

*This "Management's Discussion and Analysis" has been prepared as of September 27, 2018 and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended May 31, 2018 and the audited consolidated financial statements and related notes thereto for the year ended May 31, 2017 (the "Financial Statements"). Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All amounts in the financial statements and in this discussion and analysis are expressed in Canadian dollars, unless otherwise indicated.*

## **FORWARD LOOKING INFORMATION**

This management discussion and analysis ("MD&A") contains certain forward-looking statements and information relating to Oroco Resource Corp. ("Oroco" or the "Company") that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate," "believe," "estimate," "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

## **THE COMPANY**

The Company was incorporated under the British Columbia Business Corporations Act on July 7, 2006. The Company's head office is located at Suite 1201 - 1166 Alberni Street, Vancouver, B.C., V6E 3Z3. The Company and its subsidiaries are engaged in the acquisition, exploration and development of mineral properties in Mexico with a primary focus on the assembly of the mineral concessions which make up the Santo Tomas porphyry copper project in Sinaloa State, Mexico.

The Company is listed on the TSX Venture Exchange ("TSX-V") under the symbol "OCO", and it also trades on the Frankfurt Stock Exchange Open Market under the trading symbol "OR6" and the US OTC exchange under the trading symbol "ORRCF.PK". The Company's website address is: "[www.orocoresourcecorp.com](http://www.orocoresourcecorp.com)".

The Company has two wholly owned subsidiaries: Minera Xochipala S.A. de C.A. ("Minera Xochipala") and 0973496 B.C. Ltd. Minera Xochipala is used to hold the Company's Mexican mining concessions and to conduct business in Mexico. 0973496 B.C. Ltd. holds 98% (49 of 50 shares) in Minera Xochipala, with the remaining 2% (1 share of 50) being held directly by the Company. The Company also holds an inactive, nominative subsidiary incorporated in Canada.

## **MINERAL PROPERTIES**

### **Santo Tomas Properties, Sinaloa State, Mexico**

The Company is focused on the assembly of mineral concessions which make up the Santo Tomas porphyry copper project in Sinaloa State, Mexico. The Santo Tomas project is a copper porphyry deposit defined by a total of 106 diamond drill and reverse circulation drill holes totaling approximately 30,000 m.

In February 2018, the Company acquired a 77.5% interest in each of the La China II and the AMP Santo Tomas Red 1 concessions and an application for the Papago 17 concession (the “Santo Tomas Properties”) which are contiguous to the concessions which cover the known core of the Santo Tomas mineralized structure (the “Core Concessions”).

The AMP Santo Tomas Red 1 and La China II concession had previously been cancelled for reason of failure to pay tax arrears. However, the vendor has stated that the notices of deficiency and of cancellation were not properly served upon it as required by applicable laws and regulations. The vendor has filed appeals of the cancellations and is confident that the appeals will be successful. The Company’s Mexican legal counsel has confirmed that failure to properly serve the notices provides valid legal grounds to have the cancellation nullified and the AMP Santo Tomas Red 1 and La China II concessions re-instated. The AMP Santo Tomas Red 1 and La China II concession Santo Thomas Properties were acquired for a total cash payment of \$40,544 (MXN\$600,000).

The interest in the Papago 17 application was acquired for a cash payment of \$6,703 (MXN\$100,000) and the issuance of 2,000,000 common shares, valued at \$240,000. The Papago 17 concession was subsequently granted on June 19, 2018.

Xochipala Gold S.A de C.V. (“XG”) holds an un-registered, 100% contractual interest in the Core Concessions, the registration of which interest is subject to a legal dispute between Compania Minera Ruero, S.A. de CV. (“CMR”), the vendor of the interest which holds registered title, and third parties. XG’s interest in the Core Concessions is subject to net smelter royalties of 1.5% and agreements with third parties granting these parties a non-registered, contractual aggregate 15% interest in the Core Concessions. The third parties contractual interest in the Core Concessions may be diluted in tiered steps down to 10% by the expenditure by XG of up to \$30,000,000, with no minimum expenditure obligations.

