# Management's Discussion and Analysis
# For the Sixth Month Period Ended 30 June 2016

*The following Management's Discussion and Analysis ("MD&A"), prepared as of 15 August 2016, should be read together with the unaudited condensed interim consolidated financial statements of Minera IRL Limited (the **"Company")** for the three month period ended 30 June 2016 and related notes thereto, which were prepared in accordance with International Financial Reporting Standards (**"IFRS"**). Additional information about Minera IRL, including the Company's most recently filed Annual Information Form and the risks and uncertainties discussed therein, may be found at the Company's website at [www.minera-irl.com](www.minera-irl.com) and within the Company's SEDAR profile at [www.sedar.com](www.sedar.com).*

*All figures are in United States dollars ("$") unless otherwise noted. References to "C$" are to Canadian dollars and to "£" are to British pound sterling.*

# HIGHLIGHTS

**Financial**

- Gold sales of 5,635 ounces (Q2 2015: 6,205 ounces) at an average realized gold price of $1,263 per ounce (Q2 2015: $1,194 per ounce).
- Revenue of $7.1 million, (Q2 2015: $7.4 million)
- Gross profit of $2.0 million (Q2 2015: $1.4 million).
- Loss before tax of $2.1 million (Q2 2015: 5.8 million).
- After tax loss of $2.7 million (Q2 2015: 5.8 million).
- Cash balance of $8.5 million at the end of the quarter (December 2015: $15.6 million).
- Debt of $67.0 million at 30 June 2016, up from $65.7 million at 31 December 2015 (including amounts due to Rio Tinto).

**Operational Performance**

- **Corihuarmi, Peru**
  - Gold production from the Corihuarmi Gold Mine of 5,700 ounces (Q2 2015: 6,285 ounces).
  - Ore mined and staked of 697,213 tones (Q2 2015: 709,909 tones).
  - Waste of 366,141 tones (Q2 2015: 242,997 tones).
  - Total cash costs were $793 per ounce sold (Q2 2015: $816 per ounce produced).
  - Total all-in sustaining costs (AISC) were $1,102 per ounce sold (Q2 2015: $1,009 per ounce sold).

## *Background and Business of the Company*

Minera IRL Limited is a Jersey registered company and together with its subsidiaries, engages in precious metals mining, development and mineral exploration in Latin America. The Company was privately funded from inception in 2000 until an initial public offering and admission of its ordinary shares on the AIM Market of the London Stock Exchange plc ("**AIM**") in April 2007. Subsequently, the Company listed on the Lima Stock Exchange in Peru, Bolsa de Valores Lima ("BVL"), in December 2007 under the trading symbol of "MIRL". In April 2010, the shares of the Company were listed on the Toronto Stock Exchange ("TSX") under the trading symbol "IRL".

The Company did not timely file its financial statements for the three and six month periods ended 30 June 2015 and trading in the Company's shares was suspended on AIM, BVL and TSX in September 2015. In October 2015 the Company applied for a voluntary delisting of its shares on TSX. Also in October 2015, both the Ontario Securities Commission (**"OSC"**) and the British Columbia Securities Commission issued Cease Trade Orders (collectively, the **"Cease Trade Order"**) which are still in effect. In March 2016, the Company requested a delisting from AIM. The listing on BVL remains suspended. The Company has now complied with all disclosure requirements in Canada and has applied for revocation of the Cease Trade Order. Once this is granted the Company intends to apply for a new stock exchange listing in Canada.

In Peru, the Company operates the Corihuarmi Gold Mine and is advancing its flagship project, the Ollachea Gold Project, towards production. At Ollachea, the Company has completed a post-definitive feasibility study (**"DFS"**) optimization and received the Environmental and Social Impact Assessment (**"ESIA"**) and the Construction Permit from the Peruvian authorities. The Company is currently working towards financing the Ollachea Gold Project. In June 2015, the Company announced that it had secured a $70 million bridge loan from a Peruvian state-owned development and promotion bank. The loan is expected to be the first component of a senior debt facility of up to $240 million, and this initial component was used to repay existing debt, including a $30 million Macquarie Bank debt facility and the remaining Ollachea property payment due to Rio Tinto, and to advance many aspects of the project's development needed to commence major site construction. Additional detail on the bridge loan is provided below under the section entitled, "Ollachea Project, Peru – Development".

## *Operational, Project Development and Exploration Review*

### Corihuarmi Gold Mine, Peru

The Company's 100% owned Corihuarmi Gold Mine ("Corihuarmi") is located approximately 160 kilometres ("km") southeast of Lima, Peru, in the Central Andes at an altitude of almost 5,000 metres ("m"). The Company acquired the Corihuarmi leases in 2002, and the mine was brought into production in March 2008. As a result of the last year's exploration drill program, the life of the Corihuarmi Mine has been extended into the end of 2017.

The Corihuarmi Mine produced 5,700 ounces of gold during the three-month period ended 30 June 2016.

