



***MANAGEMENT DISCUSSION & ANALYSIS***  
For the period ended July 31, 2019

***Directors and Officers as at September 12, 2019:***

***Directors:***

**Gary Arca**  
**Robert Eadie**  
**Jordan Estra**  
**Salvador Garcia**  
**Tanya Lutzke**  
**Cory Kent**  
**Ken Sumanik**  
**Federico Villaseñor**

***Officers:***

***Executive Chairman, Chief Executive Officer & President*** – Robert Eadie  
***Chief Operating Officer*** - Salvador Garcia  
***Chief Financial Officer*** – Gary Arca  
***Corporate Secretary*** – Cory Kent

***Contact Name:*** Gary Arca

***Contact e-mail address:*** garca@starcore.com

***TSX Symbol:*** SAM

*Form 51-102-F1*

# STARCORE INTERNATIONAL MINES LTD.

## **MANAGEMENT DISCUSSION & ANALYSIS**

For the period ended July 31, 2019

**1. Date of This Report**

This MD&A is prepared as of September 12, 2019.

This Management Discussion and Analysis (“MD&A”) should be read in conjunction with the unaudited interim consolidated financial statements of Starcore International Mines Ltd. (“Starcore”, or the “Company”) for the period ended July 31, 2019.

**Monetary amounts throughout this MD&A are shown in thousands of Canadian dollars, unless otherwise stated.**

*This MD&A includes certain statements that may be deemed “forward-looking statements”. Such statements and information include without limitation: statements regarding timing and amounts of capital expenditures and other assumptions; estimates of future reserves, resources, mineral production and sales; estimates of mine life; estimates of future mining costs, cash costs, mine site costs, Altiplano plant costs and other expenses; estimates of future capital expenditures and other cash needs, and expectations as to the funding thereof; statements and information as to the projected development of certain ore deposits, including estimates of exploration, development and production and other capital costs, and estimates of the timing of such exploration, development and production or decisions with respect to such exploration, development and production; estimates of reserves and resources, and statements and information regarding anticipated future exploration; the anticipated timing of events with respect to the Company’s minesite and; statements and information regarding the sufficiency of the Company’s cash resources. Such statements and information reflect the Company’s views as at the date of this document and are subject to certain risks, uncertainties and assumptions, and undue reliance should not be placed on such statements and information. Many factors, known and unknown could cause the actual results to be materially different from those expressed or implied by such forward looking statements and information. Such risks include, but are not limited to: the volatility of prices of gold and other metals; uncertainty of mineral reserves, mineral resources, mineral grades and mineral recovery estimates; uncertainty of future production, capital expenditures, and other costs; currency fluctuations; financing of additional capital requirements; cost of exploration and development programs; mining risks, risks associated with foreign operations; risks related to title issues; governmental and environmental regulation; and the volatility of the Company’s stock price. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.*

## 2. Overall Performance

### *Description of Business*

Starcore is engaged in exploring, extracting and processing gold and silver through its wholly-owned subsidiaries, Compañía Minera Peña de Bernal, S.A. de C.V. (“Bernal”), which owns the San Martin mine in Queretaro, Mexico. The Company is a public reporting issuer on the Toronto Stock Exchange (“TSX”). The Company is also engaged in acquiring mining related operating assets and exploration assets in North America directly and through corporate acquisitions. The Company has interests in properties which are exclusively located in Mexico, USA and Canada.

### *Financial Highlights for the period ended July 31, 2019:*

- Cash and short-term investments on hand is \$2.0 million at July 31, 2019 compared to \$2.5 million at April 30, 2019;
- Gold and silver sales of \$6.4 million and \$nil purchase concentrate revenue for the three months ended July 31, 2019 compared to \$10.6 million for the prior period ended July 31, 2018, which includes \$3.3 million in purchase concentrate revenue;
- Net loss of \$0.8 million for the three months July 31, 2019 compared to net loss of \$0.4 million for the prior period ended July 31, 2018;
- Equivalent gold production of 3,711 ounces in three months ended July 31, 2019 compared to production of 4,268 ounces for the prior period ended July 31, 2018;
- Mine operating cash cost is US\$1,234/EqOz for the three months ended July 31, 2019 compared to cost of US\$997/EqOz for the prior period ended July 31, 2018;
- All-in sustaining costs of US\$1,452/EqOz for the three months ended July 31, 2019 compared to costs of US\$929/EqOz for the prior period ended July 31, 2018;
- EBITDA<sup>(1)</sup> of \$(86) for the three months ended July 31, 2019 compared to \$749 for the prior period ended July 31, 2018.

### **Reconciliation of Net Income to EBITDA**

<b>For the three months ended July 31,</b>	<b>2019</b>		<b>2018</b>	
Net loss	\$	(831)	\$	(381)
Sale of Altiplano		36		-
Income tax recovery		(244)		(11)
Interest		90		88
Depreciation and depletion		863		1,053
<b>EBITDA</b>	<b>\$</b>	<b>(86)</b>	<b>\$</b>	<b>749</b>
<b>EBITDA MARGIN<sup>(2)</sup></b>		<b>(1.3)%</b>		<b>7.0%</b>

(1) EBITDA (“Earnings before Interest, Taxes, Depreciation and Amortization”) is a non-GAAP financial performance measure with no standard definition under IFRS. It is therefore possible that this measure could not be comparable with a similar measure of another Corporation. The Corporation uses this non-GAAP measure which can also be helpful to investors as it provides a result which can be compared with the Corporation market share price.