Altamura Copper Corp. (“Altamura”), a British Columbia company, holds a 65% interest in XG, which interest may be increased in tiered steps to 87.5%, which would represent an 81% interest in the combined Santo Tomas Properties and Core Properties, by funding XG and incurring expenses on behalf of XG of up to \$30,000,000, with no minimum funding obligations.

The Company holds a 13% equity interest in Altamura Copper Corp. An officer of the Company and a private company owned by the spouse of a director and officer of the Company are also shareholders of Altamura. The Company and Altamura have no common directors, officers or control persons.

Altamura also holds an indirect 50% interest in CMR and an option to acquire the remaining balance of CMR and the remaining equity of XG that it does not already hold for US\$16,000,000, subject to a 1% net smelter royalty, one half of which may be bought back for US\$2,000,000.

## **MINERAL PROPERTIES (cont'd...)**

### **Santo Tomas Properties, Sinaloa State, Mexico (cont'd...)**

Pursuant to an option agreement dated September 27, 2018 between the Company, Altamura and the shareholders of Altamura other than the Company (the "Other Shareholders"), Oroco holds an option (the "Altamura Option") to acquire all of the Other Shareholders' shares of Altamura (the "Altamura Shares") in consideration for 37,800,000 common shares of the Company. The Altamura Option has a three year term. In consideration for the granting of the Altamura Option, Oroco also entered into a loan agreement with Altamura to advance (the "Advances"), for working capital purposes, an aggregate amount of up to US\$600,000, of which US\$275,000 has already been advanced to Altamura. Each individual Advance is subject to the approval of Oroco.

Pursuant to an agreement dated September 27, 2018 (the "Advances Conversion Agreement") between the Company and Altamura, in the event the Company does not exercise the Altamura Option, the Company may convert the Advances into common shares of Altamura at a price of US\$0.057 per share at any time during the six month period following the expiry of the Altamura Option, if not exercised. The Advances Conversion Agreement supersedes and replaces the September 26, 2017 agreement between the Company and Altamura, as amended, pursuant to which the Company held the option to purchase up to 3,500,000 common shares of Altamura at a price of US\$0.057 per share and to pay for such shares from the Advances.

The Company incurred \$60,546 in deferred exploration expenditures on the Santo Tomas Properties during the year ended May 31, 2018.

### **Xochipala Property, Guerrero State, Mexico**

The Xochipala Property, comprised of the Celia Gene (100 ha) and the contiguous Celia Generosa (93 ha) concessions, is located in the Municipality of Eduardo Neri, Guerrero, Mexico at the southern end of the Guerrero Gold Belt (the "GGB"). This region encompasses a northwest trend of intrusions with associated gold bearing iron skarn deposits. The GGB is currently the focus of aggressive exploration, delineation, development, and mining by a number of mining companies who have to date delineated gold reserves and measured and indicated resources in excess of 20 million ounces. The discovery of these deposits, beginning in the late 1980s, has led to the development of a predictable exploration model along the trend of the GGB.

The gold mineralization in each of these deposits is found in the contact (skarn) area between felsic to intermediate intrusives and the overlying calcareous sediments. Each of these deposits has a geophysical signature consisting of a strong high magnetic anomaly caused by iron mineralization in the endoskarn (skarn in the intrusive) and exoskarn (skarn in the sediments) in the contact zone between the intrusive and the overlying sediments. All of the major gold deposits in the GGB are hosted in extensive mineralized endoskarn and exoskarn zones associated with similar geological conditions. The Xochipala Property has geological characteristics similar to the known deposits, including the existence of a strong magnetic signature and areas of endoskarn and exoskarn.

The Xochipala Property, which is surrounded by concessions owned by Goldcorp Inc., lies approximately four kilometres southeast of Goldcorp's Los Filos mine, just one kilometre from the town of Xochipala and 30 kilometres by good paved road from the state capital of Chilpancingo. The area is well served by a network of local roads. The district is served with hydroelectric power from the Caracol Dam and water is locally available.

