

**PARA RESOURCES INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JUNE 30, 2017**

**BACKGROUND**

This management's discussion and analysis of financial position and results of operations is prepared at August 29, 2017 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 June 30, 2017 and for the thirteen months ended September 30, 2016 as presented in accordance with International Financial Reporting Standards. The Company's reporting currency is Canadian dollars, unless otherwise indicated.

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 and developing properties in Latin and South America.

During the period ended September 30, 2016 the Company completed the acquisition of Colombia Milling Ltd (“CML”), which at the time owned approximately 62% of Four Points Mining SAS (“Four Points”). Four Points is a Colombian company and holder of certain mineral licenses in northern Colombia, which contain the El Limon gold mine. Since the acquisition of a majority interest was completed on March 31, 2016, the Company has been focused on developing the El Limon mine in an effort to move towards commercial production which, as at June 30, 2017 had not been achieved. As at June 30, 2017 the Company has capitalized all development related expenditures and continues to work towards commercial production.

## BUSINESS COMBINATION

On July 20, 2015, the Company announced it had entered into a shareholders’ agreement (“Shareholders’ Agreement”), subscribing for common shares of Colombia Milling Limited, a Belize incorporated Company. Pursuant to the Shareholders’ Agreement, the Company would receive common shares of CML on the basis of 1 common share for every USD \$1,000 of contributions. The contributions are considered to be receivable and due on demand. CML’s only assets were its 62% ownership of Four Points Mining SAS (“Four Points”) a Colombian company and holder of certain mineral licenses in northern Colombia, which contain the El Limon mine. The El Limon mine is a gold mine that is currently in pre-production.

On March 31, 2016, through contributions to CML, the Company increased its ownership to 63% and was given control of the board, effectively giving the Company control over CML and Four Points. The transaction was accounted for as a business combination achieved in stages, rather than an asset acquisition, as the operations of CML met the definition of a business. As the transaction was accounted for a business combination, transaction costs of \$74,352 were expensed.

As the transaction was accounted for as a business combination achieved in steps, on acquiring control of CML the Company revalued its previous interest at fair value on the date of control and recognized a gain on step acquisition. The determination of the gain was as follows:

	\$
Fair value of 100% at March 31, 2016	5,146,393
Fair value of 46% carrying interest at March 31, 2016	2,367,341
Less carrying value of 46% prior to control	(1,487,586)
Gain on step acquisition	879,754

The consideration paid to acquire control was determined to be the fair value of the carrying interest in CML at March 31, 2016 of \$2,367,341 and the additional cash consideration of \$1,787,944. The consideration was allocated to the fair value of the net assets of CML and Four points at March 31, 2016, the date of control. The Company has not allocated any value to goodwill as the entirety of the value associated with CML arises from the El Limon mine, any residual amounts have been allocated to mineral property. The non-controlling interest was determined as the proportionate share of the net identifiable assets of CML and Four Points that the Company did not control.

<b>Purchase Price Allocation</b>	<b>\$</b>
Cash	294,546
Prepays	805,127
Inventory	214,959
El Limon mine	13,351,267

Equipment	5,386,430
Liabilities	(10,005,968)
Deferred income tax liability	(4,020,214)
	<b>6,026,147</b>
<b>Consideration</b>	
Cash	1,787,944
Fair value of carrying interest in CML	2,367,341
Non-controlling interest	1,870,862
	<b>6,026,147</b>

The deferred income tax liability on acquisition relates to the adjustment of the equipment to fair value on the date of acquisition. The liabilities assumed on acquisition included the Loan to Redrock Resources of \$952,818 and the Loan to Rayforte of \$852,105, both of which were fair valued on the date of acquisition using a discounted cash flow model and the loan payable to Helm Bank of \$5,569,794 which is accounted for as due on demand with the carrying value approximating fair value

On June 21, 2016 the Company received approval for the acquisition of the final 37% of CML held by James Randall Martin (“Martin”) and SAEF Exploration Inc. (“SAEF”). In addition to the shares of CML the Company would also receive any amounts owing to SAEF and Martin from CML, which amounted to \$1,680,256. The acquisition of 100% of the shares of CML brought the Company’s total indirect interest in the El Limon Mine to 62%.

