



# Cabral Gold

## **Cabral Gold Inc.**

(An Exploration Stage Company)

Management Discussion and Analysis

For the year ended December 31, 2017

Dated: April 26, 2018

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### **Management Discussion and Analysis**

The following Management Discussion and Analysis (“MD&A”) of Cabral Gold Inc. (“Cabral” or the “Company”) has been prepared as at April 26, 2018. It is intended to be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2017.

All of the financial information presented in this MD&A has been prepared in accordance with International Financial Reporting Standards (“IFRS”) unless otherwise noted.

All monetary amounts, including comparatives, are expressed in Canadian dollars unless otherwise noted.

### **Overview**

The Company is a mineral exploration and development company with interests in gold projects in the state of Pará in northern Brazil. Cabral’s primary project is Cuiú Cuiú.

The Company holds its interest in Cuiú Cuiú through Magellan Minerais Prospecção Geológica Ltda. (“Magellan Brazil”). Magellan Brazil is a wholly owned subsidiary of Cabral Gold Ltd. (“CGL”) which in turn is a wholly owned subsidiary of the Company.

The former name of the Company was San Angelo Oil Limited (“San Angelo”). San Angelo’s previous principal business activity was the acquisition, exploration and development of conventional oil and natural gas properties in the United States. On October 30, 2017, the Company completed the acquisition of CGL, a private Vancouver-based company holding mineral rights to various gold projects in Brazil. In connection with the acquisition, the Company changed its name to Cabral Gold Inc. and changed the focus of its business to the exploration and development of mineral properties, with a primary focus on gold properties in Brazil. See ‘CGL Transaction’.

CGL acquired its interest in Magellan Brazil in April 2016 through a transaction with Magellan Minerals Ltd. (“Magellan Minerals”, the former owner of Magellan Brazil) and the Company’s founding shareholders (the “Magellan Transaction”). See ‘Acquisition of Magellan Brazil’.

In addition to Cuiú Cuiú, Magellan Brazil also holds interests in several secondary properties, including Bom Jardim and the Poconé properties held by Poconé Gold Mineração Ltda. (“PGM”) in which Magellan Brazil holds a 35% interest. Nominal purchase price consideration of R\$ 70,000 (approximately \$25,417) was attributable to the Bom Jardim mineral property when Magellan Brazil was acquired. No value was attributed to any other mineral property other than Cuiú Cuiú in connection with the Magellan Transaction.

Limited exploration activity was undertaken by the Company through closing of the CGL Transaction and a financing in late 2017; 2016 and 2017 expenditures were limited primarily to a third party study and logistical support in connection with the maintenance of the Cuiú Cuiú property. A comprehensive exploration program was initiated in early 2018.

## Highlights

The year ended December 31, 2017 and the period ended April 26, 2018 were highlighted by the following activities and initiatives:

- In October 2017, CGL closed a business combination with San Angelo pursuant to which San Angelo acquired CGL by way of a three-cornered amalgamation. See ‘CGL Transaction’
- Prior to the closing of the CGL Transaction, CGL raised gross proceeds of approximately \$4.16 million in a private placement financing. See ‘October 2017 Financing’
- In November 2017, Magellan Brazil entered into a restructuring agreement relating to approximately \$327,425 of unpaid Brazilian taxes pursuant to which approximately \$272,920 of tax liabilities were eliminated on February 26, 2018. The remaining liabilities of approximately \$54,505 are expected to be eliminated in Q2 2018. See ‘Liquidity’
- The Company paid R\$ 500,000 in each of February 2017 and July 2017 in connection with the R\$ 2,000,000 purchase of approximately 30 hectares of land in the Cuiú Cuiú area. See ‘Cuiú Cuiú’
- In March 2017, the Company renewed the surface access agreement that Magellan Brazil had previously entered into with the Cuiú Cuiú garimpiero condominium. See ‘Cuiú Cuiú’
- In January 2017, the Company closed a private placement comprising the issuance of 4,450,000 common shares for gross proceeds totalling \$267,000. See ‘Liquidity’.

### *Finance*

- The balance of cash and cash equivalents as at December 31, 2017 was \$3,680,427 and the net working capital balance as at this date was \$3,378,958.

### *Exploration and development*

- In December 2017, the Company engaged Micon International Ltd. (“Micon”) to prepare an updated mineral resource estimate for the Cuiú Cuiú project. The historic resource estimate issued in April 2011 outlined an Indicated Resource of 3.4 Mt @ 1.0 g/t gold and an Inferred Resource of 31 Mt @ 1.2 g/t gold
- During 2017 and 2018 to date, Magellan Brazil increased its land holdings around the Cuiú Cuiú project and in two other areas by over 80,000 hectares. Industry players Anglo American Níquel Brasil Ltda. and Votorantim Metais Zinco S. A. actively staked over 1,500,000 hectares to the immediate north and northwest of Magellan Brazil’s tenement package
- Virtually no exploration or development work was undertaken on the Cuiú Cuiú property since CGL’s acquisition of Magellan Brazil in April 2016. 2017 exploration expenditures amounted to \$383,183 and related primarily to a third party study and local administrative and logistical support for the maintenance of the Cuiú Cuiú property
- The Company initiated an aggressive campaign of exploration and related activities focussing on the Cuiú Cuiú property in early February 2018 which included the following:
  - Retention of Dr. Adrian McArthur to manage the Company’s exploration program. Dr. McArthur has over 20 years’ experience in exploration, resource definition and project generation principally in Brazil and Australia
  - Commencement of a surface exploration program which included trenching, channel sampling, auger sampling and soil sampling with a view to identifying drill targets
  - Initiation of a comprehensive review of all historic exploration data relating to the project.

