



**AURANIA**

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**AURANIA RESOURCES LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

**For the Three and Nine Months Ended September 30, 2018**

(Expressed in Canadian Dollars unless otherwise indicated)



## 1 INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") is a review by the management ("Management") of Aurania Resources Ltd.'s ("Aurania" or the "Company") financial condition and results of operations for the three and nine months ended September 30, 2018 (the "Reporting Period"). This MD&A is prepared as at November 22, 2018, unless otherwise indicated, and should be read in conjunction with the financial statements for the three and nine months ended September 30, 2018 ("Interim Financial Statements") and the annual financial statements for the year ended December 31, 2017 ("Annual Financial Statements") and the notes related thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All monies are expressed in Canadian dollars ("\$\$") unless otherwise indicated. Additional information relevant to the activities of the Company has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") – <http://www.sedar.com> and are also available on the Company's website <http://www.aurania.com>.

## 2 CAUTIONARY NOTE

This MD&A contains "forward-looking information" under applicable Canadian securities legislation. Except for statements of historical fact relating to the Company, information contained herein constitutes forward-looking information, including any information as to the Company's strategy, plans or future financial or operating performance. Forward-looking statements are characterized by words such as "plan," "expect", "budget", "target", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions, assumptions and estimates of Management, considered reasonable at the date the statements are made, and are inherently subject to a variety of risks and uncertainties and other known and unknown factors that could cause actual events or results to differ materially from those projected in the forward-looking information. These factors include the Company's expectations in connection with the exploration on its projects, potential development and expansion plans on the Company's projects, the impact of general business and economic conditions, global liquidity, inflation, inability to raise additional funds as may be required through debt or equity markets, fluctuating metal prices (such as gold, silver and copper), currency exchange rates (such as the Canadian Dollar ("\$\$") and the Swiss Franc ("CHF") versus the United States Dollar ("USD")), changes in accounting policies, risks related to non-core asset disposition, risks related to acquisitions, changes in project parameters as plans continue to be refined, changes in exploration time-frames, the possibility of project cost-overruns or unanticipated costs and expenses, higher prices for fuel, power, labour and other consumables contributing to higher costs and general risks of the mining industry, poor success of exploration programs, changes in permitting timelines, government regulation and the risk of government expropriation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and timing and possible outcome of labour disputes and/or shortages, as well as those risk factors discussed or referred to herein. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update forward-looking statements if circumstances or Management's estimates, assumptions or opinions should change, except as required by applicable law. The reader is cautioned not to place undue reliance on forward-looking information. The forward-looking information contained herein is presented to assisting investors in understanding the Company's expected financial and operational performance and results as at, and for the periods ended on, the dates presented in the Company's plans and objectives and may not be appropriate for other purposes.



### 3 HIGHLIGHTS

During the third quarter, 2018, the following were achieved:

- To date the following has been achieved in the reconnaissance exploration program:
  - Eight epithermal gold-silver targets have been identified and a number of others are awaiting confirmation from analytical results;
  - Four porphyry copper targets have been identified, three of which have high-grade copper – silver that is suspected to represent the preservation of secondary copper blankets;
  - The reconnaissance exploration program is now 35% complete;
- Crunchy Hill:
  - Extended the size of the target with an enlarged soil survey identifying metal enrichment over a one kilometre (“km”) trend;
  - Two of the three permits required for scout drilling have been obtained;
- Seven teams continued the reconnaissance stream sediment sampling and prospecting program;
- Three teams focused on ridge and spur soil sampling to advance the Yawi gold-silver target towards scout drilling;
- Our Corporate Social Responsibility (“CSR”) program has achieved access agreements with 60% of the communities in our project area;
- Completed Tranche 2 of a non-brokered private placement (“2018 Offering”) for gross proceeds of \$438,800 (\$422,884 net) through the issue of 219,400 units priced at \$2.00, each unit consisting of a common share and a half warrant valid for 18 months, each full warrant providing the right to purchase one common share of the Corporation at a price of \$3.00;
- Ended the quarter with available cash of \$2,291,631; and
- Extended 1,069,909 (non-broker) outstanding common share purchase warrants for one year, to mature on October 19, 2019.

### 4 DISCUSSION AND ANALYSIS

This report is dated November 21, 2018.

#### 4.1 BACKGROUND

##### 4.1.1 The Company

Aurania Resources Ltd. was incorporated under the laws of Bermuda on September 26, 2007 pursuant to the provisions of *The Companies Act 1981* (Bermuda). On February 18, 2011, the Corporation registered extra-provincially in the Province of Ontario, Canada.

##### 4.1.2 Directors, Officers and Management

Keith Barron – Chief Executive Officer, Chairman of the Board of Directors (“Board”) and Director

Elaine Ellingham – Independent Director

Gerald Harper – Independent Director

Marvin Kaiser – Independent Director

Alfred Lenarciak – Independent Director

Donna McLean – Chief Financial Officer and Corporate Secretary

Jean Paul Pallier – Vice President - Exploration (“VPX”)

Richard Spencer – President and Director

##### 4.1.3 Corporate Office

Suite 1050, 36 Toronto St.

Toronto, Ontario Canada M5C 2C5

Tel: (416) 367-3200

Email: [info@aurania.com](mailto:info@aurania.com); Website: <http://www.aurania.com>



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### **4.1.4 Registered Office**

31 Victoria Street, Hamilton, HM 10, Bermuda.

### **4.1.5 Exchange Listings**

The Company's common shares ("Common Shares") are traded on the TSX Venture Exchange ("TSX-V") under the symbol "ARU", on the Frankfurt Exchange, symbol "20Q" and on the OTCQB Venture Market under the symbol "AUIAF".

### **4.1.6 Nature of Operations and Company Focus**

Aurania is a junior mineral exploration company engaged in the identification, evaluation, acquisition, and exploration of mineral property interests, with a focus on precious metals and copper.

## **4.2 OVERALL PERFORMANCE – Financial position, results of operations and cash flows**

### **4.2.1 Financial Position**

For the nine months ended September 30, 2018, (the "Reporting Period"), the principal changes to the statement of financial position are:

Available cash increased from \$671,346 at December 31, 2017 to \$2,291,631 at September 30, 2018, as a result of issuance of 2,219,400 Units upon closing a \$4,438,800 (gross) private placement (the "2018 Offering") and the exercise of 2,302,186 warrants and stock options. These issuances resulted in a (net) \$6,686,895 increase to Share Capital (See 4.8 Equity).

Property, plant & equipment increased from \$52,573 to \$115,512 (net of depreciation) primarily due to:

- \$9,505 spent on field and safety equipment for the exploration crews;
- \$56,060 used for the purchase of a hand-held XRF analyzer; and
- \$7,100 used for the acquisition of additional computers, software and security equipment for the Macas office and the Corporate Social Responsibility ("CSR") team.

Total liabilities for the reporting period increased from \$1,737,956 to \$3,660,935 as a result of:

- the issuance of a USD2,000,000 convertible debenture (the "Debenture") to the Lender to pay the 2018 exploration concession fees for the Project (See 4.6 Liquidity and Capital Resources and 4.8 Equity).
- The Lender reduced the principal owing on the 2017 Promissory Note by: \$280,000 as debt settlement to be applied to pay for the exercise of 700,000 stock options; and
- the Company repaid \$500,000 cash to the Lender, as permitted (See 4.8 Equity).