(2) EBITDA MARGIN is a measurement of a company’s operating profitability calculated as EBITDA divided by total revenue. EBITDA MARGIN is a non-GAAP financial performance measure with no standard definition under IFRS. It is therefore possible that this measure could not be comparable with a similar measure of another Corporation. The Corporation uses this non-GAAP measure which can also be helpful to investors as it provides a result which can be compared with the Corporation market share price.

### ***Recent Events***

#### **Sale of Altiplano**

In July 2019, The Company entered into an agreement covering the sale of its subsidiary, Altiplano Goldsilver S.A. de C.V. (“Altiplano”), which owns the processing facility in Matehuala, Mexico, at a price of US\$1.6 million (the “Transaction”). The terms of the Transaction are as follows:

1. A deposit of US\$500,000 (received);
2. A payment of US\$500,000 on August 31, 2019 (received);
3. A payment of US\$200,000 on November 30, 2019;
4. A payment of US\$200,000 on February 28, 2020; and
5. A final payment of US\$200,000 on May 31, 2020.

The decision to sell Altiplano was put into motion earlier in the year, after it was determined that the ongoing capital requirements for inventory and operations did not justify the continuation of the processing plant’s operations. Proceeds from the Transaction will be added to working capital.

#### **Cost Reduction Initiatives at the Mine**

In July and August, 2019, the Company reduced its staff by 125 people at its San Martin Mine in Queretaro, Mexico. The Company will incur severance costs of approximately \$600,000 related to the staff reduction.

Effective May 1, 2019, Starcore’s executive officers, namely the CEO, CFO and COO have voluntarily reduced their salaries by 25%.

The Company continues to evaluate other measures that will return the Company to profitability.

### **3. Selected Annual Information**

The highlights of financial data for the Company for the three most recently completed financial years are as follows:

	<b>Twelve months ended April 30, 2019</b>	Twelve months ended April 30, 2018	Twelve months ended April 30, 2017
Revenues	\$ 32,795	\$ 27,807	\$ 27,228
Cost of Sales	<b>(32,759)</b>	(32,735)	(26,402)
Earnings (loss) from mining operations	<b>36</b>	(4,928)	826
Sale of San Pedrito	-	-	7,128
Administrative Expenses	<b>(4,284)</b>	(5,291)	(3,593)
Allowance for receivables	<b>(441)</b>	-	-
Impairment of Mining Interest, plant and equipment	<b>(4,804)</b>	(6,713)	-
Loss on disposal of E&E asset	<b>(82)</b>	(1,013)	-
Income tax recovery	<b>(2,229)</b>	5,945	2,861
Total earnings			
(i) Total earnings	<b>\$ (11,804)</b>	\$ (12,000)	\$ 7,222
(ii) Earnings per share – basic	<b>\$ (0.24)</b>	\$ (0.24)	\$ 0.15
(iii) Earnings per share – diluted	<b>\$ (0.24)</b>	\$ (0.24)	\$ 0.15
Total assets	<b>\$ 57,005</b>	\$ 64,451	\$ 82,096
Total long-term liabilities	<b>\$ 13,063</b>	\$ 10,609	\$ 13,036

#### 4. Results of Operations

##### *Discussion of Acquisitions, Operations and Financial Condition*

The following should be read in conjunction with the unaudited interim consolidated financial statements of the Company and notes attached thereto for the period ended July 31, 2019.

#### 4.1 San Martín Mine, Queretaro, Mexico

##### *Reserves*

The San Martin Mine, located approximately 50 km east of the City of Queretaro, State of Queretaro, Mexico, consists of mining concessions covering 12,992 hectares and includes seven underground mining units and four units under exploration Luismin (now “Goldcorp Mexico”) operated the mine from 1993 to January, 2007, when it was purchased by the Company. The Company expects to continue to operate the mine over an expected mine life of over 10 years based on the current expected conversion of known resources, and exploration is able to maintain proven and probable reserves replacing those mined with new reserves, such that the total resource remains relatively constant from year to year.

The Company completed a Resource estimate “RESERVES AND RESOURCES IN THE SAN MARTIN MINE, MEXICO AS OF APRIL 30, 2018”, dated June 27, 2018, prepared by Erme Enriquez. (the “Technical Report”), which is also available on the Company website [www.starcore.com](http://www.starcore.com).

The most important assumptions used as the basis of the estimate include:

- A gold price of \$1,300 per ounce.
- A silver price of \$16.00 per ounce.
- First quarter 2018 operating costs of US\$69.41 per metric dry tonne.
- Average metallurgical recoveries of 88% for gold and 55% for silver.
- Using the above price and cost assumptions the resultant calculated cutoff grade is approximately 1.66 g/t Au equivalent.
- Specific gravity of 2.6 g/cm<sup>3</sup> has been applied to all calculated mineralized volumes.