Below is a summary of the key operating statistics for Corihuarmi for the three and six months ended 30 June 2016 and 2015:

| Operating Parameters | Three Month Period Ended 30 June | | Six Month Period Ended 30 June | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Waste (tonnes) | 366,141 | 242,997 | 679,377 | 433,559 |
| Ore mined & stacked on heaps (tonnes) | 697,213 | 709,909 | 1,455,035 | 1,440,115 |
| Ore grade, mined and stacked (g/t) | 0.33 | 0.34 | 0.32 | 0.33 |
| Gold produced (ounces) | 5,700 | 6,285 | 11,469 | 12,171 |
| Gold sold (ounces ) | 5,635 | 6,205 | 11,267 | 11,658 |
| Realized gold price ($ per ounce) | 1,263 | 1,194 | 1,228 | 1,202 |
| Total cash costs ($ per ounce) [1] | 793 | 816 | 790 | 824 |
| Total all-in sustaining costs ($ per ounce) [1] | 1,102 | 1,009 | 1,015 | 983 |

1. Refer to Non-IFRS Measures at the end of this MD&A.

Three Months Ended 30 June 2016

Gold production during the second quarter of 2016 was 5,700 ounces, a 9% decrease compared to the 6,285 ounces produced in the same period of the prior year. Gold sold during the second quarter of 2016 was 5,635 ounces, a 9% decrease compared to the 6,205 ounces produced in the same period of the prior year. The decrease in gold production and gold sales is due to lower ore grade and lower ounces sold. The average realized gold price during the second quarter of 2016 was $1,263, a 6% increase compared to the $1,194 average realized gold price during the same period of the prior year.

Total cash costs of $793 and total all-in sustaining costs of $1,102 per ounce of gold produced during the second quarter of 2016 were respectively 3% lower and 9% higher than the total cash costs of $816 and total All-in Sustaining costs of $1,009 per ounce of gold produced during the same period of the prior year. The small decrease in cash costs is due to cost cutting measures at the Corihuarmi mine and the increase in all-in sustaining costs is due to termination costs accrued during the quarter.

## Ollachea Project, Peru - Development

Minera IRL's flagship Ollachea Gold Project is located in southern Peru, approximately 250km north of Lake Titicaca, on the eastern escarpment of the Andes Mountains. Infrastructure in close proximity to the project is excellent and well serviced with paved roads, transmission lines, and electricity generating facilities.

In June 2012, the Company announced that the 2007 5-year Surface Rights Agreement with the nearby Community of Ollachea had been extended for a period of 30 years. As part of this agreement, Minera IRL agreed to continue to sponsor community health, education, sustainability and community enterprise programs. The 2012 agreement also ratifies the commitment in the original 2007 Surface Rights Agreement to grant the Community of Ollachea a 5% equity participation in the subsidiary company Minera Kuri Kullu SA ("MKK"), which holds the Ollachea leases, upon the commencement of commercial production.

Between 2008, when drilling commenced, and the last drill hole in early 2013, the Company has completed 82,275m of drilling in 211 holes over a strike length of approximately 2km, resulting in the delineation of significant gold mineral resources at Ollachea. All defined zones of mineralization remain open-ended both along strike and down-dip at Ollachea.

In November 2012, the Company published a National Instrument 43-101 compliant technical report summarizing the results of a Definitive Feasibility Study ("Ollachea DFS") for a robust underground mining operation on the Minapampa Zone on the Ollachea Project that was prepared by AMEC (now Amec Foster Wheeler), a leading global mining consultancy firm. In June 2014, the Company completed an optimization study on Ollachea DFS in anticipation of the development of the Ollachea Gold Mine (the "Ollachea Optimization Study") that included an updated Mineral Reserve and Resource Statement for the Minapampa Zone, updated cost estimates, and an accelerated production profile.

In December 2012, as part of the permitting process, the Company submitted an Environmental and Social Impact Assessment ("ESIA") report on the Ollachea Project to the Peruvian Ministry of Mines and Energy ("MEM"), the government agency responsible for ESIA approval. The ESIA report was the culmination of over three years of environmental baseline studies, the Ollachea DFS, archaeological studies, water management plan, flora and fauna studies, social baseline studies and comprehensive community public consultations. The approval of a mining project's ESIA is a major milestone on the path towards production and is the key permit required to develop a mine in Peru.

In May 2013, the Ollachea ESIA received final approval from the Community of Ollachea; and, in September 2013, the MEM approved the ESIA. After approval of the ESIA, the Company submitted its application for a Construction Permit for the Ollachea Gold Mine, which was awarded in June 2014. The Construction Permit is the final significant permit required to commence construction of the Ollachea Gold Mine.

In June 2015, the Company announced that it had secured a $70 million finance facility (the "**Bridge Loan**") from the Peruvian state-owned development and promotion bank, Corporación Financiera de Desarrollo S.A. ("**COFIDE**"), which was syndicated through Goldman Sachs Bank USA ("**Goldman Sachs**"). The Bridge Loan is expected to be the first component of a senior debt facility ("Senior Debt Facility") of up to $240 million to be structured by COFIDE to develop the Company's Ollachea Gold Project.

During the second quarter of 2016, total expenditures on the Ollachea Gold Project were $1.1 million (2016 first half: $2.0 million). Expenditures at Ollachea during the first half of 2016 are related to maintaining the exploration tunnel, community development, and ongoing environmental and security costs.

**Ollachea Project, Peru - Exploration**
Over the three and one-half year period following commencement of drilling in October 2008, the Company completed 82,275m of drilling in 211 holes over a strike length of approximately 2km, resulting in the delineation of significant gold mineral resources and reserves at Ollachea. There is significant exploration upside at Ollachea, as all zones of known mineralization remain open-ended both along strike and down-dip.

On 29 August 2011, the Company announced that it had committed to the construction of a 1.2km exploration tunnel into the hanging wall of the Minapampa orebody at the Ollachea Gold Project. In addition to providing access for underground exploration drilling, the tunnel has been designed to later serve as a production tunnel, which is expected to facilitate rapid mine development project once financing is in place.

