# Cabral Gold Inc.
(An Exploration Stage Company)

Management Discussion and Analysis

For the year ended December 31, 2019

Dated: May 26, 2020

# 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 May 26, 2020. It is intended to be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019.

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.

Dr. Adrian McArthur, B.Sc. Hons, PhD. FAusIMM., a consultant to the Company as well as a Qualified Person as defined by National Instrument 43-101 ("NI 43-101"), approved the technical information in this MD&A.

Gold results quoted herein have been determined by fire assay at SGS Laboratories, Belo Horizonte.

# 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.

# Highlights

The year ended December 31, 2019 and the period ended May 26, 2020 were highlighted by the following activities and initiatives:

***Exploration and development***

- In April 2020, the Company announced that it had suspended all field work at the Cuiú Cuiú project in Brazil and had temporary closed both of its offices (Vancouver, Canada and Itaituba, Brazil) in response to the Covid-19 outbreak and in order to protect staff and the local community from potential infection. The commencement of exploration activity at Cuiú Cuiú will be dependent on improvements in the Covid-19 situation as well as the Company's ability to raise funds through the recently announced equity private placement
- In January 2019, the Company announced the initiation of a 2,400 metre diamond drill program at nine separate locations at Cuiú Cuiú. Eighteen diamond drill holes totalling 2,511 metres at ten different targets were ultimately completed; eight of these targets had never been previously drill tested. The program was directed towards the testing of several priority targets which had returned high grade gold values on surface
- A mechanized auger drilling rig was purchased in August 2019 in order to significantly increase the speed of the auger drilling program at Cuiú Cuiú

- In September 2019, the Company announced the initiation of a second diamond drill program at Cuiú Cuiú. Thirteen diamond drill holes totalling 1,582 metres at three different targets were ultimately completed. The program was directed towards the further definition of high-grade gold mineralization at the Central and MG deposits and the recently discovered Machichie zone
- Three holes were also drilled at Central, MG and Jerimum Baixo to monitor natural fluctuations in water levels as part of project studies for future development of these resources
- In February 2020, the Company announced that it had acquired a track mounted reverse circulation drill which will allow for the rapid and cost-effective testing of various targets within the Cuiú Cuiú project area
- Ongoing regional soil, rock chip and reconnaissance mapping was initiated in undrilled corridors, including the Cilmar region in the north-east sector of the project and the Alonso and Medusa target area in the eastern sector of the project. Encouraging rock chip results were returned from newly located mineralized float including values of 11.6 to 200.3 g/t gold in the Alonso area and values of 1.1 to 82.1 g/t gold across two areas at the Medusa target.

***Finance***

- The balance of cash and cash equivalents as at December 31, 2019 was $705,725 and the net working capital balance as at this date was $633,624
- In July 2019, the Company closed a private placement comprised of 22,796,832 units at a price of $0.15 per unit for gross proceeds of $3,419,525. See ‘Liquidity and going concern’
- In May 2020, the Company announced a non-brokered private placement of up to 16,000,000 common shares at a price of $0.125 per share for gross proceeds of up to $2,000,000
- The R$ depreciated 8% relative to the $ during 2019 and depreciated a further 22% in 2020 through May 22. The Company has benefited from this volatility as the relative depreciation of the R$ serves to reduce R$ denominated expenditures and liabilities when measured in $.

***Other***

- Corporate social responsibility activities were enhanced within the surrounding community of Cuiú Cuiú including the completion of a new freshwater borehole creating a new source of clean drinking water, contributions to the community’s school and the sharing of the Company’s medical centre facilities and staff with the community.

## Cuiú Cuiú

The Company’s primary gold project is Cuiú Cuiú.

***Background: surface access agreement, garimpiero condominium***

On February 19, 2006, Magellan Brazil entered into a surface access agreement with the holders of the traditional surface rights over the Cuiú Cuiú property. The 2006 agreement 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 $1,616 as at December 31, 2019) to each of the 19 majority stakeholders and R$ 2,500 per year ($808) to each of the 61 minority stakeholders.

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 quantity 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.

During 2019, the Company entered into other property agreements with third parties relating to additional ground in the Cuiú Cuiú area as follows:

- Surface access agreement for R$ 6,000 ($1,939) per month with option to purchase (pricing dependent on quantity of gold)
- Purchase of rights from a member of the Cuiú Cuiú condominium for R$ 100,000 ($32,321) to be paid through November 2020.