## **CGL Transaction**

On May 11, 2017, the Company announced that it had entered into a business combination agreement dated May 10, 2017 (the “Agreement”) to acquire CGL (the “CGL Transaction”).

On October 31, 2017, the Company and CGL announced that they had completed the CGL Transaction. The CGL Transaction was carried out by way of a three-cornered amalgamation, whereby CGL amalgamated with 1116669 B.C. Ltd., a wholly owned subsidiary of the Company.

Concurrently with closing of the CGL Transaction, the Company completed a five-for-one share consolidation pursuant to which the total number of pre-CGL Transaction securities of the Company was reduced as follows: 6,492,750 pre-consolidation common shares to 1,298,550 post-consolidation common shares, and 3,000,000 pre-consolidation share purchase warrants to 600,000 post-consolidation share purchase warrants.

Shareholders of CGL received 0.18 of a post-consolidation common share of the Company for each common share of CGL held by them immediately prior to the completion of the CGL Transaction. The Company issued 29,753,868 post-consolidation shares in exchange for the common shares of CGL (including 6,931,328 common shares issued on conversion of the Subscription Receipts; see ‘October 2017 Financing’, below). Following closing of the CGL Transaction, the Company had 31,052,418 common shares issued and outstanding.

Outstanding stock options, share purchase warrants and compensation warrants of CGL were exchanged for similar instruments of the Company exercisable for or convertible into post-consolidation securities of the Company on the basis of the 0.18 exchange ratio.

In October 2016, CGL entered into an advisory agreement with M Partners Inc. (“M Partners”) pursuant to which M Partners would advise CGL in connection with a potential merger, reverse take-over, acquisition or similar business transaction. A fee of \$180,000 was paid to M Partners upon closing of the CGL Transaction through the issuance of 360,000 post-consolidation shares.

Following closing of the CGL Transaction:

- The Company changed its name from “San Angelo Oil Limited” to “Cabral Gold Inc.”
- The common shares of Cabral Gold Inc. commenced trading on the TSX Venture Exchange under the symbol “CBR” on November 2, 2017
- The management of CGL continued in identical capacities at the Company
- The five members of the board of directors of CGL constituted the new board of directors of the Company.

## **October 2017 Financing**

Prior to closing of the CGL Transaction, CGL completed a private placement financing (the “Offering”) which raised gross proceeds of \$4,158,797 through the sale of 38,507,414 subscription receipts (the “Subscription Receipts”) at a price of \$0.108 per Subscription Receipt. CGL issued a total of 2,227,137 special warrants (the “Special Warrants”) to various finders and paid cash finders’ fees and commissions totaling approximately \$240,531 to the finders in connection with the Offering.

The Offering was comprised of both brokered and non-brokered components (\$1,799,902 and \$2,358,899, respectively).

Immediately prior to the closing of the CGL Transaction:

- Each Subscription Receipt was converted, without additional consideration, into one unit of CGL which, in conjunction with the closing of the CGL Transaction, was exchanged for 0.18 of one unit of the Company. Each whole unit of the Company (a “Unit”) was comprised of one post-consolidation common share, one-half of one class A warrant and one-half of one class B warrant. Each whole class A warrant entitles the holder to purchase one post-consolidation common share of the Company at a price of \$0.75 until October 30, 2018, and each whole class B warrant entitles the holder to purchase one post-consolidation common share of the Company at a price of \$0.90 until October 30, 2019
- Each Special Warrant was automatically exercised into a compensation warrant of CGL, which, in conjunction with closing of the CGL Transaction, was exchanged for 0.18 of a compensation warrant of the Company. Each compensation warrant entitles the holder to acquire one Unit at an exercise price of \$0.60 until October 30, 2019.

On a post-consolidation basis, a total of 6,931,335 units (the “Units”) were issued at an effective price of \$0.60 per Unit, for gross proceeds of \$4,158,797. Each Unit was comprised of one common share of the Company, one-half of one class A warrant and one-half of one class B warrant.

Total finders fees paid to third parties in connection with the financing amounted to \$256,130. In addition, 400,878 compensation warrants were issued to the finders. Each compensation warrant entitles the holder to acquire one Unit at an exercise price of \$0.60 until October 30, 2019.

The net proceeds of the Offering will be used to finance the work program on the Cuiú Cuiú project and for general working capital.

## **Acquisition of Magellan Brazil**

On April 13, 2016, CGL entered into an agreement with Magellan Minerals and two of CGL’s founding shareholders pursuant to which:

- Debts of \$500,000 owing by Magellan Minerals to the two founding shareholders of CGL were settled in exchange for Magellan Minerals’ 99.99% equity interest in Magellan Brazil in full satisfaction of the debt. The exchange was part of a comprehensive debt settlement between Magellan Minerals and its senior management group. The settlement also included debt forgiveness, by management, of \$252,669; and
- The interest in Magellan Brazil was then contributed by the two founders to CGL in exchange for 22,422,413 common shares.

Magellan Brazil is a private company incorporated in the state of Para in Brazil. It holds 100% of the Cuiú Cuiú property and several secondary properties.

The agreement was subject to the approval of the TSX Venture Exchange which was received in April 2016.

