**TOACHI MINING INC.**

# Interim Management's Discussion and Analysis

# Quarterly Highlights

# Three months ended January 31, 2019

March 22, 2019

## Toachi Mining Inc.

## Interim MD&A – Quarterly Highlights
## Three months ended January 31, 2019

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*This interim management's discussion and analysis - quarterly highlights ("Interim MD&A") has been prepared based on information available to Toachi Mining Inc. ("Toachi" or the "Company") as at March 22, 2019. This Interim MD&A updates disclosure previously provided in the Company's annual management's discussion and analysis ("Annual MD&A") together with previously-file Interim MD&A's, up to the date of this Interim MD&A and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the related notes as at and for the three and six months ended January 31, 2019 (the "Interim Consolidated Financial Statements"), the Company's audited consolidated financial statements for the years ended July 31, 2018 and 2017 (the "Annual Consolidated Financial Statements"), and the Company's Annual MD&A for the year ended July 31, 2018. Both the Interim Consolidated Financial Statements and the Annual Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. The Interim Consolidated Financial Statements have been prepared in accordance with International Standard 34, Interim Financial Reporting. Other information contained in this Interim MD&A has also been prepared by management and is consistent with the data contained in the Interim Consolidated Financial Statements. Additional information relating to the Company may be found under its profile on SEDAR at www.sedar.com or on its website at www.toachimining.com.*

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### *MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")*

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting.

As the Company is a Venture Issuer (as defined under under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*) ("NI 52-109"), the Company and Management are not required to include representations relating to the evaluation, design, establishment and/or maintenance of disclosure controls and procedures ("DC&P) and/or ICFR, as defined in NI 52-109, nor has it completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### *CAUTIONARY NOTE*

This document may contain or may refer to forward-looking information. Such forward-looking information includes, among other things, statements regarding targets, estimates and/or assumptions in respect of future production, capital costs and future economic, market and other conditions, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; exploration and development costs varying significantly from estimates; inflation; fluctuations in commodity prices; delays in the development of the any project caused by unavailability of equipment, labour or supplies, climatic conditions or otherwise; termination or revision of any debt financing; failure to raise additional funds required to finance the completion of a project; and other factors. Forward-looking statements are subject to significant risks and uncertainties and other factors that could cause actual results to differ materially from expected results. Readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no responsibility to update them or revise them to reflect new events or circumstances, except as required by law.

### *CORPORATE*

Toachi is a minerals exploration company that was incorporated under the Canada Business Corporations Act on October 14, 2010, under the name of 7674279 Canada Inc. On November 26, 2010, the Company changed its name to Ferrum International Mining Inc. and further changed its name on January 28, 2011, to Ferrum Americas Mining Inc. ("Ferrum"). At a Special Meeting of Shareholders held on January 28, 2016, Ferrum received approval from its shareholders to change its name to Toachi Mining Inc. and to a 1-for-5 share consolidation (the "Consolidation"). On March 14, 2016, the Company announced the name-change, Consolidation and change of TSX Venture Exchange ("TSXV") ticker symbol to "TIM". On February 20, 2018, the Company's common shares began trading on the OTCQB Venture Market in the United States under the symbol "TIMGF".

The Company's main and registered office is located at 120 Adelaide Street West, Suite 2400, Toronto, Ontario, M5H 1T1. The principal business activity of the Company is the development of the La Plata gold, copper, zinc and silver volcanogenic-massive-sulphide ("VMS") project in Ecuador.

### *FINANCINGS*

On January 4, 2019, the Company completed a non-brokered convertible debenture financing raising gross proceeds of $1,150,000. The debenture bears interest at an annual rate of 10.85%, calculated daily and compounded monthly on the last day of each month, and matures on January 4, 2020. The debenture is convertible into 9,583,332 common shares of the Company at a conversion price of $0.12 per share at any time prior to maturity. The financing included high net worth investors from Canada and Latin America.

On January 23, 2019, the Company completed a non-brokered convertible debenture financing raising gross proceeds of $1,500,000. The debenture bears interest at an annual rate of 10.85%, calculated daily and compounded monthly on the last day of each month, and matures on January 23, 2020. The debenture is convertible into 12,500,000 common shares of the Company at a conversion price of $0.12 per share at any time prior to maturity. The financing was fully-subscribed by insiders including management and directors.