The Company incurred a net loss of \$7,521,764 (2017 - \$7,555,230) for the period, which resulted in an increase to accumulated deficit, from \$16,059,021 in 2017 to \$23,580,785 in 2018 (See 4.2.2.1 Operating Expenses).

### **4.2.2 Results of Operations**

#### **4.2.2.1 Operating Expenses**

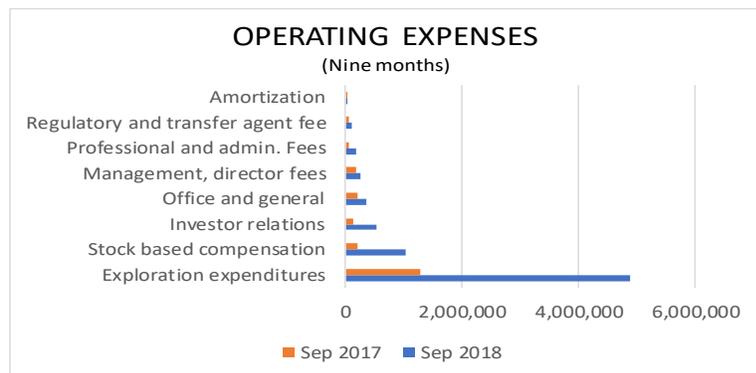
For the Reporting Period, cash and accrued expenses increased significantly year-over-year as a result of the Company's activity escalating from a start-up to a fully-operational exploration entity. The Company incurred operating expenses of \$7,379,552 (2017 -\$2,181,095). The main components of these expenditures are as follows:

- i. Exploration expenditures of \$4,890,064 (2017 - \$1,288,980): (See 4.4 PROJECTS REVIEW - Operations – Ecuador);
- ii. Stock-based compensation expense of \$1,032,388 (2017 – \$208,508):
  - \$685,752 is the assigned fair value for 550,000 stock options granted in March/April 2018;



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- \$263,874 is the additional fair value assigned for the expense of vesting options granted in 2017; and
  - \$82,762 was added for the fair value expense for the Restricted Stock Units (“RSU’s”) granted in 2017;
- Investor relations \$523,102 (2017 - \$146,628): Expanded marketing efforts with an increased focus on social media and domestic and international presentations to potential investors all resulted in higher expenditures in this area. \$196,000 was expended for booth rental, materials and travel and accommodation costs associated with the Company’s exhibiting at investment conferences in Canada, USA, Europe and Asia; \$200,000 was expended for external consulting (capital markets support); \$109,500 was expended for investor and corporate compliance (internal) and \$17,000 was expended for the Annual and Special Meeting of Shareholders (“ASM”) held in June 2018;
  - Office and general \$365,316 (2017 - \$221,664): Increased office and general costs of approximately \$16,000 per month resulted from added service costs, including service costs for financial and administrative consulting fees (see 4.17 Commitments and Contingencies) and equipping and maintaining offices in Quito and Macas, Ecuador;
  - Management, directors and advisor fees of \$250,094 (2017 - \$189,044): Management fees are higher in 2018 primarily due to the addition of compensation/benefits expense for the Country Manager (Ecuador) and a 25% increase in the compensation of the CFO from \$60,000 to \$75,000 per annum. Further, the compensation recorded for the President includes fees paid for the entire period whereas in the prior year, he joined the Company in early March. Directors’ fees have remained constant at \$15,000 per annum, per director, however one new director was added to the Board of Directors at the ASM; (See 4.9 Key Management Compensation Expense);
  - Professional and administrative fees \$195,756 (2017 - \$60,059); these fees include outside professional legal and accounting fees and internal labour-related administrative costs for the Company’s 3 corporate offices (See 4.17 Commitments and Contingencies);
  - Regulatory and transfer agent fees \$107,899 (2017 - \$64,455) increased by approximately 23% largely due to the increased share capital activity associated with the 2018 Offering. Included in these costs are the monthly costs for transfer agency fees, monthly sustaining fees for the TSX-V, SEDAR filing fees and corporate public costs in Bermuda. Approximately \$25,000 was incurred to list the Company on the OTCQB Venture Market.
  - Amortization of \$14,933 has been recorded for the period using the straight-line method for leasehold improvements, field and office equipment and computers, over periods ranging from 3 to 6 years.





### 4.2.3 Cash Flows

For the Reporting Period, the Company’s net cash position increased by \$1,875,285. The increase was principally due to the closing of Tranches 1 and 2 of the 2018 Offering, the exercise of stock options, warrants and agents’ options and a USD2,000,000 Debenture loan financing (See 4.6 Liquidity and Capital Resources). For the same period in the prior year, Management completed a \$5,816,434 private placement in Q2 and earlier in Q1, relied on shareholder loans from the Lender to meet the financial obligations of the Company.

Cash Flow Activities	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Operating	<b>\$(6,402,461)</b>	\$(1,888,217)
Financing	<b>8,355,618</b>	4,647,392
Investing	<b>(77,872)</b>	(878,176)
<b>Increase in cash during the period</b>	<b>\$1,875,285</b>	\$1,880,999

#### 4.2.3.1 Operating Activities

Net cash used in operating activities was \$6,402,461, the main components of which were:

- Payment of the 2018 mineral concession fee of \$2,587,719 and \$69,247 of legal and other costs related to keeping the mineral concessions in good standing;
- \$2,231,560 of exploration expenditures; and
- \$919,065 of office overhead and personnel costs (including Management, directors, employees, and consultants) and \$523,102 spent on capital market (consulting) support and investor and corporate relations.

These outflows were offset by non-cash add-backs of:

- \$14,933 of depreciation expense (charged on field equipment, computer hardware, office furnishings and leasehold improvements);
- Debenture accretion of \$101,215 and \$142,199 gain on derivative on the Debenture, pursuant to accounting rules for financial instruments;
- \$1,032,388 of stock-based compensation to record the fair value expense for 2016, 2017 and 2018 stock options and warrants;
- \$39,345 of foreign exchange on the promissory note and \$18,890 accrued interest for the Debenture; and
- A \$6,955 net change in non-cash working capital (i.e. movement within the accounts payable, accrued liabilities, prepaid expenses and receivables accounts throughout the Reporting Period).

The main components of the operating activities in the comparable period in the prior year were \$1,288,980 of exploration expenditures and \$683,607 of office overhead including Management and directors and regulatory and other corporate costs.

#### 4.2.3.2 Investing Activity

Investing activity generated a use of funds of \$77,872. Assets purchased during the period included \$56,060 for a portable XRF analyzer, \$9,505 for field and health and safety equipment, and \$7,100 for computers, software and security equipment for the field and CSR teams in the Macas field office and \$2,723 of purchases for the Toronto office.