The terms of the agreement with SAEF were as follows:

- Cash consideration of USD\$250,000 at closing (paid)
- An unsecured note in the amount of USD\$170,000, payable six months from the closing date, along with accrued interest at a rate of 7% per annum. (paid)

The terms of the agreement with Martin were as follows:

- The Company will issue 13,213,340 units at a deemed price of \$0.09 per unit, each unit consists of one common share of the Company and one half of one share purchase warrant, each whole warrant entitles the holder to purchase an additional common share of the Company for a period of 18 months from the date of issuance at an exercise price of \$0.20 per share.

The total consideration paid to acquire the final 37% of CML was \$4,173,038 consisting of the loans and cash consideration to SAEF and the units to Martin. The common shares in the units were fair valued at \$0.24 and the warrants were fair valued at \$420,019 using the Black Scholes model. Upon obtaining 100% control of CML the Company adjusted its non-controlling interest to reflect the 38% of Four Points that was not controlled by the Company. The acquisition of the 37% was accounted for as follows:

<b>Purchase Price Allocation</b>	<b>\$</b>
Loans from CML	1,680,256
Change in NCI	(717,839)
Amount attributed to equity of Para	3,210,621
	<b>4,173,038</b>

The non-controlling interest was determined as the proportionate share of the net identifiable assets of Four Points that the Company did not control either directly or indirectly through CML. As the increase in ownership did not result in a change in control the Company did not adjust for any changes in fair value at June 21, 2016.

The operating results for both CML and Four points have been recognized in the consolidated statement of comprehensive loss beginning on March 31, 2016, the effective date of control. On December 31, 2016 the Company increased its ownership of Four Points to 77%. The increase in ownership was based on the cash payments made by the Company to fund operations of Four Points. The Company recorded a decrease in non-controlling interest of \$1,021,856, as there was no consideration paid to the non-controlling interest the amount was recorded against the equity of the parent.

The El Limon mine is presently undergoing commissioning trials while continuing to implement rehabilitation and upgrades to the processing plant. Four Points Mining is currently commissioning a second larger ball mill, and upgraded downstream processes such as floatation, agitated leach, and Merrill-Crowe circuits. Recovery rates are ramping up as are daily throughputs. The team continues to work on eliminating bottlenecks, process optimization to achieve sustainable throughput at the new higher levels. Partial production re-started in May 2016 and the Company is continuing to work to increase throughput to 200 ton per day on a sustainable basis. The plant has begun to accept ore purchases from third parties. Third party purchases are expected primarily from entering a formalization process with informal small artisanal mining operations on concessions of Zara a wholly owned subsidiary of Para. The mineralized rock that is mined on the Property will be augmented by the processing of the historical tailings onsite while ramping up the purchase of additional, high-grade material from local artisanal miners.

Milling operations have not yet reached commercially viable levels of production. Based on this assessment, the Company capitalized the operating costs less the proceeds from the sale of gold dore to Mine Properties. A total of 306 ounces of gold dore has been sold during the period December 31, 2016 to June 30, 2017.

For the full year 2017, the Company anticipates processing a total 32,000 tons of material to yield 2,000 to 2,500 ounces of gold. Production figures assume both BM1 and BM2 are operating, achieve an average 85% recovery rate, the average head grade is between 6 and 9 grams per ton of gold and mill throughput grows from 50 tons per day in June to 200 tons per day by December 2017 resulting in the commencement of commercial production.

### **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
- 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 Zara. 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 June 30, 2017 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. The Company has capitalized its acquisition costs of \$984,995 to exploration and evaluation assets.

## 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. The Company expects to receive its trial mining permit in during Q4 F2017 and that trial mining will commence in Q3 F2018. 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.