In January 2013, the exploration tunnel reached its planned 1.2km objective, and did so more than a month ahead of schedule and under budget. The speed and reduced cost associated with the completion of the tunnel, as well as the practical experience gained, indicates that certain technical considerations utilized in the DFS are likely conservative. Specifically, the tunnel exhibits significantly better ground conditions, a much higher advance rate and minimal water infiltration; these factors could positively affect the project economics outlined in the Ollachea DFS, though the extent of their impact cannot be accurately predicted.

During the second half of 2016, using funds from the COFIDE Bridge Loan, the Company plans to undertake a 5,200m drill program on the eastern extension of the Minapampa ore zone as a continuation of the drilling campaign in 2013. The estimated cost of the drill program is $1.2 million. Drilling started during the second week of August.

## Exploration Projects

***Frontera Joint Venture***

The Frontera project is a 35/65 joint venture with Teck Resources Limited ("Teck"), which is managed by Teck. The property consists of a 12km2 package of tenements located in Region I of northern Chile, on the northwestern border with Peru and close to the eastern border with Bolivia.

No exploration activities are planned for 2016.

***Quilavira Project***

The Company signed an option agreement in February 2010 to acquire the Quilavira Gold Project from Newcrest Mining Ltd. The 51km2 tenement package is in the Tacna district of southern Peru. The transaction was conducted through a surrogate local Peruvian company authorized to work within the Strategic Frontier Zone facing Chile that acquired the property from Newcrest on behalf of the Company. Once permission is granted to the Company to work in the Frontier Zone, the properties are expected to be transferred at nominal cost.

The main exploration target at Quilavira is an alteration zone approximately 1,200m by 300m in size. Sampling by Newcrest identified a 200m by 200m zone of anomalous gold mineralization (>1g/t gold rock chip samples) within the western part of the alteration zone.

No exploration activities are planned for 2016.

## *Summary of Quarterly Results*

*(tabular data in thousands of US dollars, except per share amounts)*

| | Q3 Sep. '14 | Q4 Dec. '14 | Q1 Mar. '15 | Q2 Jun. '15 | Q3 Sep. '15 | Q4 Dec.'15 | Q1 Mar.'16 | Q2 Jun. '16 |
|---|---|---|---|---|---|---|---|---|
| Total revenue | 7,294 | 7,390 | 6,609 | 7,434 | 5,872 | 7,669 | 6,744 | 7,126 |
| Profit (loss) after-tax | (3,993) | (4,844) | (2,003) | (5,785) | (2,667) | (4,630) | (2,679) | (2,421) |
| Total comprehensive income (loss) | (3,993) | (4,844) | (2,003) | (5,785) | (2,667) | (4,630) | (2,679) | (2,421) |
| Net earnings (loss) per share | | | | | | | | |
| Basic and diluted(US cents) | (1.7) | (2.1) | (0.9) | (2.5) | (1.2) | (1.9) | (1.2) | (1.0) |

The business of the Company is not generally subject to seasonal influences. The variation in revenues and net profit and losses are due to a number of factors, among which are the market price of gold, the tonnes of ore and the associated grade of these tonnes of ore extracted from the mine and therefore the cost of production, the impairment of exploration, development assets and mining assets, and the incidence of corporation tax in Peru.

Over the last eight quarters, as forecasted, the Company's Corihuarmi Mine has experienced diminishing ore grades, leading to correspondingly lower gold production. The impact of the diminishing grades has been partially offset by an increase in tonnes mined and stacked on the heaps. The average London PM Fix during 2014 was $1,266 per ounce, decreasing to $1,160 per ounce in 2015 and averaged $1,221 per ounce during the first half of 2016.

## *Overview of Financial Results*

*Note – All of the results presented are prepared under IFRS and are in United States dollars, which is the Company's functional currency as well.*

| Data | Three Month Period Ended 30 June | | Six Month Period Ended 30 June | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Corihuarmi | | | | |
| Waste (tonnes) | 366,141 | 242,997 | 679,377 | 433,559 |
| Ore mined & stacked on heaps (tonnes) | 697,213 | 709,909 | 1,455,035 | 1,440,115 |
| Ore grade, mined and stacked (g/t) | 0.33 | 0.34 | 0.32 | 0.33 |
| Gold produced (ounces) | 5,700 | 6,285 | 11,469 | 12,171 |
| Gold sold (ounces) | 5,635 | 6,205 | 11,267 | 11,658 |
| Realized gold price ($ per ounce) | 1,263 | 1,194 | 1,228 | 1,202 |
| Total Cash costs ($ per ounce) [1] | 793 | 816 | 790 | 824 |
| Total All-in Sustaining costs ($ per ounce sold) [1] | 1,102 | 1,009 | 1,015 | 983 |
| | | | | |
| Financial | | | | |
| Revenue ($'000) | 7,126 | 7,434 | 13,870 | 14,043 |
| Gross profit ($'000) | 1,979 | 1,444 | 3,361 | 2,806 |
| Loss after-tax ($'000) | (2,421) | (5,785) | (5,100) | (7,788) |
| Comprehensive loss ($'000) | (2,421) | (5,785) | (5,100) | (7,788) |
| Loss per share–Basic and diluted (cents) | (1.0) | (2.5) | (2.2) | (3.4) |

[1] Refer to Non-IFRS Measures at the end of this MD&A.