## **MINERAL PROPERTIES (cont'd...)**

### **Xochipala Property, Guerrero State, Mexico (cont'd...)**

During 2014 the Company conducted an exploration program consisting of mapping; road cuts, outcrop chip sampling, and confirmed location of infrastructure, historic showings, and drill holes. The focus of the mapping and sampling program is the extensive areas of marbleized limestones (exoskarns) and highly altered, ferruginous intrusives (endoskarns) that have been identified on the property and which are indicative of potential mineralization in the vicinity of the two kilometres of identified contact zone. Preliminary mapping and assay results indicate that high grade gold mineralization exists at the Xochipala Property in the endoskarn and exoskarn. The Company continues to assess the appropriate next stage of exploration.

The Company incurred \$41,425 in deferred exploration expenditures on the Xochipala Property during the year ended May 31, 2018.

### **Salvador Property, Guerrero State, Mexico**

The Salvador Property is a 100 hectare mining concession 100% owned by Minera Xochipala which lies approximately 25 kilometers to the west of the Xochipala Property and approximately 30 kilometers west of Chilpancingo, Guerrero. The Salvador property also hosts skarn mineralization associated with felsic intrusions similar to mineralization in the known ore deposits in the area.

The Company did not conduct exploration on the Salvador Property during the year ended May 31, 2018.

## **CERRO PRIETO ROYALTY**

Pursuant to the sale of the Company's interest in the Cerro Prieto Property to Goldgroup in fiscal 2013, Goldgroup agreed to pay to the Company a production royalty (the "Production Royalty") quarterly in arrears. The Production Royalty, payable for each month in which the monthly average of the daily PM London gold fix is in excess of US\$1,250 per ounce, is calculated at the rate of 20% of the dollar value of that excess for each ounce of gold produced from the property during that month, to a maximum royalty of US\$90 per ounce. This Production Royalty will be payable for each and every ounce of the greater of:

- i) the first 90,000 ounces of gold produced from the Property; and
- ii) all ounces of gold produced from the Property until the completion of five full years of commercial production, which period commenced on March 1, 2014.

During the year ended May 31, 2018, the Company accrued or received \$142,151 (2017 - \$106,125) in royalty revenue.

## RESULTS OF OPERATIONS

For the year ended May 31, 2018, the Company recorded a loss from continuing operations of \$1,377,241 (2017 - \$155,369) or \$0.02 per share (2017 - \$0.01). The Company has no income producing assets. The Company reported royalty revenues during the period from the Cerro Prieto Property. The Company is considered to be in the acquisition and exploration stage.

The Company is focused on the assembly of mineral concessions which make up the Santo Tomas porphyry copper project in Sinaloa State, Mexico. The Company will continue with the exploration of the Xochipala Property and the search for other resource assets and other business opportunities.

For the year ended May 31, 2018, the Company recorded operating expenses of \$1,508,202 (2017 - \$867,145), which included business development of \$61,311 (2017 - \$96,778), consulting fees of \$68,925 (2017 - \$67,934), management and directors fees of \$244,500 (2017 - \$245,500), professional fees of \$284,525 - (2017 - \$185,416), property investigation costs of \$336,942 (2017 - \$134,207), and share-based payment of \$184,289 (2017 - \$Nil) as it pursued the assembly of mineral concessions which make up the Santo Tomas porphyry copper project and the advancement of its Xochipala Property.

## SELECTED ANNUAL INFORMATION

The following information is derived from the financial statements of the Company for each of the years ended May 31, 2018, May 31, 2017, and May 31, 2016:

	May 31, 2018	May 31, 2017	May 31, 2016
Royalty revenue	\$142,151	\$106,125	\$3,656
Interest income	\$ -	\$41,941	\$134,579
Loss from continuing operations	\$(1,377,241)	\$(155,369)	\$(738,962)
Net loss	\$(1,377,241)	\$(155,369)	\$(738,962)
Comprehensive loss for the period	\$(1,457,630)	\$(1,100,277)	\$389,366
Basic and diluted loss per share	\$(0.02)	\$(0.00)	\$(0.01)
Total assets	\$2,944,342	\$2,984,203	\$4,144,552
Total liabilities	\$310,302	\$213,650	\$273,722
Total non-current liabilities	\$13,443	\$13,443	\$13,443

For the year ended May 31, 2018, the loss for the year included operating expenses of \$1,508,202 (2017 - \$867,145). The increase in expenses can be mainly attributed to: an increase in foreign exchange loss of \$115,455 due to fluctuation in exchange rates, an increase in professional fees of \$99,109, property investigation costs of \$202,735, and travel of \$26,798 due to the Company analyzing potential concession acquisitions in Mexico, and in crease in share-based payment of \$184,289 from the grant of options in the current year.

