

# PPX Mining Corp.

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

For the three months ended December 31, 2016

This Management's Discussion and Analysis ("MD&A") is dated February 28, 2017 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 Corp. 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 three months ended December 31, 2016 (the "December 2016 Interim Financial Statements"). The December 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, 2016. The December 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, 2016 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](http://www.sedar.com) and on the Company's website at ([www.ppxmining.com](http://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 [www.sedar.com](http://www.sedar.com) or on the Company's web site at [www.ppxmining.com](http://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. 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 October 11, 2016, the Company closed an agreement with RIVI Opportunity Fund LP ("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. The Company has received its first tranche payment of US\$2,500,000.

On October 13, 2016, the Company issued 7,635,914 common shares valued at \$916,310 for exploration work on the Igor concession.

On October 26, 2016, Patagonia received the Permiso du Uso de Explosivos ("Explosives Use Permit") from the Peruvian Superintendencia Nacional de Seguridad, Armas, Municiones y Explosivos de Uso Civil ("SUCAMEC, National Superintendent of Security, Firearms, Munitions and Explosives for Civil Use"), allowing Patagonia to begin underground operations at the Callanquitas structure. Going forward, the area of test mining operations will be referred to as "Mina Callanquitas". The Explosives Use Permit was presented to the Gobierno Regional de La Libertad (Regional Government of La Libertad) in order to receive the Autorizacion Inicio de Actividades ("AIA" or "Authorization to Begin Activities") and Patagonia will then begin underground operations at Mina Callanquitas.

On October 26, 2016, the Company commenced the underground test mining and bulk sampling at the 3390 level of Mina Callanquitas. The Company intends to accelerate mine development by starting additional ramp on the 3440 level and is expected to continue with bulk sampling activities throughout 2017. The Company plans to utilize the economic, engineering, and technical data generating during the test mining and bulk-sampling program as the basis for a Pre Feasibility Study (PFS) to evaluate the economics of potential future mining operations at Mina Callanquitas. On October 31, 2016, the Company announced Patagonia shipped its first bulk samples of approximately 200 tonnes from Mina Callanquitas to a nearby toll for processing.

On November 1, 2016, the Company granted 15,036,000 stock options to certain directors, officers and employees. The stock options have an exercise price of \$0.10 per share and a life of 5 years.

On December 13, 2016, the Company closed a non-brokered private placement issuing 125,000,233 units at a price of \$0.06 per unit for gross proceeds of \$7,500,014.

On December 19, 2016, the Company announced that Patagonia has provided the Company with a report of operations at Mina Callanquitas since the inception of mining activity on October 26 through the end of November 2016. Highlights of the operations update are provided in the section entitled "Exploration and Evaluation Assets".

Subsequent to December 31, 2016, on February 15, 2017, the Company announced the resignation of Kimberly Ann as Chief Financial Officer.

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.

	<b>December 31, 2016</b>	September 30, 2016	June 30, 2016	March 31, 2016
	\$	\$	\$	\$
Total revenue	Nil	Nil	Nil	Nil
Net loss	<b>(1,700,098)</b>	(808,535)	(428,770)	(260,636)
Loss per share	<b>(0.01)</b>	(0.01)	(0.00)	(0.00)
	<b>December 31, 2015</b>	September 30, 2015	June 30, 2015	March 31, 2015
	\$	\$	\$	\$
Total revenue	Nil	Nil	Nil	Nil
Net loss	(282,981)	(2,130,322)	(71,580)	(322,698)
Loss per share	(0.00)	(0.01)	(0.00)	(0.00)

The following are the operational results for the three months ended December 31, 2016 and 2015:

	Three months ended December 31	
	2016	2015
	\$	\$
Communication and regulatory	(182,447)	(19,407)
Consulting fees, salaries and benefits	(215,042)	(195,857)
Depreciation	-	(5,901)
Foreign exchange loss	(60,176)	(93,225)
Office and miscellaneous	(61,357)	(25,844)
Premises	(14,187)	(15,047)
Professional fees	(49,046)	(49,682)
Share-based payments	(990,366)	(512,185)
Travel and promotions	(52,985)	(14,653)
Interest expense	(74,492)	(69,352)
Change in fair value of derivative liability	-	707,672
Gain on settlement of debt	-	10,500
<b>Net loss for the period</b>	<b>(1,700,098)</b>	<b>(282,981)</b>

*Three months ended December 31, 2016*

The Company recorded a net loss of \$1,700,098 (\$0.01 per share) for the three months ended December 31, 2016 as compared to a net loss of \$282,981 (\$0.00 per share) for the three months ended December 31, 2015.