Results of Operations

During the second quarter of 2016 the Company reported an after-tax loss of $2,421,000 compared with a loss of $5,785,000 in the same period in the prior year. The $3,364,000 lower loss in the second quarter of 2016 was mainly the result of the $3,034,000 write-off charge related to the Bethania project during the second quarter of 2015. During the six month period ended 30 June 2016 loss was $5,100,000 compared with $7,788,000 during the same period in the prior year. The $2,688,000 lower loss was mainly the result of a $555,000 increase in gross profit, a $815,000 decrease in administrative expenses and a $3,034,000 decrease in write-off charge related to the Bethania project, partially offset by a $1,807,000 increase in finance expenses.

During the second quarter of 2016, sales revenue decreased by 4% compared to the same quarter in 2015. The decrease was attributed to a 9% decrease in the number of gold ounces sold, combined with a 6% increase in the average realized gold price for the period. During the six month period ended 30 June 2016 sales revenue decreased by 1% compared to the same period in the prior year. The decrease was attributed to a 3% decrease in the number of gold ounces sold, combined with a 2% increase in the average realized gold price.

Cost of sales decreased 14% and 6% during the second quarter of 2016 and the six month period ended 30 June 2016 respectively compared to the same periods of the prior year. A period-over-period comparison for the cost of sales is provided in the table below. The decrease is a mainly due to cost cutting measures at the Corihuarmi mine.

**Breakdown of Cost of Sales**

| | **Three months ended 30 June** | | **Six months ended 30 June** | |
|---|---|---|---|---|
| | **2016 ($'000s)** | **2015 ($'000s)** | **2016 ($'000s)** | **2015 ($'000s)** |
| Site operating costs | 3,791 | 4,315 | 7,712 | 8,136 |
| Community and environmental costs | 268 | 439 | 386 | 818 |
| Depreciation and amortization | 679 | 925 | 1,610 | 1,635 |
| Selling expense | 74 | 48 | 164 | 86 |
| Royalties and taxes | 335 | 263 | 637 | 562 |
| Total | 5,147 | 5,990 | 10,509 | 11,237 |

Administrative expenses decreased by $634,000 during the second quarter of 2016 and $815,000 during the six month period ended 30 June 2016 as well compared to the same periods of the prior year. The decrease was mainly due to decreases on amortization of deferred finance project amortization of finance costs recorded during the second quarter and foreign exchange expense partially offset by increases on termination costs. A period-over-period comparison for the cost of sales is provided in the table below.

**Breakdown of Administration Expenses**

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | **2016 ($'000s)** | **2015 ($'000s)** | **2016 ($'000s)** | **2015 ($'000s)** |
| Depreciation | 24 | 15 | 44 | 44 |
| Director fees | 21 | 9 | 39 | 21 |
| Foreign exchange | 22 | 473 | (66) | 518 |
| Investor relations | 39 | 31 | 59 | 75 |
| Nomad and exchange fees | 60 | 26 | 89 | 77 |
| Office rent and administration | 95 | 127 | 227 | 248 |
| Professional and consulting fees | 232 | 108 | 492 | 558 |
| Salaries and wages | 633 | 564 | 1,223 | 1,106 |
| Telecommunication | 37 | 30 | 62 | 76 |
| Travel | 102 | 71 | 149 | 115 |
| Amortization of deferred finance costs | - | 980 | - | 980 |
| Termination costs | 631 | - | 631 | - |
| Other | (83) | 13 | 50 | (4) |
| Total | 1,813 | 2,447 | 2,999 | 3,814 |

Finance expense during the second quarter of 2016 and the six month period ended 30 June 2016 was $2,283,000 and $5,136,000 compared to $1,575,000 and $3,329,000 during the same periods of the prior year. The increase in finance expense was mainly due to increased debt outstanding with the drawing down of the COFIDE Bridge Loan in June 2015, offset by a recalculation of the discount on the royalty buy back provisions due to a change in the estimated date of payment of such liabilities.

Cash Flow

Cash provided by operating activities during the second quarter of 2016 was $323,000, compared with $766,000 provided in the first quarter of 2015. During the six month period ended 30 June 2016 cash used by operating activities was $437,000, compared with cash provided of $1,593,000 during the same period in 2015.

Investing activities during the second quarter of 2016 used $1,584,000, compared with $1,357,000 during the second quarter of 2015. The increase was due mainly to an increase in acquisition of property, plant and equipment. During the six month period ended 30 June 2016 investment activities used $3,803,000 compared with $3,897,000 used during the same period in 2015. A period-over-period comparison for the investing activities is provided in the table below.

**Breakdown of Investment activities**

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | 2016 ($'000s) | 2015 ($'000s) | 2016 ($'000s) | 2015 ($'000s) |
| Acquisition of property, plant and equipment | 658 | 424 | 923 | 532 |
| Deferred exploration and development | 1,044 | 933 | 1,562 | 1,997 |
| Increase in restricted cash | (100) | - | 1,336 | 1,368 |
| Disposal of vehicles | (18) | - | (18) | - |
| Total cash used | 1,584 | 1,357 | 3,803 | 3,897 |

Restricted funds are cash left on deposit with a Peruvian bank as collateral for environmental performance guarantees provided by the bank, on the Company's behalf, to the government of Peru in regards to reclamation obligations the Company has at its Corihuarmi gold mine and at the Ollachea Gold Project.