Category	Tonnes	Grade		Total Contained oz		
		(g Au/t)	(g Ag/t)	(oz Au)	(oz Ag)	(oz Au Eq)
<i>Reserve:</i>						
Proven	409,879	2.57	60	33,910	765,096	52,952
Probable	1,241,439	1.96	24	78,049	934,112	101,429
<b>Total Proven and Probable</b>	<b>1,651,318</b>	<b>2.11</b>	<b>33</b>	<b>111,958</b>	<b>1,699,208</b>	<b>154,382</b>
<i>Resource:</i>						
Inferred	1,339,370	1.87	24	86,917	1,047,943	99,814
Indicated	156,442	2.56	27	12,883	136,711	13,109
<b>Total Inferred and Indicated</b>	<b>1,495,812</b>	<b>1.94</b>	<b>25</b>	<b>99,800</b>	<b>1,184,654</b>	<b>112,924</b>

Total Proven and Probable Mineral Reserves at the San Martin mine as of April 30, 2018 estimated by mine staff and reviewed by Erme Enriquez CPG, are 1,651,318 tonnes at a grade of 2.11 g Au/t and 33 g Ag/t. This total includes Proven reserves of 409,879 tonnes grading 2.57 g/t Au and 60 g/t Ag along with Probable reserves of 1,241,439 tonnes grading 1.96 g/t Au and 24 g/t Ag. The Carbonaceous material has been included in the Reserves.

The total resource above of Proven and Probable and Inferred and Indicated totals 3,147,130 tonnes at an average grade of 2.03 g Au/t and 29 g Ag/t.

### ***Production***

The following table is a summary of mine production statistics for the San Martin mine for the three months ended July 31, 2019, July 31, 2018 and for the previous year ended April 30, 2019.

<i>(Unaudited)</i>	<i>Unit of measure</i>	Actual results 3 months ended 31-Jul-19	Actual results 3 months ended 31-Jul-18	Actual results 12 months ended 30-Apr-19
Mine production of gold in dore	<i>thousand ounces</i>	<b>3.3</b>	<b>3.3</b>	<b>13.7</b>
Mine production of silver in dore	<i>thousand ounces</i>	<b>36.1</b>	<b>72.7</b>	<b>224.5</b>
Total mine production – equivalent ounces	<i>thousand ounces</i>	<b>3.7</b>	<b>4.3</b>	<b>16.4</b>
Silver to Gold equivalency ratio		<b>89.2</b>	<b>78.5</b>	<b>81.9</b>
Mine Gold grade	<i>grams/tonne</i>	<b>1.99</b>	<b>1.53</b>	<b>1.63</b>
Mine Silver grade	<i>grams/tonne</i>	<b>31.7</b>	<b>49.0</b>	<b>39.6</b>
Mine Gold recovery	<i>percent</i>	<b>85.1%</b>	<b>88.1%</b>	<b>86.2%</b>
Mine Silver recovery	<i>percent</i>	<b>58.4%</b>	<b>59.6%</b>	<b>58.4%</b>
Milled	<i>thousands of tonnes</i>	<b>60.8</b>	<b>77.4</b>	<b>301.9</b>
Mine development, preparation and exploration	<i>meters</i>	<b>1,867</b>	<b>3,287</b>	<b>8,977</b>
Mine operating cash cost per tonne milled	<i>US dollars/tonne</i>	<b>75</b>	<b>55</b>	<b>58</b>
Mine operating cash cost per equivalent ounce	<i>US dollars/ounces</i>	<b>1,234</b>	<b>997</b>	<b>1,061</b>
Number of employees/contractors at minesite		<b>303</b>	<b>318</b>	<b>336</b>

During the quarter ended July 31, 2019, the mill operated at a rate of approximately 661 milled tonnes/calendar day. Gold and silver grades during the quarter ending July 31, 2019 were 1.99 g/t and 31.7 g/t, respectively, compared to prior year comparable grades of 1.53 g/t and 49 g/t, respectively. Overall equivalent gold production from the mine during the quarter ending July 31, 2019 of 3,711 ounces was lower than the previous comparable period's production of 4,268 due mainly to overall planned production tonnage decrease to 60,822 tonnes compared to 77,423 during the prior comparable period and slightly lower ore recoveries. Overall development meters have decreased considerably in the current three month period, to 1,867 meters, compared to 3,287 meters in the prior comparable period ended July 31, 2018 due to planned reduction in production tonnage, however, the development has been consistent with the current calendar year production tonnage.

*"We started this fiscal year with a new strategy to mill 30% less ore but with better grade based on the cutoff grade as calculated each month, thereby processing more profitable ounces" stated Salvador Garcia, Chief Operating Officer. "At the same time we made a reduction in fixed cost, including a 32% reduction in personnel, (Staff, contractors and unionized people). As a result of the reduction in processing tons we naturally have a reduction in many variable costs such as electricity, reagents (ie. cyanide) and maintenance cost in the mine and plant. At the same time we have kept the mine development and exploration at the same level to generate reserves and therefore increase the life of the mine. We believe we are on the right path."*

Production cash costs of the mine for the three months ended July 31, 2019 were US\$1,234/EqOz compared to US\$997/EqOz in the prior comparable period ending July 31, 2018. The increase in production cash costs were largely due to lower metal production as stated above. Operating cash costs of US\$75/t were higher than the prior comparable period ending July 31, 2018 of US\$55/t due to higher costs incurred in mine development and exploitation and higher input costs such as fuel, electricity, chemicals and labour (including severance on labour reduction). The mine plan has been developed to ensure the mine is properly developed and mined so as to ensure a constant supply of ore in accordance with currently planned production capacity and ore grades. Changes to the plan that may involving production and capital investment are continually being assessed by management. Currently, the Company is continuing underground exploration in order to identify higher grade ore zones and has allocated an adequate budget to support year-long exploration.

During the period ended July 31, 2019, the Company incurred approximately US\$427 in mine capital expenditures, which includes mine development drifting and drilling, machinery and equipment leases and purchases, and construction and tailings dam remediation, compared to US\$614 in the prior comparable period ending July 31, 2018.