As part of the debt settlement, Magellan Brazil and CGL agreed to grant Magellan Minerals a 0.5% royalty on the Cuiú Cuiú property.

The consolidated financial statements for the period ended December 31, 2016 reflect the assets, liabilities and results of operations of the Company and Magellan Brazil since April 28, 2016 being the date on which the Company formally became the sole shareholder of Magellan Brazil.

The transaction was accounted for as an asset acquisition and the allocation of the purchase price to the assets acquired and liabilities assumed was based on estimated fair values at the time of acquisition.

The allocation of the purchase price to the estimated fair value of the assets and liabilities of Magellan Brazil was as follows:

	\$
<b>Purchase price:</b>	
Company common shares issued	500,000
Cash advanced to acquire Magellan Brazil	360,816
	<u>860,816</u>
<b>Estimated fair values of assets and liabilities acquired:</b>	
Cash acquired	68,102
Receivables	424
Machinery and equipment	21,786
Land	733,452
Mineral properties, Cuiú Cuiú	948,380
Mineral properties, other	25,417
Total assets acquired	<u>1,797,561</u>
Accounts payable and accrued liabilities	573,650
Liability relating to purchase of land	363,095
Total liabilities acquired	<u>936,745</u>
	<u><u>860,816</u></u>

## Cuiú Cuiú

The Company's primary gold project is Cuiú Cuiú.

Virtually no exploration or development work was undertaken on the Cuiú Cuiú property since the closing of the Magellan Transaction in April 2016 through the end of 2017. Costs incurred in Brazil in 2016 and 2017 have related primarily to various third party studies and local administrative and logistical support.

### *Surface access agreement, garimpiero condominium*

On February 19, 2006, Magellan Brazil entered into a service access agreement with the holders of the traditional surface rights over the Cuiú Cuiú property. The owners are organised into a 'condominium' (which is similar to a cooperative, but with fewer rights) comprising minority stakeholders and majority stakeholders.

The February 19, 2006 has since been amended and extended several times the most recent of which was on March 29, 2017. The current terms of the agreement require Magellan Brazil to pay R\$ 5,000 per year (equivalent of \$1,894 as at December 31, 2017) to each of the 19 majority stakeholders and R\$ 2,500 per year (\$947) to each of the 59 minority stakeholders.

Payments totalling approximately \$92,000 will be paid to the garimpieros in April and May 2018 in connection with the surface access fee in respect of the year ended March 2019.

The agreement specifies that in the event that an economically viable gold resource is identified and supported by a formal feasibility study, Magellan Brazil will make an additional payment to the holders of the traditional surface rights based on the amount of gold defined (as measured in accordance with Australasian Joint Ore Reserves Committee definitions) as follows:

- Less than 1.0 million ounces: US\$ 2,000,000

- 1.0 million ounces to 2.0 million ounces: US\$ 3,000,000
- 2.0 million ounces to 3.0 million ounces: US\$ 4,000,000
- 3.0 million ounces to 4.0 million ounces: US\$ 6,000,000
- More than 4.0 million ounces: an additional US\$ 3,000,000 for every additional million ounces identified in excess of 4.0 million ounces of contained gold.

Upon delivery and approval of the final research reports on the areas under consideration to the Brazilian National Department of Mineral Production or at any time if the size of the gold reserve is found to be economically viable (pursuant to a formal feasibility study), Magellan Brazil is to provide written notice to the condominium following which the aforementioned payment is to be made within 90 days.

### ***Acquisition of additional ground***

During 2017 and 2018 to date, Magellan Brazil increased its land holdings around the Cuiú Cuiú project and in two other areas as follows:

- Cuiú Cuiú and surrounding area: increase of 16,091 hectares
- Bom Jardim and surrounding area: increase of 47,198 hectares
- Tocantinzinho and surrounding area: increase of 17,968 hectares (Eldorado Gold Corp.'s Tocantinzinho gold deposit is located 25 kilometres southeast of the Cuiú Cuiú project and currently has Proven and Probable reserves of 39.6 Mt @ 1.43 g/t gold for 1.82 Moz).

Offsetting the aforementioned increases in land holdings, the Porquinho property – a tertiary property for which the carrying value was nil – comprising 6,715 hectares was dropped in 2017.

During 2017, industry players Anglo American Níquel Brasil Ltda. and Votorantim Metais Zinco S.A. actively staked landholdings totalling over 1,500,000 hectares in the Tapajos area to the immediate north and northwest of Magellan Brazil's tenement package.

### ***Purchase of land***

Magellan Brazil acquired a parcel of land at Cuiú Cuiú with a total area of approximately 30 hectares for a total of R\$ 2,000,000 prior to the closing of the Magellan Transaction. The land parcel covers the Moreira Gomes deposit which is one of the two gold deposits currently known on the Cuiú Cuiú project.

R\$ 1,000,000 of the R\$ 2,000,000 purchase price was paid in April 2016 prior to the closing of the Magellan Transaction. The remaining R\$ 1,000,000 was a liability as at the date of closing and subsequently paid in two equal tranches of R\$ 500,000 in each of February 2017 and July 2017.