Financing activities during the second quarter of 2016 used $1,463,000, compared with $22,219,000 provided during the second quarter of 2015. During the six month period ended 30 June 2016 financing activities used $2,866,000 compared with net cash provided of $21,668,000 during the same period in 2015. The significant change is due to the drawing down of the Cofide bridge loan partially offset by the repayment of the Macquarie Loan and outstanding dent with Rio Tinto. The increase in finance expense paid is due to the higher interest bearing loans balance. A period over period comparison for the financing activities is provided in the table below:

**Breakdown of Financing activities**

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | 2016 ($'000s) | 2015 ($'000s) | 2016 ($'000s) | 2015 ($'000s) |
| Receipt of loans, net | - | 65,476 | - | 65,476 |
| Payment of loans | - | (30,000) | - | (30,000) |
| Payment of long term liabilities | - | (12,000) | - | (12,000) |
| Finance expense paid | (1,463) | (1,257) | (2,866) | (1,808) |
| Total cash (used), provided | (1,463) | 22,219 | (2,866) | 21,668 |

## *Legal Actions Involving Company*

The Company reported during the second half of 2015 that various legal actions had been filed by the Company against the General Manager of the subsidiary, Minera IRL S.A., and by the General Manager against the directors and certain senior officers of the Company. Some of these actions involved third parties as well. During the three months ended 30 June 2016 most of the parties involved signed a settlement agreement; as a result the critical legal complaints have been withdrawn.

## *Outlook*

In 2016, the Company is forecasting gold production of 22,000 ounces. Production is expected to come from the Cayhua and Laura zones, along with continued production from Susan, Diana, the Diana extension, plus nearby Scree Slope material.

The 2016 Corihuarmi capital budget is $2.7 million for a heap leach pad and waste dump expansion. This expansion is to accommodate all of the material that is scheduled to be mined and stacked from mid 2016 until the first quarter of 2017. The 2017 capital budget is $2.1 million for a heap leach pad to accommodate all of the material to be mined until the end of 2017 when mining operations are currently scheduled to cease.

Exploration activities at Corihuarmi are expected to continue at the end of 2016 and possibly during 2017, but the nature and extent of the activity will depend on the available financial resources. Exploration activities at Ollachea include a 5,200m drill program on the eastern extension of the Minapampa ore zone as a continuation of the drilling campaign of 2013. The estimated cost of the drill program is $1.2 million.

The Company has signed a letter of mandate with COFIDE to structure a Senior Debt Facility for up to $240 million, under which the Bridge Loan is expected to be refinanced. The Senior Debt Facility is expected to be in place towards the end of 2016 or during the first quarter of 2017; however, the availability of the Senior Debt Facility is not guaranteed and its terms, including the facility’s size, are still to be negotiated. If the Company is not able to secure the Senior Debt Facility it will not have the funds available to develop the Ollachea Gold Project and will be required to delay, scale back or eliminate various programs related to the Project. Additionally, an equity offering is expected to be required to supplement the Senior Debt Facility in funding the development of the Ollachea Gold Project and for corporate and working capital purposes.

The Company is currently working towards the lifting of the Cease Trade Orders issued by the Ontario and British Columbia Securities Commissions and re-listing on Canadian Securities Exchange (CSE).

## *Capital Management*

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to pursue the exploration and evaluation of its mineral properties, acquire additional exploration and evaluation assets and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. In the management of capital, the Company includes its cash and cash equivalent balances, interest bearing loans and components of shareholders’ equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

The Company is not currently subject to externally imposed capital requirements.

## *Liquidity and Capital Resources*

As at 30 June 2016, the Company had cash of $8,474,000. The bank balance includes a $7,026,000 balance of the COFIDE Bridge Loan. As per the terms of the loan agreement, the proceeds of this loan are to be used exclusively in connection with the development of the Ollachea project. The Company is in discussions with COFIDE and Goldman Sachs to obtain a waiver for approximately $2.5m disbursements not related to the development of the Ollachea project.
As at 30 June 2016, the Company had a working capital deficiency of $61,838,000. Working capital is defined as current assets less current liabilities.

The above conditions indicate the existence of a material uncertainty which may cast doubt on the Company's ability to continue as a going concern.

COFIDE Bridge Loan
In June 2015, the Company announced that it had secured a $70 million finance facility (the **"Bridge Loan"**) from the Peruvian state-owned development and promotion bank, Corporación Financiera de Desarrollo S.A. (**"COFIDE"**), which was syndicated through Goldman Sachs Bank USA. The Bridge Loan is expected to be the first component of a senior debt facility of up to $240 million to be structured by COFIDE to develop the Company's Ollachea Gold Project. The nature and terms of this Bridge Loan have been disclosed in detail in the Company's Management Discussion and Analysis for the three and six-month periods ended June 30, 2015, which have been filed on SEDAR and can be viewed at www.sedar.com.

During the three and six-month period ended 30 June 2016, and $2,164,000 and $4,228,000 of effective interest was charged to finance expense, compared to 659,000 suring the three and six months period ended 30 June 2015.

The net proceeds from the Bridge Loan were applied towards the repayment of the $30 million Macquarie Bank Finance Facility and the payment of $12.0 million of the $14.2 million outstanding to Rio Tinto under the Ollachea Mining Rights Transfer Contract. The remaining $2.2 million outstanding has been converted into an unsecured promissory note payable by 31 December 2015, accruing interest at a rate of 7% per annum. The Group was not in a position to pay the amounts due under this promissory note on 31 December 2015. As at 30 June 2016 the Group has repaid $700,000 of the $2,190,000 and currently is in discussions with Rio Tinto and COFIDE to reschedule the balance.

The Company signed a letter of mandate with COFIDE to structure a senior debt facility for up to $240 million, under which the Bridge Loan is expected to be refinanced, but the availability of the Senior Debt Facility is not guaranteed and its terms, including the size of the facility, are still to be negotiated.