***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 Equinox Gold Corp. which is subordinate to the Sandstorm NSR.

***2019 and 2020 year to date work programs***

<u>Q1 2019 drill program</u>

In January 2019, the Company announced the initiation of an initial diamond drill program at Cuiú Cuiú with the objective of testing several priority targets which had returned high grade gold values on surface identified during 2018 exploration activity. Eighteen diamond drill holes totalling 2,511 metres at ten different targets were ultimately completed; eight of these targets had never been previously drill tested. Highlights of the Q1 2019 drill program are presented in the Company's news releases and its website and include the following:

- Machichie: 3.4m @ 36.9 g/t gold from 32.2m including 0.7m @ 162.7 g/t gold from drill hole CC182-19 (see press release dated February 28, 2019)
- Machichie: 3.1m @ 7.3 g/t gold including 0.6m @ 24.7 g/t gold from drill hole CC177-19 (see press release dated February 28, 2019)
- Machichie: 2.1m @ 15.3 g/t gold from drill hole CC178-19 (see press release dated February 28, 2019)
- Machichie East: 15.9m @ 1.73 g/t gold including 0.5m @ 21.3 g/t gold and 1.0m @ 10.3 g/t gold from drill hole CC183-19 (see press release dated March 26, 2019)
- Morro da Lua: 2.8m @ 19.5 g/t gold including 0.7m @ 70.3 g/t gold and 0.5m @ 9.1g/t gold and 0.6m @ 14.8g/t gold from 130.9m from drill hole CC194-19 (see press release dated May 16, 2019)
- Seis Irmaos: 0.7m @ 12.7 g/t gold from drill hole CC187-19 (see press release dated April 29, 2019)
- Jerimum Cima: 24.0m @ 0.7 g/t gold including 0.7m @ 8.9 g/t gold drill hole CC189-19 (see press release dated May 16, 2019).

Mineralization at the various targets remains open with further opportunities to test for extension along strike and down-plunge.

Q4 2019 drill program

A second diamond drill program commenced in late September 2019 and continued through November 2019. The objective of the second diamond drill program, unlike the initial drill program described above, was to further define the high-grade zones that are evident on the project. Specifically, the program was designed to re-evaluate historic high-grade results at MG and Central that were drilled by the previous owner of the project. These previous drill programs were designed to identify bulk tonnage ore deposits amenable to large-scale open-pit exploitation. As a result, very little of the historic drilling on the project was directed towards following up the many higher-grade intervals encountered in those programs.

A review of historic Cuiú Cuiú drill data from 2006 through 2012 completed in Q2 2019 showed that nearly 60 intercepts returned over 10 g/t gold occur at MG and Central; the highest grade intercepts at each deposit were 0.5m @ 264.9 g/t gold and 0.5m @ 155.3 g/t gold, respectively. Most of these intercepts occurred where drilling was wide-spaced. Further reconnaissance holes were also drilled at the recently discovered Machichie zone at Cuiú Cuiú which remains open.

Highlights of the Q4 2019 drill program are presented in the Company's news releases and its website and include the following:

- MG deposit: 16.9m @ 9.6 g/t gold from 82.6m including 7.6m @ 18.5 g/t gold from 91.9m (see press release dated November 7, 2019)
- MG deposit: 14.2m @ 6.7 g/t gold from 109.4m depth including 5.6m @ 13.0 g/t gold from 109.4m and 0.9m @ 22.4 g/t gold from 121.3m depth in drill hole 202-19 confirming the along strike and down dip continuity of high-grade mineralization (see press release dated January 20, 2020)
- MG second zone of high-grade gold mineralization: 7.8m @ 4.7 g/t gold including 0.6m @ 48.5 g/t gold in drill hole 201-19 (see press release dated January 20, 2020)
- Central deposit: 17.3m @ 2.1 g/t gold including 6.0m @ 4.9 g/t gold from 130.5m in hole 204-19 and 39.6m @ 1.3 g/t gold from 126.6m including 3.6m @ 6.0 g/t gold and 2m @ 5.0 g/t gold in hole 205-19 and 38.5m @ 1.5 g/t gold including 1.5m @ 6.0 g/t and 1.6m @ 8.6 g/t gold in hole 206-19 (see press release dated 5th February 5, 2020).