### ***Net smelter royalties***

There are two net smelter royalties ("NSR") on the Cuiú Cuiú property as follows:

- A 1.0% NSR held by Sandstorm Gold Ltd. ("Sandstorm"). The Company is required to pay an advance royalty of US\$ 250,000 on the date that it obtains a feasibility study that recommends placing all or part of the Cuiú Cuiú project into production and a further advance royalty payment of US\$ 250,000 on each one year anniversary of this date thereafter until the property enters commercial production. As part of the transaction, Magellan provided Sandstorm with a right of first refusal on any future royalty or gold stream financing for the Cuiú Cuiú project. Magellan's rights and responsibilities associated with this agreement were transferred to Cabral pursuant to an agreement dated May 2, 2016
- A 0.5% NSR held by Magellan (see 'Acquisition of Magellan Brazil'). The Magellan NSR is subordinate to the Sandstorm NSR.

## ***2018 exploration activity***

The Company initiated an aggressive campaign of exploration and related activities focussing on the Cuiú Cuiú property in early February 2018 which included the following:

- Retention of Dr. Adrian McArthur to manage the Company's exploration program. Dr. McArthur has over 20 years' experience in exploration, resource definition and project generation principally in Brazil and Australia
- Commencement of a surface exploration program which included trenching, channel sampling, auger sampling and soil sampling with a view to identifying drill targets
- Initiation of a comprehensive review of all historic exploration data relating to the project
- Update of the historic mineral resource estimate.

## ***Resource update***

In December 2017, the Company engaged Micon to prepare an updated mineral resource estimate for the Cuiú Cuiú project.

The update will follow from the previous mineral resource estimate completed by Pincock Allen and Holt that was included in the NI 43-101 technical report issued to Magellan Minerals Ltd. (the previous owner of the project) dated April 19, 2011 based on a portion of 104 diamond drill holes totalling 25,957 metres. This historic estimate outlined an Indicated Resource of 3.4 Mt @ 1.0 g/t gold and an Inferred Resource of 31 Mt @ 1.2 g/t gold (0.4 g/t gold cut-off in the saprolite and a 0.3 g/t gold cut-off in the hard rock).

These mineral resources are historical in nature as described in NI 43-101 and Cabral is not treating them as current. They were prepared prior to Cabral's agreement to acquire the property and a Qualified Person has not yet verified them as current. At this time, the reliability of the estimates is not known.

The updated mineral resource estimate will also incorporate a portion of an additional 22,068 meters of diamond drilling comprising 72 drill holes that took place on the project during 2011 and 2012 subsequent to the issuance of the 2011 technical report.

The results of the mineral resource update are expected to be announced in the second quarter of 2018

## ***Outlook***

The Company expects to pursue a two-phase program of exploration of the Cuiú Cuiú property over two years as follows:

- Phase 1 consists of an update to the current mineral resource estimate as described above. In addition, an aggressive program of soil sampling, channel sampling and surface trenching is planned over a number of high priority targets (including Pau de Merenda, Central, Machiche, Jerimum de Cima, Vila Rica and Guarim) at Cuiú Cuiú which are considered to have significant potential for additional discoveries. This program is expected to extend through the second quarter of 2018 and will generate a significant amount of information that will be key in the selection of drill targets during Phase 2
- Phase 2 consists of a program of ground geophysics to refine the drill targets followed by a diamond drill program of up to 8,000 metres. Additional surveys are being considered to extend historical ground magnetic and IP grids. Additional soil sampling and channel sampling of surface exposures is expected to continue during Phase 2.

An environmental study (so-called *EIA RIMA*) having an estimated cost of \$759,000 has been added to the work program previously reported and will commence during Phase 1 and extend through Phase 2.





The estimated costs of the two program phases are as follows:

<b>Activity</b>	<b>Phase 1</b> \$	<b>Phase 2</b> \$
Re-estimate mineral resource	100,000	-
Trenching	80,000	-
Mapping/geology	150,000	-
Field workers/soil sampling	90,000	-
Computers, etc.	12,000	-
Drilling	-	1,840,000
Geophysical survey(ies)	-	600,000
Data logging/geology	-	300,000
Field workers	-	250,000
Food/supplies	43,200	100,000
Geochemical analysis	175,000	420,000
Flights to Cuiú Cuiú	41,250	99,000
Vehicles	75,000	75,000
ATVs	20,000	30,000
Fuel for vehicles	9,250	27,750
Transport of personnel	18,000	48,000
Logistical support	60,000	60,000
Contingency	87,370	277,175
Original work program	961,070	4,126,925
Environmental study (EIA RIMA)	592,000	167,000
	<b>961,070</b>	<b>4,126,925</b>

Planning for the Phase 1 activities commenced in late December 2017 following closing of the CGL Transaction and actual activities commenced in February 2018.

## Poconé properties

The Company is a party to two sets of agreements with third parties pursuant to which mineral properties in the Poconé region of the state of Mato Grosso in Brazil were to be identified, explored and developed. The first agreement was entered into between Magellan Minerals and ECI Exploration & Mining Inc. (“ECI”) on October 17, 2011 effective December 2009 pursuant to which ECI and Magellan Minerals would share equally in the rights and responsibilities associated with the identification, exploration and development of mineral properties (the “ECI Venture”). The second set of agreements was between Magellan Minerals, ECI and Brasil Central Engenharia Ltda. (“Brasil Central”) pursuant to which Magellan Minerals, ECI, and Brasil Central would seek to identify, explore and develop mineral properties through an incorporated entity, PGM, an entity in which Magellan Brazil holds a 35% interest (as at both the date of closing of the Magellan Transaction through April 26, 2018).

Magellan Mineral’s rights and responsibilities associated with both the ECI Venture and PGM were transferred to Cabral prior to the date of closing of the Magellan Transaction pursuant to an agreement dated April 15, 2016 between the Company, Magellan Minerals and ECI.