The most significant changes were:

Communication and regulatory of \$182,447 (2015 - \$19,407). Communication and regulatory includes charges related to the Company's investor relations activities, including filing and listing fees, and increased as a result of an increase of investor relations activities.

Office and miscellaneous of \$61,357 (2015 - \$25,844). Office and miscellaneous, including those related to Peru increased due to an increase of corporate and operations activities on the Igor Concession.

Share-based payments of \$990,366 (2015 - \$512,185). The Company granted 15,036,000 options to its directors, officers and consultants during the current period as compared to 7,850,000 granted during the 2015 fiscal period.

Travel and promotions of \$52,985 (2015 - \$14,653). Travel and promotions includes travel and meals and entertainment and increased as a result of increased travel to Peru to oversee project activities and increased investor relations activities for raising financing.

Change in fair value of derivative liability of \$nil (2015 - \$707,672). On March 26, 2015 and January 22, 2016, the Company entered into agreements to issue convertible debentures for proceeds of 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 met 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 were 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 was \$nil for the three months ended December 31, 2016 as a result of settling the convertible debentures during the year ended September 30, 2016.

Gain on debt settlement of \$nil (2015 - \$10,500). The gain on debt settlement of \$10,500 during 2015 was pursuant to a debt settlement with a former director, issuing 1,050,000 common shares at a value of \$94,500.

### 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 [www.sedar.com](http://www.sedar.com) or on the Company's web site at [www.ppxmining.com](http://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. 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, the Company 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 year ended September 30, 2016, the Company exercised an option to extend the due date by six months, pursuant to which the promissory note was due August 3, 2016. The promissory note is past due and repayable on demand. 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 completed a non-brokered private placement with AMM, for gross proceeds of \$4,865,850, which consisted 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<sup>3</sup>. 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 Arqueología" – "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.

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 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”.

On February 16, 2016, the Company announced that it has entered into a non-binding agreement with RIVI Opportunity Fund LP (“RIVI”) to provide the Company with an investment of US\$5,000,000 in return for a Gold Streaming Agreement on future precious metal production from the Company’s Igor 4 concession, at its Igor Project in northern Peru. October 11, 2016, the Gold Streaming Agreement with RIVI was executed with the following key terms:

- RIVI has made a first tranche payment of US\$2,500,000 (\$3,256,047) upon execution of definitive documents by RIVI and the Company. The second tranche of an additional US\$2,500,000 shall be payable upon meeting future production milestones, subject to the successful completion of the test mining program. The first tranche payment is subject to interest of 10% per annum, accruing on daily balances until the end of the third month after certain production milestones are met.
- The Company paid a structuring fee of US\$75,000 on the first tranche payment received and will pay another structuring fee of 3% of the second tranche payment upon receipt.
- RIVI shall be entitled to receive 10% of the Company’s portion of the combined production of gold and silver ounces from the Igor 4 concession on a Gold Equivalent Ounce (“GEO”) basis. In addition to the initial tranches described above, the Company will also receive a payment of the lesser of US\$400 or 80% the market price of gold per GEO delivered under the Gold Streaming Agreement.
- Seventy-two months after receiving the second tranche of the financing, and when 20,000 GEOs have been delivered under the Gold Streaming Agreement, the Company shall have the option to reduce the delivery schedule to 5% of the GEOs produced on the Igor 4 concession by making a one-time payment of US\$5,000,000 to RIVI. The spot price of gold must be greater than US\$1,200 per ounce in order to exercise this option.

On October 11, 2016, the Company granted RIVI a first and preferred mining tenements mortgage of US\$5 million on the Igor mining concessions and general security interest over all of the present and after-acquired assets within the property.

Subject to regulatory approval, the Company has agreed to pay a cash finder’s fee of US\$300,000 (of which US\$150,000 has been paid during the three months ended December 31, 2016) and to issue 3,000,000 warrants to arm’s length finders. The warrants have an exercise price of \$0.12 per share and expire October 11, 2018.

On October 26, 2016, Patagonia received the Permiso du Uso de Explosivos (“Explosives Use Permit”) from the Peruvian Superintendencia Nacional de Seguridad, Armas, Municiones y Explosivos de Uso Civil (“SUCAMEC, National Superintendent of Security, Firearms, Munitions and Explosives for Civil Use”), allowing Patagonia to begin underground operations at Mina Callanquitas . The Explosives Use Permit was presented to the Gobierno Regional de La Libertad (Regional Government of La Libertad) in order to receive the Autorizacion Inicio de Actividades (“AIA” or “Authorization to Begin Activities”) and Patagonia will then begin underground operations at Mina Callanquitas. Patagonia has also completed all necessary preparatory work to begin underground mining operations on the 3390 level of Mina Callanquitas. During the initial development of the 3390 level, the Company expects to mine small tonnages of mineralized material with metallurgical characteristics similar to the bulk of the Callanquitas resource.

