# PPX Mining Corp.

(Formerly Peruvian Precious Metals Corp.)

# Management's Discussion and Analysis of Financial Condition and Results of Operation

For the nine months ended June 30, 2016

This Management's Discussion and Analysis ("MD&A") is dated August 26, 2016 and is management's assessment of the operations and the financial results together with future prospects of PPX Mining Corp. ("PPX" or the "Company"). The Company changed its name to PPX Mining Corp. from Peruvian Precious Metals on August 4, 2016. The Company has its shares listed on the TSX Venture Exchange and the Lima Stock Exchange (Bolsa De Valores de Lima), both under the symbols "PPX". This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the nine months ended June 30, 2016 (the "June 2016 Interim Financial Statements"). The June 2016 Interim Financial Statements have been prepared in conformity with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company's audited consolidated financial statements for the year ended September 30, 2015. The June 2016 Interim Financial Statements do not include all the information required for complete annual financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and therefore should be read together with the audited annual financial statements for the year ended September 30, 2015 and the related MD&A for the year then ended. Additional information relevant to the Company's activities, including the Company's press releases can be found on SEDAR at www.sedar.com and on the Company's website at (www.ppxmining.com).

All references to "dollars" or "$" are in Canadian dollars unless noted otherwise.

This Management's Discussion and Analysis includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the mining industry (including operational risks in exploration development and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of PPX to obtain all permits, consents or authorizations required for its operations and activities; and health safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the ability of the Company to fund the capital and operating expenses necessary to achieve the business objectives of the Company, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by the Company. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of PPX should not place undue reliance on these forward-looking statements. Statements in relation to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this document are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

## 1. Company Highlights and Outlook

The Company is focused on exploring and developing the Igor property, located in Peru, South America.

Igor is the Company's main project with a Canadian National Instrument 43-101 Inferred resource estimate (the Callanquitas resource estimate) of 730,500 gold equivalent "Au Eq" ounces consisting of 7.2 million tonnes grading 1.9 grams per tonne (g/t) gold and 71.8 g/t silver; which equates to 3.16 Au Eq g/t using a cut-off grade of 1.5 Au Eq g/t. This represents 448,500 ounces of gold and 16,600,000 ounces of silver. The report amended on September 27, 2013 can be viewed on SEDAR at ww.sedar.com or on the Company's web site at www.ppxmining.com.

The Company's objective is to continue to expand and upgrade the known gold and silver resources on the Igor Project and explore other targets along the approximately eight kilometres of undrilled gold and silver mineralized structure for additional potentially economically mineralized zones. The Company also intends to conduct test mining and bulk sampling of a portion of the known Callanquitas resource. In August 2014, the Company signed an agreement with Proyectos La Patagonia S.A.C. ("Patagonia"), a wholly-owned subsidiary of the Explora Peru Mining Group, Peru to conduct underground bulk sampling and test mining in order to develop mining cost profiles, evaluate precious metal recoveries and validate the resource model. The Company's ability to complete this program and to continue to advance the Igor Project on the short and longer term is dependent on additional funding, retaining suitable qualified and professional personnel and maintaining costs appropriate for the Company's level of development.

On December 3, 2015, the Plan de Minado, the key permit to begin test mining operations at Igor on the Callanquitas structure, was submitted to the Federal Ministry of Energy and Mines by the Regional Government Ministry of Energy and Mines in La Libertad ("GREMH-LL") for review and comments. Upon approval of the Plan de Minado, Patagonia would be eligible to receive their Certificate of Mine Operations ("COM") followed by their Explosives Permit. On February 8, 2016, the Federal Ministry of Energy and Mines and the Regional Government Ministry of Energy and Mines in La Libertad approved the Plan de Minado, which allowed Patagonia to start its test mining program. Patagonia anticipates to begin initial surface activities at Callanquitas and be on schedule to begin shipping bulk samples during Fiscal Q1 - 2017.

On December 3 2015, AM Mining SAC ("AMM") of Lima, Peru, who have partnered with the Company to construct a 350 tpd conventional milling and processing plant at the Igor Project, signed a contract with Asesores y Consultores Mineros S.A. as the lead permitting consultant for the permitting process for the processing plant.

On December 18, 2015, the Company announced that it had appointed Miguel Fernando Arias Vargas to its Board of Directors and that Luis Felipe Arizmendi has resigned from the Board of Directors.

On December 31, 2015, the Company closed the first tranche of a non-brokered private placement issuing 828,750 units at a price of $0.10 per unit for gross proceeds of $82,875. On January 22, 2016, the Company closed the second and final tranche of the same non-brokered private placement of 2,943,750 units for gross proceeds of $294,375.

On January 22, 2016, the Company closed a non-brokered private placement of a convertible debenture in the principal amount of US$100,000 to one subscriber due on October 22, 2016 and with an interest rate of 12% per annum.