Virtually no exploration activity has been undertaken on any of the Poconé properties since 2012.

None of the purchase price consideration relating to the Magellan Transaction was attributed to the Poconé properties, however, Magellan Brazil's share of various liabilities relating to the ECI Venture and PGM were recognised.

In August 2015, ECI received notification that a former optionor of one of the property interests acquired by ECI on behalf of the ECI Venture had filed a claim against ECI and PGM in connection with an option agreement that had been entered into with the ECI Venture in December 2009. As of April 26, 2018, no claim had been filed against the Company. The plaintiff is claiming an amount of US\$ 780,000 plus damages. Management has assessed the likelihood of a potential loss to be less than 50%. No accrual has been made in the accounts for any amount associated with the claim.

Cabral is seeking to dispose of its interest in PGM through a transfer of its interest in the entity and all rights and responsibilities associated therewith to Brasil Central. If such a transaction were to occur, the consideration received by the Company, if any, would most likely be nominal. A transaction would not reduce the Company's exposure relating to the aforementioned legal claim against ECI and PGM.

## Proposed transactions

As at December 31, 2017 and April 26, 2018, there were no proposed asset or business acquisitions or dispositions.

## Selected annual information

A summary of annual results in respect of the year ended December 31, 2017 and the period from incorporation on February 17, 2016 to December 31, 2016 is as follows. This summary information has been derived from the audited consolidated financial statements of the Company.

	Year ended	Period ended
	31-Dec-17	31-Dec-16
<b>Consolidated statement of loss:</b>		
Revenue	-	-
Exploration and development	383,183	162,846
Listing expense (CGL Transaction)	791,616	-
Administration:		
Management and consulting	259,232	59,417
Stock-based compensation	222,903	-
Office and administration	92,777	22,878
Listing expense (other)	48,598	-
Travel	53,307	22,198
Professional fees	616,677	10,961
Depreciation	8,267	3,956
Adjustment to provisions	111,878	-
Foreign exchange gain	17,872	(11,735)
Penalties and financing charges (net)	41,837	16,859
Other income	(25,434)	-
Net loss	2,622,713	287,380
Weighted average shares outstanding	24,187,385	14,434,707
Net loss per share	\$ 0.11	\$ 0.02

## *Statement of loss*

- Exploration and development activity has been limited since the closing of the Magellan Transaction with costs incurred relating primarily to a third party study and logistical support in connection with the maintenance of the Cuiú Cuiú property. An aggressive exploration program commenced in early 2018
- Listing expense (CGL Transaction) relates to the excess of the estimated value of consideration issued to former San Angelo security holders over the net assets of San Angelo as at the time of closing of the CGL Transaction
- Management and consulting: Compensation of the Company's officers (President and CEO and CFO) commenced on October 1, 2016
- Stock-based compensation relates to the issuance of a total of 1,233,000 stock options having an exercise price of \$0.33 to \$0.35
- Office and administration relates to the costs of operating the Vancouver office of Cabral which was established in June 2016
- Professional fees relate to audit fees, legal fees relating to the CGL Transaction and general corporate matters, other professional fees relating to the CGL Transaction and advisory fees relating to the provision of marketing services
- Penalties and financing charges relate to overdue taxes (both restructured and non-restructured) of Magellan Brazil and, to a lesser extent, restructured claim maintenance charges relating to the Poconé properties net of interest income on cash balances held.

	<b>31-Dec-17</b>	<b>31-Dec-16</b>
<b>Consolidated statement of financial position:</b>		
Cash and cash equivalents	3,680,427	2,184,746
Other current assets	226,824	27,581
Fixed assets	781,418	853,890
Mineral properties	1,298,113	1,161,731
<i>Total assets</i>	<i>5,986,782</i>	<i>4,227,948</i>
Accounts payable and accrued liabilities	424,179	729,471
Other liabilities and provisions	104,114	412,507
Long-term liabilities	25,432	59,320
<i>Total liabilities</i>	<i>553,725</i>	<i>1,201,298</i>
Equity:		
Share capital	7,007,824	3,050,383
Subscription receipts	-	200,000
Reserves	1,425,670	38,253
Other comprehensive income	(90,344)	25,394
Accumulated deficit	(2,910,093)	(287,380)
<i>Total equity</i>	<i>5,433,057</i>	<i>3,026,650</i>

## *Statement of financial position*

- Fixed assets relate primarily to a 30 hectare plot of land in Cuiú Cuiú that was purchased by Magellan Brazil prior to the closing of the Magellan Transaction
- The balance of mineral properties relates to capitalised acquisition and claim maintenance costs. With the exception of \$43,524, the balance relates entirely to Cuiú Cuiú
- The primary components of accounts payable and accrued liabilities include the following:
  - Brazil taxes (non-restructured), \$327,425: In November 2017, Magellan Brazil entered into restructuring programs with applicable federal and state taxation and administrative bodies in

Brazil pursuant to which existing liabilities were largely forgiven in return for payments being made sooner than as agreed in restructuring arrangements previously entered into; the program was also applied to certain unpaid tax balances of the Company that had not been previously restructured. The new arrangements resulted in the termination of the previous restructuring agreements, the application of further discounts, the offsetting of historical tax losses of Magellan Brazil against tax liabilities otherwise due and the payment of deposits. As a result of the termination of the previous agreements, restructured amounts that were previously classified as long-term liabilities, were recognised as current liabilities as at December 31, 2017. See 'Liquidity'

- Restructured Brazil claim maintenance, \$8,779: This balance relates to certain previously overdue claim maintenance charges that were restructured. In addition to this current balance, a further \$25,432 is due subsequent to December 31, 2018 through December 2020 (with additional interest charges). See 'Liquidity'
- Overdue amounts due to Cuiú Cuiú garimpieros, \$7,840: Outstanding balance due to three garimpieros relating to the 2017 annual payment
- Remaining accounts payable and accrued liabilities include
- Other liabilities and provisions, \$104,114: This balance relates to management's best estimate of expenditures required to settle present contingent obligations relating to various legal, tax and regulatory matters that the Company is subject to.