During the nine months ended September 30, 2017, the Company recorded an outflow of cash for the costs related to the acquisition of ESA and cash advances to ESA of \$831,785. As part of the Acquisition of ESA, the Company acquired leasehold improvement and other capital assets valued at \$18,200; the Company then purchased \$28,191 of additional computer and field equipment once operations commenced.



#### 4.2.3.3 Financing Activities

Financing activities during the Reporting Period included: a) the completion of the 2018 Offering and b) the exercise of 2,302,186 options and warrants, which in total yielded net proceeds of \$6,224,039 to treasury. The Company repaid \$500,000 cash to the Lender to reduce the debt owing on the 2017 Promissory Note (due May 29, 2019). In order to pay the 2018 Mineral Concession fees for the Project, the Company entered into a Debenture loan agreement for proceeds of \$2,631,579.

In the same period in the prior year, the Company raised \$5,846,434 (net) with the issuance of 3,200,890 common share units for the 2017 Offering. From January 1, 2017 to May 29, 2017, the Company received \$207,972 from Lender advances which was used to pay the ongoing corporate costs of the Company.

### 4.3 **SELECTED PERIOD FINANCIAL RESULTS**

<b>FINANCIAL POSITION</b>		
<b>As at</b>	<b>September 30, 2018</b>	December 31, 2017
Cash and restricted cash	<b>\$2,546,631</b>	\$671,346
Prepaid expenses and sundry receivables	<b>64,300</b>	64,882
Property, plant and equipment	<b>115,512</b>	52,573
Total assets	<b>\$2,726,443</b>	\$788,801
Total liabilities	<b>\$3,660,935</b>	\$1,737,956
Shareholders' equity (deficiency)	<b>\$(934,492)</b>	\$(949,155)
Deficit	<b>\$(23,580,785)</b>	\$(16,059,021)
<b>STATEMENTS OF LOSS</b>	<b>Three months ended September 30, 2018</b>	Three months ended September 30, 2017
Exploration expenses	<b>\$861,997</b>	\$1,093,083
Compensation - Stock-based compensation, management, directors' and advisor fees	<b>323,528</b>	120,572
Corporate overhead expense	<b>357,322</b>	226,450
Total expenses before other items	<b>\$1,542,847</b>	\$1,440,105
<b>Other income/expenses:</b>		
(Gain) loss on foreign exchange and derivative	<b>(140,984)</b>	(36,905)
Interest (income)	<b>(3,297)</b>	-
Interest expense	<b>113,769</b>	15,420
<b>Loss for the period</b>	<b>\$1,512,335</b>	\$1,418,620



### 4.3 SELECTED PERIOD FINANCIAL RESULTS, Continued

STATEMENTS OF LOSS	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Exploration expenditures	\$4,890,064	\$1,288,890
Compensation - Stock-based expense, management, directors' and advisor fees	1,282,482	397,552
Corporate overhead expense	1,207,006	494,613
Total expenses before other items	\$7,379,552	\$2,181,055
<b>Other income/expenses:</b>		
Costs associated with acquisition of ESA	-	5,511,183
(Gain) loss on foreign exchange and derivative	(20,627)	(154,890)
Interest income	(5,026)	-
Interest expense	167,865	17,842
<b>Loss for the period</b>	<b>\$7,521,764</b>	<b>\$7,555,230</b>

### 4.4 PROJECTS REVIEW

#### 4.4.1 Operations - Ecuador

##### 4.4.1.1 Land tenure & permits

Titles to the 42 mineral concessions that constitute the 207,764 hectare (“Ha”) Lost Cities – Cutucu Project area in Ecuador, were granted on December 27 and 28, 2016, and are valid for 25 years, renewable for a subsequent 25 years, provided that the concessions are maintained in good standing. The key requirements for maintaining the good standing of concessions have been met as follows:

- Concession fees of USD2,004,923 (USD9.65/Ha) for the current year were paid by March 31, 2018; and
- The annual exploration expenditure commitment for 2017 has been met and exceeded with the airborne geophysics survey that was completed over the Project and environs, as well as field work undertaken.

The size of the concession area constituting the Project may be reduced at the Company’s discretion based on exploration results. The high annual concession fees provide a strong incentive to reduce the size of the Project area. The national concession application process was closed in December 2017 and is expected to re-open in early 2019. The closure of the concession application process was for government administrative purposes. Consequently, no new concessions may be added to the Project area at this time.

##### 4.4.1.2 New Legislation

Legislation recently enacted allows for scout drilling to be conducted during the initial phase of exploration. All drilling had previously required a change in status of a concession to “Advanced Exploration”, which involved additional submissions to the Ministries of Natural Resources and Environment. Application was made to these authorities for scout drilling at the Crunchy Hill and Yawi precious metal targets. The final permit for the drilling at Crunchy Hill is expected shortly and for Yawi in February, 2019.



#### **4.4.1.3 Reconnaissance Exploration**

The Company has established an exploration approach whereby stream sediment sampling and prospecting teams are deployed and once geochemical anomalies or significant rocks are identified, a geological team led by a more experienced geologists, is deployed to refine and develop each target and ready each for scout drilling. Once the scout drilling starts, it is anticipated that a man-portable diamond drill will be moved from one target to the next, behind the stream sediment sampling and target development teams.

Seven exploration teams are focused on stream sediment sampling of the Project. Approximately 35% of the Project area has been covered by the stream sediment sampling program which has resulted in the definition of multiple targets. Three exploration teams are focused on ridge and spur soil sampling to define the shape and location of target areas more precisely.

Eight discrete epithermal targets for gold-silver mineralization have been identified through the stream sediment sampling program. Six of these are located within an area of approximately 100 square kilometers and are jointly termed the Latorre District. Of these, the Crunchy Hill target, which is accessible by paved highway, is the most advanced. A further three porphyry copper centres have been identified for follow up exploration.

#### **4.4.1.4 Corporate Social Responsibility**

The Company's CSR team, under the guidance of Toronto-based O-Trade, has developed a complete stakeholder engagement plan for the Project area. This engagement recognizes and honours human and indigenous rights. Formal access agreements have been established with 60% of communities that lie within the Project area. Improved access for the Company's exploration teams has benefitted five communities directly and nine indirectly. Over 500 families have benefitted from training on basic sanitation and water purification methods. Over 350 part-time work opportunities have been created by the exploration teams and 21 local suppliers have been engaged to provide consumables and transport as well as other services.

#### **4.4.1.5 Lost Cities – Cutucu Project Exploration Expenditures**

For the three months ended September 30, total field-related expenses decreased from \$1,094,825 in 2017 to \$861,254 in 2018, as follows:

- \$270,870 for salaries and consulting fees for the exploration teams (2017 - \$180,906)
- \$158,427 for project management fees: (including 100% of VPX Exploration, 100% of the senior geologists and 70% of the President's) (2017 - \$35,690);
- \$151,016 for consulting fees, field costs, travel and accommodation of the CSR team (2017 - \$242,407)
- \$84,979 for in-country and international travel and accommodation for the exploration team (2017 - \$(23,705));
- \$83,006 for geochemical analysis and assay (2017 - \$nil);
- \$39,847 in field expenses and equipment (2017 - \$76,125);
- \$32,284 for Macas office administration costs (2017 - \$nil); and
- \$11,969 for geophysics consulting fees (2017 - \$532,072).

