

*This Management's Discussion and Analysis ("MD&A") for Rusoro Mining Ltd. ("the Company" or "Rusoro") should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements ("interim financial statements") for the three months ended March 31, 2020 and supporting notes as well as the audited consolidated financial statements of the Company and supporting notes and the related annual MD&A for the fiscal year ended December 31, 2019.*

*The financial information presented in this MD&A is reported in US dollars, unless otherwise indicated, and is partly derived from the Company's interim financial statements prepared consistent with International Financial Reporting Standards ("IFRS"). The effective date of this MD&A is May 27, 2020. This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein.*

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## **Contents of the MD&A**

1. OVERVIEW OF THE COMPANY .....	2
2. CONSOLIDATED RESULTS OF OPERATIONS .....	4
3. VENEZUELAN CURRENCY EXCHANGE .....	4
4. SELECTED QUARTERLY INFORMATION .....	5
5. FINANCIAL POSITION .....	5
6. LIQUIDITY AND CAPITAL RESOURCES .....	5
7. OUTLOOK .....	6
8. CONTINGENCIES .....	6
9. OFF-BALANCE SHEET ARRANGEMENTS .....	8
10. RELATED PARTY TRANSACTIONS .....	8
11. DISCLOSURE OF OUTSTANDING SHARE DATA .....	8
12. SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS .....	9
13. FINANCIAL INSTRUMENTS .....	10
14. OTHER RISKS AND UNCERTAINTIES .....	11
15. FORWARD LOOKING STATEMENTS .....	13

## **1. OVERVIEW OF THE COMPANY**

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The principal business activities of the Company are the acquisition, exploration, development and operation of gold mineral properties.

Until March 14, 2012, the Company held a 95% controlling interest in the Choco 10 mine ("the Choco Mine") and a 50% interest in the Isidora mine ("the Isidora Mine"), which the Company operated as part of a joint operation ("the Joint Operation") with the Venezuelan government. The Company also held interests in various exploration and development projects in Venezuela.

On September 16, 2011, the Venezuelan government, through publication in the Official Gazette of Venezuela, enacted a law-decree ("the Decree") reserving to the government of Venezuela exclusive rights for the extraction of gold in Venezuela ("the Nationalization"). The Decree mandated the expiration of all mining concession held by the Company and their reversal to the Venezuelan government together with all related assets and operations. The Decree permitted the Company to reach an agreement with the Venezuelan government to continue operating jointly, in the form of a mixed-interest enterprise ("the Mixed Enterprise"), the mining concessions and mining assets affected by the Nationalization and in which the Company could not own more than a 45% share participation.

The Company was unable to reach an agreement with the Venezuelan government upon the terms and conditions of the migration of its mining assets to the Mixed Enterprise within the designated time periods. Therefore, on March 14, 2012, in accordance with the procedures outlined in the Decree, all of the Company's mining concessions expired by force of the Decree and all related assets and operations reverted to the Venezuelan government who took possession and control in accordance with Venezuelan law becoming the new operator and employer.

Starting March 15, 2012, the Company was relieved of all responsibilities associated to the mining concessions, assets and operations that were subject to expropriation, including without limitation, any contractual, mining, environmental, labor or criminal liability, and for the payment of any tax, fee or contribution of any kind, including any mining or surface tax related to such mining concessions and operations.

In accordance with Venezuelan Labor Law and the Decree, beginning March 15, 2012, the Venezuelan government became the sole and exclusive employer for the workers and employees who provide services for the operations of the mining concessions. The Company is not responsible for the actions or omissions of those workers and employees, by the damages that they may cause or suffer in the exercise of their functions or for the payment of their salaries, bonuses, benefits or any other compensation or benefit generated from the above-mentioned date, as all the workers and employees, starting March 15, 2012, provide their services and run their work daily activities under the exclusive direction, supervision and responsibility of the Venezuelan government.

In June 2012, the Company entered into a Creditors and Shareholders Agreement (the "CSA") with significant equity holders and creditors who agreed not to take any steps or actions to exercise their rights and remedies against the Company until the expiration of a standstill period, subject to various clauses.

Also in June 2012, the Company entered into a litigation funding agreement (the "Litigation Funding Agreement") with a subsidiary (the "Funder"), of the Calunius Litigation Risk Fund LP (the "Fund"). Calunius Capital LLP is the exclusive investment advisor to the Fund, which specializes in funding commercial litigation and arbitration claims. Under the terms of the Litigation Funding Agreement, the Funder agreed to assist in the funding of Rusoro's legal costs in relation to the international arbitration proceedings against the Republic of Venezuela (the "Respondent" or "Venezuela") on a non-recourse basis. Rusoro continued to have complete control over the conduct of the international arbitration proceedings, insofar as the proceedings related to the Company's claims, and continued to have the right to settle with the Respondent, discontinue proceedings, pursue the proceedings to trial and take any action Rusoro considers appropriate to enforce judgment.