## Summary of quarterly results

A summary of quarterly results in respect of the period ended December 31, 2017 is as follows:

	Quarter ended 31-Mar-17	Quarter ended 30-Jun-17	Quarter ended 30-Sep-17	Quarter ended 31-Dec-17
Revenues	-	-	-	-
Exploration and development	125,729	71,976	90,222	95,256
Listing expense (CGL Transaction) (a)	-	-	-	791,616
Professional fees	50,652	98,119	81,543	386,363
Non-cash items (b)	165,379	2,292	2,207	61,292
Administration (c)	96,189	116,761	92,203	148,761
Net loss	460,232	488,639	270,028	1,403,814
Net loss per share (d)	0.02	0.02	0.01	0.05
Total comprehensive loss	458,800	563,319	255,041	1,461,291
Cash and cash equivalents	1,752,070	1,007,268	524,864	3,680,427
Net working capital (deficit) (e)	756,664	409,827	184,936	3,378,958
Total assets	3,873,288	3,160,427	2,689,449	5,986,782

	Quarter ended 31-Mar-16	Quarter ended 30-Jun-16	Quarter ended 30-Sep-16	Quarter ended 31-Dec-16
Revenues	-	-	-	-
Exploration and development	1,210	53,384	50,052	58,200
Professional fees	-	711	2,073	8,177
Non-cash items (b)	-	928	1,508	1,520
Administration (c)	1,631	6,035	25,805	71,022
Net loss	1,659	56,960	76,635	152,126
Net loss per share (d)	-	-	-	0.01
Total comprehensive loss	1,659	34,729	78,571	147,027
Cash and cash equivalents	-	81,964	10,184	2,184,746
Net working capital (deficit) (e)	(66,951)	(691,782)	(695,544)	1,070,349
Total assets	330,618	2,336,865	2,393,662	4,227,948

- (a) Listing expense (CGL Transaction) relates to the excess of the estimated value of consideration issued to former San Angelo security holders over the net assets of San Angelo as at the time of closing of the CGL Transaction
- (b) Non-cash items comprise stock-based compensation and depreciation expense
- (c) Administration comprises all operating expenses other than exploration and development expenditures, listing expense (CGL Transaction), professional fees and non-cash items. It includes costs of management, travel, listing of fees (other than CGL Transaction) and general and administrative items
- (d) Net loss per share is presented on a basic and diluted basis
- (e) Excludes advances made to Magellan Brazil prior to closing of the Magellan Transaction in April 2016

Fluctuations in the Company's quarterly results were attributable to the following factors:

- Exploration and development: Exploration and development activity has been limited since the closing of the Magellan Transaction with costs incurred relating primarily to a third party study and logistical support in connection with the maintenance of the Cuiú Cuiú property. Fluctuations were attributable to the following specific issues:
  - Third party study relating to the preparation of an integrated economic development plan relating to the Cuiú Cuiú property (\$23,188 in Q2 2016, \$24,209 in Q3 2016 and \$9,749 in Q4 2016). The report was prepared to fulfill Brazilian requirements and does not adhere to the standards required by Canadian National Instrument 43-101
  - Preparation of NI 43-101 technical report regarding the Cuiú Cuiú property to support a public listing (\$32,946 in Q1 2017, \$5,383 in Q2 2017 and \$13,595 in Q3 2017)
  - Initiation of a NI-43101 resource update regarding the Cuiú Cuiú property (\$21,458 in Q4 2017)
  - Introduction of consultant overseeing Brazil activity effective October 1, through September 30, 2017 (\$12,500 in Q4 2016 and \$15,625 in each of Q1 2017, Q2 2017 and Q3 2017)
  - Introduction of Brazil country manager effective February 1, 2017 (\$15,000 in Q1 2017 and \$22,500 in each of Q2 2017, Q3 2017 and Q4 2017).
- Professional fees: Professional fees increased significantly in 2017 with CGL's pursuit of a public listing. Such costs included legal fees, audit fees and various other fees including a transaction success fee of \$180,000 incurred in Q4 2017 relating to the closing of the CGL Transaction (which was paid through the issuance of common shares). In addition, agreements were entered into with various third parties in Q4 2017 relating to the provision of marketing services
- Administration: Fluctuations in administration costs were attributable to the following specific issues:
  - The introduction of remuneration of management (President and CEO and CFO) effective October 1, 2016
  - Various listing fees incurred in Q3 2017 and Q4 2017 relating to the CGL Transaction
  - Significant increases in travel costs in each of Q2 2017 and Q3 2016 relating to travel to Brazil and pursuit of financing and transaction opportunities

- The commencement of office rent and related charges in June 2016.

## **Liquidity**

As at December 31, 2017, the Company had a cash balance of \$3,680,427, and a net working capital balance of \$3,378,958.