*Management believes that the shift to lower production tonnage at higher grades will allow us to lower our cost per ounce and ultimately be more profitable in the long run. The current quarter being the transition period resulted in increased costs for severance and higher per ounce costs due to standard fixed costs. We expect that the final costs of the labour reductions and other related variable costs will be absorbed by September, 2019 and costs will ultimately be reduced going forward.*

## 4.2 Property Activity

### San Martin properties – Queretaro, Mexico

The San Martin mine properties are comprised of mining concessions covering 12,992 hectares. In addition to the ongoing mine exploration and development that is currently being performed in development of the mine, management is continually assessing the potential for further exploration and development of the San Martin properties and continually modifying the exploration budget accordingly.

The mine operates three underground and one surface drill rigs to provide information to assist with mine planning in addition to exploration, with the intent of increasing the reserves and resources on the property, and the Company is budgeting targets of approximately 10,000 metres of underground exploration drilling in calendar 2019.

Salvador Garcia, Chief Operating Officer, is the Company's qualified person under NI 43-101, and has reviewed and approved the scientific and technical disclosure on the San Martin Mine disclosed in this MD&A.

### Impairment of Mining Interest

In determining the recoverable amounts of the Company's mining interests, the Company's management makes estimates of the discounted future cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. The projected cash flows are significantly affected by changes in assumptions about gold's selling price, future capital expenditures, changes in the amount of recoverable reserves, resources, and exploration potential, production cost estimates, discount rates and exchange rates.

### Sale of San Pedrito

On March 21, 2017, the Company finalized the sale of its San Pedrito Property, a non-core asset located in Queretaro, Mexico for Mexican Pesos ("MXN\$") 192,784,331. The San Pedrito property was part of Starcore's original acquisition in 2007, when the Company acquired the San Martin Mine from Goldcorp for US\$26 million. The disposition of San Pedrito was recorded during the year ended April 30, 2017 and a gain of \$7,128 was reported on the Statement of Operations and Comprehensive Income (Loss).

During the prior year ending April 30, 2019 the Company received MXN\$ 15,000,000 (\$1,027 CAD) and interest of MXN\$ 2,300,000 (\$159 CAD) on 6 ha of the remaining 14 ha of parcels to be paid. The Company does not anticipate receiving any additional funds for the sale of this property and therefore has made an allowance for the remaining receivable of \$441 to the Statements of Operations and Comprehensive Income (Loss).

### Sale of Altiplano Processing Plant, Matehuala, Mexico

On August 5, 2015, the Company acquired Cortez Gold Corp. ("Cortez") (TSXV: CUT) in an all-share transaction completed pursuant to a court approved Plan of Arrangement under the Business Corporations Act (British Columbia). Pursuant to the acquisition, the purchase price was allocated based on management's best estimates and assumptions, after taking into account all relevant information available. As a result, apart from working capital allocations, \$6,094 was allocated to plant, machinery and equipment for the Altiplano Plant, which is a facility which processes third party gold and silver concentrate in Matehuala, Mexico, owned by Cortez subsidiary Altiplano.

During the year ended April 30, 2019, management determined that the capital requirements of the Altiplano facility for inventory and operations, despite improving cash flow, did not justify the continuation of these operations until the Company had sufficient excess working capital to support the operations of Altiplano.

During the period ending July 31, 2019, the Company received and accepted an offer to purchase 100% of the shares of Altiplano for US\$1.6 million. The stock purchase agreement, dated July 5, 2019, requires the payment of the \$1.6 million in instalments to May, 2020 (see *section 2 - Recent Events*). As a result, management has decided to write down the plant and land to US \$1,600, less estimated selling costs of CAD \$100. The Company has recorded an impairment of \$4,804 (2018 - \$Nil; 2017 - \$Nil) to the Statements of Operations and Comprehensive Income (Loss) during the year ended April 30, 2019. During the period ending July 31, 2019, the Company received the first payment of US\$0.5million. On August 31, 2019, the Company received the second payment of US\$0.5 million.

### **American Consolidated Minerals Corp.**

On December 1, 2014, the Company, by plan of arrangement, acquired American Consolidated Minerals Corp. (“AJC”). Pursuant to the acquisition of AJC, the Company acquired the right to 3 properties, of which one is still owned and maintained as follows:

#### ***Toiyabe, Nevada, USA***

The Company acquired the right to a 100% undivided interest, subject to a 3% NSR, in 165 mining claims located in Lander County, Nevada, United States of America (“Toiyabe”) from MinQuest. Consideration to be paid for the interest is USD\$900 (payable over 5 years commencing October 19, 2018) and the Company must incur total exploration expenditures of USD\$1,025 on the property (incurred) as agreed by MinQuest. Annual payments commencing October 19, 2018 are \$60 (paid), \$80, \$100, \$120, \$140 and \$400 respectively.

The optionor has also granted the Company the right to purchase up to one-half of the NSR (or 1.5%) on the basis of US\$2 million per each 1% of the royalty.

During the period ending October 31, 2016, the Company completed Phase 1 drilling on the Toiyabe property. A total of 3,011 meters of RC/core were drilled in 15 holes. Shallow RC drill holes have identified a possible extension of the near-surface resource and the first deep core hole has identified high-grade gold mineralization (1.5 m of 12.9 g/t Au) at depth.