Also included in the operating loss is revenue from the Production Royalty of \$142,151 (2017 - \$106,125), the sale of available for sale securities (common shares of Goldgroup) of \$7,678 (2017 - \$521,549), and the equity loss in associated company of \$18,868 (2017 - \$nil). During fiscal 2018, pursuant to an agreement with Altamura dated September 26, 2017, as amended, the Company holds an option to convert the Advances into shares of Altamura (the "Share Option") at a price of US\$0.80 per share, to a maximum of 250,000 shares. Exercise of the Share Option for all 250,000 shares would result in the Company holding 675,000 common shares, representing a 20% interest in Altamura and according, as of September 27, 2017, the investment has been accounted for as an equity investment and, as such, an equity loss was recorded.

## SELECTED ANNUAL INFORMATION (cont'd...)

The significant reduction in total assets for the year ended 2017 is primarily due to the repayment of the note receivable by Goldgroup.

## SELECTED QUARTERLY RESULTS

Quarter	May 31, 2018	Feb 28, 2018	Nov 30, 2017	Aug 31, 2017	May 31, 2017	Feb 28, 2017	Nov 30, 2016	Aug 31, 2016
Operating loss	305,090	299,735	\$412,207	\$491,170	\$314,600	\$220,948	\$146,797	\$184,800
Other items	(21,950)	(52,749)	\$(46,021)	\$(10,241)	\$(14,991)	\$(42,161)	\$(43,674)	\$(610,950)
Loss (gain) for the period	283,140	246,986	\$366,186	\$480,929	\$299,609	\$178,787	\$103,123	\$(426,150)
Loss (gain) per share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$0.01)
Total assets	\$2,944,342	\$2,126,671	\$2,063,264	\$2,673,393	\$2,984,203	\$3,454,198	\$3,690,185	\$4,866,694
Total liabilities	\$310,302	\$293,179	\$265,387	\$192,902	\$213,650	\$204,574	\$193,071	\$226,343

The most recent quarter had an increased loss from operations, mainly due to increases in professional fees (as a result of the audit) and share-based payment.

## LIQUIDITY AND CAPITAL RESOURCES

As at May 31, 2018, the Company had working capital of \$679,118 (2017 - \$1,199,562). Cash was \$938,804 at May 31, 2018 (2017- \$1,373,872). For the year ended May 31, 2018, cash used in operations was \$1,225,275 (2017 - \$889,994). For the year ended May 31, 2017, cash provided by (used in) operations was \$(106,621) (2017 - \$1,856,739). In fiscal 2017, \$1,468,183 was collected from settlement of the note receivable and interest income. For the year ended May 31, 2018, cash provided by financing activities was \$896,828 (2017 - \$Nil). Proceeds of \$900,000 were received from the issuance of 9,000,000 units at a price of \$0.10 per unit by way of a private placement, with each unit consisting of one common share and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to acquire an additional common share at a price of \$0.16 per common share, for a period of 18 months from the date of issue, subject to acceleration provisions. The Company paid a total of \$18,172 in cash for fees. The Company also received proceeds of \$15,000, pursuant to the exercise of 200,000 stock options.

As at May 31, 2018, the Company held available for sale securities of \$548,600, which included 5,601,250 shares of Goldgroup (the "Goldgroup Shares") valued at \$448,100.

## OUTLOOK

The Company has as its main assets the Altamura Option, Santo Tomas Properties, the Xochipala Property, 5,601,250 shares of Goldgroup and 425,000 shares (13%) of Altamura, with an option to convert the Advances to more commons shares of Altamura.