Expenditure in Q3 2018 is skewed by the geophysical survey being the main expenditure item in Q3 2017. Most of the other exploration-related items increased significantly in Q3 2018 relative to Q3 2017, due to:

- The number of teams in the regional stream sediment sampling campaign increasing from 4 in Q3 2017 to 7 in Q3 2018 – this increase being brought-about by the effectiveness of stream sediment sampling in identifying both precious metals and copper targets;
- Soil sampling being required as the step following the identification of target areas by the stream sediment sampling program. Three teams are now focused on soil sampling as opposed to none in 2017;
- The CSR team was expanded to reach and engage with more indigenous communities to gain access for the exploration teams.



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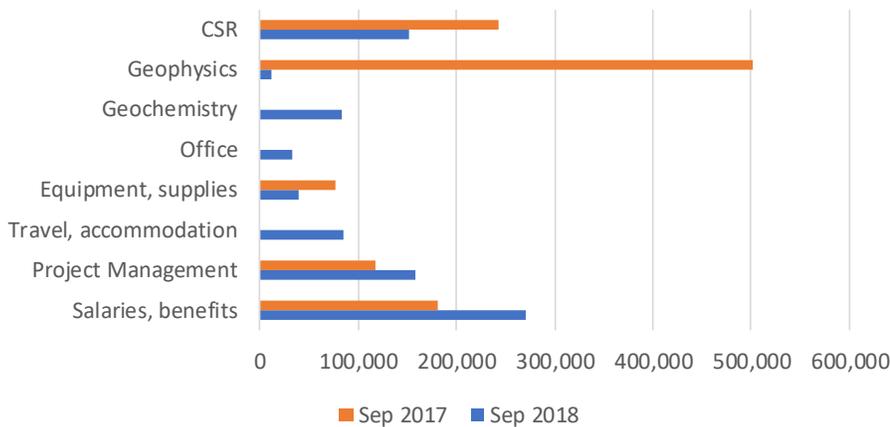
The main expenditures that increased in Q3 2018, relative to Q3 2017 respectively, are:

- Salaries and benefits rising to \$270,870 from \$180,906 with team expansion;
- Food, transport and accommodation for the field rose to \$84,979 with team expansion and added travel distances;
- Field office costs rising to \$32,284 from nil due to opening of the field office;
- Analysis of samples rising to \$83,006 from nil; and
- Concession maintenance and associated legal fees rising to \$28,856 due to more compliance being required as exploration progresses toward drilling on the concessions.

The main expenditures that dropped in Q3 2018 compared with Q3 2017, are as follows:

- The team spent \$76,125 on the initial field equipment and supplies at the start-up of the field program in Q3 2017 relative to the sustaining expenditure of \$39,847 in Q3 2018;
- Follow up analysis and interpretation of data cost \$11,969 in Q3 2018 whereas a major segment of the airborne survey was being conducted in the comparable period in 2017; \$532,072 was recorded in this period for the geophysics work completed; and
- Set-up CSR costs of \$242,407 in Q3 2017 decreased to \$151,016 in Q3 2018 due to operations being bedded down and rationalized.

## EXPLORATION EXPENDITURES ECUADOR (Three months)



For the nine months ended September 30, 2018, the level of spending in all categories except for geophysics predictably increased due to the expanded level of activity as described above.

### 4.4.1.6 Lost Cities – Cutucu Project G&A Expenditures

During the nine months ended September 30, 2018 the Company spent \$36,000 (2017 - \$nil) for salaries and benefits for administration teams in the Quito and Macas offices (not including the Country Manager). Ongoing rent, supplies, utilities, telecommunication and internet costs are approximately \$10,000 per month for the Quito and Macas offices.

### 4.4.2 Operations - SWITZERLAND

The Company, through its wholly-owned subsidiary AVS, has been maintaining a 100% interest in three exploration permits (the “Permits”) in Switzerland, in the Canton of Valais (the “Canton”) subject to a 3% gross value royalty payable to the Canton and a 0.75% gross value royalty payable to the surface rights holders.



#### 4.4.2.1 Permit Status

In 2015, the Company made formal application to obtain new five-year Permits and were advised that the Canton Authority (the “Ministry”) intended to revise the Swiss Mining Law prior to issuing new permits. The applications were deemed legally “frozen”; therefore Management believes all rights, title and interest under the Permits, have been preserved. To September 30, 2018, Management is unaware of any change in the status of the Permits.

#### 4.4.2.2 Exploration Expenditures

During the nine months ended September 30, 2018, there were \$1,538 (2017 - \$4,169) expenses charged to exploration for permit maintenance and core storage costs.

### 4.5 SUMMARY OF QUARTERLY RESULTS

Quarters Ended	Net revenue (\$)	Net Loss (\$)	Loss per Share (\$)
September 30, 2018	-	1,512,335	0.05
June 30, 2018	-	1,948,898	0.07
March 31, 2018	-	4,060,531	0.15
December 31, 2017	-	1,690,091	0.06
September 30, 2017	-	1,418,620	0.05
June 30, 2017	-	5,949,606	0.24
March 31, 2017	-	187,005	0.01
December 31, 2016	-	163,073	0.01

### 4.6 LIQUIDITY AND CAPITAL RESOURCES

The Company considers the capital that it manages to include share capital, share premium, warrants, contributed surplus and deficit, which at September 30, 2018 was \$(934,492) (December 31, 2017 - \$(949,155)). The Company manages and makes adjustments to its capital structure based on the funds needed in order to support the acquisition, exploration and development of mineral properties. Management does this in light of changes in economic conditions and the risk characteristics of the underlying assets. There has been no change with respect to the overall capital risk management strategy during the nine months ended September 30, 2018.

The Company’s continued existence is dependent upon Management’s ability to obtain the necessary financing to advance exploration on its Project.

#### 4.6.1.1 Capital Financings

Capital financing activities in the Reporting Period generated a net cash inflow of \$6,504,039 (after deducting \$349,669 share issue costs) from:

- \$4,089,131 from the 2018 Offering was comprised of Units priced at \$2.00, with each unit consisting of a Common Share and a half warrant, with each full warrant, valid for 18 months, being the right to purchase a Common Share at a price of \$3.00. The 2018 Offering closed in two tranches as follows:
  - Tranche 1 was for gross proceeds of \$4,000,000 through the issue of 2,000,000 Units and closed on June 29, 2018;
  - Tranche 2 was for gross proceeds of \$438,800 through the sale of 219,400 Units and closed on September 6, 2018;
- 1,030,000 stock options were exercised for proceeds of \$460,000;
- A total of 700,000 stock options were exercised for consideration of \$280,000 and the proceeds used to reduce the debt (see below);
- 530,536 warrants from the 2017 Offering were exercised for proceeds of \$1,591,608;



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- One of the agents who participated in the 2017 Offering exercised 41,650 Agents’ Compensation Options. A payment of \$2.00 per option (\$83,300 in total) resulted in the issuance of 41,650 common shares and 20,825 warrants (with the same terms as the 2017 Offering warrants, including an expiry date of October 19, 2018).