On February 16, 2016, the Company announced that it has entered into a non-binding agreement with RIVI Capital LLC ("RIVI") to provide the Company with an investment of US$5,000,000 in return for a Metal Purchase Agreement ("MPA" or "Gold Streaming Agreement") on future precious metal production from the Company's Igor 4 concession, at its Igor Project in northern Peru.

During March 2016, the Company entered into three loan agreements in the aggregate principal amount of $184,588 with two directors and an immediate family member of a director. The loans bore interest at 12% per annum and were due on July 30, 2016. Subsequent to June 30, 2016, the Company repaid the principal amounts of these loans plus accrued interest.

On June 24, 2016, the Company announced that Patagonia has begun the process of mobilizing workers, material and equipment to the Igor Project site. Patagonia will be responsible for mine camp operations and upgrading access to the proposed mine portals, developing additional road access within the mine site and starting leveling area for stockpiling and maintenance facilities.

Subsequent to June 30, 2016, on July 25, August 4 and August 11, 2016, the Company closed three tranches of a non-brokered private placement issuing 57,500,000 units at a price of $0.05 per unit for gross proceeds of $2,875,000.

Subsequent to June 30, 2016, on August 15, 2016, Patagonia received the Certificado de Operación Minera ("COM" or Certificate of Mining Operation) from the Gobierno Regional La Libertad in Peru (Regional Government of La Libertad). The COM enables Patagonia to proceed with mining operations at the Igor Project and advance the development of test mining on the Callanquitas structure. Patagonia has already mobilized mining equipment to the site including a dozer, LHD, supply and fuel storage facilities, mechanical support equipment, and personnel. After completing the administrative process required for the Permisos Explosivos (Explosives Permit), work will begin preparing the portals for two underground ramps that will be driven on the 3390 and 3440 levels of the upper portion of the Callanquitas structure. Going forward, the area of test mining operations will be referred to as "Mina Callanquitas".

Subsequent to June 30, 2016, on August 19, 2016, the Company announced that it has entered into debt settlement agreements with certain creditors, two of which are a director and/or an officer of the Company. In consideration for settlement of a total combined debt of $366,944, the Company will issue a total of 3,494,703 common shares at a deemed price of $0.105 per share.

Complete details of the Company's activities can be found in the sections entitled "Exploration and Evaluation Assets" and "Corporate and Financing" of the MD&A below.

## 2. Results of Operations

**Summary of Quarterly Information**

The following table sets out selected quarterly financial data from the Company's unaudited quarterly financial statements. There were no significant revenues reported in any of the periods reflected below.

| | **June 30, 2016** | March 31, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|---|
| | **$** | $ | $ | $ |
| Total revenue | **Nil** | Nil | Nil | Nil |
| Net loss | **(428,770)** | (260,636) | (293,481) | (2,130,322) |
| Loss per share | **(0.00)** | (0.00) | (0.00) | (0.01) |
| | **June 30, 2015** | March 31, 2015 | December 31, 2014 | September 30, 2014 |
| | $ | $ | $ | $ |
| Total revenue | Nil | Nil | Nil | Nil |
| Net income (loss) | (71,580) | (322,698) | 102,218 | (3,060,202) |
| Income (loss) per share | (0.00) | (0.00) | 0.00 | (0.03) |

The following are the operational results for the three and nine months ended June 30, 2016 and 2015:

| | **Three months ended June 30** | | **Nine months ended June 30** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| Communication and regulatory | **(4,863)** | (28,906) | **(43,251)** | (78,696) |
| Consulting fees, salaries and benefits | **(200,346)** | (183,519) | **(634,203)** | (613,046) |
| Depreciation | **(5,715)** | (2,337) | **(17,663)** | (7,674) |
| Foreign exchange gain (loss) | **(121,867)** | 140,352 | **(57,963)** | (96,320) |
| Office and miscellaneous | **(34,812)** | (89,569) | **(97,478)** | (184,728) |
| Peruvian VAT recovery | **-** | - | **-** | 968,788 |
| Premises | **(21,469)** | (18,993) | **(53,376)** | (45,840) |
| Professional fees | **(41,589)** | (54,433) | **(113,194)** | (189,609) |
| Share-based payments | **-** | - | **(512,185)** | (563,974) |
| Travel and promotions | **(6,339)** | (79,516) | **(68,069)** | (135,245) |
| Write-down of exploration and evaluation assets | **-** | - | **-** | (218,159) |
| Interest expense | **(34,308)** | (205,608) | **(177,106)** | (483,347) |
| Change in fair value of derivative liability | **42,538** | 450,949 | **794,452** | 1,362,964 |
| Transaction costs | **-** | - | **(2,851)** | (7,174) |
| Net loss for the period | **(428,770)** | (71,580) | **(982,887)** | (292,060) |

*Three months ended June 30, 2016*
The Company recorded a net loss of $428,770 ($0.00 per share) for the three months ended June 30, 2016 as compared to a net loss of $71,580 ($0.00 per share) for the three months ended June 30, 2015.