Reverse Circulation (RC) drilling, including two pre-collar holes, consisted of fifteen holes for a total footage of 2,537 meters. Core drilling totalled 474 meters in two holes. A summary of assay results received to date and a map of drill hole locations can be found on the Company website [https:// www.starcore.com](https://www.starcore.com).

Assays from T-1601C, the first deep core hole, show a broad mineralized zone from 254 to 294 meters (40 m) which averages 1.3 g/t Au. This zone includes 3 meters of 7.7 g/t Au (255.4-258.4 m) or 1.5 meters of 12.9 g/t Au (255.4-256.9 m). The mineralized intervals coincide closely with highly altered breccia within broad fault zones.

The RC program targeted a combination of resistivity high anomalies as well as offsets and extensions to mineralization associated with the Courtney fault zones. A near-surface NI43-101 resource of 173,562 contained ounces of gold was published in 2009. Fifteen of the initially proposed RC holes were completed for a total drilling footage of 2,537 meters. Seven of the fifteen RC holes were lost short of targeted horizons. Even with these drilling limitations, fourteen of the fifteen RC holes encountered anomalous gold values as shown in the table above.

All RC drilling samples are collected in 1.5 meter intervals, logged and securely shipped to ALS Chemex Labs Inc. in Reno, Nevada to be analyzed for gold and silver by fire assay. A second sample split is kept on site for possible re-testing or future metallurgy. Standards and blanks are included with the sample submittals and numerous repeat assays conducted. The core is logged, sample intervals marked on the core either in 1.5 meter lengths or geologic/structural breaks, sawed and half core assayed the same as the RC procedure mentioned above.

Richard Kern, Certified Professional Geologist (#11494) is the Qualified Person who has prepared and reviewed the technical information on the Toiyabe property in accordance with NI 43-101 reporting standards.

### **Creston Moly**

On February 19, 2015, the Company acquired all of the shares of Creston Moly from Deloitte Restructuring Inc. in its capacity as trustee in bankruptcy of Mercator Minerals Ltd. at a purchase price of CDN \$2 Million. In June, 2011, Mercator Minerals Ltd. ("Mercator"), a TSX listed company, acquired Creston Moly in a cash and shares deal valuing Creston Moly at approximately \$194 million. BMO Capital Markets, financial advisor to Creston Moly and its Board, provided a fairness opinion to the effect that the consideration (of \$194 million) was fair, from a financial point of view, to the shareholders of Creston Moly.<sup>1</sup> Creston shareholders voted in favour of the acquisition. The most significant asset in this acquisition was the El Creston project in Sonora, Mexico which had been advanced to a completed Preliminary Economic Assessment ("PEA"). On September 5, 2014, pursuant to the *Bankruptcy and Insolvency Act (Canada)*, Mercator and Creston Moly were deemed to have filed assignments in bankruptcy. Creston Moly is a British Columbia company that owns, through its subsidiaries, a 100% interest in the following properties:

#### ***Ajax, British Columbia, Canada<sup>2</sup>***

Ajax Molybdenum Property is comprised of 11,718 hectares and is located 13 km north of Alice Arm, British Columbia. The Ajax Property, one of North America's largest undeveloped molybdenum deposits occupying a surface area of approximately 600 by 650 metres, is a world class primary molybdenum property in the advanced stage of exploration.

#### ***El Creston Project, Sonora, Mexico<sup>3</sup>***

The El Creston molybdenum property is located in the State of Sonora, Mexico, 175 kilometres south of the US Border and 145 kilometers northeast of the city of Hermosillo. In 2010, a PEA was prepared on the property based on zones of porphyry-style molybdenum ("Mo")/Copper ("Cu") mineralization by an independent consulting firm. The result of this study indicated that the El Creston molybdenum-copper deposit had a US \$561.9million net present value after tax (using an 8% discount rate). The internal rate of return (after tax) was calculated to be 22.3% and a capital cost payback was calculated to be four years. Other highlights of the report include:

- ***Large moly-copper deposit in a mining-friendly jurisdiction.*** Total Measured and Indicated Resources of 215 million tonnes grading 0.071% Mo and 0.06% Cu, containing 336 Mlbs Mo and 281 Mlbs Cu. Mineral resources that are not mineral reserves do not have demonstrated economic viability;
- ***Initial Capital cost:*** US\$655.9million with payback of 4 years, based on metal prices of \$15/lb Mo and \$2.60/lb Cu. Metal recoveries were estimated at 88% for Mo and 84% for Cu;
- ***Low Operating Cost:*** operating cost of \$US4.12/lb Mo, net of copper credits, 0.84:1 waste to ore strip ratio within an optimized pit containing an additional 7.6 million tonnes of Inferred Resources responsible for \$20M of the NPV;
- ***Excellent infrastructure:*** Road accessible with a 230kV power grid within 50 km;
- ***Apart from the PEA,*** recommendations have been made to test known mineralization below the current pit-limiting "Creston Fault" where results such as drill hole EC08-54 returned 241.4m at 0.083% Mo and 0.059% Cu to a depth of 495m in the Red Hill Deep zone.

David Visagie, P.Geol., an independent consultant, is the Company's qualified person under NI 43-101, and has reviewed and approved the scientific and technical disclosure on the El Creston Project disclosed in this report.

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<sup>1</sup> The information in this report relating to the acquisition of Creston Moly by Mercator has been drawn from documents filed under the Creston Moly Corp. issuer profile on SEDAR, more specifically: Creston's Management Information Circular dated May 9, 2011 and filed on SEDAR on May 16, 2011, and Creston's news release of June 6, 2011 as filed on SEDAR on June 7, 2011.