In July 2012, the Company filed a Request for Arbitration under the Additional Facility Rules of the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") against Venezuela pursuant to

the Agreement between the Government of Canada and the Government of the Republic of Venezuela for the Promotion and Protection of Investments (the "Treaty").

In March 2013, the Company filed a Statement of Claim in its arbitration against Venezuela, in accordance with the provisions of the Canada-Venezuela Bilateral Investment Treaty. Based on a March 2013, valuation performed by an independent expert, the Company was seeking fair-value compensation of \$3.03 billion for all its losses caused by the Nationalization.

On August 22, 2016, the Arbitral Tribunal ("Tribunal") operating under the ICSID Additional Facility Rules, awarded ("the Award") the Company compensation of \$967.77 million plus pre and post award interest, which was partially annulled in January 2019 (see further details below). No value has been accrued for the Award as at March 31, 2020, as the ultimate receipt, final settlement amount and the timing of the receipt of the Award is uncertain.

In its Award, the Tribunal upheld the Company's claims that Venezuela breached its obligations under the Treaty by unlawfully expropriating the Company's investments without paying compensation and by imposing certain restrictions on the export of gold. As a result of these breaches, the Tribunal ordered Venezuela to pay compensation of \$967.77 million as of the date of the expropriation (September 16, 2011), together with interest accrued between that date and the date of actual payment, calculated at a rate p.a. equal to US\$ Libor for one year deposits, plus a margin of 4%, to be compounded annually. The amounts awarded must be paid net of any taxes imposed by Venezuela. The Tribunal also ordered Venezuela to contribute \$3.3 million towards Rusoro's costs in the arbitration.

In October 2016, Rusoro received notice that the Bolivarian Republic of Venezuela ("Venezuela") had brought an application before the Paris Court of Appeals to set aside ("recours en annulation") the Award, which was filed by Venezuela in 2017. Rusoro had instructed Freshfields Bruckhaus Deringer and Teynier Pic to represent it in these proceedings, with the support of a special correspondent.

In December 2017, the Company amended its Litigation Funding Agreement and was provided with additional litigation funding of up to \$7 million, which is intended to continue the Company's efforts to enforce the Award.

In October 2018, the Company executed a settlement agreement ("Settlement Agreement") with the Venezuelan government whereby the parties agreed that the Company would receive over \$1.28 billion in monthly instalments through 2024 in exchange for the Company's mining data and full release of the Award. Under the Settlement Agreement, the Venezuelan government agreed to pay an initial payment of \$100 million in November 2018, and upon completion of this initial payment, the Company would suspend legal enforcement of the Award and deliver the Company's mining data to the Venezuelan government. The Company would be entitled to resume legal enforcement of the Award if payment due under the Settlement Agreement is not received by the Company within the periods provided, and the Company also is able to terminate the Settlement Agreement under certain default scenarios. The Venezuelan government retained the right to continue proceedings to set aside the Award at the seat of arbitration in Paris.

In January 2019, the Paris Court of Appeals partially annulled the Award (the "French Court Decision"). Whilst the Paris Court of Appeals upheld the tribunal's finding on the merits that Venezuela is liable for the unlawful expropriation of the Company's investments, it annulled the Award's finding on damages. The French Court Decision does not seek to determine the damages that Venezuela must pay to the Company for its breach of the Treaty. The Company is vigorously pursuing all available remedies to reinstate the Award's finding on damages in full, or otherwise obtain fair compensation. The French Court Decision does not impact Venezuela's obligation to pay the Company at least \$100 million as partial payment under the Settlement Agreement.

As at March 31, 2020 and the date of this report, the Company has not received the payment of \$100 million.

There are material uncertainties surrounding the Nationalization, the Award, and the Settlement Agreement, including, but not limited to the ultimate receipt of payments pursuant to the Settlement Agreement or the timing and/or form of any other compensation otherwise related to the Nationalization. Management is making efforts to work with vendors and potential creditors not covered by

the CSA to have them forbear on demanding currently due amounts while it pursues the above-mentioned courses of action. There is, however, no assurance that the sufficient sources of funding described above will be available to the Company, that they will be available on terms and a timely basis that are acceptable to the Company, or that the Company will be able to secure additional funding.