**4.6.1.2 Promissory Notes, Convertible Debenture and Standby Letter of Credit**

**4.6.1.2.1 Promissory Note - Mineral Concessions Loan (“MCL1”)**

For the nine months ended September 30,	2018
<b>Balance, beginning of period</b>	<b>\$1,273,000</b>
Accrued interest	15,263
Settlement of debt	(780,000)
Foreign exchange translation loss	39,345
<b>Balance, end of period</b>	<b>\$547,608</b>

On March 20, 2017, the Lender advanced USD2,000,000 to ESA to facilitate the payment of the 2017 minerals concession fees, pursuant to an unsecured, promissory note loan. On May 29, 2017 the Company repaid USD1,000,000 of the MCL1 from the proceeds of the 2017 Offering. On May 29, 2018 the Lender extended the maturity date of the MCL1 to May 29, 2019.

On April 2, 2018 Dr. Barron settled \$280,000 of MCL1 in consideration of exercising his 700,000 stock options, at \$0.40 per option. Accordingly, the Company issued 700,000 common shares to Dr. Barron in exchange for reducing the principal owing on MCL1 by USD217,168 (\$280,000). On August 16, 2018 the Company repaid \$500,000 of MCL1 in cash. At September 30, 2018, the accrued interest owing on MCL1 is \$30,363 (December 31, 2017 - \$15,100).

**4.6.1.2.2 Convertible Debenture – Mineral Concession Loan (“MCL2”)**

On May 22, 2018 the Company issued a USD2,000,000 face value Convertible Debenture, due May 29, 2019 for net proceeds of CAD\$2,631,579. The Debenture accrues interest at 2% per annum, payable in cash at maturity. However, the principal amount may be converted at the option of the holder at any time during the term to maturity into a fixed number of 877,193 shares of our common stock, subject to adjustment solely for capital reorganization events. The Debenture also embodies certain traditional default provisions that are linked to credit or interest risks, such as bankruptcy proceedings, liquidation events and corporate existence. We have concluded that the embedded conversion option did not pass the conditions for equity classification.

**Accounting Treatment** - Pursuant to IAS 32 and IAS 39, because the face value of the note is denominated in other than the Company’s functional currency, the conversion feature requires classification and measurement as a derivative financial instrument. Accordingly, our evaluation resulted in the conclusion that this derivative financial instrument requires bifurcation and liability classification, at fair value. Current standards contemplate that the classification of financial instruments requires evaluation at each report date.

The following table reflects the allocation of the proceeds on the financing date:

	USD2,000,000
Secured Convertible Debenture	Face Value
Proceeds	\$2,631,579
Embedded derivative	(426,827)
Carrying value at inception	\$2,204,752



### **Accounting Treatment, Continued**

The carrying value of the Debenture at December 31, 2017 was \$nil and the carrying value at September 30, 2018 was \$2,338,722 and accrued interest from inception to September 30, 2018 is \$18,890.

Discounts (premiums) on the Debenture arise from (i) the allocation of basis to other instruments issued in the transaction, (ii) fees paid directly to the creditor and (iii) initial recognition at fair value, which is lower than face value. Discounts (premiums) are amortized through charges (credits) to interest expense over the term of the debt agreement. Amortization of debt discounts (premiums) amounted to accretion of \$133,970 during the period from inception to September 30, 2018.

### ***Derivative Liabilities***

The carrying value of the embedded derivative liability is on the condensed consolidated interim statement of financial position, with changes in the carrying value being recorded as derivative gain on the condensed consolidated interim statement of loss. The fair value of the embedded derivative liability as of September 30, 2018 was \$313,560 and the gain on derivative for the period from inception to September 30, 2018 was \$113,268.

#### **4.6.1.3 Promissory Note - Other**

In the nine months ended September 30, 2017, the Company relied on advances from the Lender in the amount of \$207,972 which were fully repaid on May 29, 2017, as part of the settlement of \$750,000 of cumulative promissory note advances, which was satisfied with the issuance of 375,000 shares of the Company in 2017.

#### **4.6.1.4 Standby Letter of Credit and Restricted Cash**

The Company has established a refundable reserve in the principal amount of \$255,000 as a requirement of the payment clearing processor responsible for transmitting funds by credit card subscriptions in respect of the 2018 Offering. The reserve is invested in an interest-bearing guaranteed investment certificate issued by a Canadian Chartered Bank. The reserve is required to be in place until December 18, 2019 and is recorded in the interim financial statements as 'Restricted Cash'.

#### **4.6.1.5 Funding Outlook**

As the Company currently has no source of revenues or cash flow, periodic financings are required to advance exploration at the Project, to meet ongoing obligations and discharge the Company's liabilities in the normal course of business. As anticipated, the majority of the 2017 Offering financing was spent on Project acquisition, training and mobilizing the exploration teams, implementing a CSR program and establishing bases of operation, commencing exploration as well as conducting the heliborne geophysics survey over the Project area and environs.

The 2018 Offering has been earmarked for continuing the reconnaissance exploration program and follow-up exploration to prepare targets for scout drilling, as well as for working capital purposes. Management is considering different sources of potential funding to undertake the next phase of exploration, a significant component of which will be for scout drilling of multiple targets. Sources of funding may include equity issuances, short-term loans and the exercise of warrants and stock options.

### **4.7 FINANCIAL MANAGEMENT RISK**

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign exchange rate, and commodity price risk). Risk management is carried out by Management with guidance from the Audit Committee under policies approved by the Board. The Board also provides regular guidance for overall risk management. There have been no significant changes in the risks, objectives, policies and procedures during the reporting period.



#### 4.7.1 Credit Risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company has no significant concentration of credit risk arising from its operations. Cash is held at select Canadian, Swiss and Ecuadorian financial institutions, from which Management believes the risk of loss to be low. The Company does not have any material risk exposure to any single debtor or group of debtors.

#### 4.7.2 Liquidity Risk

Liquidity risk arises through an excess of financial obligations over financial assets at any point in time. The Company's approach to managing liquidity risk is to maintain sufficient readily available cash to continue operations and meet its financial obligations as they become due (See 4.6 Liquidity and Capital Resources).

As at September 30, 2018, the Company has \$2,291,631 in cash to settle \$3,660,935 of liabilities. The liquidity risk at September 30, 2018, is therefore material.

#### 4.7.3 Market risk

Market risk is the risk related to changes in the market prices, such as fluctuations in foreign exchange rates and interest rates that will affect the Company's net earnings or the value of its financial instruments.

#### 4.7.4 Interest rate risk

Cash balances are deposited in highly-accessible and low-interest bank accounts that are used for short-term working capital requirements. The Company regularly monitors compliance to its cash management policy.