### ***January 12, 2017 private placement***

On January 12, 2017, CGL closed a private placement financing pursuant to which 801,000 common shares were issued at a price of \$0.333 per common share, for gross proceeds of \$267,000 (including \$200,000 received prior to 2017 and classified as Subscription receipts as at December 31, 2016). No finder's fees or similar fees were paid or compensation options issued in connection with this financing.

### ***October 30, 2017 private placement***

See 'October 2017 Financing'.

### ***Brazil taxation restructuring***

During the fourth quarter of 2014 and the first quarter of 2016, Magellan Brazil restructured certain unpaid taxes due to various federal and state taxation and administrative bodies in Brazil; these amounts relate to unpaid social taxes and withholding taxes in respect of fiscal years prior to the closing of the Magellan transaction in 2016. The payment plan, including application of discounts, was entered into pursuant to a general program offered by these bodies. The restructured liabilities were typically being repaid over 60 months. Monthly repayments were increased to reflect inflation pursuant to indices published each month.

In November 2017, Magellan Brazil entered into further restructuring programs with applicable federal and state taxation and administrative bodies in Brazil pursuant to which further discounts were granted to existing liabilities in return for payments being made sooner than as agreed in the aforementioned restructuring arrangements; the programs were also applied to certain unpaid tax balances of the Company that had not been previously restructured. The new arrangements resulted in the termination of the previous restructuring agreements, the application of further discounts, the offsetting of historical tax losses of Magellan Brazil against tax liabilities otherwise due and the payment of deposits. As a result of the termination of the previous agreements, restructured amounts that were previously classified as long-term liabilities, were recognised as current liabilities as at December 31, 2017.

The new arrangements were finalised with respect to \$272,920 of tax liabilities on February 26, 2018. Arrangements in respect of the remaining \$54,505 of tax liabilities are expected to be finalised in the second quarter of 2018.

Magellan Brazil made payments totalling \$29,846 through December 31, 2017 in connection with these new arrangements. No further amounts were due to be paid to the tax authorities subsequent to 2017, however, estimated professional fees associated with completing the program will amount to approximately \$38,000.

### ***Going concern***

The recoverability of the carrying value of mineral properties and deferred expenditures is dependent upon a number of factors including the existence of recoverable reserves, the ability of the Company to obtain financing to maintain properties in good standing and continue exploration and development and the

discovery of economically recoverable reserves. To date, the Company has not generated any revenue from mining or other operations as it is considered to be in the exploration stage.

The Company's consolidated financial statements as at and for the year ended December 31, 2017 do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

Management has estimated that the Company has adequate funds from existing working capital to meet its corporate development, administrative and property obligations for the coming year through December 31, 2018.

### ***Operating activities***

Cash used in operating activities in 2017 amounted to \$2,152,947. The application of cash in 2017 was attributable to the following:

- The net loss for the period of \$2,622,713
- Significant non-cash items totalling \$1,200,918 including listing expense (CGL Transaction), stock-based compensation and a success fee relating to the CGL transaction (see 'Selected annual information' and 'Summary of quarterly results')
- Net reduction in non-cash working capital items of \$731,152 relating to the repayment of current liabilities in Magellan Brazil and an increase in prepaid marketing expenditures in Canada.

### ***Investing activities***

Cash used in investing activities in 2017 amounted to \$258,260 and related primarily to capitalised mineral claim maintenance costs.

### ***Financing activities***

Net cash provided by financing activities in 2017 amounted to \$4,225,797 which relates to equity raised through the January 2017 private placement issuance of common shares (\$267,000) and the October 2017 private placement issuance of Units (\$4,158,797) offset by share issuance costs (\$308,240).

### ***Dividends***

The Company has neither declared nor paid any dividends on its common shares to date. The Company does not anticipate paying any dividends on its common shares in the foreseeable future.

### ***Contractual commitments***

The Company had no significant medium- or long-term contractual commitments as at December 31, 2017 or April 26, 2018 beyond its stated liabilities and the following:

- Magellan Brazil entered into an agreement in January 2018 with Terra Ltda. - ME relating to the provision of the EIA-RIMA environmental study for an estimated fee of R\$ 1,670,144
- The Company is committed to sharing in commitments associated with both the ECI Venture (50%) and PGM (35%) including its share of any losses relating to the current litigation against ECI and PGM (see 'Poconé properties').

## **Capital resources**

The Company had no capital expenditure commitments as at either December 31, 2017 or April 26, 2018.



The Company is required to make certain option payments in order to maintain its properties and agreements in good standing. These payments are not considered to be commitments as the applicable agreements may be terminated by the Company at short notice without penalty. These future payments totalled USD 40,000 as at December 31, 2017 all of which is conditional on the registration of an optioned secondary property (Bom Jardim).

## Transactions with related parties

The Company incurred the following costs of management remuneration:

	Year ended Dec. 31, 2017	Period ended Dec. 31 2016 (a)
<b>Management:</b>		
Employment and consulting remuneration	\$ 239,583	\$ 50,000
Payroll related costs	19,648	11,917
	<u>259,231</u>	<u>61,917</u>
<b>Directors:</b>		
Stock-based compensation	189,828	-
Advisory fees	46,875	12,500
	<u>236,703</u>	<u>12,500</u>
	<u><b>\$ 495,934</b></u>	<u><b>\$ 74,417</b></u>

Management comprises the President and Chief Executive Officer and Chief Financial Officer. The payment of remuneration to members of management commenced on October 1, 2016.