The registered office of the Company is 3200-650 West Georgia Street, Vancouver, British Columbia, Canada and the corporate headquarters is located at 3123-595 Burrard Street, Vancouver, British Columbia, Canada.

## **2. CONSOLIDATED RESULTS OF OPERATIONS**

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### ***Results for the three months ended March 31, 2020:***

Loss and comprehensive loss for the three months ended March 31, 2020, increased by \$1,180,119 from \$3,398,148 for the three months ended March 31, 2019, to \$4,578,267 for the three months ended March 31, 2020. The increase in loss was primarily due to:

- An increase of \$173,491 of interest on convertible loan. Interest on convertible loan was \$2,122,588 for the current period compared to \$1,949,097 for the prior comparative period, due to quarterly compounding of interest.
- Interest expense on the gold sale contract, which became effective in June 2012 amounted to \$606,005 for the three months ended March 31, 2020 compared to \$494,674 for the three months ended March 31, 2019. As of March 31, 2020, 15,825 ounces of finished gold were still outstanding under the contract and valued at fair market value using the spot price of gold on March 31, 2020 of \$1,584 per ounce. Included in this amount is the principal amount of 6,642 gold ounces plus cumulative accrued interest of 9,183 gold ounces for the period of January 1, 2012 through March 31, 2020.
- An increase of \$886,078 in loss on revaluation of the gold sale contract. The revaluation of the gold sale contract created a loss of \$1,037,718 for the current period compared to a loss of \$151,640 for the prior comparative period, due to the revaluation to its fair value using the current international spot price of gold on March 31, 2020 of \$1,584 per ounce from the spot price of gold on December 31, 2019 of \$1,517 per ounce.
- An increase of \$788,217 of decommissioning and restoration provision and currency devaluation. Decommissioning and restoration provision and currency devaluation was a \$788,217 expense for the current period compared to \$nil for the prior comparative period, due to the net impact of increased inflation and increased currency devaluation of the Venezuelan currency in the respective periods.

The increase in loss was partially offset by:

- A decrease of \$294,649 in general and administrative expenses, net of recoveries. Net general and administrative expenses were \$145,734 in the current period compared to \$440,383 in the prior comparative period. This was due to increased expenses in the prior period relative to the receipt of recoveries.
- An increase of \$484,349 of foreign exchange gain. There was a foreign exchange gain of \$121,995 in the current period compared to a loss of \$362,354 in the prior comparative period.

## **3. VENEZUELAN CURRENCY EXCHANGE**

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In August 2018, the Venezuelan government replaced the bolivar fuerte (“BsF”) with the bolivar soberano (“BsS”) at a rate of 1 BsS to 100,000 BsF. The Venezuelan government continues to use the DICOM free floating exchange rate mechanism as amended in May 2017, now with a rate referencing the BsS. The DICOM exchange rate at March 31, 2020 was 73,319.40 BsS to the US dollar, which is effectively equal to 7,331,940,000 BsF to 1 US dollar (December 31, 2019: 4,740,929,000 BsF to the US Dollar).

**4. SELECTED QUARTERLY INFORMATION**

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Revenue	-	-	-	-	-	-	-	-
Net loss attributable to equity shareholders of the Company \$(000)	(4,578)	(3,966)	(3,580)	(4,330)	(3,398)	(4,858)	(1,853)	(2,496)
Basic and diluted loss per share \$	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)

Q4 2018 was impacted by valuation increase of the price of gold which resulted in a loss of \$1,271,252 and increase in general and administrative expenses, net of recoveries. Q2 2019 was impacted by valuation increase of the price of gold which resulted in a loss on revaluation of \$1,403,719. Q1 2020 was impacted by an increase of \$788,217 of decommissioning and restoration provision and currency devaluation due to the net impact of increased inflation and increased currency devaluation of the Venezuelan currency in the period. Q1 2020 was also impacted by an increase in loss on revaluation of the gold sale contract of \$1,037,718, due to the revaluation to its fair value using the current international spot price of gold on March 31, 2020 of \$1,584 per ounce from the spot price of gold on December 31, 2019 of \$1,517 per ounce.

**5. FINANCIAL POSITION**

The Company's assets totalled \$40,476 as at March 31, 2020 (December 31, 2019: \$37,417).

The Company's working capital deficiency increased since December 31, 2019 to a working capital deficiency as at March 31, 2020, of \$123,177,287 (December 31, 2019: \$118,599,020).