As at 30 June 2016, the Company had the following undiscounted future contractual obligations outstanding:

| $'000 | Total | Less than 1 year | Year 2 | Year 3 | Year 4 | Year 5 | After Year 5 |
|---|---|---|---|---|---|---|---|
| Debt repayments | 74,515 | 74,515 | - | - | - | - | - |
| Promissory note | 1,499 | 1,499 | - | - | - | - | - |
| Asset retirement obligation + | 8,017 | 649 | 667 | 866 | 1,735 | 2,359 | 1,741 |

Note:
+ This cost relates to the Corihuarmi mine rehabilitation costs and Ollachea exploration tunnel rehabilitation cost.

The consolidated financial statements have been prepared on a going concern basis. The Company's future plans and expectations are based on the assumption that the Company will be able to continue in operation for the foreseeable future and will realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. There can be no assurance that the Company will be able to generate sufficient cash from operations or obtain adequate financing in the future or, if available, that such financing will be on acceptable terms. If adequate financing is not available when required, the Company may be required to delay, scale back or eliminate various programs and may be unable to continue in operation. The Company may seek such additional financing through debt or equity offerings. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

## *Commitments and Contingent Liabilities*

The Company is subject to various laws and regulations governing its mining, development and exploration activities. These laws and regulations are continually changing and generally becoming more restrictive. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

During 2013, the Group was issued tax reassessments by the Peruvian tax authorities for the years ended 31 December 2008, 2009 and 2011 related to the deductibility of depreciation claimed by the Group. The appeal filed by the Group with the tax authorities was unsuccessful and the Group subsequently filed an appeal with the Peruvian Tax Court.

The Group has entered into certain contracts for the purchase of electrical equipment and the supply of power for the construction and operation of the Ollachea project. The contract for the supply of power included certain minimum power usages in the event that construction of Ollachea had not commenced by June 2015. In March 2015, the Group entered into an amended power contract deferring the requirement to make minimum power usage payments for twelve months, until June 2016. In December 2015 the contract was extended until June 2017.

Equipment related to the purchase of long lead time items for the Group's main substation for the supply of power has been ordered through a third party. If the Group cancels these orders a penalty of 10% of the value of the purchases would be payable.

As part of the bridge loan financing entered into with COFIDE, the Company signed a letter of mandate in regards to a larger senior debt facility for up to $240,000,000. Additional details on the Bridge Loan can be found above under "COFIDE Bridge Loan" in the section entitled "Liquidity and Capital Resources". The mandate letter provides for a payment of $1,440,000 from the Company to COFIDE in the event that the Company does not proceed with the Senior Debt Facility once COFIDE has achieved the approval of all the banks to be participants in the facility.

Two former employees have filed a claim against a subsidiary for wrongful dismissal and alleged damages to their personal reputations. The outcome of these claims, including the amount if any that a court may award, cannot be estimated at this time.

## *Financial Instruments*

The Company's principal financial assets comprise of cash and cash equivalents, and other receivables. The Group's financial assets are classified as loans and receivables and are measured at amortised cost.

The Company's financial liabilities include trade and other payables, interest bearing loans and other long term liabilities. They are all classified as financial liabilities and measured at amortised cost.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent management of liquidity risk implies maintaining sufficient cash and cash equivalents as well as an adequate amount of committed credit facilities. Management of the Group safeguards its cash resources and makes regular forecasts of the requirements to use those resources. If necessary, management adapts its plans to suit the resources available.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk in so far as it deposits cash with its banks. However, the banks used are international institutions of the highest standing. In addition the Group is exposed to sovereign risk in so far as it is owed recoverable sales tax by the government of Peru.

**Currency risk**

Foreign currency risk is the risk that the fair value of assets and future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company operates in Jersey and Peru and is therefore exposed to foreign exchange risk arising from transactions denominated in foreign currencies. The operating results and the financial position of the Company are reported in United States dollars. Fluctuations of local currencies in relation to the US dollar will have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge any currency exposures.

**Interest rate risk**
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Debt obligations are exposed to interest rate variations. The Company has debt denominated in US dollars and is therefore exposed to movements in US dollar interest rates. This debt bears interest at 6.17% over LIBOR. A change in LIBOR of +/- 1% would not have a material effect on the financial results of the Group. It is the policy of the Group to settle trade payables within agreed terms so that no interest is incurred on those liabilities.

**Commodity price risk**
Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. The commodity price for gold is impacted by world economic events that dictate the levels of supply and demand. The ability of the Company to mine, develop and explore its mineral properties and the future profitability of the Company are directly related to the market price of precious metals, specifically gold. The Company monitors commodity prices to determine appropriate actions to be undertaken. The Company has not entered into any agreements or purchased any instruments to hedge possible commodity price risk. The Company is also exposed to the risk that the cost of mining, development or construction activities for its planned activities might increase and cause some elements to be uneconomic.

## *Off-Balance Sheet Arrangements*
The Company has no off-balance sheet arrangements.

## *Transactions with Related Parties*
The Company's portion of transactions between the Company and its jointly controlled entities are eliminated on consolidation.

During the three-month period ended 30 June 2016, the Company had no transactions with related parties with the exception of key management as disclosed in note 5 of the condensed interim consolidated financial statements for the three-month period ended 30 June 2016.

## *Significant Accounting Policies and Critical Accounting Estimates*
The Company follows the accounting policies described in the audited consolidated financial statements for the year ended 31 December 2015 that was filed on SEDAR on 3 June 2016.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current market conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses.