Advisory fees were paid to a director who was based in and actively involved in activities in Brazil; the fees were not paid in connection with services provided to the Company by this individual in his capacity as a director. These fees were terminated effective October 1, 2017.

As at December 31, 2017, the Company owed a total of \$2,244 to management in connection with unreimbursed expenditures incurred on behalf of the Company. This liability was settled in full in February 2018.

As at December 31, 2016, the Company owed a total of \$17,034 to the President and Chief Executive Officer in connection with unpaid remuneration and was also owed \$785. Both amounts were paid in full in January 2017.

Prior to the December 2016 private placement, the Company raised \$782,275 through the issuance for cash of 27,702,190 common shares at an average price of \$0.028 per common share. These proceeds include \$198,450 contributed by the two founding shareholders in March 2016 for 8,620,690 common shares at an average price of \$0.023 per share.

See 'Acquisition of Magellan Brazil' regarding the acquisition by the Company of Magellan Brazil through the restructuring of balances due by Magellan to the founding shareholders of Cabral.

## Outstanding share data

The Company has authorized capital of an unlimited number of common shares with no par value.

The Company had the following common shares, share purchase warrants and stock options outstanding as at April 26, 2018:

Issued and outstanding common shares	31,412,418
Fully diluted	40,842,450
Share purchase warrants	8,197,032
Stock options	1,233,000

## Changes in accounting policies

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these consolidated financial statements. Such standards that may have an impact on the Company's consolidated financial statements once adopted include the following:

- Amendments to IFRS 9, "Financial Instruments"
- Amendments to IFRS 11, "Joint Arrangements"

The Company has not early adopted these revised standards and is currently assessing the impact, if any, that these revised standards will have on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

## Financial instruments

The Company's financial instruments are comprised of cash and cash equivalents, receivables, accounts payable and accrued liabilities and other liabilities and provisions.

The Company's activities expose it to a variety of financial risks, including foreign exchange risk, liquidity risk, credit risk and interest rate risk.

### *Foreign exchange risk*

The Company operates primarily in Brazil and is therefore exposed to foreign exchange risk arising from transactions denominated in Brazilian reais ("R\$"). Other than Canadian dollar balances, the Company's cash and cash equivalents, receivables and accounts payable and accrued liabilities are held in R\$ and US\$ and are therefore subject to fluctuation against the Canadian dollar. The Company has no program in place for hedging foreign currency risk.

### *Liquidity risk*

Liquidity risk encompasses the risk that an entity cannot meet its financial obligations in full as they become due. The Company manages liquidity by taking the appropriate steps to maintain adequate cash and cash equivalent balances. The Company monitors actual and forecast cash flows, and matches the maturity profile of financial assets and liabilities.

As at December 31, 2017, the Company had a cash balance of \$3,680,427, and a net working capital balance of \$3,378,958.

### ***Credit risk***

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. Financial instruments that potentially subject the Company to credit risk consist of cash and accounts receivable. The carrying value of the Company's financial assets recorded in the consolidated financial statements represents its maximum exposure to credit risk.

All accounts receivable balances are current and no valuation allowance or provision was applied or required as at December 31, 2017.

### ***Interest rate risk***

Interest rate risk is the risk that cash flows will fluctuate due to changes in market interest rates. While the Company's financial assets are generally not exposed to significant interest rate risk because of their short-term nature, changes in interest rates will have a corresponding impact on interest income realised on such assets.

The Company's restructured claim maintenance liabilities in Brazil are subject to interest which is calculated, in part, on the domestic rate of inflation in Brazil and related indices published by the Brazilian authorities. Otherwise, the Company did not have any interest bearing debt as at December 31, 2017 or April 26, 2018.

## **Cautionary Statement on Forward-Looking Information**

This MD&A document contains 'forward-looking information' and 'forward-looking statements' (together, the "forward-looking statements") within the meaning of applicable securities laws. Such forward-looking statements concern the Company's anticipated operations in future periods, planned exploration and development of its properties, and plans related to its business and other matters that may occur in the future. This information relates to analyses and other information that is based on expectations of future performance and planned work programs. These forward-looking statements are made as of April 26, 2018.

Users of forward-looking statements are cautioned that actual results may vary from the forward-looking statements contained herein. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to:

- Risks related to the exploration and development of natural resource properties
- Risks related to the uncertainty of mineral resource calculations and the inclusion of inferred mineral resources in economic estimations
- Risks related to fluctuations in future metal prices (particularly gold prices)
- Risks related to market events and conditions
- Risks related to governmental regulations, including without limitation, environmental laws and regulations
- Risks related to delays in obtaining governmental or regulatory approvals, licenses or permits
- Risks related to the Company's mineral properties being subject to prior unregistered agreements, transfers or claims and other defects in title
- Risks related to uncertainty associated with the Company's ability to obtain funding in the future

- Risks related to the Company's inability to meet its financial obligations under agreements to which it is a party (see 'Liquidity')
- Risks related to competition from larger companies with greater financial and technical resources, and
- Risks related to the Company's directors and officers becoming associated with other natural resource companies which may give rise to conflicts of interest.

Although the forward-looking statements contained in this document are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this document, and the Company assumes no obligation to update or revise them to reflect new events or circumstances except as may be required under applicable securities laws. There can be no assurance that forward-looking statements, or the material factors or assumptions used to develop such forward-looking statements, will prove to be accurate. Accordingly, readers should not place undue reliance on forward-looking statements.