The Company did not repay the convertible loan on the June 10, 2011 maturity date and, as at March 31, 2020, the remaining principal of \$29,750,000 continues to incur interest at 11% since June 10, 2011. During the year ended December 31, 2017, the Company had retired \$250,000 of principal. As at March 31, 2020, the Loan was still in default and outstanding and carried an amount owing of \$49,307,597 in accrued interest, however the new investors have become parties to the CSA. The loan is held in US dollars and is secured by share pledges over the Company's subsidiaries which prior to the Nationalization held the mining concessions for the Choco Mine and the San Rafael El Placer and Increible 6 mineral properties, but excluding the Isidora Mine. On June 14, 2012, the convertible loan lenders signed the CSA whereby they agreed not to take any steps or actions to exercise their rights and remedies against the Company until the expiration of a standstill period, subject to various clauses. In consideration for the CSA, the Lenders were provided a contingent success fee in addition to amounts due and payable under the Loan of 20% of the Loan. As at March 31, 2020, recovery of fair compensation was deemed to be indeterminable and \$nil has been accrued.

As at March 31, 2020 and 2019, all cash was held in Canadian bank accounts.

In March 2012, as a result of the Nationalization, the Company wrote-off the remaining balances of mineral properties and inventories. As a result of the significant asset write-downs done in 2012 and Q4 2011, as at March 31, 2020, the Company presents a shareholder's deficiency rather than equity on the face of its statement of financial position, as the Company's liabilities exceed the Company's assets.

**6. LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash position decreased by \$134 during the three months ended March 31, 2020 due to negative cash flows from operations.

Under the terms of the Litigation Funding Agreement, the Funder has agreed to assist in the funding of Rusoro's legal costs in relation to the international arbitration proceedings against the Republic of Venezuela (the "Respondent") on a non-recourse basis as well as funding a reasonable amount of

corporate costs. Pursuant to the Litigation Funding Agreement, the Company entered into the CSA with significant equity holders and creditors who agreed not to take any steps or actions to exercise their rights and remedies against the Company until the expiration of a standstill period, subject to various clauses.

Since inception to the date of this report, the Funder has approved approximately \$15.5 million in payments to the Company and its vendors as recoveries on litigation and corporate overhead costs. The Company has a further \$2 million that can be drawdown in accordance with the terms of the Litigation Funding Agreement as at the date of this report. Recoveries of \$237,592 was received during the three months ended March 31, 2020.

There are material uncertainties surrounding the Nationalization and the related Award and Settlement Agreement, including, but not limited to the timing and/or form of the recovery of compensation.

## **7. OUTLOOK**

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As a result of the Nationalization, the Company's sole recourse has been to file a Request for Arbitration under the ICSID Additional Facility Rules against the Bolivarian Republic of Venezuela alleging violations of the provisions of the Treaty. The Request for Arbitration was filed in July 2012. On August 22, 2016, the Tribunal, awarded the Company compensation of \$967.77 million plus pre and post award interest, which was partially annulled with respect to this calculation of damages in January 2019. The Company continues to pursue all available remedies to reinstate the Award's findings on damages in full or otherwise obtain fair compensation for the unlawful expropriation of its investments in Venezuela, including an appeal of the French Court Decision before the French Supreme Court. The Company's objective is to diligently pursue the collection of the Award.

## **8. CONTINGENCIES**

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The Company has various contingent liabilities as described below, which are dependent upon successful recovery of compensation pursuant to the Award and Settlement Agreement. As of the date of this report, the Company has not received the initial payment of \$100 million. Due to the uncertainty of the amount of the Award, the enforcement and collection of the Award, the receipt of the payments under the Settlement Agreement (or future litigation success), or ultimately, the Company's ability to receive fair compensation for the expropriation of its investments in Venezuela, the Company only considers the payment to be received when funds are received by the Company in a bank account which is fully controlled by the Company. As at March 31, 2020 and the date of this report, the Company assessed that the likelihood of receiving the payments or other compensation is indeterminable and the contingent obligations arising as a result of the collection of the Award or Settlement Agreement cannot be reasonably estimated.

### ***Gold Reserve Lawsuit***

Pursuant to a settlement in 2012, with the Company issued a conditional promissory note in the amount of C\$1,000,000. The promissory note will only become due and payable in the event that the Company is successful in the litigation it has commenced against the Venezuelan government seeking compensation for the Nationalization. The Company considers the litigation to be successful when appropriate financial compensation has been received. The promissory note and any payment due under it shall be subordinate and postponed in right of payment to (a) the rights of the Funder as defined in the Creditors and Shareholders Agreement, and Litigation Funding Agreement, and (b) the rights of the Funder and Freshfields Bruckhaus Deringer US LLP under a Priorities Agreement. No value has been accrued for the promissory note as at March 31, 2020, as recovery of fair compensation is deemed indeterminable.