## **OUTLOOK (cont'd...)**

The Company also holds the Production Royalty, which is contingent upon the number of ounces of gold produced at Cerro Prieto and upon the monthly average price of gold being above US\$1,250 per ounce in the month the gold is produced. There is no certainty that the Company will receive any further Production Royalty payments.

The Company also holds 75,000 shares of a public company whose shares are listed for trading on the TSX-V, at a cost of \$22,280 and valued at \$25,500 as at May 31, 2018, and 375,000 common shares, at a cost of \$75,000, in a private British Columbia company ("BC Co."), which provides satellite based, geological services to the mining and other industries, which are able to identify, model and monitor subsurface geological structures. The Company and BC Co. have a common director.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company currently has no off-balance sheet arrangements that would potentially affect current or future operations, or the financial condition of the Company.

## **TRANSACTIONS WITH RELATED PARTIES**

During the year ended May 31, 2018, the Company entered into transactions with related parties as follows:

- (a) paid or accrued management and directors fees totalling \$157,500 to a company controlled by Craig Dalziel, President and CEO of the Company, for management and other services, and to Mr. Dalziel directly for Mr. Dalziel's services as director of the Company;
- (b) paid or accrued consulting fees totalling \$21,600 to a company controlled by Craig Dalziel, for project research services;
- (c) paid or accrued professional and consulting fees totalling \$132,000 to David Rose, Corporate Secretary of the Company, for legal and management consulting services provided to the Company;
- (d) paid or accrued consulting and directors fees totalling \$42,000 to a company controlled by Steve Vanry, Chief Financial Officer of the Company, and to Mr. Vanry directly, for his services as Chief Financial Officer and director;
- (e) paid or accrued directors fees totalling \$7,500 to Robert Friesen for Mr. Friesen's services as a director; and
- (f) paid or accrued directors fees totalling \$7,500 to Stephen Leahy.

As at May 31, 2018, \$215,151 was owing to officers and directors for directors, management, consulting, legal and accounting fees. These charges were measured by the exchange amount, which is the amount agreed upon by the related parties. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms. The above transactions were incurred in the normal course of operations and are recorded at the exchange amount, being the amount agreed upon by the transacting parties.

## **TRANSACTIONS WITH RELATED PARTIES (cont'd...)**

During the year ended May 31, 2018, the Company advanced \$124,847, for total outstanding advances of \$289,403 (the "Advances"), to Altamura, which is related by virtue of David Rose and a private company owned by the spouse of Craig Dalziel collectively having significant influence in Altamura. Altamura holds an un-registered contractual 100% interest in the Core Concessions in Sinaloa, Mexico (the "Interest"), the registration of which Interest is subject to a legal dispute between the vendor of the Interest and a third party. The Company owns 5,950,000 common shares of Altamura, representing 13% of its equity, at a cost of \$451,073 and, in holds an option to, in the event that the Company does not exercise the Altamura Option, convert the Advances into shares of Altamura (the "Share Option") at a price of US\$0.057 per share for a period of six months. Subsequent to May 31, 2018, the Company advanced a further \$59,994 on behalf of Altamura, bringing the total Advances to \$349,397.

## **CONTRACTUAL OBLIGATIONS**

The Company has no material capital lease agreements and no material long term obligations other than those described above or in the description of mineral properties.

## **RISKS AND UNCERTAINTIES**

The Company is in the mineral exploration and development business and, as such, is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. Some of the possible risks include the following:

- (a) The industry is capital intensive and subject to fluctuations in metal prices, market sentiment, foreign exchange and interest rates. The recovery of the Company's investment in resource properties and the attainment of profitable operations is dependent upon the discovery and development of economic ore reserves and the ability to arrange sufficient financing to bring the ore reserves into production.

The only sources of future funds for further acquisitions and exploration programs, or if such exploration programs are successful, the development of economic ore bodies and commencement of commercial production thereon, which are presently available to the Company are the Goldgroup Transaction Consideration and the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another interested party to carry out further exploration or development.