<sup>2</sup> Technical information in this report relating to the Ajax Project is based on the NI 43-101 Resource Estimate Press Release entitled "Tenajon Announces 75% Increase in Indicated Molybdenum Resources at Ajax Project", dated May 15, 2008 and the technical report entitled "Update of Resource Estimation, Ajax Property, Alice Arm, British Columbia", dated April 18, 2007, both of which are filed under the Tenajon Resources Corp. issuer profile on SEDAR.

<sup>3</sup> The technical information in this MD&A relating to the El Creston Project is based on the technical report entitled "Preliminary Economic Assessment, El Creston Project, Opodepe, Sonora, Mexico", dated December 16, 2010, filed under the Creston Moly Corp. issuer profile on SEDAR.. Information regarding the effective date of the mineral resources, key assumptions, parameters and methods used to estimate the mineral resources, and known risks that materially affect the mineral resources can be found in the technical report.

### 4.3 Results of Operations

The Company recorded loss for the three months ended July 31, 2019 of \$831 compared with loss of \$381 for the comparative period ended July 31, 2018. The details of the Company's operating results and related revenues and expenses are as follows:

For the period ended July 31,	2019	2018	Variance
<b>Revenues</b>			
Mined ore	\$ 6,389	\$ 7,350	\$ (961)
Purchased concentrate	-	3,273	(3,273)
<b>Total Revenue</b>	<b>6,389</b>	10,623	(4,234)
<b>Cost of Sales</b>			
Mined ore	(5,536)	(5,751)	215
Purchased concentrate	-	(3,169)	3,169
Depreciation and depletion	(803)	(1,030)	227
<b>Total Cost of Sales</b>	<b>(6,339)</b>	(9,950)	3,611
<b>Earnings from mining operations</b>	<b>50</b>	673	(623)
Financing costs (net)	(139)	(88)	(51)
Foreign exchange loss	(30)	(66)	36
Management fees and salaries	(297)	(256)	(41)
Office and administration	(285)	(327)	42
Professional and consulting fees	(302)	(184)	(118)
Property investigation costs	-	(53)	53
Transfer agent and regulatory fees	(15)	(65)	50
Shareholder relations	(21)	(26)	5
<b>Loss before taxes and other losses</b>	<b>(1,039)</b>	(392)	(647)
<b>Other Losses</b>			
Sale of Altiplano	(36)	-	(36)
<b>Income tax recovery</b>			
Deferred	244	11	233
<b>Loss for the period</b>	<b>\$ (831)</b>	\$ (381)	\$ (450)

Overall, revenue from mining operations decreased by \$961 for the period ended July 31, 2019 compared to the comparative period ended July 31, 2018, due mainly to lower metal production from lower tonnage processed in the current period compared to the prior comparable period, with slightly higher gold and silver prices. There was a decrease to \$nil in purchased concentrate revenue from \$3,273 in the prior year due to the suspension and subsequent sale of the Altiplano concentrate processing plant as well as decreased carbon concentrate processed at the San Martin mine (see *section 4.2 - Sale of Altiplano Processing Plant, Matehuala, Mexico* ).

Sales of metals for mining operations for the three months ended July 31, 2019 approximated 3,192 ounces of gold and 33,887 ounces of silver sold at average prices in the period of US\$1,382 and US\$15.17 per ounce, respectively. This is an decrease in sale of gold ounces and in silver ounces when compared to the prior comparable period ended July 31, 2018 where sales of metal approximated 3,603 ounces of gold and 73,098 ounces of silver, sold at lower average prices of US\$1,283 per ounce for gold and higher average prices of US\$15.28 per ounce for silver, respectively.

The total cost of sales above includes non-cash expenses for depreciation and depletion of \$803 compared to \$1,030 in the prior comparable period, which is calculated based on the units of production from the mine over the expected mine production as a denominator. This calculation is based solely on the San Martin mine proven and probable reserves and a percentage of inferred resources in accordance with the Company's policy of recognizing the value of expected Resources which will be converted to Proven and Probable Reserves, as assessed by management.

For the period ending July 31, 2019, the Company had gross profit of \$50 in from mine and concentrate operations compared to \$673 for the period ended July 31, 2018. The lower gross profit resulted from a decrease in the sale of metal ounces when compared to the prior period. The combination of lower tonnes processed and lower recovery for gold and silver during this period resulted in lower metal production and, therefore, revenue from mined ore as compared to the prior comparable period.

Due to the lower metal production, costs per ounce of US\$1,234/EqOz for the period ended July 31, 2019 was considerably higher than the costs of US\$977/EqOz for the comparable period ended July 31, 2018. Despite this higher cost per ounce, comparable reported mined ore costs at \$5,536 were lower than the \$5,751 reported in the previous period ended July 31, 2018 due to the lower tonnes processed in the current period.

#### ***Other Items***

Changes in other items for the three months period ended July 31, 2019, resulted in the following significant changes from the three months period ended July 31, 2018:

- Financing costs during the period increased by \$51 primarily due to amortization of the warrants and to a partial quarter cost on the prior year loan for \$3,000;
- Office and administration decreased by \$42 due lower corporate costs relating to general regulatory administration in the current period and due to the sale of Altiplano;
- Management fees and salaries increased by \$41 due to increased RSU/DSU's;
- Foreign exchange loss decreased by \$36 for the period ended 31 July, 2019. The decrease relates primarily to the fluctuations of the Mexican peso and Canadian dollar in relation to the US dollar, the functional currency of the mining operations;
- Professional and consulting fees increased by \$118 to \$302 for the period ended July 31, 2019. Professional fees relate primarily to charges in relations to legal, tax and audit fees and increased mainly due to costs related to the sale of Altiplano;
- Property investigation costs of \$53 were incurred during the prior period to perform the necessary due diligence on new projects;
- Deferred Income Tax ("DIT") Recovery increased by \$233 due mainly to a recovery of special mining tax.