Other exploration activity

In addition to the diamond drill programs, the Company undertook a number of other exploration initiatives during 2019 and 2020 to date including the following:

- The Company purchased a mechanized auger drilling rig in late Q3 2019 to complete deeper holes up to 30m depth in areas of post-mineral cover at the Cilmar target and elsewhere at Cuiú Cuiú. The rig arrived on site in Q4 2019 and should significantly increase the speed and reduce the cost of the auger drilling program
- A soil sampling program in the north-eastern part of the Cuiú Cuiú project was initiated in Q3 2019 aimed at identifying the source of abundant placer gold and in particular, a coarse gold nugget population produced from streams. This area, referred to as the Cilmar target, is approximately 4,700 hectares and is located ten kilometres east of the Central target and seven kilometres northeast of the MG target. The area has not been previously explored. Approximately 1,800 soil samples have been collected to date from two areas at Cilmar
- At the Alonso target, a soil sampling program was initiated in Q1 2020 aimed at defining geochemical anomalies following the recognition of high-grade rock chips on the margin of alluvial workings. Approximately 300 samples have been collected to date. Both the Alonso and Cilmar areas are associated with a post-mineralization cover sequence extending over part of the area, and subtle anomalies are considered significant
- A trench at the Alonso target identified a vein interval which returned 1.3m @ 7.1 g/t. A composite grab from the same vein 8m to the east returned a grade of 15.8 g/t gold, where the trench was first

attempted but then abandoned. The northern limit of the trench terminated within a low-grade halo (4m @ 158 ppb gold). The extent of trenching is limited by wet season conditions, and further work is required to determine the cross-strike footprint of mineralization

- Further reconnaissance work identified a site with mineralized boulders located 950m to the west-south-west of Alonso, returning values of 1.0 to 7.7 g/t gold. The rock chip results coupled with the magnetic imagery suggests that a network of east to north-easterly trending prospective structures are present over this poorly exposed area
- Following the success in identifying the new Alonso high-grade target, continued reconnaissance mapping and sampling in the eastern part of the concession area identified additional mineralized blocks in an area 4km east of Alonso. Two areas of quartz-sulphide blocks on surface returned values of 1.1 to 82.1g/t gold (13 samples averaging 26.0g/t gold) and 5.2 to 50.1 g/t gold (6 samples averaging 21.8g/t gold). The two areas are located 330m apart and blocks are all angular in nature suggesting that they are very close to source. The new target has been named Medusa after the complex structural setting suggested by the airborne magnetic data.

Medusa is located within a flexure in the main Tocantinzinho structure where the principal orientation of the structure appears to bend east-west. This structural corridor hosts Eldorado Gold Corporation's Tocantinzinho gold resource 20 kilometres to the south-east, along with the Santa Patricia porphyry copper-molybdenum deposit located 13 kilometres to the south-east. Medusa is the first target at Cuiú Cuiú identified by Cabral which sits within the main Tocantinzinho fault zone. The Medusa target and the structural extensions of the fault zone will be a focus for ongoing exploration.

***RC drill rig***

In February 2020, Cabral announced that it had acquired a track mounted ASV Scout ST-50 reverse circulation drill rig that is capable of drilling holes to a maximum of 200m depth. This will allow the Company to rapidly and cost effectively test its growing portfolio of high-grade targets.

The rig is second hand but barely used and was acquired for a total of US$ 125,000 which includes some maintenance costs. The purchase and importation of a new rig into Brazil would have cost approximately US$ 1.1 million. Management estimates RC drill costs could be as low as 10% of the cost of diamond drilling, or approximately $25 per metre including geochemical analysis.

As at May 26, 20202, the rig was undergoing maintenance in Itaituba but should be available during Q2 2020 and will be used to test Alonso, Medusa and other regional targets, as well as further drilling of the high-grade zones identified to date at both the MG and Central deposits, along with shallow targets accessible to open pitting.

***Permitting process***

Following completion of six years of exploration on various parts of the Cuiú Cuiú property, Magellan Brazil submitted the requisite Final Exploration Report to the Brazilian Department of Mines ("ANM") in October 2013. This report was in respect of the Central, Jerimum Baixo and Moreira Gomes tenements (claims 850.615/2004 and 850.047/2005). The report was approved by the ANM and published in November 2015.

Following the approval of this report, Magellan Brazil initiated the process of acquiring a mining license in 2016 which will has involved the preparation of various studies and their submission to, and ultimate acceptance by applicable authorities in Brazil. Activities undertaken in 2019 and 2020 to date relating to the acquisition of a mining license for the Cuiú Cuiú property have included the following:

- Q3 2019: Geosan Geotecnologia was contracted to provide a detailed drone airborne photo-topographic survey of the proposed mine layout and a geodesic survey of historic drill holes at Central,

MG and Jerimum de Baixo as part of the mining license process. The survey also provided greater confidence in the location of drill holes testing high grade intersections at both MG and Central as well as a validation of the Company's drill hole location database
- Q1 2020: Archaeological studies were completed and the final report was received. No archaeological sites of significance were encountered that would restrict the implementation of a mining plan
- Q1 2020: The malaria studies were completed and the related technical report was compiled and received.