On October 26, 2016, the Company commenced the underground test mining and bulk sampling at the 3390 level of Mina Callanquitas. The sub-vertical geometry of the Callanquitas structure combined with favorable topography will allow Patagonia to begin extracting gold and silver mineralized material rapidly in preparation for large-scale bulk sampling. The Company intends to accelerate mine development by starting additional ramp on the 3440 level and is expected to continue with bulk sampling activities throughout 2017. The Company plans to utilize the economic, engineering, and technical data generating during the test mining and bulk-sampling

program as the basis for a Pre Feasibility Study (PFS) to evaluate the economics of potential future mining operations at Mina Callanquitas.

On October 31, 2016, the Company announced that Patagonia shipped its first bulk samples of approximately 200 tonnes from Mina Callanquitas to a nearby toll for processing. Gold and silver mineralized material mined during the initial stages of development of the 3390 and 3440 levels has been stockpiled. The stockpiled development rock has geological characteristics similar to the bulk of the Callanquitas resource and is therefore ideal for evaluating the suitability of the toll processing facility for testing bulk samples of Callanquitas-style gold and silver mineralization. These first bulk samples are intended to calibrate the facility and verify its operating parameters. The artisanal workings expose the Callanquitas structure underground in the area of the 3390 and 3440 levels and will be integrated into the mine design for the test mining program. Additional mapping and sampling will be completed concurrent with ongoing mine development and bulk sampling.

On December 19, 2016, the Company announced that Patagonia has provided the Company with a report of operations at Mina Callanquitas since the inception of mining activity on October 26 through the end of November 2016. Highlights of the operations update include:

- A total of 160 metres of ramp have been completed on the 3440 and 3390 levels of Mina Callanquitas. Patagonia has also surveyed in detail approximately 300 linear metres of older underground workings, principally sub-levels, in order to integrate these workings into the mine plan for the systematic bulk-sampling. Approximately 80 metres of raises are planned to connect the 3440 and 3390 levels and provide access to the sublevels developed by previous mining at Callanquitas. When completed, formal bulk sampling of the Callanquitas resource will commence in calendar Q1 2017.
- Patagonia has reported the results of underground sampling on a portion of the Callanquitas structure. On sublevel three, accessed from the 3390 level ramp, 26 channel samples were collected over a strike length of 47 metres. The channel samples ranged in grade from 0.62 to 37.66 gpt gold and average 13.13 gpt gold, confirming high grade gold mineralization over the entire strike length sampled. Widths of gold mineralization ranged from 0.5 to over 2.5 metres and averaged 1.1 metres. Previous drilling in this area (CA-12-63), cut the Callanquitas structure approximately 13 metres above sublevel three, and intercepted 0.47 metres grading 7.17 gpt gold.
- Fifty-nine truckloads, totaling 808 tonnes of gold mineralized rock, were shipped to the Malin Plant of Silver Cascas S.A.C. ("Silver Cascas") during the period. The gold mineralized rock was mined during the excavation of the underground access ramps at Mina Callanquitas and the stabilizing of underground workings completed during prior operations at the mine. The shipments ranged in grade from 4.42 to 9.02 gpt gold per truckload as reported by Patagonia. This rock was comingled with other rock purchased by Silver Cascas for processing and therefore the Company has not received specific recovery data from the processing of the development rock. When Patagonia begins shipping bulk samples mined from specific and well-documented portions of the Callanquitas resource, it will be processed separately from other rock purchased by Silver Cascas, allowing the collection of detailed precious metal recoveries, CN consumption, and other metallurgical data for the Company. Additional gold mineralized rock is shipped to the processing plant throughout December and January prior the commencement of formal bulk sampling in calendar Q1 2017.

#### **4. Corporate and Financing**

##### **Corporate**

Subsequent to December 31, 2016, on February 15, 2017 the Company announced the resignation of Kimberly Ann as Chief Financial Officer of the Company. Ms. Ann will continue to provide consulting services to the Company until a Chief Financial Officer is appointed.

##### **Financing**

On October 13, 2016, the Company issued 7,635,914 common shares valued at \$916,310 for exploration work on the Igor concession.