### ***Litigation Funding Agreement***

Under the terms of the privileged Litigation Funding Agreement, the Company has given certain warranties and covenants to the Funder. In consideration for the provision of arbitration financing, Rusoro has agreed to pay to the Funder a portion of any final settlement of the arbitration claim against the Respondent (the "Funder's Fee"). The Funder's Fee shall only become payable upon recovery of fair compensation and the value of the Funder's Fee is dependent upon a number of variables including the value of any settlement and the length of time taken to receive the settlement. The agreement also provides that the amount of the



Funder's Fee shall not exceed the amount of the aggregate proceeds of the arbitration claim under any circumstances.

### ***Contingent Success Fees***

In addition to the Litigation Funding Agreement the Company has also provided contingent success fees to select stakeholders, including the Lenders of the Convertible Loan and the board of directors and management of the Company, in consideration for their discounted services or forgiveness of select obligations. The terms, clauses, and priority of the contingent fee agreements are varied, but generally provide each party a contingent success fee based on successful outcome of the litigation and final settlement. Management estimates the aggregate potential exposure related to these contingent success fees will not exceed 15% of the Award. As at March 31, 2020, recovery of fair compensation is deemed to be indeterminable and \$nil has been accrued.

### ***Trust and Contribution Agreements***

The Company is a party to a trust agreement and a contribution agreement whereby it has agreed to pay to a trust established for members of management and the executive committee of the board of directors, a success fee upon the completion of a transaction or series of transactions. For the purposes of the contribution agreement, a "Transaction" is defined as: (a) any merger, consolidation, reorganization, recapitalization, restructuring, leveraged buyout, business combination, or any transaction pursuant to which the Company is acquired by or combined with a third party; or (b) the acquisition by a third party of any assets or operations of the Company, or any outstanding shares of the Company; or (c) a sale or spin-off of any material assets, of 5% or more of the capital stock of any subsidiary of the Company, or any transaction which has the effect of altering the capitalization of the Company. Where a change in control accompanies the Transaction, the success fee will be equal to 1% of the aggregate transaction value as defined in the contribution agreement. If the Transaction involves the acquisition of less than 50% of the voting power of the then outstanding Company's shares, then the success fee will be equal to 0.5% of the aggregate transaction value. As at March 31, 2020 none of the Transaction criteria had been met and \$nil had been paid to the Trust.

In October 2012, the Company entered into a trust agreement and a contribution agreement whereby it has agreed to pay to a trust established for the board of directors and management of the Company a success fee equal to 2% of the proceeds received by the Company in respect of the legal proceedings it has commenced against the Venezuelan Government to obtain compensation for the nationalization of the Company's gold assets in Venezuela.

The trustees (the "Trustees") for the trust are independent directors and members of the compensation committee of the board of directors. The Trustees are empowered to allocate the success fee amongst the board of directors and management of the Company as they deem appropriate. As at March 31, 2020, none of the criteria had been met and \$nil had been paid to the Trust.

### ***Other Matters***

The Company is involved in various claims and litigation arising in the normal course of business. The Company may be exposed to transactions in the normal course of operations that may not be in compliance with certain Venezuelan laws and regulations. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favor, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters or any amount which it may be required to pay by reason thereof would have a material impact on its consolidated statement of financial position, statement of comprehensive income (loss) or statement of cash flows. Based on the information currently available, estimates of financial impact cannot be reasonably made.

## 9. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## 10. RELATED PARTY TRANSACTIONS

The nature of transactions undertaken and the relationships with related parties of the Company are as follows:

	Relationship with the Company	Nature of Transactions
Company A	An officer/director of the Company and a director of the Company are also an officer and director, respectively, of Company A.	Machinery and facilities rental and provision of general mining-related services.
Company B	A director of the Company is also a partner of Company B.	Provision of legal services.
Company C	A director of the Company is also an officer of Company C.	Provision of corporate administrative services.

The Company incurred the following fees and expenses in the normal course of operations in connection with companies owned by key management and directors. Expenses and transactions with related parties have been measured at the price agreed between the parties, which are determined on a cost recovery basis.