Submission of the final environmental study ("EIA-RIMA") is now planned for the fourth quarter of 2020. A deferral in the submission date relative to previously announced dates was attributable to resources being redirected to exploration initiatives including the Q4 2019 diamond drill program.

Upon analysis and final approval of the PAE and publication in the official Diary of the Union, submission of the EIA-RIMA study will be required within six months. An application for extensions to the six-month limit can be made if required under special circumstances.

Direct permitting costs (relating primarily to third party studies) incurred in the year ended December 31, 2019 amounted to $82,959 ($457,606 in the year ended December 31, 2018).

***Corporate social responsibility***

Corporate social responsibility activities within the surrounding community of Cuiú Cuiú continued in 2019 including the following:
- Completion of a new freshwater borehole creating a new source of clean drinking water
- Contributions to the community's school
- Sharing of the Company's medical centre facilities and related staff with the community
- Involvement in the construction of a new health clinic with all members of the community participating. The Company will help local government supply all necessary equipment and supplies to maintain the clinic
- Provision of space for the local police post and logistical support to the police. The Company is in discussions with the local community and local government to cooperate in the construction of a permanent police post at Cuiú Cuiú.

The support of the local community is extremely important in the permitting process.

***Camp and other construction***

The Company continued the construction of the camp at Cuiú Cuiú in 2019 and 2020 to date. including the following:
- Construction of a new core shed with laboratory, sample storage and core cutting facility (completed in Q1 2020)
- Ongoing construction of living quarters for 26 employees including kitchen, office space and bathroom and laundry facilities
- Water bores were drilled for the new camp site and a second water bore was drilled and donated to the Cuiu Cuiu community with sponsorship by Energold Perfuracoes Ltda and Pronorte Prospectoria Ltda as well as the Company
- Construction of water monitoring stations and wells in connection with the environmental study.

As was the case with permitting, the completion of camp construction was deferred in 2019 and 2020 to date to enable resources to be directed to the exploration programs. Specifically, completion of staff housing construction was put on hold and as a result, employee accommodation at Cuiú Cuiú continued to be rented from third parties.

### *Company response to Covid-19*

In order to protect both staff and the local Cuiú Cuiú community from potential infection arising from Covid-19, the Company suspended all field work at the Cuiú Cuiú project in Brazil for at least 14 days pursuant to local health authority recommendations in early April 2020. Due to Covid-19 outbreaks in Itaituba (where the Company's Brazil head office is located) and various towns and villages in the region, the work suspensions were still in place as at May 26, 2020. To date, there have been no cases of Covid-19 in Cuiú Cuiú.

The Company is continuing to provide local support during the current crisis through the provision of medical support and supplies to the community of Cuiú Cuiú and the maintenance of a medical outpost in the community to continue serving our staff, local partners and the broader community.

In response to the crisis, the Brazilian government has introduced various initiatives to reduce and defer payroll costs of employers such as Magellan Brazil. While such programs have provided significant financial relief to the Company through the reduction of its ongoing payroll costs, the Company has continued to incur payroll and other costs in Brazil while staff there have largely been idle and unable to undertake any form of exploration activity in the field. In addition, it is uncertain how long the government programs will continue.

Cabral temporarily closed both of its offices in Vancouver and Itaituba and all staff are currently working from home.

It is hoped that field work will recommence in June but such timing is currently uncertain. Brazil is suffering from the much-publicised continued growth in the spread of Covid-19 throughout the country. The decision to restart operations will be subject to applicable legislation and the Company's own assessment of the situation in Cuiú Cuiú and surrounding area.

### *Outlook*

The commencement of exploration activity at Cuiú Cuiú will be dependent on improvements in the Covid-19 situation as well as the Company's ability to raise funds through the recently announced equity private placement. Subject to both issues, the Company's near term exploration plans are as described below.

Follow-up programs of rock chip and channel sampling is expected to continue at Machichie, as well as several other targets on the property in an effort to determine the strike extent of this discovery and other high-grade zones. New auger and soil sample grids are being established in previously untested areas in the Cilmar area in the northeast portion of the property.

Other exploration initiatives planned for 2020 include the following:

- Expansion of the drill program focussed on better defining high-grade trends within the established Central and MG resources following the success of the initial 2019 campaigns
- Placing the newly acquired RC drill rig into operation, testing the Alonso and Medusa targets before moving on to the regional targets outside of the current resource envelopes
- Ongoing soil sampling and auger drilling. This is expected to be focussed initially in the Medusa area and then extended along the Tocantinzinho structural corridor, a prominent regional structure hosting the Tocantinzinho gold resource and Santa Patricia porphyry Cu-Mo system of Eldorado Gold Corporation which is located along strike to the southeast
- Ongoing geological reconnaissance of the broader property following the positive results at the Alonso and Medusa targets which show that new high-grade gold occurrences remain to be located by geological mapping and prospecting.