The most significant changes were:

Communication and regulatory of $4,863 (2015 - $28,906). Communication and regulatory includes filing and listing fees, transfer agent fees and expenditures associated with investor relations activities. The expense incurred in 2015 is higher as a result of expenditures that were incurred in connection with the Company's AGM held during July 2015.

Foreign exchange loss of $121,867 (2015 – gain of $140,352). The foreign exchange loss increased, because of the weaker Canadian dollar compared to US dollar, as many of the Company's expenses incurred and debt obligations are denominated in US dollars.

Office and miscellaneous of $34,812 (2015 - $89,569). Office and miscellaneous, including those related to Peru decreased due to a reduction of business activities.

Travel and promotion of $6,339 (2015 - $79,516). Travel and promotion includes travel, meals and entertainment costs. The decrease is the result of less travel to Peru to oversee project activities, as well as less travel for investor relations activities.

Interest expense of $34,308 (2015 - $205,608). Interest expense consists of accrued interest and accretion expense on the Company's loans from related parties, convertible debentures and promissory note, as a result of the Company amortizing the discount on the convertible debentures and promissory note as well as incurring interest expense.

Change in fair value of derivative liability of $42,538 (2015 – $450,949). On August 15, 2014, March 26, 2015 and January 22, 2016, the Company entered into agreements to issue convertible debentures for proceeds of US$800,000, US$200,000 and US$100,000 respectively. On June 8, 2015, the Company also entered into a promissory note agreement for proceeds of US$1,129,305, which is payable by the greater of cash payment of US$1,129,305 or 12,344,782 common shares of the Company. The conversion feature of the convertible debentures and repayment feature of the promissory note meet the definition of a derivative liability as outlined in IAS 39. As a result, the conversion feature of the debentures and repayment feature of the promissory note are required to be recorded as a derivative liability at fair market value on initial recognition and revalued on each subsequent reporting date with the changes in future fair value of the derivative liability being recorded in profit and loss. The change in fair value of derivative liability during the three months ended June 30, 2016 was a gain of $42,538.

*Nine months ended June 30, 2016*

The Company recorded a net loss of $982,887 ($0.00 per share) for the nine months ended June 30, 2016 as compared to a net loss of $292,060 ($0.00 per share) for the nine months ended June 30, 2015.

The most significant changes were:

Communication and regulatory of $43,251 (2015 - $78,696). Communication and regulatory includes filing and listing fees, transfer agent fees and expenditures associated with investor relations activities. The expense incurred in 2015 is higher as a result of expenditures that were incurred in connection with the Company's AGM held during July 2015.

Foreign exchange loss of $57,963 (2015 – $96,320). The foreign exchange loss is a result of the weaker Canadian dollar compared to US dollar, as many of the Company's expenses incurred and debt obligations are denominated in US dollars.

Office and miscellaneous of $97,478 (2015 - $184,728). Office and miscellaneous, including those related to Peru decreased due to a reduction of business activities.

Peruvian VAT recovery of $nil (2015 - $968,788). Expenses incurred by the Company in Peru, including deferred exploration expenses, are subject to a Peruvian Value Added Tax ("VAT"). The VAT is partially refundable. The amount not refundable to the Company can be used in the future to offset amounts due to the Peruvian Revenue Service by the Company resulting from VAT charged on future sales. Prior to September 30, 2014, the Company recorded a liability for the refunds received on the basis that the regulations in Peruvian law that give rise to the VAT refund were technical and under certain circumstances may give rise to a repayment. During the year ended September 30, 2015, the Company re-assessed the likelihood of being requested for repayment and determined that it was no longer necessary to continue to record this liability. As such the liability was reversed.

Professional fees of $113,194 (2015 - $189,609). Professional fees, including accounting, audit and legal fees, decreased as a result of a reduction of general corporate matters.

Share-based payments of $512,185 (2015 - $563,974). Even though the Company granted 7,850,000 options to its directors, officers and consultants during the current period as compared to 4,200,000 granted during the 2015 fiscal period, share-based payments decreased because the 7,850,000 options granted during the current period have a lower estimated fair value due to the lower share price.

Write-down of exploration and evaluation assets of $nil (2015 – $218,159). Mineral property interest expenditures relate to the Company's Igor Project in Peru and were being written down due to the fact that no substantive expenditures on further exploration for and evaluation of mineral resources were budgeted or planned. During third quarter of the 2015 fiscal year, the Company started to capitalize the exploration and evaluation expenditures on the mineral resources again, as management determined that it can carry out its intended plan with respect to the Igor Project.

Interest expense of $177,106 (2015 - $483,347). Interest expense consists of accrued interest and accretion expense on the Company's loans from related parties, convertible debentures and promissory note, as a result of the Company amortizing the discount on the convertible debentures and promissory note as well as incurring interest expense.