#### 4.7.5 Foreign currency risk

Certain of the Company's expenses are incurred in USD and CHF and are therefore subject to gains or losses due to fluctuations in these currencies relative the Canadian Dollar, in which currency funds are raised through equity placements. Management believes that the foreign exchange risk derived from currency conversions is best served by not hedging its foreign exchange risk. At September 30, 2018 and December 31, 2017, the Company's exposure to foreign currency risk with respect to amounts denominated in USD and CHF was substantially as follows:

<i>In Canadian \$ equivalents</i>	September 30, 2018	December 30, 2017
Cash	\$220,295	\$8,393
Accounts payable, accrued liabilities, promissory notes and convertible debenture	(2,935,758)	(1,391,262)
<b>Net exposure</b>	<b>\$(2,715,463)</b>	<b>\$(1,382,869)</b>

#### 4.7.6 Commodity price risk

Commodity price risk is defined as the potential adverse future impact on earnings and economic value due to commodity price movements and volatility. The ability of the Company to develop its mineral properties and the future profitability of the Company is directly related to the market price of gold, silver, copper and other commodities.

Commodity prices have fluctuated significantly in recent years. There is no assurance that these metals will be produced in the future or that a profitable market will exist for them. As of September 30, 2018, and December 31, 2017, the Company was not a metals commodity producer.

#### 4.7.7 Sensitivity analysis

As of September 30, 2018, and December 31, 2017, both the carrying and fair value amounts of the Company's financial instruments (except for the Debenture) are approximately equivalent due to their short-term nature.

The carrying value of the Debenture approximates its fair value due to the short amount of time that has passed since inception.



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Based on Management's knowledge and experience of the financial markets, the Company believes that a 10% strengthening of the Canadian dollar against the USD and the CHF at September 30, 2018 would have increased the net asset position of the Company by \$271,546 (December 31, 2017 – \$138,287). A 10% weakening of the Canadian dollar against the same would have had an equal but opposite effect.

### 4.8 EQUITY

#### 4.8.1 Share Capital

Activity during the nine months ended September 30, 2018 included:

	# Shares	Par Value	Share Premium
<b>Balance – December 31, 2017</b>	<b>27,385,625</b>	<b>\$273</b>	<b>\$13,019,518</b>
Shares issued for private placement	2,219,400	22	4,089,109
Shares issued for exercise of options	1,730,000	17	1,272,070
Shares issued for exercise of warrants	530,536	5	1,840,380
Shares issued for exercise of agents' options	41,650	-	121,829
FV of warrants issued	-	-	(636,810)
<b>Balance – September 30, 2018</b>	<b>31,907,211</b>	<b>\$317</b>	<b>\$19,706,096</b>

#### 4.8.2 Stock Options

In March and April 2018, the Company granted a total of 550,000 stock options to directors and a consultant to purchase 550,000 common shares, at prices between \$2.68 to \$2.89 per share.

Stock option activity and outstanding balance for the nine months ended September 30, 2018 included:

	Number of Options	Weighted Average Exercise Price	Estimated Fair Value
<b>Balance – December 31, 2017</b>	<b>2,695,000</b>	<b>\$0.80</b>	<b>\$1,134,838</b>
Issued	250,000	2.89	337,956
Issued	300,000	2.68	347,796
Exercised	(1,700,000)	(0.40)	(506,294)
Exercised	(30,000)	(2.00)	(25,793)
Stock-based compensation expense	-	-	263,875
<b>Balance – September 30, 2018</b>	<b>1,515,000</b>	<b>\$1.93</b>	<b>\$1,552,378</b>

Issued Number of Options	Exercisable Number of Options	Exercise Price	Expiry Date	Estimated Fair Value
30,000	30,000	\$2.00	May 3, 2019	\$25,793
415,000	276,666	\$0.60	July 13, 2021	218,238
150,000	100,000	\$2.30	May 26, 2022	211,429
370,000	123,333	\$2.00	November 2, 2022	411,166
250,000	83,250	\$2.89	March 2, 2023	337,956
300,000	100,000	\$2.68	April 5, 2023	347,796
<b>1,515,000</b>	<b>713,249</b>			<b>\$1,552,378</b>



#### 4.8.3 Restricted Stock Units (“RSU”)

The following summarizes the RSU activity during the nine months ended September 30, 2018:

	Number of RSU’s	Weighted Average Fair Value	Estimated Fair Value
<b>Balance – December 31, 2017</b>	<b>124,500</b>	<b>\$0.19</b>	<b>\$23,363</b>
RSU’s forfeited	(24,000)	(0.19)	(4,504)
Stock-based compensation expense	-	-	87,266
<b>Balance – September 30, 2018</b>	<b>100,500</b>	<b>\$0.19</b>	<b>\$106,125</b>

The contractual life remaining for RSU’s at September 30, 2018 is 2.25 years (December 31, 2017 – 2.84 years). The RSU’s were not included in the computation of diluted net loss per share for the periods presented as they are anti-dilutive.

#### 4.8.4 Warrants

The following summarizes the warrants and Agents’ Options activity and warrants outstanding for the nine months ended September 30, 2018:

	Number of Warrants/ Agents’ Options	Weighted Average Exercise Price	Estimated Fair Value
<b>Balance – December 31, 2017</b>	<b>1,744,645</b>	<b>\$2.92</b>	<b>\$883,874</b>
Exercised	(530,536)	\$(3.00)	(248,777)
Exercised	(41,650)	\$(2.00)	(38,530)
Issued upon exercise of agents’ options <sup>(1)</sup>	20,825	\$3.00	15,000
Issued <sup>(2)</sup>	1,000,000	\$3.00	525,000
Issued <sup>(2)</sup>	79,442	\$3.00	43,810
Issued <sup>(3)</sup>	109,700	\$3.00	53,000
<b>Balance – September 30, 2018</b>	<b>2,382,426</b>	<b>\$2.95</b>	<b>\$1,233,377</b>

<sup>(1)</sup> The warrants expire October 19, 2018

<sup>(2)</sup> The warrants expire December 29, 2019

<sup>(3)</sup> The warrants expire March 6, 2020

Issued Number of Warrants	Exercise Price	Expiry Date	Estimated Fair Value
123,375	\$3.00	October 19, 2018	\$15,000
1,069,909	\$3.00	October 19, 2019	\$596,568
1,000,000	\$3.00	December 29, 2019	525,000
109,700	\$3.00	March 6, 2020	53,000
79,442	\$3.00	March 2, 2023	43,810
<b>2,382,426</b>			<b>\$1,233,378</b>

#### 4.9 KEY MANAGEMENT COMPENSATION EXPENSE

In accordance with IAS 24, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and nonexecutive) of the Company.



During the Reporting Period, the remuneration of Key Management and directors of the Company was:

For the nine months ended September 30,	2018	2017
Management fees <sup>(1)</sup>	\$200,619	\$139,413
Exploration management fees <sup>(1)</sup>	238,988	85,990
Director and advisor fees <sup>(2)</sup>	49,475	49,631
Stock-based compensation <sup>(3)</sup>	833,314	208,508
<b>Total key management compensation expense</b>	<b>\$1,322,396</b>	<b>\$483,542</b>

<sup>(1)</sup> This includes 100% CFO fees, Toronto, 100% salary/benefits of the Country Manager, Ecuador, and 30% of the President's compensation. The remaining 70% of the President's compensation and 100% of the compensation paid to the VPX has been charged to exploration. In 2017, this is 100% CFO fees including a \$25,000 performance bonus, 100% of the President's compensation since his start date of March 6, 2017 and 100% of the compensation paid to the VPX who started employment with the Company as an independent contractor.