#### ***Sustaining Costs***

In conjunction with a non-GAAP initiative being undertaken within the gold mining industry, the Company has adopted an "all-in sustaining cash cost" ("AISC") non-GAAP performance measure that the Company believes more fully defines the total costs associated with producing gold; however this performance measure has no standardized meaning. As the measure seeks to reflect the full cost of equivalent gold production from current mining operations, new project capital is not included in the calculation. As this measure includes only San Martin mining operations coupled with related capital costs, it excludes purchase concentrate operations which are not considered meaningful for purposes of calculating AISC. Accordingly it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The Company reports this measure on a sales basis based solely on sales of metal from the San Martin mining operations:

<i>(In Canadian Dollars unless indicated)</i> For the three months ended July 31,	Sustaining Costs (in 000's)		Sustaining Costs Per Ounce (in \$/oz)	
	2019	2018	2019	2018
Total cost of sales cash costs <sup>1</sup>	\$ 5,536	\$ 5,751	\$ 1,553	\$ 1,252
Total corporate and administration cash costs <sup>2</sup>	920	(859)	258	(187)
Foreign exchange gain / (loss)	(30)	(66)	(8)	(14)
Reclamation and closure accretion	23	21	6	5
Sustaining capital expenditures and exploration	427	712	120	155
All-in sustaining cash costs	6,876	5,559	1,929	1,211
Foreign exchange adjustment	(1,700)	(1,297)	(477)	(282)
<b>All-in sustaining USD cash costs</b>	<b>\$ 5,176</b>	<b>\$ 4,262</b>	<b>\$ 1,452</b>	<b>\$ 929</b>
Total equivalent ounces sold	3,564	4,592		

<sup>1</sup> Excludes non-cash depletion of \$803 for the three months ended July 31, 2019 (July 31, 2018: \$1,030).

<sup>2</sup> Includes share-based compensation of \$48 for the three months ended July 31, 2019 (July 31, 2018: \$50).

### **Cash Flows**

Cash outflow from operating activities was \$676 during the period ended July 31, 2019, compared to a cash outflow of \$1,146 for the comparative period ended July 31, 2018. Cash flows from operating activities were determined by removing non-cash expenses from the earnings and adjusting for non-cash working capital amounts. Financing activities resulted in an outflow of \$240 due to the interest paid on a loan. Cash inflow from investing activities was \$88 due to the Company spending \$433 on investment in mining interest, plant and equipment, \$135 on investment in exploration and evaluation assets, offset by proceeds from the first instalment on the sale of Altiplano of \$656. Overall cash decreased during the period ended July 31, 2019 by \$828.

### **Investor Relations Activities**

During the period ended July 31, 2019, the Company responded directly to investor inquiries.

### **Financings, Principal Purposes & Milestones**

During the period ended July 31, 2019, the Company did not have any financings.

## 5. Summary of Quarterly Results

The following is a summary of the Company's financial results for the eight most recently completed quarters:

	Q1 31-Jul-19	Q4 31-Apr-19	Q3 31-Jan-19	Q2 31-Oct-18
Total Revenue	\$ 6,389	\$ 6,897	\$ 6,564	\$ 8,711
Earnings (loss) from mining operations	\$ 50	\$ (125)	\$ (131)	\$ (381)
Earnings (loss) for period	\$ (831)	\$ (1,880)	\$ (1,417)	\$ (8,126)
Per share – basic	\$ (0.02)	\$ (0.04)	\$ (0.03)	\$ (0.16)
Per share – diluted	\$ (0.02)	\$ (0.04)	\$ (0.03)	\$ (0.16)
	Q1 31-Jul-18	Q4 30-Apr-18	Q3 31-Jan-18	Q2 31-Oct-17
Total Revenue	\$ 10,623	\$ 7,953	\$ 5,352	\$ 6,407
Earnings (loss) from mining operations	\$ 673	\$ (622)	\$ (2,573)	\$ (1,354)
Earnings (loss) for period	\$ (381)	\$ (5,106)	\$ (4,625)	\$ (1,975)
Per share – basic	\$ (0.01)	\$ (0.12)	\$ (0.09)	\$ (0.03)
Per share – diluted	\$ (0.01)	\$ (0.12)	\$ (0.09)	\$ (0.03)

### *Discussion*

The Company reports loss of \$831 for the quarter ending July 31, 2019 compared to a loss of \$381 in the comparative quarter ended July 31, 2018. For more detailed discussion on the quarterly production results and financial results for the quarter ended July 31, 2019, please refer to *Sections 4.1 and 4.3 under "Results of Operations"*.

## 6. Liquidity and Commitments

The Company expects to continue to receive income and cash flows from the mining operations at San Martin (*section 4.1*). Management expects that this will result in sufficient working capital and liquidity for the Company for the next twelve months.