Change in fair value of derivative liability of $794,452 (2015 – $1,362,964). On August 15, 2014, March 26, 2015 and January 22, 2016, the Company entered into agreements to issue convertible debentures for proceeds of US$800,000, US$200,000 and US$100,000 respectively. On June 8, 2015, the Company also entered into a promissory note agreement for proceeds of US$1,129,305, which is payable by the greater of cash payment of US$1,129,305 or 12,344,782 common shares of the Company. The conversion feature of the convertible debentures and repayment feature of the promissory note meet the definition of a derivative liability as outlined in IAS 39. As a result, the conversion feature of the debentures and repayment feature of the promissory note are required to be recorded as a derivative liability at fair market value on initial recognition and revalued on each subsequent reporting date with the changes in future fair value of the derivative liability being recorded in profit and loss. The change in fair value of derivative liability during the nine months ended June 30, 2016 was a gain of $794,452.

## 3. Exploration and Evaluation Assets

### Igor Project

The Company is focused on exploring and developing the Igor property, located in Peru, South America. Igor is the Company's main project with a National Instrument 43-101 resource estimate (the Callanquitas resource estimate) with an inferred resource of 730,500 gold equivalent "Au Eq" ounces consisting of 7.2 million tonnes grading 1.9 grams per tonne (g/t) gold and 71.8 g/t silver; which equates to 3.16 Au Eq g/t using a cut-off grade of 1.5 Au Eq g/t. This represents 448,500 ounces of gold and 16,600,000 ounces of silver. The report amended on September 27, 2013 can be viewed on SEDAR at ww.sedar.com or on the Company's web site at www.ppxmining.com.

The Company's objective is to continue to expand and upgrade the known gold and silver resources on the Igor Project and explore other targets along the approximately eight kilometres of undrilled gold and silver mineralized structure for further potentially economically mineralized areas. The Company also intends to conduct test mining and bulk sampling of a portion of the known Callanquitas resource. On September 2, 2014, the Company announced that it had signed a Memorandum of Understanding ("MOU") with Patagonia, a wholly-owned subsidiary of the Explora Peru Mining Group, Peru that outlines the terms and conditions under which Patagonia will conduct underground bulk sampling, test mining and develop appropriate underground infrastructure at the Company's Igor gold and silver project in northern Peru. The work program is intended to gather specific data on underground mining costs, acquire geotechnical information, collect bulk samples for metallurgical testing including test milling, and evaluate selective mining methods. The data gathered may be utilized to complete a pre-feasibility study ("PFS") and/or a preliminary economic assessment ("PEA") in accordance with Canadian National Instrument 43-101 that will evaluate economic parameters for potential future mine development at Igor. Further details of the MOU can be found in the press release announcing the transaction.

On February 5, 2015 the Company announced that it had signed a series of agreements ("Agreements") with AMM that outlines the terms and conditions under which AMM will construct and operate on behalf of the Company a 350 mt/d gold and silver processing plant, utilizing CIP/CIL and Merrill-Crowe precious metal recovery, capable of producing precious metal dore at the Company's Igor Project in northern Peru. AMM, in conjunction with sister company Fundición Callao, SAC ("Fundición"), has over 60 years of mining, mineral processing and plant construction experience, with a hemisphere-wide client and project resume. The Company and AMM will utilize data gathered during on-going metallurgical testing and the previously announced underground bulk sampling program (please see press release dated September 2, 2014) to develop a detailed process flow-sheet for the proposed precious metal processing plant. Should the underground bulk-sampling program produce positive results, validated through a prefeasibility process, having a company-owned processing facility at the Igor Project site could provide a significant economic benefit to the Company.

Important aspects of the agreements are summarized below:

- AMM anticipates that it will take up to 18 months to obtain permits, complete the final design and plant engineering, construct the milling and processing equipment, prepare necessary site infrastructure, install and commission the processing plant at the Igor Project. AMM will be responsible for all aspects of project permitting, site preparation, tailings disposal, as well as the detailed design, assembly and construction of the processing facility. AMM will utilize the engineering expertise of Fundición in the design phase as well as the Fundición fabrication facility in Lima to construct the processing equipment including all mills, tanks, etc. Fundición is highly experienced in process plant design, construction and assembly, having been contractor and sub-contractor on projects of all scales: Mina Peñasquito, Zacatecas, Mexico (Au, Ag, Zn, Pb), Goldcorp, 130,000 tpd; Mina Antapaccay, Peru (Cu, Ag, Au), Xstrata, 60,000 t/d; Minera Aurifera Retamas, Peru (Au), 1,500 t/d; Mina Lagunas Norte, Peru (Au), Barrick Gold, processing facility.
- The Company and AMM have completed preliminary engineering and design work for the processing plant based on available and on-going metallurgical test work. Pending completion of the metallurgical testing, the processing plant will consist of a crushing/grinding circuit with a process capacity of 350 mt/day. Gold and silver recovery will be accomplished with either CIP or CIL leaching, Merrill Crowe silver recovery and a conventional desorption circuit. All support facilities, including analytical laboratory, CN destruction circuit, rock and crushed material loading and feeding conveyors, etc. are included in the proposed plant which is intended to be a "turn-key" facility. The processing plant will have the capacity to produce gold and silver dore at the Igor site. Plant equipment will be procured and/or fabricated by Fundición at its factory in Lima and then transported to the Igor Project site for assembly. All new components will be utilized.
- After completing the construction of the processing plant at the Igor Project site, AMM will operate the plant for a period of up to 54 months, charging a fixed fee for plant supervision, environmental monitoring, safety, security and reasonable profit. AMM has the right to receive its fee in ore produced from the plant's operations. At any time after the plant's completion, the title to the processing plant can be transferred to the Company at the Company's discretion. Once the processing plant's design and engineering is finalized, projected operating costs will be available for disclosure. Following completion of the 54-month operational period or termination of the Agreements, the Company will assume operating control of the processing plant.
- As compensation for the design, procurement, permitting and construction of the processing facility as outlined above, Peruvian paid AMM US$5,000,000 at the commencement of the contract. The Company has a promissory note in the amount of US$1,129,305 payable to AMM and payable by the greater of cash payment of US$1,129,305 or 12,344,782 shares of the Company. The promissory note was due February 3, 2016. During the nine months ended June 30, 2016, the Company exercised an option to extend the due date by six months, pursuant to which the promissory note is now due August 3, 2016. Any additional costs for the design, construction and assembly of the processing plant beyond the amount above will be borne

by AMM. The Company also agreed to a non-brokered private placement with AMM, for gross proceeds of $4,865,850, which consists of 42,311,740 common shares of the Company priced at $0.115 per share.

- Combining the 18-month permitting and construction period with the 54 month period of processing plant operations, the total Agreement life is anticipated to be 72 months. The Company has the right to terminate the Agreements at any time by paying AMM a termination fee based on potential loss of earnings from the anticipated processing plant operations. The base termination fee is US$13,500,000. For each month that the Agreements are in effect, the termination fee is reduced by US$187,500, commencing at the end of the first month following the effective date of the Agreements. The termination fee can be further reduced by applying a credit equal to 50% of any appreciation in value of the shares acquired by AMM in the private placement outlined above. AMM has the right to receive a 120-day notice in event of a termination of the MOU and/or Agreements.

On April 13, 2015, the Company and Patagonia received approval of the Declaracion de Impactos Ambientales ("DIA", "Declaration of Environmental Impacts") for the underground test mining and bulk sampling program at its Igor property in northern Peru. The approval of the DIA by the Regional Government of the Department of La Libertad allows the Company and Patagonia to advance its test mining and bulk sampling program. The Company also completed the purchase of surface rights totaling 65.3 hectares within the Igor Project area. The surface rights acquired will facilitate the development of the surface infrastructure associated with the test mining program and will also allow access to important areas of the project for surface exploration, including drilling.

On May 19, 2015 the Company announced results from metallurgical testing on two bulk samples of typical oxidized gold and silver mineralization collected from the Callanquitas structure at the Igor Project in northern Peru. The test work was performed by BM Ingenieros SAC of Lima, Peru ("BMI"). Metallurgical testing was designed to evaluate two different processing alternatives for gold and silver: Heap leaching and agitated leaching (milling). The results, +88% recovery for gold (77% for silver) in agitated leach and from 74 to 76% recovery for gold in column leaching, shows that mineralized rock from Callanquitas can be successfully treated in a conventional mill process plant (carbon-in-pulp, "CIP") and that low-cost heap leaching may be a viable treatment option. The results are described in detail below.

Column Leach Testing: Column testing is designed to simulate the heap leach precious metal recovery process. Three columns were prepared with 100% of the test material passing <1/2 inch and with the minus ¼ inch fraction (59.4% of the sample) agglomerated with cement. The columns were leached for 10, 20 and 30 days utilizing a solution with a cyanide (NaCN) concentration of 0.2% and a pH of > 10.5. Results from the testing are shown in the table below:

| Column | Days Leached | Head Grade | | Residual (Tail) Grade | | Extraction % | | Reagent Consumption kg/tm | |
|---|---|---|---|---|---|---|---|---|---|
| | | g/t Ag | g/t Au | g/t Ag | g/t Au | Ag | Au | CaO | NaCN |
| 1* | 10 | 44.18 | 16.12 | 35.49 | 3.86 | 19.68 | 76.05 | 2.50 | 3.40 |
| 2** | 20 | 47.10 | 15.68 | 35.01 | 4.01 | 25.67 | 74.43 | 2.51 | 4.22 |
| 3** | 30 | 47.10 | 15.68 | 36.18 | 3.80 | 23.18 | 75.77 | 2.74 | 4.87 |

* Calculated head grade

**Assayed head grade

The consistent good recoveries for gold (74.4 – 76.1%) suggest that heap leaching is a viable precious metal recovery method for Callanquitas mineralized rock and the potential lower capital and operating costs of heap leach recovery need to be evaluated in greater detail.