<sup>(2)</sup> Per eligible director, director's fees are \$15,000 per annum or \$3,750 per quarter. From March 2, 2018 to June 13, 2018, Mr. Alfred Lenarciak served as a financial advisor to the Company, at a compensation rate equal to that of a Director. Mr. Lenarciak joined the Board of Directors on June 13, 2018 after being elected a Director at the Company's ASM, and his advisory position was terminated.

<sup>(3)</sup> This figure is the fair value expense of vested stock options and RSU's granted to key management during the nine months ended September 30, 2018.

#### 4.10 RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. The Company entered into the following transactions with related parties in the nine months ended September 30, 2018: **(See 4.17 Commitments and Contingencies).**

##### For the nine months ended September 30, 2018 (versus nine months ended September 30, 2017):

(a) A total of \$112,500 (2017 - \$59,325), plus applicable taxes was charged to the Company by a management company controlled by the President, on account of management consulting fees (the "Fees").

Included in accounts payable and accrued liabilities at September 30, 2018 is \$14,125 (December 31, 2017 - \$21,753) owed to the President's company, for unpaid Fees. These amounts are unsecured, non-interest bearing and due on demand.

(b) A total of \$56,250 (2017 - \$80,088), plus applicable taxes was charged to the Company by a management company controlled by the Chief Financial Officer ("CFO"), on account of accounting consulting fees. Included in accounts payable and accrued liabilities at September 30, 2018 is \$7,063 (December 31, 2017 - \$nil) owed to the CFO's company, for unpaid consulting fees. These amounts are unsecured, non-interest bearing and due on demand.

(c) A total of \$49,475 has been recorded as directors' and advisor fees. Included in accounts payable and accrued liabilities at September 30, 2018 is \$18,750 (December 31, 2017 - \$11,250) owed to the directors for unpaid directors' fees. These amounts are unsecured, non-interest bearing and due on demand.

(d) During the nine months ended September 30, 2018, the Company incurred \$382,500 of service costs provided by a company controlled by a director/principal shareholder of the Company ("New ServiceCo") for certain services including office space, investor relations and marketing, administrative and IT services (the "Base Services"). These costs were allocated in the financial statements as follows: \$162,000 to office and general (including rent and administrative), \$63,000 for investor relations, marketing and IT and \$157,500 was charged to exploration expenses – office. Further, a one-time catch-up billing in the amount of \$36,340 was charged to the Company during this period, for unbilled services provided from 2017. Included in accounts payable and accrued



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liabilities at September 30, 2018 is \$68,396 (December 31, 2017 - \$55,162) owed to New ServiceCo, for unpaid services. These amounts are unsecured, non-interest bearing and due on demand. **(See 4.17 Commitments and Contingencies).**

### 4.11 OFF-BALANCE SHEET TRANSACTIONS

There are no off-balance sheet transactions contemplated at this time.

### 4.12 PROPOSED TRANSACTIONS

The Company has no proposed transaction to acquire any additional assets or to dispose of any asset of the Company. However, from time to time, and like other junior mineral exploration enterprises, the Company may acquire or dispose of property assets as determined by Management based on exploration results, opportunities, the competitive nature of the business, and capital availability.

### 4.13 CRITICAL ACCOUNTING ESTIMATES

The Company prepares its interim financial statements in accordance with IFRS. Significant assumptions about the future and other sources of estimation uncertainty that Management has made at the financial position reporting date, 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 following:

- (i) the inputs used in accounting for valuation of warrants and options which are included in the condensed consolidated interim statement of financial position;
- (ii) the inputs used in accounting for stock-based compensation expense in the condensed consolidated interim statement of loss;
- (iii) the \$nil provision for decommissioning and restoration obligations which are included in the condensed consolidated interim statement of financial position;
- (iv) the existence and estimated amount of contingencies **(See 4.17 Commitments and Contingencies);**
- (v) the valuation of the acquisition of ESA; and
- (vi) the valuation of the accretion and derivative liability on the Debenture

### 4.14 ESTMA REPORTING

The [\*Extractive Sector Transparency Measures Act\*](#) (the Act) was enacted on December 16, 2014, and brought into force on June 1, 2015. The Act delivers on Canada's international commitments to contribute to global efforts to increase transparency and deter corruption in the extractive sector by requiring extractive entities active in Canada to publicly disclose, on an annual basis, specific payments made to all governments in Canada and abroad. Reports are made annually within 150 days after year end. Therefore, the F2017 ESTMA report included the USD2,004,923 (\$2,535,880) for mineral concession fees that were paid to the Ministry of Mines in Ecuador.

### 4.15 CHANGES IN ACCOUNTING POLICIES AND FINANCIAL INSTRUMENTS

#### 4.15.1.1 Accounting Policies

During the nine months ended September 30, 2018, the Company adopted the following policies:

#### **Compound financial instruments**

The components of compound financial instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. The conversion feature of the convertible debentures issued does not meet the criteria for equity classification and accordingly, is accounted for as an



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embedded derivative liability. The derivative liability is calculated first, and the residual value is assigned to the debt component.

Subsequent to initial recognition, the embedded derivative component is re-measured at fair value at each reporting period with the changes in fair value recognized in operations. Subsequent to initial recognition, the liability component is accounted for at amortized cost using the effective interest rate method until the instrument is converted or the instrument matures. The liability component accretes up to the principal balance at maturity. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

### **Other Policies**

The Company also adopted other new IFRS standards, interpretations, amendments and improvements of existing standards including IFRS 9 and IFRIC 22, however these new standards and changes did not have any material impact on the Company's condensed consolidated interim financial statements.

#### **4.15.1.2 Financial Instruments**

IFRS requires that the Company disclose information about the fair value of its financial assets and liabilities. The Carrying amounts of cash equivalents, receivables, trade and other accounts payable and promissory note on the statements of financial position approximate fair value because of the limited term of these instruments.

Fair value estimates are made by the Company at the date of the statement of financial position based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision.

The Company does have a derivative financial instrument. **(See 4.6.1.2 Promissory Notes, Convertible Debenture and Standby Letter of Credit.)** Otherwise, all financial instruments are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or fair value through profit or loss.

### **4.16 RISKS AND UNCERTAINTIES**

Although Management attempts to mitigate risks associated with exploration and mining and minimize their effect on the Company's financial performance, there is no guarantee that the Company will be profitable in the future and the Company's Common Shares should be considered speculative.

#### **4.16.1 Exploration, Development and Operating Risk**

Mineral exploration involves many risks, which even a combination of experience, knowledge and careful evaluation, may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to the hazards and risks normally associated with mineral exploration and the development of deposits, many of which could result in work stoppages, damage to property, and possible environmental damage. Mining involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. None of the properties in which Aurania has an interest has a defined orebody and there is no assurance that any of Aurania's mineral exploration and development activities will result in the discovery of a commercially viable mineral deposit. Exploring in a foreign jurisdiction subjects the Company to additional risks including potential political change, changes in law or policies, inability to obtain permits or delays in obtaining them, limitations on foreign ownership and other risks not specified here. Foreign currency fluctuations may also adversely affect the Company's financial position and operating results.