	June 30, 2017	September 30, 2016
	\$	\$
<b>Acquisition Cost</b>		
Balance, beginning of period	1	1
Balance, end of the period	1	1
<b>Deferred Exploration Costs</b>		
Balance, beginning of the period	1,509,409	1,074,694
Addition during the period		
Assays	-	3,989
Consulting	129,636	172,583
Drilling	-	-
Environmental	-	-
Field supplies	44,899	79,102
Licenses	16,006	17,637
Miscellaneous	-	1,970
Personnel	35,836	50,535
Project administration	61,039	81,336
Vehicle expenses	9,257	27,563
Foreign exchange on mineral property	(159,534)	-
Total additions during the period	137,139	434,715
	1,646,548	1,509,409
<b>Balance, end of the period</b>	<b>1,646,549</b>	<b>1,509,410</b>

## **Cumaru-Gradaús Gold Project**

The Company executed an agreement on May 11, 2015 with Mineração Irajá S/A bringing into effect a Mineral Rights Purchase and Sale Agreement (the "Agreements").

Pursuant to the Agreements, the Company will, subject to the completion of conditions of closing and TSX Venture Exchange approval, purchase a 100% right, title and interest in and to the Cumaru-Gradaús Gold Project located in Para State, Brazil in consideration of the issuance of 6,440,500 common shares of Para (which will constitute approximately 19.9% of the outstanding common shares of Para) and a 2% NSR in favour of Mineração Irajá S/A, which will also apply to any property brought into commercial production by the Company within 5 km of the Cumaru-Gradaús Gold Project. In the event commercial production exceeds 1,000,000 oz of gold, then the Vendor's royalty shall be increased to a 3% NSR. The Cumaru-Gradaús Gold Project is also subject to existing royalties, in an aggregate of 2.4% of NSR. Mineração Irajá S/A shall be granted a further 1% NSR in the event the Company commences commercial production on any other project in Brazil, including the Company's Tucumã project in Para State, Brazil.

On December 30, 2016 the Company announced that it and its wholly owned Brazilian subsidiary Angra Metals Mineração Ltda. have entered into a Mutual Release Agreement and Amendment Agreement to the Mutual Release Agreement (together the "Settlement Agreements") with Sercor Ltd. ("Sercor"), Mineração Irajá S/A (the "Vendor") and Mineracao Gradaus Ltda and Brason Consultoria Inportacao Exportacao Ltda (together the "Royalty Holders"), under which the parties have terminated the Mineral Rights Purchase and Sale Agreement dated September 8, 2014 (the "Acquisition Agreement") whereby the Company through Angra was to acquire a 100% right, title and interest in and to the Cumaru-Gradaús Gold Project located in Para State, Brazil (the "Project"), as well as subsequent acknowledgement agreement (the "Acknowledgment Agreement") with Sercor, under which the Vendor assigned to Sercor its right to receive the share consideration from the Company under the Acquisition Agreement. The Company issued 1,250,000 common shares in connection with the settlement; the shares were fair valued at \$337,500 and recorded as a loss on property settlement.

## **RESULTS OF OPERATIONS**

### **Nine months ended June 30, 2017**

The Company incurred a net loss of \$5,268,104 for the nine months ended June 30, 2017, compared to losses of \$2,640,364 for the nine months ended May 31, 2016. The change is due to the following:

- Interest expense (\$1,221,454 vs \$359,134) increased as the Company received multiple loans to pursue business opportunities. The Company also acquired interest bearing loans as part of the CML acquisition.
- Investor relations (\$75,335 vs \$nil) increased as the Company continues to increase its market presence, marketing and to build awareness for the Company.
- Office and miscellaneous (\$867,784 vs \$209,587) increased as the Company now consolidates the results from CML
- Salaries (\$733,399 vs \$203,201) increased as the Company is now consolidating the results of CML and has hired Ian Harris as President.
- Share-based compensation (\$580,242 vs \$72,608) as the Company granted 3,440,000 options during the period ended June 30, 2017.
- The Company also recorded a loss on property settlement of \$337,500 related to the Cumaru-Gradaús property during the nine months ended June 30, 2017.