Agitated Tank Leaching: Agitated tank testing is designed to simulate conventional milling processes where the precious metal mineralized material is ground in a mill prior to leaching with NaCN. Three separate tests were performed utilizing different NaCN concentrations, solids concentration, pH and treatment times. Good recoveries of gold and silver were obtained as summarized in the table below:

| Sample | Grind (mesh) | Solids | Cyanide Conc. | pH | Time (hr) | Extraction % | | Reagent Consumption kg/tm | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Ag | Au | CaO | NaCN |
| Tanque | 70% < 200 | 28.5% | 0.30% | >11 | 48 | 77.73 | 88.33 | 4.40 | 5.15 |

BMI also characterized processing parameters of the test samples: work index of 10.95 kWh/tm, pH of 5.54, specific gravity of 2.97 gm/cc, and an apparent density of 1.6 tm/$m^3$. The gold and silver recoveries and the leaching parameters of the test samples form a baseline that will allow the Company to evaluate improvements to the process flow sheet during our proposed test mining and bulk sampling program. BMI has also provided the company with a basic engineering outline for a 350 tm/day processing plant, an equipment take-off list, water balance calculation, and power requirements that can be refined during the bulk sampling program.

On December 3, 2015, AMM and its engineering team completed the initial design for the gold and silver processing plant that will be constructed at the Igor Project site. The major components include a ball mill for primary and secondary grinding, six leach tanks and supporting crushing, pumping and leaching equipment. The plant will utilize carbon-in-pulp ("CIL") technology for leaching and gold recovery. Site work has progressed and a basic plant layout has been completed that reflects the topography and soil engineering. Additional design work will focus on the layout of the office, laboratory, security and other support structures.

On December 3, 2015, the Plan de Minado, the key permit to begin test mining operations at Igor on the Callanquitas structure, was submitted to the Federal Ministry of Energy and Mines ("MEM") by the Regional Government Ministry of Energy and Mines in La Libertad ("GREMH-LL") for review and comments.

The MEM's comments were:

- The updated CIRA to be presented to the MEM in early November in connection to expanding the area covered by CIRA ("Certificado de Inexistencia de Restos Arqueologia" – "Certificate of the Non-Existence of Archaeological Remains") to a small area north of the camp.
- Final approval from the Ministry of Transport and Communications in La Libertad ("MTC-LL") is required for the use of public roads for transport of personnel, materials and bulk samples.
- Transfer of the Permiso de Aguas ("water use permit") to Patagonia from Sienna Minerals S.A.C..

Upon approval of the Plan de Minado, Patagonia would be eligible to receive their Certificate of Mine Operations ("COM") followed by their Explosives Permit. Patagonia anticipates to begin initial surface activities at Callanquitas and be on schedule to begin shipping bulk samples during Fiscal Q1 - 2017.

On December 3 2015, AMM signed a contract with ACOMISA as the lead permitting consultant for the permitting process for the processing plant.

On February 8, 2016, the Federal Ministry of Energy and Mines and the Regional Government Ministry of Energy and Mines in La Libertad approved the Plan de Minado. Approval of the Plan de Minado allows the Company to begin preparation and pre-development activities at Igor ("Permiso de Inicio de Actividades de Preparacion y Desarrollo"), allowing the Company to start its initial surface activities at Callanquitas .

On June 24, 2016, the Company announced that Patagonia, the mining contractor responsible for developing the Igor underground mine and conducting the test mining and bulk sampling program on the Callanquitas structure, has begun the process of mobilizing workers, material and equipment to the Igor Project site. Patagonia will be responsible for mine camp operations and upgrading access to the proposed mine portals, developing additional road access within the mine site and start leveling area for stockpiling and maintenance facilities.

On August 15, 2016, Patagonia received the Certificado de Operación Minera ("COM" or Certificate of Mining Operation) from the Gobierno Regional La Libertad in Peru (Regional Government of La Libertad). The COM enables Patagonia to proceed with mining operations at the Igor Project and advance the development of test mining on the Callanquitas structure. Patagonia has already mobilized mining equipment to the site including a dozer, LHD, supply and fuel storage facilities, mechanical support equipment, and personnel. After completing the administrative process required for the Permisos Explosivos (Explosives Permit), work will begin preparing the portals for two underground ramps that will be driven on the 3390 and 3440 levels of the upper portion of the Callanquitas structure. Going forward, the area of test mining operations will be referred to as "Mina Callanquitas".

## 4. Corporate and Financing

### Corporate

On December 18, 2015, the Company announced that it had appointed Miguel Fernando Arias Vargas to its Board of Directors and that Luis Felipe Arizmendi has resigned from the Board of Directors.