#### **4.16.2 Ability of Community Stakeholders to Impede Project Success**

The Company recognizes that it is crucial that it engages with key constituency groups to mitigate the social and business risk associated with exploration on properties owned by non-shareholding stakeholders. The Company has implemented a comprehensive CSR program as a fundamental component of its activities in the Project.



#### **4.16.3 Corporate Social Responsibility**

The Company has engaged a professional CSR company to assist in the development and implementation of a CSR strategic framework that allows for collaboration with key stakeholders in a non-confrontational and respectful manner.

#### **4.16.4 Property Title**

Property title may be jeopardized by unregistered prior agreements or by the Company not fully complying with regulatory requirements.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee that challenges to the titles may not emerge.

#### **4.16.5 Environmental Matters**

The Company's exploration activities are subject to various federal, cantonal, provincial and international laws and regulations governing the protection of the environment. The Company believes that its operations are materially in compliance with all applicable laws and regulations. However, the Company has engaged, and is reliant upon, an environment specialist consultant to keep the Company informed and compliant with respect to environmental rules and regulations.

#### **4.16.6 Foreign Country Risk**

The property interests are located outside of Canada and are subject to the investment risk associated with foreign jurisdictions, including increases in taxes and royalties, renegotiation of permits and currency exchange fluctuations.

The Company mitigates foreign country risk by keeping apprised of Ecuador's economic and political climate and by relying on certain advisors, including technical and financial consultants, to inform Management of any proposed change to the laws and regulations that could significantly impact the Company's ability to operate or impact the financial results of the Company.

#### **4.16.7 Capital and Financial Management Risk**

See Financial Management Risk.

### **4.17 COMMITMENTS AND CONTINGENCIES**

#### **4.17.1 Environmental Contingencies**

The Company's exploration activities are subject to various federal, provincial, municipal and international laws and regulations governing the protection of the environment. The Company conducts its operations so as to protect public health and the environment and believes that its operations are materially in compliance with all applicable laws and regulations.

#### **4.17.2 Service Costs and Consulting Agreements**

Commencing October 1, 2017, the Company entered into a formal agreement with New ServiceCo to provide the Services at a monthly cost of \$42,500. These costs will be allocated as follows: \$7,000 for investor relations and marketing, \$18,000 for general and office (including rent) and the remaining \$17,500 for costs directly related to the Project. Termination of the agreement can be effected with 90 days' notice by either party.

The President provides management services to the Company through a personal management company pursuant to a one-year, renewable consulting agreement. The President's annual compensation is \$150,000. Should the Company effect early termination of the agreement, a three-month notice period is required and Dr. Spencer would be entitled to an additional lump-sum cash payment equal to six months of monthly retainer fee. Should Dr. Spencer's agreement be terminated due to a change of control, additional compensation would be payable to a maximum of two years' retainer fees and any unvested options would vest immediately.



The Company's CFO provides financial/accounting and corporate secretarial services to the Company pursuant to an annual, renewable consulting agreement, also through a personal management company. The CFO's annual compensation is \$75,000. Early termination of the agreement requires 90 days' written notice by either party.

The Company's VPX provides geological/technical consulting services to the Company, through ESA, pursuant to a consulting agreement. The VPX's annual compensation is USD124,188 plus benefits. Should the Company terminate his contract without cause or if he is constructively dismissed, on or before January 1, 2021, he is entitled to receive six months' salary plus an additional 25% of his monthly salary for each year or fraction of a year, worked for ESA. If early termination occurs after this date, he will receive 125% of one-month's salary for each year or fraction of a year worked for ESA.

The Company runs its CSR program under the guidance of a Toronto consulting firm, in tandem with the Project exploration program. Compensation for services provided by the consultants is stipulated at \$1,000 per diem for up to 10 days per month ("the base services"). Any additional services to be performed over and above the base services must be pre-approved in writing. Either party may terminate the CSR Contract with 30 days' written notice.

On March 2, 2018, the Company appointed Mr. Alfred Lenarciak as an independent special financial advisor to the Board. His compensation was \$15,000 per annum and the Board granted to him, 150,000 five-year stock options, with an exercise price of \$2.89. At the ASM held June 13, 2018, Mr. Lenarciak joined the Board of Directors. Upon becoming a director, Mr. Lenarciak's advisory engagement was terminated.

#### **4.18 SUBSEQUENT EVENTS**

##### **4.18.1 Shareholder Warrants – Extended, Expired and Exercised**

- (a) On September 12, 2018, the Company announced the extension of the expiry date of the non-broker warrants issued pursuant to the Company's 2017 Offering, until October 19, 2019. The extended warrants are subject to Company's acceleration option that allows the Company to accelerate the expiration date to a date which is 30 days following the date on the acceleration notice in the event that the average trading price of the common shares exceeds \$3.00 for a period of 20 consecutive days.
- (b) Pursuant to securities regulations, the Company was unable to extend the broker warrants from the 2017 Offering and therefore a total of 68,907 broker warrants expired on October 19, 2018.
- (c) On October 18, 2018, 96,163 agents' compensation options were exercised for 96,163 common shares, for proceeds of \$192,326.

#### **4.19 QUALIFIED PERSON**

The foregoing and technical information contained has been prepared or reviewed by Dr. Richard Spencer, President and Director, who is a registered Professional Geoscientist in Ontario (P.Geo) and is registered as a Chartered Geologist in the UK, and is a "Qualified Person" for the purposes of National Instrument 43-101, Standards of Disclosure for Mineral Projects of the Canadian Securities Administrators.



**4.20 SHARE DATA**

As at	Common Shares <sup>(1)</sup>	Warrants	Agents' Options and Warrants	Stock Options	RSUs <sup>(4)</sup>	Fully Diluted
<b>December 31, 2017</b>	27,385,625	1,600,445	144,200	2,695,000	124,500	31,943,383
<b>September 30, 2018</b>	31,907,211	2,179,609	123,375	1,515,000	100,500	35,826,195
<b>November 21, 2018</b>	32,003,374 <sup>(1)</sup>	2,179,609 <sup>(2)</sup>	79,442 <sup>(3)</sup>	1,515,000 <sup>(4)</sup>	100,500 <sup>(5)</sup>	35,877,925

(1) Since December 31, 2017, a total of 4,617,749 common shares have been issued in relation to the issuance of: 2,219,400 Offering Units, and the exercise of 2,398,349 warrants and stock options.

(2) In fiscal 2018, 530,536 (2017) warrants and a total of 1,109,700 warrants were issued pursuant to the 2018 Offering.

(3) In fiscal 2018, 144,200 agents' options were exercised, and 79,442 broker warrants were issued for the 2018 Offering.

(4) A total of 1,730,000 stock options were exercised and a total of 550,000 stock options were granted. These options expire between May 3, 2019 and April 5, 2023 and have exercise prices ranging from \$0.60 to \$2.89.

(5) 24,000 RSU's were forfeited, (prior to vesting) by 3 employees, upon termination of their employment.