- Continuation of third party studies relating to the permitting process. Applicable studies are on target to be submitted to the Brazilian Environmental authorities in late 2020. Estimated direct environmental permitting costs still to be incurred totalled approximately $320,000 as at December 31, 2019 (see 'Contractual commitments')
- Completion of the camp living quarters at Cuiú Cuiú as referred to above.

## Poconé properties

The Company was 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 were to be identified, explored and developed. The first agreement was entered into between Magellan and ECI Exploration & Mining Inc. ("ECI") on October 17, 2011 effective December 2009 pursuant to which ECI and Magellan 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, ECI and Brasil Central Engenharia Ltda. ("Brasil Central") pursuant to which Magellan, ECI, and Brasil Central would seek to identify, explore and develop mineral properties through a newly incorporated entity, PGM. Magellan Brazil held a 35% interest in PGM through September 26, 2018.

Magellan's rights and responsibilities associated with both the ECI Venture and PGM were transferred to CGL pursuant to an agreement dated April 15, 2016 between CGL, Magellan and ECI.

While the Poconé properties have never had a carrying value in the books of the Company, Magellan Brazil's share of various liabilities relating to the ECI Venture and PGM were recognised.

Virtually no exploration activity was undertaken on any of the Poconé properties since 2012, however, claim maintenance charges continued to be incurred and certain of these charges were restructured. In addition, the Company historically incurred various other charges and realised proceeds on the liquidation of certain assets relating to both the ECI Venture and PGM.

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 May 26, 2020, no claim had been filed against the Company, however, the Company is responsible for 50% of costs of ECI pursuant to the ECI Venture agreement. 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.

On September 26, 2018, an agreement was entered into pursuant to which the shares of PGM held by both Magellan Brazil and the Brazilian subsidiary of ECI were transferred to Brasil Central in exchange for Brasil Central taking over the debts of PGM and making nominal cash payments. Gains of $4,820 and $49,963 were recognised by the Company in 2019, and 2018, respectively, in connection with the transaction which included termination of Magellan Brazil's share of restructured claim maintenance liabilities of PGM that had been previously recognised in Magellan Brazil's books of account.

In addition, the proceeds from both this transaction and the disposal of certain fixed assets and other mineral claims held by the ECI Venture were applied to paying off restructured claim maintenance liabilities of the ECI Venture that had also been previously recognised in Magellan Brazil's books of account.

The disposal of PGM does not reduce the Company's exposure relating to the aforementioned legal claim against ECI and PGM. Furthermore, as part of the sale of PGM, Magellan Brazil and the Brazilian subsidiary of ECI provided an indemnification to PGM relating to any losses resulting from the legal claim.

## Proposed transactions

As at December 31, 2019 and May 26, 2020, there were no proposed asset or business acquisitions or dispositions being contemplated other than the sale of two secondary properties.

## Selected annual information

A summary of annual results in respect of the years ended December 31, 2018 and December 31, 2019 is as follows. This summary information has been derived from the audited consolidated financial statements of the Company.

***Statement of loss***

| | Year ended 31-Dec-19 | Year ended 31-Dec-18 |
|---|---|---|
| **Consolidated statement of loss:** | | |
| Revenue | - | - |
| Exploration and development | 2,837,886 | 2,457,946 |
| Administration: | | |
| Office and administration | 432,014 | 312,176 |
| Stock-based compensation | 425,941 | 52,380 |
| Management | 372,595 | 339,032 |
| Depreciation | 108,613 | 66,465 |
| Travel | 71,210 | 93,676 |
| Professional fees | 57,394 | 274,038 |
| Listing expense | 17,139 | 21,238 |
| Adjustment to provisions | - | (37,529) |
| Foreign exchange loss | 11,149 | 4,486 |
| Interest income | (18,316) | (22,041) |
| Gain on disposal of PGM | (4,820) | (49,963) |
| Gain on tax restructuring | - | (308,244) |
| Other income | (12,691) | - |
| ***Net loss*** | ***4,298,114*** | ***3,203,660*** |
| *Weighted average shares outstanding* | *48,793,093* | *32,085,980* |
| Net loss per share | $ 0.09 | $ 0.10 |