### *LIQUIDITY AND CAPITAL RESOURCES*

As at January 31, 2019, the Company had cash and cash equivalents of $922,144 and working capital deficiency of $1,651,480, compared to cash and cash equivalents of $1,728,610 and working capital surplus of $1,494,759, at July 31, 2018. The decrease of cash and cash equivalents of $806,466 during the six months ended January 31, 2019 is attributed to cash used for operating activities of $3,355,684, cash used in investing activities $5,313 and cash provided by financing activities of $2,554,531.

Operating activities were primarily related to exploration and operational initiatives at the Company's La Mina VMS project in Ecuador. Operating activities were also affected by adjustments of shares-based compensation of $50,187, depreciation of $1,986, interest accretion of $8,851 and net change in non-cash working capital balance of $54,710 because of a decrease in amounts receivable and prepaid expenses of $75,027, a decrease in trade payables and accrued liabilities of $105,193, and a decrease in due to related parties of $24,544.

Investing activities related to the acquisition of equipment of $5,313.

Financing activities related to the issuance of convertible debentures, net of issuance costs, of $2,554,531.

In order to meet its mid to long-term work commitments and planned exploration expenditures for La Plata, as well as further working capital requirements, the Company will be required to complete further financings including debt and/or equity components.

## PERFORMANCE

The Company's operations are not generally subject to seasonal variations. The timing of exploration activities is influenced primarily by the availability of funds and the identification of suitable exploration targets, however, due to either their location or nature the exploration of some properties may be restricted during certain times of the year due to climatic conditions.

Loss for the quarter totalled $2,297,332, as a result of exploration expenditures totalling $1,762,689, as noted in "Projects Update" section below, together with general and administrative expenditures totalling $296,598; management fees of $86,076, investor relations of $10,260, share-based compensation of $25,853; consulting and professional fees of $97,283; depreciation of $853; foreign exchange loss of $8,869; and interest accretion of $8,851.

## *PROJECTS UPDATE*

### LA PLATA PROJECT

The Company has a binding option agreement with a private Ecuadorean company to earn between 60%-75% in the La Plata gold-rich copper-zinc-silver-lead volcanogenic massive sulphide project located approximately 100 km southwest of Quito, Ecuador. A first-phase exploration program began in August 2016 and as at the date of this Interim MD&A, the Company has completed approximately 17,849 metres of drilling. The majority of this drilling was completed and incorporated into a maiden 43-101 resource estimate which the company announced on September 13, 2017. Please see the following link for more details: http://www.toachimining.com/_resources/news/pr_20170913.pdf.

Utilizing a 4 gram gold-equivalent cut-off grade, (AuEq g/t), the maiden resource was composed of Inferred Resources in the North and South Sectors of the La Mina deposit and totaled 1.9 million tonnes (Mt) grading 4.1 g/t gold, 49.4 g/t silver, 3.3 % copper, 4.5% zinc and 0.6% lead. A higher-grade subset of the La Mina resource residing in the South Sector includes 0.8 Mt grading 5.3 g/t gold, 71.1 g/t silver, 3.2% copper, 0.9% lead and 5.5% zinc. Additional information and cut-off grade sensitivity can be found in the September 13, 2017 press release.

Drilling completed subsequent to the resource cut-off date are part of an ongoing Regional Exploration focused on testing the limits of the La Mina deposit and assessing various other regional targets.

### Recent Exploration Program Highlights

- Toachi was engaged SGS Canada in late 2018 to prepare an independent Preliminary Economic Assessment (PEA) to be completed by mid-2019. The PEA is exploring various opportunities to reduce capital costs, including the use of existing infrastructure and tunnels to access high grade mineralization located close to surface.
- SGS is also completing a metallurgical testing program at this time. Recent testing has

demonstrated significant advances in recoveries of all metals which will be used to refine the project's final processing flow sheet. The Company's current exploration program, which includes surface and channel sampling, stream sediment sampling and mapping, have continued to indicate positive results.