### **Three months ended June 30, 2017**

The Company incurred a net loss of \$1,708,119 for the three months ended June 30, 2017, compared to losses of \$2,127,996 for the three months ended June 30, 2017. The change is due to the following:

- Interest expense (\$453,667 vs \$47,384) increased as the Company received multiple loans to pursue business opportunities. The Company also acquired interest bearing loans as part of the CML acquisition.
- Consulting fees (\$550,471 vs \$377,133) increased as the Company works to develop its mineral property and exploration assets.
- Office and miscellaneous (\$298,686 vs \$67,535) increased as the Company now consolidates the results from CML
- Salaries (\$284,975 vs \$203,201) increased as the Company is now consolidating the results of CML and hired Ian Harris as President.
- During the three months ended May 31, 2016 the Company recorded a loss on debt settlement of \$529,535 (June 30, 2017 - \$nil)

## SUMMARY OF QUARTERLY RESULTS

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

	Three Months Ended (\$)			
	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016 <sup>1</sup>
Total Revenues	-	-	-	-
Net (Loss) Income	(1,708,119)	(2,188,660)	(1,371,325)	512,308
Net Loss Per Share	(0.02)	(0.02)	(0.01)	(0.01)

	Three Months Ended (\$)			
	May 31, 2016	February 29, 2016	November 30, 2015	August 31, 2015
Total Revenues	-	-	-	-
Net Loss	(2,127,996)	(21,598)	(490,770)	(540,318)
Net Loss Per Share	(0.03)	(0.00)	(0.02)	(0.02)

<sup>1</sup>The Company changed its year end to September 30, 2016 therefore the period ended September 30, 2016 includes four months.

The net income recorded during the four month period ended September 30, 2016 is due to the Company reclassifying \$215,517 of consulting fees to the mineral property as development costs and recording a \$879,754 gain on step acquisition related to the CML acquisition.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's operations consumed approximately \$3,442,732 of cash for the nine months ended June 30, 2017. The Company was able to offset this by completing a non-brokered financing raising gross proceeds of \$5,383,025. The Company's aggregate operating, investing and financing activities during the nine months ended June 30, 2017 resulted in an increase in its cash balance from \$955,107 at September 30, 2016 to \$1,638,230 at June 30, 2017. The Company's working capital deficiency at June 30, 2017 was \$4,892,617 (September, 2016 – \$5,393,442). The Company will need additional capital to finance its project in Brazil and complete the upgrade and enhancements at the El Limon mine.

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. 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. As at September 30, 2016 the Company had recorded interest and accretion expense of \$59,683. The Company made cash payment of \$324,425 during the period ended June 30, 2017. As at June 30, 2017 the total outstanding portion of the loan is \$836,845.

As at September 30, 2016 Four Points had an outstanding interest bearing loan of USD\$3,500,000 with the Helm Bank Colombia with a 5% annual interest rate. As at June 30, 2017 the Company has accrued interest payable of USD\$1,012,511 and the total loan payable is USD\$4,512,511 (CAD\$5,855,885) and due on demand.

Upon completing the acquisition of CML the Company assumed its loan payable to Rayforte of USD \$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 period ended June 30, 2017 the Company recorded interest and accretion expense of \$176,574.

As at June 30, 2017 the Company had not yet achieved profitable operations and had a working capital deficiency of \$4,892,617, accumulated deficit of \$12,718,118 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 June 30, 2017 the Company incurred \$2,232,799 (May 31, 2016 - \$nil) in cash development costs related to the El Limon mine.

The Company also purchased \$619,854 of equipment during period ended June 30, 2017 (May 31, 2016 - \$104,910)

The Company recorded \$296,672 of exploration costs related to Tucumã during the period ended June 30, 2017 (May 31, 2016 - \$395,238).

## **INVESTING AND FINANCING ACTIVITIES**

On April 28, 2017 the Company closed the first tranche of its non-brokered private placement issuing 8,295,375 units (each individual "Unit") at \$0.20 per Unit, for gross proceeds of \$1,659,075. Each Unit consists of one common share of the Company and one-half common share purchase warrant with each whole warrant entitling the holder to acquire one common share of the Company for a period of 18 months at \$0.30 per warrant. The Company values warrants using the residual method and allocated a nil value to the warrants.