- (b) Any future equity financings by the Company for the purpose of raising additional capital may result in substantial dilution to the holdings of existing shareholders.
- (c) The Company's capital resources are largely determined by the strength of the resource markets and the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects.
- (d) The prices of metals greatly affect the value of and the potential value of its properties. This, in turn greatly affects its ability to raise equity capital, negotiate option agreements and form joint ventures.

## **RISKS AND UNCERTAINTIES (cont'd...)**

- (e) The Company must comply with health, safety, and environmental regulations governing air and water quality and land disturbances and provide for mine reclamation and closure costs. The Company's permission to operate could be withdrawn temporarily where there is evidence of serious breaches of such regulations, or even permanently in the case of extreme breaches. Significant liabilities could be imposed on the Company for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of acquired properties or noncompliance with environmental laws or regulations.
- (f) The operations of the Company will require various licenses and permits from various governmental authorities. There is no assurance that the Company will be successful in obtaining the necessary licenses and permits to continue exploration and development activities in the future.
- (g) Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by such undetected defects.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described on any forward looking statement. The development and exploration activities of the Company are subject to various laws governing exploration, development, and labour standards which may affect the operations of the Company as these laws and regulations set various standards regulating certain aspects of health and environmental quality. They provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the condensed interim consolidated financial statements requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Share-based payment - The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model which incorporates market data and which involves uncertainty and subjectivity in estimates used by management in the assumptions. Changes in the input assumptions can materially affect the fair value estimate of stock options.

Valuation of available for sale securities - The Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of, and near term business outlook for, the investee, including factors such as industry and sector performance, changes in technology, and operational and financing cash flow.

## **CRITICAL ACCOUNTING ESTIMATES (cont'd...)**

The carrying value and the recoverability of exploration and evaluation assets – Management has determined that exploration, evaluation and related costs incurred, which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, scoping and feasibility studies, accessible facilities and existing permits.

Valuation of production royalty - The Company is entitled to royalty income as disclosed in Note 5 of the consolidated financial statements. The Company has estimated the value of the production royalty to be \$Nil due to lack of certainty of future ongoing production and values.

## **CHANGES IN ACCOUNTING POLICIES**

### **New accounting policies adopted**

The following standards and amendments to existing standards have been adopted by the Company effective June 1, 2017:

#### *IFRS 7, Financial instruments: disclosures*

Amendments to IFRS 7 related to the application of IFRS 9, Financial Instruments.

The adoption of this standard did not have an impact on the consolidated financial statements.

### **New standards, interpretations and amendments to existing standards not yet effective**

The following standards, amendments to standards and interpretations have been issued but are not effective for annual periods beginning on or after January 1, 2018:

#### *IFRS 9, Financial instruments*

This revised standard addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has three measurement categories for financial assets: amortized cost, fair value through other comprehensive income, and fair value through profit or loss. All equity instruments are measured at either fair value through other comprehensive income or fair value through profit or loss. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit or loss.

The Company expects this new standard will affect the measurement of its convertible receivable as well as increase disclosure requirements.

## **CHANGES IN ACCOUNTING POLICIES (cont'd...)**

### **New standards, interpretations and amendments to existing standards not yet effective (cont'd)**

#### *IFRS 15, Revenue from contracts with customers*

IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service.

The following standards, amendments to standards and interpretations have been issued but are not effective for annual periods beginning on or after January 1, 2019:

This standard is not expected to have a material impact on the Company's accounting policies and consolidated financial statements.

#### *IFRS 16, Leases*

This standard sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. It eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The Company has not yet assessed the potential impact of the application of these standards, nor determined whether it will adopt the standards early.

## **FINANCIAL INSTRUMENT RISK AND CAPITAL**

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises of shareholders' equity. There has been no significant change in the Company's objectives, policies and processes for managing its capital during the year ended May 31, 2018.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. The Company's investment policy is to invest its cash in financial instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

## **FINANCIAL INSTRUMENT RISK AND CAPITAL (cont'd...)**

### **Fair value hierarchy**

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in level 1. Prices in level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

### **Management of Industry Risk**

The Company is engaged in mineral exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing as well as changes in foreign government policy. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations; however, it is not possible to be certain that all aspects of environmental issues affecting the Company, if any, have been fully determined or resolved.