As at July 31, 2019, the Company had the following commitments:

- As at July 31, 2019, the Company has shared lease commitments for office space of approximately \$144 per year, expiring at various dates up to April 2020, which includes minimum lease payments and estimated taxes, but excluded operating costs, taxes and utilities, to expiry.
- As at July 31, 2019, the Company has a land lease agreement commitment with respect to the land at the mine site, for \$132 per year which is currently being renegotiated. The Company also has ongoing commitments on the exploration and evaluation assets of approximately \$220 per year increasing over the next 5 years for the AJC properties
- As at July 31, 2019, the Company has management contracts to officers and directors totaling \$450 per year, payable monthly, expiring in April 2022 and US\$236 per year, payable monthly, expiring in August 2021.

Obligations due within twelve months of July 31,	2019	2020	2021	2022 and beyond
Trade and other payables	\$ 2,344	\$ -	\$ -	\$ -
Current portion of loan payable	4,441	-	-	-
Reclamation and closure obligations	\$ -	\$ -	\$ -	\$ 1,230

**7. Capital Resources**

The capital resources of the Company are the mining interests, plant and equipment, with an amortized historical cost of \$34,386 as at July 31, 2019. The Company is committed to further expenditures of capital required to maintain and to further develop the San Martin mine which management believes will be funded directly from the operating cash flows of the mine.

**8. Off Balance Sheet Arrangements**

The Company has no off-balance sheet transactions.

**9. Transactions with Related Parties**

N/A

**10. First Quarter**

Due to mine operating activity of the San Martin mine discussed throughout this MD&A and as detailed in Section 4.1, the operations and activities are similar to previous quarters which are discussed in *Section 4.3 – Results of Operations*, except for the operations of the Altiplano Plant which was suspended in the second quarter of the prior year. (see *section 4.2 - Sale of Altiplano Processing Plant, Matehuala, Mexico* ).

**11. Proposed Transactions**

N/A

**12. Critical Accounting Estimates**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in accounting estimate is recognized prospectively by including it in the Company's profit or loss in the period of the change, if it affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgements in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the current financial period are discussed below:

a) Economic Recoverability and Profitability of Future Economic Benefits of Mining Interests

Management has determined that mining interests, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

b) Rehabilitation Provisions

Rehabilitation provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs, which will reflect the market condition at the time of the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provision may be higher or lower than currently provided for. The inflation rate applied to estimated future rehabilitation and closure costs is 3.5% and the discount rate currently applied in the calculation of the net present value of the provision is 8%.

c) Impairments

The Company assesses its mining interest, plant and equipment assets annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance.

d) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recuperated.

e) Mineral Reserves and Mineral Resource Estimates

Mineral reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. The Company estimates its mineral reserve and mineral resources based on information compiled by Qualified Persons as defined by Canadian Securities Administrators National Instrument 43-101 Standards for Disclosure of Mineral Projects. Such information includes geological data on the size, depth and shape of the mineral deposit, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade that comprise the mineral reserves. Changes in the mining reserve or mineral resource estimates may impact the carrying value of mineral properties and deferred development costs, property, plant and equipment, provision for site reclamation and closure, recognition of deferred income tax assets and depreciation and amortization charges.

f) Units of production depletion

Estimated recoverable reserves are used in determining the depreciation of mine specific assets. This results in depreciation charges proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the

use of estimates and assumption, including the amount of recoverable reserves and estimate of future capital expenditure. Changes are accounted for prospectively.

g) Shared-based Payments

The Company measures the cost of equity-settled transactions with employees, and some with non-employees, by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, expected forfeiture rate, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in the notes.

**13. Changes in Accounting Policies**

N/A

**14. Financial and Other Instruments**

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the unaudited consolidated financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

In the normal course of business, the Company's assets, liabilities and forecasted transactions are impacted by various market risks, including currency risks associated with inventory, revenues, cost of sales, capital expenditures, interest earned on cash and the interest rate risk associated with floating rate debt.

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The primary currency the Company exposed to is the United States dollar which is also the functional currency of the San Martin Mine. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. At July 31, 2019 the Company had the following financial assets and liabilities denominated in CDN and denominated in Mexican Pesos:

<u>In '000 of</u>	<u>CAD</u>	<u>MXN\$</u>
Cash	\$ 854	MP 7,493
Other working capital amounts - net	\$ (185)	MP 16,132
Long-term liabilities	\$ (3,005)	

At July 31, 2019, US dollar amounts were converted at a rate of \$1.3151 Canadian dollars to \$1 US dollar and MP were converted at a rate of MP19.00 to \$1 US Dollar.

**Other**

**15.1 Disclosure of Outstanding Share Capital as at September 12, 2019**

<u>Common Shares</u>	<u>Number</u>	<u>Book Value</u>
	<b>49,646,851</b>	<b>\$ 50,725</b>

There are no options outstanding nor any granted from August 1, 2019 to September 12, 2019.

As at September 12, 2019, the following warrants were outstanding and exercisable to purchase one common share for each warrant held:

Number of Warrants	Exercise Price	Expiry Date
250,000	\$0.30	March 7, 2022
3,000,000	\$0.20	June 18, 2021
<b>3,250,000</b>	<b>\$0.21</b>	

## 15.2 **Disclosure Controls and Procedures**

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods and forms.

### **Internal Controls Over Financial Reporting**

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the Chief Financial Officer, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of unaudited consolidated financial statements for external purposes in accordance with IFRS. The Company's controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with IFRS; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual consolidated financial statements or interim financial statements.

There has been no change in the Company's internal control over financial reporting during the Company's period ended July 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Limitations of Controls and Procedures**

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.