## *Critical Accounting Estimates*
The preparation of consolidated financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that

determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the consolidated financial statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

Intangible Assets

Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned, or impaired, where appropriate. The Company's accounting policy is to capitalize exploration costs, which is consistent with IFRS, and the policy is consistent with other resource companies which are similar to Minera IRL. An alternative policy would be to expense these costs until a feasible mineral resource has been objectively established. Management is of the view that its current policy is appropriate for the Company at this time. Based on annual impairment reviews made by management, or earlier if circumstances warrant, in the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, then the carrying amount is written down accordingly and the write-down is charged to operations. A write-down may be warranted in situations where a property is to be sold or abandoned; or exploration activity ceases on a property due to unsatisfactory results or insufficient available funding.

Impairment

In undertaking an impairment review for the operating mine or advanced exploration projects an economic model is prepared which includes full details of the mining and processing schedule, head grade, strip ratios of waste to ore, operating costs and capital costs. From this information the amount of gold production is calculated and revenues estimated. Operating costs, including royalties and refining charges, and capital costs are entered and a cash flow model is produced, which is used to calculate the net present value of the pre-tax cash flow from the operation or project. This net present value is then compared to the carrying value of the operation or project on the balance sheet and an assessment is made regarding impairment.

Should any key parameters differ from the assumptions contained within the technical economic model, such as tonnes of ore mined, grade of ore mined, recovery profile or gold price, the net present value will be affected either positively or negatively. If the impact is negative, an impairment charge may be required that has not been recognized in these financial statements.

Asset Retirement Provisions

Restoration costs will be incurred by the Company at the end of the operating life of the Company's facilities and properties. The ultimate restoration liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Depreciation Rate

Mining properties are depreciated on a straight line basis over the expected life of the mine. The calculation of mine life and depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proven plus probable reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

Share Based Payments

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

## *Management's Responsibility for Financial Statements*

The information provided in this report, including the consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying condensed interim consolidated financial statements.

## *Disclosure Controls and Internal Control over Financial Reporting*

Management of the Company is responsible for the design and implementation of disclosure controls and procedures and for internal controls over financial reporting ("ICFR") as required by National Instrument 52-109 – Certification of Disclosure ("NI 52-109") in Issuers' Annual and Interim Filings.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is communicated to senior management to allow timely decisions regarding the required disclosure. Management has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company has concluded that, as of March 31, 2016, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company is recorded, processed, summarized and reported, within the appropriate time periods and is accumulated and communicated to management.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by the IASB. The Company's internal control over financial reporting includes policies and procedures that:

- require maintaining records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary for preparation of financial statements in accordance with IFRS;
- provide reasonable assurance that the Company's receipts and expenditures are made only in accordance with authorizations of management and the Company's Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

The Company's internal control over financial reporting may not prevent or detect all misstatements, whether due to error or fraud, because of inherent limitations. A control system, no matter how well designed or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Additionally, projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Company's policies and procedures.

There has been no change in the Company's internal control over financial reporting during the three-months period ended March 31, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## *Outstanding Share Data*

The Company has an authorized share capital of an unlimited number of no par Ordinary Shares, of which 231,135,028 are issued as at the date of this report. Each share entitles the holder to one vote. All shares of the Company rank equally as to dividends, voting powers and participation in assets upon a dissolution or winding up of the Company.

As at the date of this report, the Company had 4,570,000 options issued for the benefit of directors, employees and consultants of the Group under the Company's Share Option Plans and the balance were issued in connection with a finance facility. Additionally, 11,556,750 options were to be issued as part of the fees payable to Sherpa in regards to the COFIDE Bridge Loan financing. The options, which will have an exercise price of C$0.20, are subject to shareholder and regulatory approval. Each option entitles the holder to acquire one Ordinary Share at exercise prices detailed below.

| Date of grant | Exercisable from | Exercisable to | Exercise prices | No. of options outstanding |
|---|---|---|---|---|
| **Share Option Plan Issued Options** | | | | |
| 3 April 2012 | 3 April 2012 | 3 April 2017 | £0.8063 | 2,535,000 |
| 15 November 2013 | 15 November 2013 | 15 November 2018 | £0.1500 | 2,035,000 |
| **Other Issued Options** | | | | |
| 30 June 2014 (1) | 30 June 2014 | 30 June 2016 | $0.176 | - |
| **Total** | | | | **4,570,000** |

1. In connection with the one year extension of the Macquarie Finance Facility to 30 June 2015, Macquarie Bank was granted 26,000,000 options. The options expired on 30 June 2016. On the grant of these options, the existing 18,786,525 options held by Macquarie Bank were cancelled.

## *Changes in Accounting Policies including Initial Adoption*

The Company did not adopt any new accounting policies during the three-month period ended June 30, 2016.

## *Subsequent Events*

There are no subsequent events.

## *Management and Board Changes*

On 28 March 2016 the Company announced the resignation of its Chief Operating Officer, Mr. Eric Olson and the appointment of Mr. Francis O'Kelly as a non-executive director.

On 23 May 2016 the Company announced the appointment of Mr. Gerardo Perez as a non-executive director. Additionally the company announced the appointment of Mr. Francis O'Kelly as Chairman and Interim Chief Executive Officer and Mr. Carlos Ruiz de Castilla as Interim Chief Financial Officer.

On 14 June 2016 the Company announced the appointment of Mr. George Bee as a non-executive director.

On 15 June 2016 the Company announced the resignation of Dr. Doug Jones and Mr. Robin Fryer as non-executive directors.