### **Management of Financial Risk**

The carrying value of cash, receivables, note receivable and trade payables and accrued liabilities approximated their fair value because of the short-term nature of these instruments. Cash is measured at a level 1 of the fair value hierarchy. The Goldgroup and Pub Co shares recorded in available for sale securities are measured at a level 1 of the fair value hierarchy and the BC Co shares recorded in available for sale securities are measured using level 3 of the fair value hierarchy based on cost at time of acquisition. The Company's financial instruments are exposed to certain financial risks, which include credit risk, liquidity risk, and market risk.

### **Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts. The bank accounts are mainly held with a major Canadian bank and this minimizes the risk to the Company.

## **FINANCIAL INSTRUMENT RISK AND CAPITAL (cont'd...)**

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined above. The Company monitors its ability to meet its short-term expenditures by raising additional funds through share issuance when required. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company is exposed to liquidity risk.

### **Foreign Exchange Risk**

The Company's property interests in Mexico make it subject to foreign currency fluctuations, which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian dollar and foreign currencies. The Company does not invest in derivatives to mitigate these risks. The effect of a 1% change in the foreign exchange rate on the cash held in foreign currencies at May 31, 2018 is nominal.

### **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 not exposed to significant interest rate risk.

## **SUBSEQUENT EVENTS**

The following events occurred subsequent to May 31, 2018 and are not disclosed elsewhere in this MD&A, the Company:

- (a) entered into a consulting services agreement for consideration of 750,000 incentive options, vesting in five equal instalments over the first year, with each option entitling the holder to purchase one common share of the Company for \$0.20 until June 27, 2021;
- (b) entered into a purchase agreement pursuant to which the Company acquired geological data, analysis and models related to the Santo Tomas properties in consideration for 500,000 common shares (issued) and US\$500,000, to be paid by way of three payments of US\$50,000 each and a final payment of US\$350,000, all to be made over a period of no more than three years;
- (c) entered into an agreement to lend up to US\$600,000 to Altamura, inclusive of funds loaned to date;

## **SUBSEQUENT EVENTS (cont'd...)**

- (d) entered into an agreement pursuant to which the Company acquired, subject to TSX-V and shareholder approval, if required, a three year option (the "Option") to acquire all of the equity in Altamura not already held by the Company in consideration for 39,800,000 shares of the Company. If the Company exercises the Option, it will comply with Altamura's obligation to pay certain contingency fees as follows:
- US\$600,000 within six months of successful registration of the Core Concessions;
  - 10% of the sale price, to a maximum of US\$3,600,000, (inclusive of the first US\$600,000) upon the sale of the Core Concessions to a third party; and
  - 1.5% of the sale price, to a maximum of \$4,100,000 on the sale of the Core Concession to a third party; and
- (e) in replacement of the September 26, 2017 option agreement with Altamura (Note 4 of the consolidated financial statements), entered into a restated option agreement pursuant to which, in the event that the Company does not exercise the Option (Note d above), the Company may convert all advances to Altamura into common shares of Altamura at a price of US\$0.057 per share at any time within the first six months after the expiry of the Option.

## **OTHER MD&A DISCLOSURE REQUIREMENTS**

### *Disclosure by Venture Issuer without significant revenue*

An analysis of the material components of the Company's general and administrative expenses is disclosed in the Financial Statements to which this MD&A relates. An analysis of the material components of the acquisition and deferred exploration costs of the Company's mineral properties is disclosed in the annual Financial Statements to which this MD&A relates.

### *Share Capital*

As at May 31, 2018, the Company had 89,647,405 common shares, 5,450,000 incentive stock options, and 4,500,000 share purchase warrants outstanding.

### *Information Available on SEDAR*

Additional information relating to the Company is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

On behalf of the Board of Directors,

September 27, 2018

"*Craig Dalziel*"  
President