On December 13, 2016, the Company closed a non-brokered private placement issuing 125,000,233 units at a price of \$0.06 per unit for gross proceeds of \$7,500,014. 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 \$0.085 on or before December 13, 2019. In connection with the non-brokered private placement, the Company incurred legal and filing fees of \$71,906, paid cash finder's fees of \$428,220, and issued 7,137,014 finder's warrants valued at \$404,087. Each finder's warrant entitles the holder to purchase one common share at a price of \$0.085 for a period of three years from closing. The Company has assigned \$3,538,662 to the warrants based on the estimated fair value using a Black-Scholes option pricing model with the balance of \$3,961,352 assigned to the shares. .

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

The Company's cash and working capital is \$8,424,370 and \$6,876,615 as at December 31, 2016 (September 30, 2016 – \$509,140 and a working capital deficiency of \$1,852,097). During the three months ended December 31, 2016, net cash used in operating activities was \$1,444,584, net cash used in investing activities was \$725,961 in deferred exploration costs on its Igor Project and property, plant and equipment acquisitions; and net cash provided by issuance of common shares in connection with a non-brokered private placement for gross proceeds of \$7,500,014 and the first tranche payment of US\$2,500,000 pursuant to the Gold Streaming Agreement with RIVI, as part of financing activities was \$10,056,356.

## 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
Mahe Global Exploration	Brian Maher	Chief Executive Officer Former Chief Financial	Consulting fees
KA Gold LLC	Kimberly Ann	Officer	Consulting fees

Compensation includes salaries paid to Mahe Global Exploration and KA Gold LLC and amounts paid to directors.

	Three months ended December 31	
	2016	2015
	(\$)	(\$)
Consulting fees, salaries and benefits <sup>(1)</sup>	156,701	147,939
Share-based compensation	958,355	492,611
	<b>1,115,056</b>	640,550

<sup>(1)</sup> The charge includes consulting fees, salaries and benefits paid to Mahe 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 December 31, 2016 included \$125,053 (September 30, 2016 – \$87,138), which were due to individuals or companies whose officers, directors or partners were also officers or directors of the Company.

### (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 provided 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;
2. \$175,000 due September 14, 2015; and
3. \$305,000 due on November 24, 2016

Interest amounts began accruing at the inception of the loan and had 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 included 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 expired on November 24, 2016.

## 7. Disclosure of Outstanding Share Data

	February 28, 2017
Voting or equity securities issued and outstanding	447,898,617
Securities convertible or exercisable into voting or equity share:	
Warrants	111,908,006
Agent warrants	14,326,160
Share options	29,286,000
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, promissory note and gold streaming facility. Cash and other receivables are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, interest payable, promissory note and gold streaming facility are designated as other financial liabilities, which are measured at amortized cost. 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. Contingency**

The Company's subsidiaries in Peru may be subject to additional tax assessments and the imposition of fines and interest by SUNAT, the Peruvian tax authority, due to the treatment and classification of intercompany advances to the Peruvian subsidiaries and the related withholding taxes imposed. The Company is of the opinion that these potential tax liabilities cannot be reasonably estimated at this time. As such, no loss provision has been made in these consolidated financial statements as at December 31, 2016.

## **11. 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 condensed interim 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. The estimates and underlying assumptions are reviewed on an ongoing basis.

### **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;
- the determination of the functional currency in accordance with International Accounting Standards ("IAS") 21 "The Effects of Changes in Foreign Exchange Rates";
- contingency as disclosed in Note 18 of the financial statements;
- determination of derivative liability.

## **12. Changes in Accounting Policies including Initial Adoption**

### **IFRS Issued but not yet Effective**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not completed its assessment of the impact that the new and amended standards will have on its financial statements. The Company also has not early adopted any of these standards in the consolidated financial statements.

### **IFRS 9 "Financial Instruments"**

The IASB intends to replace IAS 39 "Financial Instruments: Recognition and Measurement" in its entirety with IFRS 9 which is intended to reduce the complexity in the classification and measurement of financial instruments. The standard is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

#### IFRS 15 “Revenue from Contracts with Customers”

The IASB issued IFRS 15 in May 2014. The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods commencing on or after January 1, 2018.

#### IFRS 16 “Leases”

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose 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. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019.

#### IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

This interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. It covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

This interpretation is effective for reporting periods beginning on or after January 1, 2018.

### **13. Disclosure Controls and Procedures**

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer’s Annual and Interim Filings) (“NI 52-109”), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited condensed interim consolidated financial statements for the three months ended December 31, 2016 and this accompanying MD&A.

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