	Three months ended March 31,	
	2020	2019
Provision of legal services	\$28,875	\$123,703
Provision of corporate administrative services	30,000	30,000
	<u>\$58,875</u>	<u>\$153,703</u>

Included in accounts payable and accrued liabilities are amounts due to Company A, B, and C of \$1,307,902 (December 31, 2019: \$1,279,027). These amounts are unsecured, due on demand and non-interest bearing.

Included in accounts payable and accrued liabilities is \$450,840 (December 31, 2019: \$469,941) owed to the CEO of the Company, and \$150,000 (December 31, 2019: \$150,000) owed to a director of the Company for a non-interest bearing loan with no fixed maturity date. These loans are to be repaid with a contingent success fee upon successful completion of the litigation. As at March 31, 2020, litigation success is deemed to be indeterminable and \$nil has been accrued for the contingent success fee.

### Compensation of Management and Directors

The remuneration of the directors and key management personnel during the period was as follows:

	Three months ended March 31,	
	2020	2019
Salaries and directors' fees	\$207,500	\$207,500
Stock based compensation	-	-
	<u>\$207,500</u>	<u>\$207,000</u>

Included in accounts payable and accrued liabilities is \$1,671,235 (December 31, 2019: \$1,463,735) related to compensation of management and directors.

## 11. DISCLOSURE OF OUTSTANDING SHARE DATA

As at March 31, 2020 and the date of this report, the Company has 544,810,623 common shares issued and outstanding, 54,335,000 share options outstanding and exercisable and nil warrants outstanding.



## **12. SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

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The preparation of the Company's consolidated financial statements using accounting policies consistent with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The areas that require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to, the following:

*i. Interpretation of the Nationalization Decree*

The Company made assumptions about the extent of application of the Decree. Those assumptions include that the Company's receivables and prepaid expenses and all of the Company's liabilities will continue with the Company after the expiration, forced by the Decree, of its mining concessions.

*ii. Litigation, Possible Recovery and Related Success Fee Contingencies*

The Company made assumptions about the likelihood of litigation success, the amount and possible recovery from litigation award, and the related impact on contingent success fees. Changes in these assumptions and related estimates may materially impact the carrying value of accounts payable and accrued liabilities and accounts receivable.

*iii. Decommissioning and Restoration Provision*

The Company assesses its provision for decommissioning and restoration on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for decommissioning and restoration provisions requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. Actual costs incurred may differ from those amounts estimated. In addition, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future decommissioning and restoration provision. The actual future expenditures may differ from the amounts currently provided.

*iv. Deferred Taxes*

The Company recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred tax assets.

*v. Share-based compensation*

Management is required to make certain estimates when determining the fair value of stock option awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in profit or loss.

### **13. FINANCIAL INSTRUMENTS**

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#### **a. Financial Assets and Liabilities**

The Company's financial instruments consist of the following: cash, receivables, accounts payable and accrued liabilities, a convertible loan, a derivative financial liability ("gold delivery contract") and promissory notes payable.

The carrying amounts of cash, receivables, accounts payable and accrued liabilities, and promissory notes payable are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. The gold delivery contract is marked to market at each reporting period based on the current spot price of gold and the number of gold ounces owing to the gold buyer, and as such, is a reasonable approximation of the fair value. Management reviewed all significant financial instruments held by the Company and determined that no significant differences between fair value and carrying value existed as at March 31, 2020.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The gold delivery contract, being a derivative financial liability, is measured using Level 2 inputs.

#### **b. Financial Instrument Risk Exposure**

The Company thoroughly examines the various financial instrument risks to which it is exposed, and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the previous period as to how these risks are reviewed and monitored by management. The types of financial instrument risk exposures and the objectives and policies for managing these risks exposures are described below.

##### ***Credit Risk***

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. Management does not believe the Company is exposed to any significant concentration of credit risk as all of its cash is held in Canadian banks.

##### ***Liquidity Risk***

Liquidity risk is the risk that the Company will be unable to meet its obligations associated with financial liabilities as they fall due. The Company manages liquidity risk by monitoring cash and other financial resources available to meet its maturing obligations. As at March 31, 2020, the Company has a working capital deficiency of \$123,177,287.

##### ***Market Risk***

The significant market risk exposures to which the Company is exposed are interest rate risk and currency risk.

##### ***i. Interest Rate Risk***

Interest rate risk is the risk that the future cash flows and fair values of the Company's financial instruments will fluctuate because of changes in market interest rates. The majority of the Company's financial instruments, if applicable, have fixed interest rates and therefore management does not believe the Company is exposed to any significant concentration of interest rate risk.

*ii. Currency Risk*

Currency risk is the risk that the value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk as the Company's financial assets and liabilities include items denominated in BsS and C\$.

Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange gains or losses recognized in profit or loss. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Hyperinflation in Venezuela has decreased the Company's exposure to foreign currency risk with respect to financial liabilities denominated in BsS/ BsF.

The Company's Venezuelan operations and cash holdings are currently subject to currency and exchange controls. These government-imposed controls may adversely affect the Company as such controls limit the Company's ability to flow US dollars out of the country for US dollar operating and capital expenditures.

As at March 31, 2020, the Company had a net monetary liability position of \$nil (December 31, 2019: \$nil) denominated in Venezuelan Bolivars.

**14. OTHER RISKS AND UNCERTAINTIES**

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***Title Risk***

Title to mineral properties and mining rights involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. Although the Company had investigated title to all of its mineral properties for which it held concessions or other mineral leases or licenses, prior to Nationalization the Company could not give any assurance that title to such properties would not be challenged or impugned and could not be certain that it would have valid title to its mining properties. The Company relied on title opinions by legal counsel who base such opinions on the laws of countries in which the Company operates.

Prior to Nationalization, the Company's principal mineral properties and mining rights were located in Venezuela. In 2005, the Government of Venezuela changed the mining title regime from a system where title was granted in the form of either concessions or operating contracts to a system where all new titles are granted only in the form of operating contracts. In order to effect this change, the Government created a national mining company which became the nation's contracting party covering the entire country of Venezuela. The Government also indicated that, given this change in title regime, it would also be appropriate to review all existing mining companies in a single comprehensive exercise to ensure that only companies found to be in compliance with their existing title terms and conditions would qualify for the new title.

In March 2012, in accordance with the procedures outlined in the Decree, all of the Company's mining concessions and titles expired by force of the Decree and all its assets and operations reverted to the Venezuelan government who took possession and control of the assets and operations in accordance with Venezuelan law and became the new operator.

There are material uncertainties surrounding the Nationalization, Award and the Settlement Agreement, including, but not limited to the ultimate receipt of payments pursuant to the Award and the Settlement Agreement or the timing and/or form of any other compensation otherwise related to the Nationalization. The inability to make recovery of fair compensation could hinder the Company's ability to continue as a going concern.

The Company cannot provide assurances as to the outcome surrounding the Nationalization, Award and the Settlement Agreement, which can last a number of years and its cost could be higher than what the Company originally forecasted. The Company cannot provide assurances that it would be able to enforce and collect compensation pursuant to the Award and/ or the Settlement Agreement which could hinder the Company's ability to continue as a going concern.

***Country Risk***

The Company's collection of the Award and/ or of the Settlement Agreement may be adversely affected by political instability and legal and economic uncertainty in Venezuela where the Company had assets and operations. The risks associated may include political unrest, labour disputes, invalidation of governmental orders and permits, corruption, war, civil disturbances and terrorist actions, arbitrary changes in laws, regulation and policies, and taxation. Prior to Nationalization risks associated with the Company's operations may have included price controls, exchange controls, delays in obtaining or the inability to obtain necessary permits, opposition to mining from environmental or other nongovernmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on mineral exports, increased financing costs and government-imposed restrictions or conditions to the Company's gold sales in Venezuela. These risks may limit or disrupt the Company's Award settlement and/or collection pursuant to the Settlement Agreement, restrict the movement of funds or result in unfavourable compensation for the Nationalization. Prior to Nationalization the Company's mineral properties and mining rights were located in Venezuela.

***Regulations and Permits***

The Company's operating activities were subject to a wide variety of laws and regulations governing health and worker safety, employment standards, waste disposal, protection of the environment, protection of historic and archaeological sites, mine development and protection of endangered species and other matters. The Company was required to have a wide variety of permits from governmental and regulatory authorities to carry out its activities. These permits relate to virtually every aspect of the Company's previous exploration and exploitation activities. Changes in these laws and regulations or changes in their enforcement or interpretation could have resulted in changes in legal requirements or in the terms of the Company's permits that could have had a significant adverse impact on the Company's existing or future operations or projects. Obtaining permits can be a complex, time-consuming process. As a result of the Nationalization the Company is no longer required to obtain the necessary permits including any renewals thereof. Previously, the costs and delays associated with obtaining permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict the Company from continuing or proceeding with existing or future operations or projects. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could have resulted in the interruption or closure of operations or material fines, penalties or other liabilities.