On May 19, 2017 the Company closed the 2nd tranche of its non-brokered private placement issuing 3,650,000 Units at \$0.20 per Unit, for gross proceeds of \$730,000. The Company values warrants using the residual method and allocated a nil value to the warrants.

On June 15, 2017 the Company closed the 3rd and final tranche of its non-brokered private placement issuing 14,969,750 Units at \$0.20 per Unit, for gross proceeds of \$2,993,950. The Company values warrants using the residual method and allocated a nil value to the warrants.

The Company incurred \$59,500 of cash financing costs and issued 127,750 finders' warrants. The finders warrants were fair valued at \$12,770 using the black-scholes option pricing model using the following assumptions: expected life 1.5 years; expected dividend nil; volatility 117%; risk free rate 1.09%; expected forfeiture rate nil.

During the period ended August 31, 2015 the Company entered into a loan agreement with Conex Services Inc. ("Conex") whereby Conex would advance the Company \$250,000, received in multiple

tranches, for working capital purposes. The loan is secured with a promissory note and each tranche has a term of 12 months from the date of the advance, bearing interest at 1% per month. As part of the consideration for the loan, on February 3, 2015, the Company issued 855,237 bonus shares to Conex. The shares were recorded at fair value on the date of issuance at \$64,143 as a financing cost and the Company will amortize the cost using an effective interest rate of 30.1%.

On April 7, 2016 the Company entered into a Credit Facility Agreement (the "facility") with Conex, whereby Conex has made available to the Company a revolving credit line in the amount of up to \$3,000,000. The facility bears interest at 12% annually and each drawdown on the facility will be secured by a promissory note in favour of Conex. All of the Company's outstanding loans, which amounted to \$3,038,813, with Conex were transferred into the facility on April 7, 2016, bearing interest at 12% per annum, with the principal and accrued interest due on August 31, 2018. The Company issued 2,200,000 bonus common shares for the credit facility; the shares were fair valued at \$704,000 and recorded as a financing cost to be accreted over the life of the loan using an effective interest rate of 24.5%.

During the nine months ended June 30, 2017 the Company received additional loans from Conex in the amount of \$535,650; the loans are repayable on December 31, 2019 and bear interest at 12% per annum. There were no financing costs associated with the loans. The Company fair valued the loans using a discounted cash flow model using a discount rate of 24.5%, the loan was recorded at a fair value of \$451,934 and the Company recorded a \$83,716 gain on the fair value of the loan. On January 28, 2017 Conex increased the facility to a maximum of \$5,000,000 for no additional consideration.

The loan payable at June 30, 2017 and September 30, 2016, and the changes for the periods then ended are as follows:

	\$
<b>Balance, August 31, 2015</b>	<b>1,978,067</b>
Loans received	1,124,391
Less financing costs	(704,000)
Interest and accretion	468,231
<b>Balance, September 30, 2016</b>	<b>2,866,689</b>
Fair value loan received	451,934
Interest and accretion	584,041
<b>Balance, June 30, 2017</b>	<b>3,902,664</b>

## RELATED PARTY TRANSACTIONS

All amounts due to related parties are unsecured, non-interest bearing, and have no specific terms of repayment unless otherwise stated. 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 June 30, 2017 and May 31, 2017 are as follows:

	Three months ended		Nine months ended	
	June 30, 2017 \$	May 31, 2016 \$	June 30, 2017 \$	May 31, 2016 \$
Consulting fees paid to a director <sup>1</sup>	121,394	83,290	410,012	170,790
Administrative fees paid to a company controlled by a director <sup>1</sup>	-	2,500	-	17,500
Salaries <sup>2</sup>	126,910	-	363,862	-
	248,304	85,790	773,874	188,290

<sup>1</sup>Includes fees administration, finance and office rent paid to the CEO Geoff Hampson and a Company which he controls.

<sup>2</sup>Includes salary paid to the CFO James Taylor, the President Ian Harris and CEO Geoff Hampson

As at June 30, 2017, \$52,908 (September 30, 2016 - \$46,138) was owing to a director and a private company controlled by him, and \$19,199 (September 30, 2016 - \$19,199) was owing to Goldsource Mines Inc., a company with common directors and officers.