Mr. Arias is currently President and a director of Peruana de Energía, a Peruvian hydro-energy company. Mr. Arias has been a director Peruana de Energia since 1996. In addition, Fernando is a director of Minera Andina de Exploraciones S. A. A., an exploration and mine development company and he is a graduate of Michigan Technological University with a degree in mining engineering.

### Financing

On October 5, 2015, the Company cancelled 2,465,000 common shares as part of a settlement agreement with a former director.

On October 16, 2015, the Company issued 1,050,000 common shares as part of a debt settlement with a former director. However, the Company's obligations under the debt settlement agreement have not been fulfilled yet and the shares are currently held in trust pending satisfaction of the obligations.

On December 31, 2015, the Company closed the first tranche of a non-brokered private placement issuing 828,750 units at a price of $0.10 per unit for gross proceeds of $82,875. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of $0.15 for a period of two years from closing. Should

the shares of the Company trade over $0.24 for twenty consecutive days, the expiry date of the warrants will be accelerated to 30 days from the date of the notice of acceleration. In connection with the non-brokered private placement, the Company incurred legal and filing fees of $21,255 and issued 164,375 finders' units valued at $16,438 on the same terms as the subscribers' units.

On January 22, 2016, the Company closed the second and final tranche of a non-brokered private placement issuing 2,943,750 units at a price of $0.10 per unit for gross proceeds of $294,375. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of $0.15 for a period of two years from closing. Should the shares of the Company trade over $0.24 for twenty consecutive days, the expiry date of the warrants will be accelerated to 30 days from the date of the notice of acceleration. In connection with the non-brokered private placement, the Company incurred legal and filing fees of $3,567.

On January 22, 2016, the Company entered into an agreement to issue a third convertible debenture for proceeds of US$100,000. The convertible debenture is unsecured and bears an interest rate of 12% per annum, calculated on the principal balance, payable every four months commencing on May 22, 2016. The convertible debenture is non-transferable and can be converted into common shares of the Company at any time at a conversion price of $0.05 per share for a period of nine months. If the convertible debenture is not converted in nine months, the Company will repay the full amount of the debenture along with any outstanding accrued interest.

On March 23, 2016, the Company entered into a loan agreement in the principal amount of US$100,000 with an immediate family member of a director of the Company. The loan bore interest at 12% per annum and was due on July 30, 2016. Subsequent to June 30, 2016, the Company repaid the principal due of US$100,000 plus accrued interest.

On March 29, 2016, the Company entered into a loan agreement in the principal amount of $33,000 with a director of the Company. The loan bore interest at 12% per annum and was due on July 30, 2016. Subsequent to June 30, 2016, the Company repaid the principal due of $33,000 plus accrued interest.

On March 30, 2016, the Company entered into a loan agreement in the principal amount of US$15,000 with another director of the Company. The loan bore interest at 12% per annum and was due on July 30, 2016. Subsequent to June 30, 2016, the Company repaid the principal due of US$15,000 plus accrued interest.

Subsequent to June 30, 2016, on July 25, August 4 and August 11, 2016, the Company closed three tranches of a non-brokered private placement issuing 57,500,000 units at a price of $0.05 per unit for gross proceeds of $2,875,000. Each unit consists of one common share and half a common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of $0.075 for a period of two years from closing. Should the shares of the Company trade over $0.24 for twenty consecutive days, the expiry date of the warrants will be accelerated to 30 days from the date of the notice of acceleration. In connection with the non-brokered private placement, the Company paid a cash finders' fee of $172,500 and issued 2,409,000 finders' warrants. Each Finders' Warrant entitles the holder to purchase one common share at a price of $0.75 for a period of two years from closing. As at June 30, 2016, the Company received gross proceeds of $121,783 and has incurred $76,356 in deferred financing charges with respect to the private placement.

Subsequent to June 30, 2016, on August 19, 2016, the Company announced that it has entered into debt settlement agreements with certain creditors, two of which are a director and/or an officer of the Company. In consideration for settlement of a total combined debt of $366,944, the Company will issue a total of 3,494,703 common shares at a deemed price of $0.105 per share.

**5. Capital Resources, Capital Expenditures and Liquidity**

The Company's cash and working capital deficiency were $12,908 and $4,126,989 as at June 30, 2016 (September 30, 2015 – $218,804 and $3,889,676). The Company will need to raise additional funds to settle its outstanding obligations, fund future drilling and for general and administrative expenses.

During the nine months ended June 30, 2016, net cash used in operating activities was $584,356, net cash used in investing activities was $266,492 in deferred exploration costs on its Igor Project; and net cash provided by issuance of common shares, convertible debentures and loans from related parties, net of deferred financing costs, as part of financing activities was $520,860.

The exploration activities of the Company will require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration and development of any of the Company's properties. Furthermore, inability to meet property payments and negotiate satisfactory terms with creditors could ultimately result in the loss of the properties.