- Exploration and development: An aggressive exploration program commenced in early 2018 which included a resource update and the commencement of environmental study. Extensive exploration activity continued in 2019 with the completion of two diamond drill programs (see 'Cuiú Cuiú – Work programs').
- Office and administration relates to the costs of operating the Company's Vancouver office. The increase in 2019 relates to various marketing initiatives including attendance at conferences and various road shows
- Stock-based compensation in 2019 relates to the issuance of a total of 1,694,672 and 2,575,000 stock options having an exercise price of $0.25 and $0.15, respectively, and vesting over two years (2018: 450,000 stock options vesting over two years)
- Management costs relate to compensation of the Company's officers (Executive Chairman, President and CEO and CFO). The Executive Chairman was retained in Q2 2018

- Professional fees relate to audit fees, legal fees and advisory fees relating to the provision of marketing services. The decrease in 2019 relates to the expiration in 2018 of various marketing agreements entered into following the Company's RTO in Q4 2017.

***Statement of financial position***

| | 31-Dec-19 | 31-Dec-18 |
|---|---|---|
| **Consolidated statement of financial position:** | | |
| Cash and cash equivalents | 705,725 | 1,684,630 |
| Other current assets | 190,242 | 109,191 |
| Fixed assets | 973,539 | 968,382 |
| Mineral properties | 1,538,620 | 1,373,387 |
| ***Total assets*** | ***3,408,126*** | ***4,135,590*** |
| Accounts payable and accrued liabilities | 262,343 | 197,186 |
| Other liabilities and provisions | - | 4,053 |
| ***Total liabilities*** | ***262,343*** | ***201,239*** |
| Equity: | | |
| Share capital | 11,866,177 | 8,690,737 |
| Reserves | 2,030,044 | 1,543,930 |
| Other comprehensive income | (338,571) | (186,563) |
| Accumulated deficit | (10,411,867) | (6,113,753) |
| ***Total equity*** | ***3,145,783*** | ***3,934,351*** |

- Fixed assets relate primarily to a 30 hectare plot of land in Cuiú Cuiú that was purchased by Magellan Brazil in 2017. Increases in 2019 relate primarily to camp construction and miscellaneous other capital purchases relating to the establishment of the exploration camp at Cuiú Cuiú
- The balance of mineral properties relates to capitalised acquisition and claim maintenance costs. With the exception of $117,924, the balance related entirely to Cuiú Cuiú as at December 31, 2019
- The balance of accounts payable and accrued liabilities increased as at December 31, 2019 relative to December 31, 2018 due to several factors:
  - The recent completion of the Q4 2019 diamond drill program that resulted in various direct and indirect liabilities remaining outstanding as at year end
  - A significantly higher payroll in 2019 due to an increased headcount and more importantly, the retention of two senior geologists in 2019
  - The settlement in late 2019 of a disputed claim from an individual who had been previously renting accommodation and heavy equipment to the Company at Cuiú Cuiú
- The increase in share capital in 2019 relates to the $3,419,525 private placement that closed in July 2019.

## Summary of quarterly results

A summary of quarterly results in respect of the two years ended December 31, 2019 is as follows:

| | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 |
|---|---|---|---|---|
| Revenues | - | - | - | - |
| Exploration and development | 918,719 | 511,988 | 614,432 | 792,747 |
| Professional fees | 13,516 | 26,997 | 11,402 | 5,479 |
| Non-cash items (a) | 157,471 | 98,974 | 143,287 | 130,002 |
| Administration (b) | 186,856 | 220,647 | 229,409 | 256,046 |
| Net loss | 1,278,931 | 858,924 | 993,739 | 1,166,520 |
| Net loss per share (c) | 0.03 | 0.02 | 0.02 | 0.02 |
| Total comprehensive loss | 1,325,965 | 873,806 | 1,116,473 | 1,133,878 |
| | | | | |
| Cash and cash equivalents | 554,655 | 138,230 | 1,973,465 | 705,725 |
| Net working capital (deficit) | 319,395 | (106,598) | 1,770,362 | 633,624 |
| Total assets | 3,130,026 | 2,771,489 | 4,555,259 | 3,408,126 |

| | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
|---|---|---|---|---|
| Revenues | - | - | - | - |
| Exploration and development | 470,578 | 655,115 | 727,053 | 605,200 |
| Professional fees | 128,352 | 59,266 | 63,192 | 23,228 |
| Non-cash items (a) | (272,074) | 45,793 | (47,064) | 33,983 |
| Administration (b) | 192,455 | 183,282 | 147,517 | 242,868 |
| Net loss | 509,817 | 960,259 | 871,359 | 862,225 |
| Net loss per share (c) | 0.02 | 0.03 | 0.03 | 0.03 |
| Total comprehensive loss | 482,832 | 1,156,727 | 935,597 | 724,723 |
| | | | | |
| Cash and cash equivalents | 2,924,755 | 1,785,582 | 880,893 | 1,684,630 |
| Net working capital (deficit) | 2,742,270 | 1,605,189 | 714,003 | 1,592,582 |
| Total assets | 5,316,448 | 4,177,511 | 3,235,462 | 4,135,590 |