- In January 2019, the Company completed a series of new high-grade trenching results and encouraging stream sediment sampling. The results extend the known VMS corridor footprint 1.1km towards the north to the Guatuza zone and include trenching of 2.5m of 5.36 g/t Au, 71.18 Ag, 2.14% Cu, 3.22% Pb & 10.86% Zn. In total, 204 stream sediments, 254 rock chip samples and five surface trench samples identified a new covered VMS horizon. These results also demonstrated similar polymetallic high-grade mineralization as La Mina's north and south blocks.
- Following the encouraging results obtained in January, the Company announced follow-up results in February 2019. Additional trenching results returned 6 meters @ 2.02 g/t Au, 32.50 g/t Ag, 2.34% Cu, 0.79% Pb and 2.59% Zn approximately 150 metres north of the January trench results and serve to continue extending the deposit to the north. The new trench results continued to confirm and validate the high grade Guatuza VMS corridor and extended it 150 meters further to the north (San Jose prospect). Sampling of additional VMS outcrops are continuing with the aim of testing the full northern extent of the Guatuza, San Ramon and San Pablo South VMS corridor targets prior to this year's proposed exploration drilling program.
- On March 1, 2019, the Company announced results from the on-going metallurgical test work on its La Plata project in Ecuador. Composite samples representing the expected zones of the La Mina mineralized horizons were tested at SGS Lakefield. The results of testing indicated that the La Mina VMS, polymetallic mineralization responded well to a conventional flotation flowsheet and produced saleable grade concentrates. Locked cycle tests were conducted on zone 300 returned:

| Copper-Lead Concentrate | Grade | Recovery |
|---|---|---|
| Copper | 20-23% | 88-90% |
| Lead | 4-5% | 70-72% |
| Gold | 13 g/t | 41-43% |
| Silver | 141 g/t | 45-50% |

| Zinc Concentrate | Grade | Recovery |
|---|---|---|
| Zinc | 50-52% | 70% |
| Gold | 13 g/t | 25-27% |
| Silver | 125 g/t | 26% |

[1] *Phil Fox, MAIG, a Qualified Person as defined by NI 43-101, has reviewed and approved the technical disclosure of the September 13, 2017 news release.*

[2] *Dr.Simon Strickland Meik, a Qualified Person as defined by NI 43-101, has reviewed and approved the technical disclosure in the March 1, 2019 news release.*

During the three months ended January 31, 2019, the Company incurred $1,762,689 in exploration expenditures for the project. Details of the expenditures are as follows:

| | Three months ended January 31, 2019<br>$ |
|---|---:|
| Acquisition | 458,080 |
| Administrative | 785,207 |
| Assays | 137,537 |
| Camp costs | 55,496 |
| Community costs | 260,944 |
| Consulting | 32,450 |
| Drilling | (470) |
| Engineering | (6,122) |
| General | 22,577 |
| Geology and geophysics | (3,628) |
| Travel | 20,618 |
| **Total** | **1,762,689** |

**La Plata option payment**

During the six months ended January 31, 2019, pursuant to the La Plata project Option Agreement, the Company made a cash payment of $458,080 (US$350,000) to the optionor.

***OUTSTANDING SECURITIES***

As at the date of this Interim MD&A, the Company's capital structure is as follows:

| Security | Number |
|---|---:|
| Common shares | 81,166,435 |
| Options | 5,427,000 |
| Warrants | 10,000,000 |
| Compensation warrants | 558,750 |

***COMMITMENTS***

The Company has exploration work commitments and option payments to be made over the next 2 years, as detailed in note 7(a) of the Interim Consolidated Financial Statements.

### *RELATED PARTY TRANSACTIONS AND BALANCES*

The Interim Consolidated Financial Statements include the following balances and transactions with directors and/or officers of the Company and/or entities related to or controlled by them:

| | Three Months Ended | |
|---|---|---|
| | **January 31, 2019** | January 31, 2018 |
| | **$** | $ |
| Management fees charged by entities controlled by the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") | **86,076** | 128,250 |
| Severance pay to past president and CEO | **-** | 100,000 |
| Directors' fees | **15,000** | 12,000 |
| Share-based compensation for the Company's directors, CEO and CFO | **19,925** | 77,550 |
| Office rent | **3,600** | 7,168 |
| Shares issued to past president and CEO | **-** | 46,000 |
| **Total for period** | **124,601** | 370,968 |

As at January 31, 2019, the balance of $36,334 (July 31, 2018 - $48,554) is due to entities controlled by the Company's CEO and CFO for management fees and reimbursable travel expenses and the balance of $nil (July 31, 2018 - $12,324) is due to directors of the Company for their directors' fees and reimbursable travel expenses. The associated expenses have been reflected in the table above while any balances due have been reflected in Trade Payables and Accrued Liabilities

### *SUBSEQUENT EVENTS*

On March 15, 2019, the Company announced that it closed a non-brokered private placement for an aggregate principal amount of $150,000 convertible debentures. Each debenture bears interest at an annual rate of 10.85% and may be converted into a maximum of 1,250,000 common shares of the Company at a conversion price of $0.12 per share at any time prior to maturity. Maturity is 12 months following the closing date. The financing included a combination of high net worth investors and insiders.