There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financings will be favorable to the Company. In addition, low commodity prices may affect the Company's ability to obtain financing.

## 6. Related Party Transactions

### (a) Compensation of key management personnel

Certain of the Company's key management personnel render services to the Company as sole proprietors or through companies in which they are an officer or director.

| Company name | Controlled by | Position | Nature of transactions |
|---|---|---|---|
| Maher Global Exploration | Brian Maher | Chief Executive Officer | Consulting fees |
| KA Gold LLC | Kimberly Ann | Chief Financial Officer | Consulting fees |

Compensation includes salaries paid to Maher Global Exploration and KA Gold LLC and amounts paid to directors as consulting fees for their services provided to the Company outside of their capacity as a director.

| | **Three months ended June 30** | | **Nine months ended June 30** | |
|---|---|---|---|---|
| | **2016 ($)** | 2015 ($) | **2016 ($)** | 2015 ($) |
| Consulting fees, salaries and benefits [1] | **144,007** | 131,700 | **446,667** | 396,122 |
| Share-based compensation | **-** | - | **492,611** | 244,834 |
| | **144,007** | 131,700 | **939,278** | 640,956 |

[1] The charge includes consulting fees, salaries and benefits paid to Maher Global Exploration and KA Gold LLC.

### (b) Other related parties

Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable at June 30, 2016 included $562,432 (September 30, 2015 - $305,682) due to Maher Global Exploration and KA Gold LLC.

### (c) Note Receivable from former Officer/Director

During the year ended September 30, 2013, the Company entered into a loan agreement with John Rucci, the former President/Director ("director") of the Company, whereby, the Company would provide him with a loan of $616,250 in order for him to exercise his share options to purchase 2,465,000 shares of the Company.

The terms of the loan required the former director to place the shares in trust with the Company's counsel as security for the loan. The loan accrued interest at a rate of 4% per annum with principal repayments following the below schedule:

1. $136,250 due August 31, 2014 (unpaid);
2. $175,000 due September 14, 2015 (unpaid); and
3. $305,000 due on November 24, 2016

Interest amounts began accruing at the inception of the loan and have been capitalized to the note receivable. No interest was to be paid during the first three years of the term.

During the year ended September 30, 2015, the Company and John Rucci agreed to settle all obligations. The settlement includes the cancellation of the loan of $616,250 receivable by the Company and the cancellation of 2,465,000 common shares (cancelled on October 6, 2015) of the Company held as collateral for the loan, as well as the issuance of 251,179 common shares of the Company valued at $21,350 to settle outstanding debt of $25,118, and the issuance of 1,220,000 stock options at an exercise price of $0.25 per common share which expires on November 24, 2016.

## 7. Disclosure of Outstanding Share Data

| | **August 26, 2016** |
|---|---|
| Voting or equity securities issued and outstanding | **308,999,767** |
| Securities convertible or exercisable into voting or equity share: | |
| Warrants | **56,581,206** |
| Agent warrants | **7,664,354** |
| Share options | **17,133,000** |
| Convertible debenture | **5,120,941** |
| Promissory note | **12,344,782** |

## 8. Financial Instruments

**Fair Value and Classification of Financial Instruments**

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, interest payable, loans from related parties, promissory note and convertible debentures. Cash and other receivables are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, interest payable, loans from related parties and promissory note are designated as other financial liabilities, which are measured at amortized cost. The convertible debenture derivative liability is measured at fair value through profit and loss using Black-Scholes option pricing model. This basis of determining fair value is a level 2 technique for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. The carrying values of the Company's financial instruments approximate their fair values due to the short-term nature of these instruments.

## 9. Off-Balance Sheet Arrangements

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

## 10. Significant Accounting Estimates and Judgments

The preparation of these condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the determination of decommissioning obligations and income and sales tax obligations, the recoverability of exploration and evaluation assets, the assumptions used in the determination of the fair value of share-based payments and derivative liabilities, or recoverability of accounts receivable. The estimates and underlying assumptions are reviewed on an ongoing basis.

Prior to September 30, 2014, the Company recorded a liability for the VAT refunds received on the basis that the regulations in Peruvian law that give rise to the VAT refund were technical and under certain circumstances may give rise to a repayment. During the year ended September 30, 2015, the Company re-assessed the likelihood of being requested for repayment and determined that it was no longer necessary to continue to record this liability. As such the liability was reversed.

Critical Accounting Judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments, as follows:

- the point in time that an economic feasibility study has established the presence of proven and probable reserves;
- deferred tax assets recorded in the consolidated financial statements;
- in accordance with International Accounting Standards ("IAS") 21 "The Effects of Changes in Foreign Exchange Rates", management determined that the functional currency of the Company is the Canadian dollar and the functional currency of the Company's wholly-owned subsidiaries is the US dollar, as they are the currencies of the primary economic environments in which the companies operate;
- contingency as disclosed in Note 17 of the financial statements;
- determination of derivative liability.