As at June 30, 2017, loans totaling \$40,684 (September 30, 2016 - \$233,562) were due to a director, a private company which he is a director of, and a private company controlled by him. Loans amounting to \$23,252 are unsecured and non-interest bearing and loans amounting to \$17,432 bear an interest rate of 1% per month compounded monthly and are due on demand.

Compensation paid to key management personal for the periods ended June 30, 2017 and May 31, 2016 is identical to the table above.

## OUTSTANDING SHARE DATA

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

Shares issued and outstanding	134,865,107
Warrants	22,055,132
Stock options	5,265,000

## 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 C. Geoffrey Hampson whereby Hampson Equities Ltd agreed to provide the services of Mr. 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 Aziz Rehman 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.

## 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.

Contractual cash flow requirements as at June 30, 2017 are as follows:

	<b>&lt; 1 Year</b>	<b>1 – 2 Years</b>	<b>2 – 5 Years</b>	<b>&gt; 5 years</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,531,298	-	-	-	1,531,298
Due to related parties	112,791	-	-	-	112,791
Loan Helm bank	5,855,885	-	-	-	5,855,885
Loan payable	-	-	3,902,664	-	3,902,664
Loan Red Rock	10,815	826,030	-	-	836,845
Loan Rayforte	-	1,126,071	-	-	1,126,071

#### 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 loss by approximately \$188,781.

The Company's financial assets and liabilities as at June 30, 2017 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	765,962	74,522	796,165	1,581	1,638,230
Accounts receivable	37,810	-	-	-	37,810
	803,772	74,522	796,165	1,581	1,676,040
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities	129,141	429,182	927,990	44,986	1,531,298
Due to related party	112,791	-	-	-	112,791
Loan payable	3,902,664	-	-	-	3,902,664
Loan Rayforte	-	1,126,071	-	-	1,126,071
Loan Red Rock	-	836,845	-	-	836,845
Loan Helm Bank	-	5,855,885	-	-	5,855,885
	4,144,596	8,247,983	927,990	44,986	13,365,554

The Company's financial assets and liabilities as at September 30, 2016 are denominated in Canadian dollars, US Dollars, Colombian Peso and the Brazilian real as follows:

	Canadian dollar	US dollar	Colombian Peso	Brazilian real	Total
	\$	\$	\$	\$	\$
<b>Financial assets</b>					
Cash	720,449	1,286	232,130	1,242	955,107
Accounts receivable	8,099	-	22,953	14,987	46,039
	728,548	1,286	255,083	16,229	1,001,146
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities	90,504	385,579	643,031	31,275	1,150,389
Due to related party	105,623	-	-	-	105,623
Loan payable	2,866,689	-	-	-	2,866,689
Loan Rayforte	-	963,386	-	-	963,386
Loan Red Rock	-	987,568	-	-	987,568
Loan Helm Bank	-	5,739,451	-	-	5,739,451
	3,062,816	8,075,984	643,031	31,275	11,813,106

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.

#### **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 final 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 there are sufficient 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 standard has been issued but not yet applied:

- In the annual period beginning September 1, 2018, the Company will be required to adopt IFRS 9, Financial Instruments, which is the result of the first phase of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Management is currently evaluating the impact that this standard will have on the consolidated financial statements.
- IFRS 15, Revenue from Contracts with Customers, 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. The required adoption date for IFRS 15 is the annual period beginning on or after January 1, 2018, with early adoption permitted. The Company has not completed its assessment of the impact of this standard.
- IFRS 16, Leases, 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 three and nine months ended June 30, 2017 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**

- Further to the previously disclosed Memorandum of Understanding with Mining and Solutions Construction Group S.A. (“MISCON”), the Company has decided to terminate the MOU based on its due diligence findings.
- On August 23, 2017 the Company announced that the TSXV has accepted for filing the Company’s asset purchase agreement involving the acquisition of all of the assets comprising the Gold Road Mine from Mojave Desert Minerals LLC (the “Vendor”). The Gold Road Mine, located in Oatman, Arizona, is the only fully permitted mine in the largest primary gold district of Arizona. The transaction closed the same day.