***Dependence on Key Management Personnel***

The Company's business and operations are dependent on retaining the services of a small number of key management personnel. The success of the Company is, and will continue to be, to a significant extent, dependent on the expertise and experience of some of the directors and senior management. The loss of one or more key directors or senior management could have a materially adverse effect on the Company.

***Common Share Price Volatility***

The market price of the common shares of the Company could fluctuate significantly based on a number of factors in addition to those listed in this document, including the Company's operating performance, the Company's arbitration with Venezuela's government, and the performance of competitors and other similar companies; the public's reaction to the Company's press releases, other public announcements and the Company's filings with the various securities regulatory authorities; changes in earnings estimates or recommendations by research analysts who track the common shares or the shares of other companies in the resource sector; changes in general economic conditions; the arrival or departure of key personnel; acquisitions, strategic alliances or joint ventures involving the Company or its competitors; and gold price volatility.

In addition, the market price of the common shares of the Company is affected by many variables not directly related to the Company's success and are, therefore, not within the Company's control.

**COVID-19**

To the date of this report, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. As at the date of this report, the Company has not been significantly impacted by the spread of COVID-19.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

**15. FORWARD LOOKING STATEMENTS**

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Certain statements in this MD&A and certain information incorporated herein by reference constitute "forward-looking information" within the meaning of applicable securities laws. Such forward-looking information includes, without limitation, statements with respect to the future financial or operating performance of the Company, its subsidiaries, projects and arbitration proceedings, the future price of gold and other precious metals, the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, reserve determination and reserve conversion rates. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases or words and phrases that state or indicate that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. While the Company has based these statements on its expectations about future events as at the date that such information was prepared, the statements are not guarantees of the Company's future performance and are subject to risks, uncertainties, assumptions and other factors which could cause actual results to differ materially from future results expressed or implied by such forward-looking information. The estimates and assumptions of the Company contained or incorporated by reference in this MD&A which may prove to be incorrect, include, but are not limited to: (1) the exchange rate between the C\$, the BsS and the US dollar being approximately consistent with current levels; (2) certain price assumptions for gold (3) availability and sufficiency of litigation funding to actively pursue the enforcement and collection of the Award; (4) corporate overhead costs and litigation spending remain within the Company's expectations; and (5) the CSA remains in effect until the settlement of the Award.

Known and unknown factors could cause actual results or events to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to, fluctuations in the currency markets; fluctuations in the spot and forward price of gold or certain other commodities (such as diesel fuel and electricity); changes in interest rates; disruption to the credit markets and delays in obtaining financing; inflationary pressures; changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Venezuela or other countries in which the Company does or may carry on business; business opportunities that may be presented to, or pursued by the Company; the Company's ability to successfully integrate acquisitions; operating or technical difficulties in connection with mining or development activities; actual results of exploration activities; the possibility of cost overruns or unanticipated expenses; employee relations; illegal miners; the speculative nature of gold exploration and development, including the risks of obtaining and renewing necessary licenses and permits; the impact of Venezuelan law on the Company's operations; diminishing quantities or grades of reserves; adverse changes in the Company's credit rating; contests over title to properties particularly title to undeveloped properties; the occurrence of natural disasters, hostilities, acts of war or terrorism; corruption and uncertain legal enforcement; requests for improper payments; on the Company's ability to market gold

produced and on its results of operations; on the Company's ability to obtain necessary authorizations from the CBV to export gold and on the Company's ability to retain any portion of the funds from sales of exported gold outside of Venezuela; on the ability to access SITME which impact the Company's ability to obtain US dollars to fund operating and capital expenditures; the result or outcome of management's efforts to remediate the potential implications of the transactions that were not in compliance with certain Venezuelan laws and regulations. In addition, there are risks and hazards associated with the business of gold exploration, development and mining, including environmental hazards, industrial accidents, unusual or unexpected formation, pressures, cave-ins, flooding and gold bullion losses (and the risk of inadequate insurance, or inability to obtain insurance to cover these risks). All of the forward-looking statements made in or incorporated by reference in this MD&A are qualified by these cautionary statements and those made in the section of this MD&A entitled "Financial Instruments Risks" and "Other Risks and Uncertainties".

Although we have attempted to identify factors that may cause actual actions, events or results to differ materially from those described in forward-looking statements and information, there may be other factors that cause actual results, performances, achievements or events to not be as anticipated, estimated or intended. Also, many of the factors are beyond our control. As actual results and future events could differ materially from those anticipated in such statements and information, readers should not place undue reliance on forward-looking statements or information. Except as may be required by law, we undertake no obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise. All forward-looking statements and information made or incorporated by reference herein are qualified by this cautionary statement.