(a) Non-cash items (net) comprise stock-based compensation, depreciation expense and gains on both tax restructuring and the disposal of PGM

(b) Administration comprises all operating expenses other than exploration and development expenditures, professional fees and non-cash items. It includes costs of management, travel, listing fees and general and administrative items

(c) Net loss per share is presented on a basic and diluted basis

# Liquidity and going concern

As at December 31, 2019, the Company had a cash balance of $705,725, and a net working capital balance of $633,624.

This cash balance had been depleted prior to May 26, 2020. Through this date, management has been funding operations through unpaid management remuneration, paying expenses on behalf of the Company and advancing funds to the Company. Where possible, the payment of significant expenses has been deferred.

***Going concern***

The nature of the Company’s operations results in significant expenditures for the acquisition and exploration of mineral properties. 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 ability to continue as a going concern is dependent upon its ability to obtain additional funding from loans or equity financings provided by the Company's existing shareholders and/or new shareholders or through other arrangements. There is no assurance that the Company will be successful in this regard.

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.

These financial statements 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.

In the event the Company is unable to arrange appropriate financing, the carrying value of its assets and liabilities could be subject to material adjustment and the Company may not be able to meet its obligations as they become due in the normal course of business. Furthermore, these conditions indicate the existence of a material uncertainty that raises substantial doubt as to the Company's ability to continue as a going concern.

***May 2020 private placement***

In May 2020, the Company announced a non-brokered private placement of up to 16,000,000 common shares at a price of $0.125 per share for gross proceeds of up to $2,000,000.

***July 2019 private placement***

On July 25, 2019, the Company closed a private placement financing pursuant to which a total of 22,796,832 units ("Units") were issued at a price of $0.15 per Unit, for gross proceeds of $3,419,525. Each Unit is comprised of one common share of the Company and one common share purchase warrant. Each common share purchase warrant ("Warrant") entitles the holder to acquire one common share at a purchase price of $0.20 for a period of 12 months following closing of the private placement.

Officers and directors of Cabral and their spouses subscribed for a total of 1,966,667 Units for gross proceeds of $345,000 representing 10.1% of the total raised.

Total finder's fees paid to third parties in connection with the financing amounted to $145,581, equivalent to 7% of the applicable proceeds raised. In addition, 970,358 share purchase warrants were issued to finders, equivalent to 7% of the number of applicable Units. Each such warrant entitles the holder to purchase one common share of the Company at a purchase price of $0.20 for a period of 12 months following closing of the private placement.

***Operating activities***

Cash used in operating activities in 2019 amounted to $3,794,968 as follows:

- The net loss for the period of $4,298,114
- Significant non-cash items totalling $541,206 including depreciation and stock-based compensation
- Net increase in non-cash working capital items of $38,060.

***Investing activities***

Cash used in investing activities in 2019 amounted to $415,222 as follows:

- Additions to mineral properties of $222,046 relating to capitalised mineral claim maintenance costs
- Additions to fixed assets of $193,176 relating to the ongoing camp construction and related equipment purchases (generators, etc.) at Cuiú Cuiú, and the purchase of miscellaneous exploration equipment including an auger drill

***Financing activities***

Net cash provided by financing activities in 2019 amounted to $3,235,613 and related to the July 2019 non-brokered private placement issuance of 22,796,832 Units.

***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 in place as at December 31, 2019 or May 26, 2020 beyond its stated liabilities and the following:

- Magellan Brazil entered into an agreement in January 2018 with Terra Ambiente Ltda–ME relating to the provision of the EIA-RIMA environmental study; the agreement was subsequently amended. As at December 31, 2019, approximately R$ 715,000 ($230,000) of the contract (as amended) was outstanding
- Magellan Brazil entered into an agreement in April 2018 with Senior Geologia e Mineracao Ltda relating to two tailings dam studies; the agreement was subsequently amended. As at December 31, 2019, approximately R$ 157,000 ($50,000) of the contract (as amended) was outstanding
- Magellan Brazil entered into an agreement in April 2018 with Hidrovia Hidrogeologia e Meio Ambiente Ltda relating to the hydrogeological study; the agreement was subsequently amended. As at December 31, 2019, approximately R$ 100,000 ($33,000) of the contract (as amended) was outstanding
- The surface access agreement with the Cuiú Cuiú garimpieros pursuant to which approximately R$ 250,000 (approximately $80,000) is to be paid to the garimpieros in Q2 2020 in connection with the surface access fee in respect of the year ended March 2021
- The Company is committed to sharing in net costs and commitments associated with its Poconé venture including its share of any losses relating to current litigation against PGM and a venture partner.