On 21 June 2016 the Company announced the appointment of Mr. Derrick Weyrauch as a non-executive director.

Additional details are provided in the press releases on the Company's website at www.minera-irl.com

## *Risks*

The Company operates in the resource industry, which is highly speculative, and has certain inherent operating, development and exploration risks which could have a negative effect on the Company's operations.

Significant risk factors for the Company include operating, land title, environmental regulations and compliance, litigation, surface rights, health & safety, the ability to obtain additional financing, metal prices, Mineral Reserves and Resources estimates, insurance coverage, infrastructure, key management and staff, legal climate considerations, changes in government policy, geopolitical climate, government, currency, economic, local community, geological, competition, and general business risk. For details of risk factors, please refer to the Company's Annual Information Form filed on SEDAR at www.sedar.com.

## *Additional Information*

Additional information regarding Minera IRL, including Minera IRL's Annual Information Form for the year ended 31 December 2015 is available on the Company's website at www.minera-irl.com or on SEDAR at www.sedar.com.

## *Cautionary Statement on Forward-Looking Information*

Certain information in this MD&A, including information about the Company's financial or operating performance and other statements expressing management's expectations or estimates of future events, performance and exploration and development programs or plans constitute "forward-looking statements". Forward-looking statements often, but not always, are identified by words such as "seek", "believe", "expect", "do not expect", "will", "will not", "intend", "estimate", "anticipate", "plan", "schedule" and similar expressions of a conditional or future oriented nature identify forward-looking statements. Forward-looking statements are, necessarily, based upon a number of estimates and assumptions. While considered, by management, to be reasonable in the context in which they are made forward-looking statements are inherently subject to political, legal, regulatory, business and economic risks and competitive uncertainties and contingencies. The Company cautions readers that forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Minera IRL's actual financial results, future performance and results of exploration and development programs and plans to be materially different than those expected or estimated future results, performance or achievements and that forward-looking statements are not guarantees of future performance, results or achievements. Forward-looking statements are made as of the date of this MD&A and Minera IRL assumes no obligation, except as may be required by law, to update or revise them to reflect new events or circumstances. Risks, uncertainties and contingencies and other factors that might cause actual performance to differ from forward-looking statements include, but are not limited to, changes in the price of precious metals and commodities, changes in the relative exchange rates of the US dollar against the Peruvian nuevo sol, interest rates, legislative, political, social or economic developments both within the countries in which the Company operates and in general, contests over title to property, the speculative nature of mineral exploration and development, operating or technical difficulties in connection with the Company's development or exploration programs, increasing costs as a result of inflation or scarcity of human resources and input materials or equipment. Known and unknown risks inherent in the mining business include potential uncertainties related to the title of mineral claims, the accuracy of mineral reserve and resource estimates, metallurgical recoveries, capital and operating costs and the future demand for minerals. Please see **Risks**, elsewhere herein.

### *Qualified Person*

Pursuant to National Instrument 43-101, Mr. Francis O'Kelly FIMM, CEng. Director of the Company a Fellow of the UK Institute of Mining and Metallurgy, is the Qualified Person ("QP") responsible for the technical disclosure in this MD&A.

***Non-IFRS Measures***

"Total cash costs" includes include costs such as mining, processing and administration (excluding depreciation and amortization) plus applicable royalties, workers' profit participation cost, and other non-site costs (transport and refining of metals, and community and environmental). These costs are then divided by the ounces sold to arrive at "total cash cost per ounce sold".

"All-in sustaining costs" includes "Total cash costs" plus administrative expenses, mine closure accretion, exploration expenses and capital expenditure. These costs are then divided by the ounces sold to arrive at "total all-in sustaining cost per ounce sold".

Both of these measures may vary from one period to another due to operating efficiencies, waste-to-ore ratios, grade of ore processed and gold recovery rates in the period. "Total cash costs" is also influenced by the realized gold price in the period.

Management believes this information is useful to investors because this measure is considered to be a key indicator of a company's ability to generate operating earnings and cash flow from its mining operations. This data is furnished to provide additional information and is a non-GAAP and non-IFRS measure that does not have any standardized meaning prescribed by GAAP or IFRS. It should not be considered in isolation as a substitute for measures of performance prepared in accordance with IFRS, and is not necessarily indicative of operating costs presented under IFRS. The following table reconciles these non-GAAP measures to the consolidated financial statements.

| | Three-month period ended 30 June | | Six-month period ended 30 June | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Cost of sales | $5,147 | 5,990 | $10,509 | $11,237 |
| Less: | | | | |
| Depreciation | 679 | 925 | 1,610 | 1,635 |
| Total cash costs | $4,468 | $5,065 | $8,899 | $9,602 |
| *Ounces of gold sold* | *5,635* | *6,205* | *11,267* | *11,658* |
| **Total cash costs per ounce sold** | **$793/oz.** | **$816/oz.** | **$790/oz.** | **$824/oz.** |
| Total cash costs plus: | | | | |
| Administrative expenses | $980 | 499 | $1,382 | $936 |
| Mine closure accretion | 112 | 83 | 223 | 167 |
| Exploration expenses | - | 182 | 20 | 217 |
| Capital expenditure | 651 | 433 | 917 | 541 |
| Total all-in Sustaining costs | $6,211 | $6,262 | $11,441 | $11,463 |
| *Ounces of gold produced* | *5,635* | *6,205* | *11,267* | *11,658* |
| **Total all-in sustaining costs per ounce sold** | **$1,102/oz.** | **$1,009/oz.** | **$1,015/oz.** | **$983/oz.** |