
<b>Financial assets</b>					
Cash	2,161,102	145,043	82,633	2,802	2,391,580
Short-term investments	5,825,250	-	-	-	5,825,250
Accounts receivable	43,549	-	709,284	-	752,833
Derivative asset	3,015,257	-	-	-	3,015,257
	11,045,158	145,043	791,917	2,802	11,984,920
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities	376,354	88,913	1,194,481	26,603	1,686,351
Loans	12,213,333	-	-	-	12,213,333
Pre-Paid Forward Gold Purchase Agreement	17,944,562	-	-	-	17,944,562
Derivative liabilities	3,816,418	-	-	-	3,816,418
	34,350,667	88,913	1,194,481	26,603	35,660,664

The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk.

### **Operational risks**

The Company's operational risks include economically developing their mining properties, creating market awareness for the Company, navigating and managing potential changes in governmental laws and regulations in different countries, hiring and retaining skilled employees and contractors, environmental hazards from its mining and exploration activities, industrial and occupational accidents and hazards, equipment failures, unexpected environmental conditions, failures or downtime at the mining operations due to weather or other events and human error.

The Company monitors these risks on an ongoing basis and responds to changes or actions involving the factors. The Company also seeks to adhere to all government regulations in its operations.

### **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

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

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

### **Estimates**

#### **Useful life of depreciable assets**

Management reviews its estimate of useful lives of depreciable assets at each reporting date, based on the expected utility of the assets.

#### **Impairment of non-current assets**

The Company assesses each asset or CGU at each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, reserves and operating performance. These estimates and assumptions are subject to risk and uncertainty and therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. Management has assessed its CGUs as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets/CGUs.

#### **Mineral resource estimate**

The life of the El Limon mine is determined from the ore reserves that are available to be extracted at the end of each reporting period. The Company initially estimates the ore reserve available based on the

findings of qualified, independent, mining professionals. These estimates are updated from time to time as additional technical and economic information becomes available.

Factors that impact the computation of reserves available include the geological data on the size, depth and shape of the ore body, the prevailing and expected market price for the underlying metals to be extracted and the expected costs to extract and process the mined material.

Changes in the mineable ore reserve available may impact the carrying value of mine property, exploration and evaluation properties, plant and equipment, site closure and reclamation provision and changes in the recognition of deferred tax amounts in addition to changes in the recognition of depreciation and depletion.

### **Income taxes**

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that there are enough taxable temporary differences relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

### **Share-based payment transactions**

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

### **Judgments**

#### **Business combination**

On the acquisition of a subsidiary, the Company must determine whether the acquisition is a business combination by applying the definition in IFRS 3 Business Combinations. If the assets and liabilities assumed do not constitute a business the transaction would be accounted for as an asset acquisition. Management has determined that the acquisition of CML constituted a business combination as CML met the definition of a business. A business consists of inputs to which processes are applied resulting in outputs that provide a return to the Company and its shareholders.

Business combinations are accounted for using the acquisition method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition.

#### **Exploration and evaluation assets**

The Company's investment in and expenditures on its mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

Although the Company has taken steps to ensure the title to mineral property interests in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these

procedures may not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral property interests, the potential for production on the property may be diminished or negated.

### **Commencement of Commercial Production**

The Company assesses the stage of each mine under construction to determine when a property reaches the stage when it is substantially complete and ready for its intended use. Criteria used to assess when a property has commenced commercial production include, among other considerations:

- the level of capital expenditures incurred relative to the expected costs to complete;
- the completion of a reasonable period of testing of the mine plant and equipment;
- the ability to produce saleable metals;
- the attainment of relevant permits;
- the ability to sustain ongoing production; and
- the achievement of pre-determined production targets.

When management determines that a property has reached commercial production, costs capitalized during development are amortized.

### **Functional Currency**

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency involves certain judgements to determine the primary economic environment of an entity. The Company re-evaluates the functional currency of its entities when there is a change in events and conditions which previously determined the primary economic environment of an entity.

### **Impairment of exploration and evaluation assets**

The application of the Company's accounting policy for determining whether it is likely that costs incurred on exploration and evaluation assets will be recovered through successful exploration and development also requires significant judgment. Management evaluates impairment with consideration of the economic and political environments and current mining codes of the countries where they perform exploration.

## **ACCOUNTING STANDARDS**

The following accounting standards were adopted during the nine months ended September 30, 2018:

### **IFRS 9, Financial Instruments**

This standard replaces IAS 39 Financial Instruments: Recognition and Measurement and became effective for the Company on January 1, 2018. IFRS 9 includes requirements for classification and measurement of financial assets and financial liabilities; impairment methodology for financial instruments; and general hedge accounting. IFRS 9 has specific requirements for whether debt instruments are accounted for at amortized cost, fair value through other comprehensive income or fair value through profit or loss. IFRS 9 requires equity instruments to be measured at fair value through profit or loss unless an irrevocable election is made to measure them at fair value through other comprehensive income, which results in changes in fair value not being recycled to the income statement. The adoption of this standard did not have a material measurement or disclosure impact on the Company's financial statements.

### **IFRS 15, Revenue from Contracts with Customers**

This standard was issued in May 2014 and establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15

became effective for the Company on January 1, 2018. The adoption of this standard did not have a material measurement or disclosure impact on the Company's financial statements.

The following standard has been issued but is not yet effective:

### **IFRS 16, Leases**

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and discloses 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. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact the new guidance is expected to have on its consolidated financial statements.

### **DISCLOSURE CONTROLS AND PROCEDURES**

In connection with National Instrument 52-109 (Certification 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 condensed interim consolidated financial statements for the nine months ended September 30, 2018 and this accompanying MD&A (together the "Interim 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 Interim Filings on SEDAR at [www.sedar.com](http://www.sedar.com).

### **SUBSEQUENT EVENTS**

#### **Warrant Expiry**

During the month of October 2018, a total of 4,147,688 expired and in November 2018, a total of 1,825,000 expired. This has resulted in a reduction in the outstanding warrants of 5,972,688.