## Capital resources

The Company had no capital expenditure commitments as at either December 31, 2019 or May 26, 2020 other than nominal agreements associated with the construction of the Cuiú Cuiú camp.

## Transactions with related parties

The Company incurred the following costs of management remuneration:

| | Year ended Dec. 31, 2019 | | Year ended Dec. 31, 2018 |
|---|---|---|---|
| Management: | | | |
| Employment and consulting remuneration | $ | 340,000 | $ | 292,500 |
| Payroll related costs | | 23,281 | | 18,532 |
| Stock-based compensation | | 228,364 | | 52,380 |
| Consulting fees (1) | | - | | 28,000 |
| | | 591,645 | | 391,412 |
| Directors (excluding management): | | | | |
| Stock-based compensation, stock options | | 85,151 | | - |
| Stock-based compensation, RSUs | | 6,889 | | - |
| | | 92,040 | | - |
| | **$** | **683,685** | **$** | **391,412** |

(1) Consulting fees relate to $28,000 paid to a company controlled by an individual who joined the Company's Board of Directors as Executive Chairman in May 2018 in respect of advisory services provided during the period February through April 2018, inclusive

Management comprises the Company's Executive Chairman, President and Chief Executive Officer and Chief Financial Officer.

As at December 31, 2019, the Company owed a total of $2,609 to management in connection with unreimbursed expenditures incurred on behalf of the Company. This liability was settled in full in Q1 2020.

Officers and directors of Cabral and their spouses subscribed for a total of 1,966,667 Units issued in connection with the July 2019 non-brokered private placement (10.1% of the total private placement; see 'Liquidity and going concern').

## 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, unit and share purchase warrants and stock options outstanding as at December 31, 2019 and May 26, 2020:

| | May 26, 2020 | Dec. 31, 2019 |
|---|---|---|
| Issued and outstanding common shares | 61,659,250 | 61,659,250 |
| Fully diluted | 92,130,199 | 92,130,199 |
| Share purchase warrants: | | |
| July 25, 2020 ($0.20) | 22,796,832 | 22,796,832 |
| July 25, 2020 ($0.20) | 970,358 | 970,358 |
| November 28, 2020 ($0.25) | 366,000 | 366,000 |
| May 26, 2021 ($0.25) | 600,000 | 600,000 |
| | 24,733,190 | 24,733,190 |
| RSUs | 266,666 | 266,666 |
| Stock options | 5,471,093 | 5,471,093 |

The Company received approval from disinterested shareholders at its annual general meeting held on June 20, 2019 to establish a Restricted Share Unit Plan (the "RSU Plan"). The RSU Plan provides for the issuance of up to 3,886,000 common shares of the Company, subject to an aggregate maximum of 10% of the issued and outstanding common shares of the Company when combined with common shares issuable under the Company's Stock Option Plan. Directors, officers, eligible employees and eligible consultants of the Company are eligible to participate in the RSU Plan.

On September 6, 2019, the Company granted a total of 266,666 RSUs to two non-executive directors of the Company. Fifty percent of the RSUs will vest on March 6, 2021 and the remaining 50% will vest on September 6, 2022. The fair value of the RSUs granted was determined based on the Company's share price on the date of grant being $0.155.

## Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2019, and have not been applied in preparing these consolidated financial statements.

The Company has determined that these new accounting standards and amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or will not 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, accounts receivable, prepaid expenses, 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.

The value of the R$ has been extremely volatile during 2020 to date relative to the $. The R$ depreciated 8% relative to the $ during 2019 but depreciated by 22% in 2020 through May 22; the value of the R$ as at this date was close to the low for the year to date. The Company has benefited from this volatility as the relative depreciation of the R$ serves to reduce R$ denominated expenditures and liabilities when measured in $. A reversal in the deterioration in the value of the R$ relative to the $ would have a corresponding adverse impact on the Company.

***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, 2019, the Company had a cash balance of $705,725, and a net working capital balance of $633,624.

***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, 2019.

***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 did not have any interest bearing debt as at December 31, 2019 or May 26, 2020.

## 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 May 26, 2020.

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 and going concern')

- 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.