Excelsior MINING CORP

# CONSOLIDATED FINANCIAL STATEMENTS

# FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

**(Expressed in US Dollars)**

# *Independent auditor's report*

To the Shareholders of Excelsior Mining Corp.

## *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Excelsior Mining Corp. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

**What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

## *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

*PricewaterhouseCoopers LLP*
*PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7*
*T: +1 604 806 7000, F: +1 604 806 7806*

## *Other information*

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis for the year ended December 31, 2018.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Platt.

**"(signed) PricewaterhouseCoopers LLP"**

Chartered Professional Accountants

Vancouver, British Columbia
March 26, 2019

**EXCELSIOR MINING CORP.**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS OF DECEMBER 31**
(Expressed in US Dollars)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **$ 44,167,866** | $ 16,677,002 |
| Receivables | | **177,046** | 70,735 |
| Prepaid expenses | | **902,936** | 21,384 |
| Materials and supplies | | **286,162** | - |
| | | **45,534,010** | 16,769,121 |
| **Property, plant and equipment, net** | **4** | **19,525,779** | 17,859,495 |
| **Restricted cash** | **5** | **3,304,390** | 222,790 |
| **Total assets** | | **$ 68,364,179** | $ 34,851,406 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | **6** | **$ 2,525,706** | $ 473,117 |
| Amounts due to related parties | **10** | **404,340** | 53,959 |
| Restricted share units | | **249,368** | - |
| | | **3,179,414** | 527,076 |
| **Derivative liabilities** | **7** | **9,782,295** | - |
| **Asset retirement obligation** | **8** | **9,456,074** | 9,179,928 |
| **Total liabilities** | | **22,417,783** | 9,707,004 |
| **Equity** | | | |
| Capital stock | **9** | **88,915,883** | 57,210,709 |
| Other equity reserves | **9** | **6,909,702** | 5,678,311 |
| Deficit | | **(49,050,193)** | (36,915,622) |
| Accumulated other comprehensive loss | | **(828,996)** | (828,996) |
| **Total equity** | | **45,946,396** | 25,144,402 |
| **Total liabilities and equity** | | **$ 68,364,179** | $ 34,851,406 |
| Commitments | **15** | | |

**Approved on March 25, 2019 and signed on behalf of the Board of Directors:**

| | |
|---|---|
| /signed/ | /signed/ |
| **Mark Morabito** | **Jim Kolbe** |
| Chairman of the Board | Chair of the Audit Committee |

The accompanying notes are an integral part of these consolidated financial statements.

**EXCELSIOR MINING CORP.**
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**
**FOR THE YEAR ENDED DECEMBER 31**
(Expressed in US Dollars)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Expenses** | | | |
| Johnson Camp holding and maintenance cost | | **$ 3,450,124** | $ 2,749,495 |
| Project advancement | | **3,396,267** | 2,002,832 |
| Evaluation and permitting | | **1,525,940** | 1,042,079 |
| Office and administration | | **1,217,203** | 962,041 |
| Professional fees | | **1,214,122** | 897,631 |
| Directors' and officers' fees | **10** | **2,143,127** | 847,403 |
| Investor relations | | **500,512** | 422,397 |
| Share-based compensation | **9** | **2,340,388** | 364,561 |
| Regulatory fees | | **74,202** | 214,760 |
| Depreciation | | **275,468** | 131,826 |
| **Other items** | | | |
| Financing expense | | **251,532** | 183,827 |
| Interest income | | **(280,197)** | (74,694) |
| Foreign exchange (gain)/loss | | **82,476** | (7,899) |
| Gain on sale of royalty | **4** | **(3,782,500)** | - |
| Gain on disposal of assets | | **(5,930)** | - |
| Other income | | **(287,693)** | (242,256) |
| Loss on derivative | | **19,530** | - |
| **Loss and comprehensive loss** | | **$ 12,134,571** | $ 9,494,003 |
| **Loss per common share:** | | | |
| Basic and diluted | | **$ 0.06** | $ 0.06 |
| **Weighted average number of common shares outstanding:** | | | |
| Basic and diluted | | **208,545,607** | 168,111,425 |

The accompanying notes are an integral part of these consolidated financial statements.

**EXCELSIOR MINING CORP.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31**
(Expressed in US Dollars)

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **Cash provided by (used in):** | | | | |
| **OPERATING ACTIVITIES** | | | | |
| Loss and comprehensive loss | **$** | **(12,134,571)** | $ | (9,494,003) |
| Items not affecting cash: | | | | |
| Depreciation | | **275,468** | | 131,826 |
| Accretion | | **251,532** | | 117,827 |
| Share-based compensation | | **2,284,144** | | 364,561 |
| Unrealized (gain)/loss on foreign exchange | | **82,476** | | (7,899) |
| Gain on sale of royalty | | **(3,782,500)** | | - |
| Loss on derivative | | **19,530** | | - |
| Net change in non-cash working capital: | | | | |
| Receivables | | **(106,311)** | | 5,205 |
| Prepaid expenses | | **(881,552)** | | 63,483 |
| Materials and supplies | | **(286,162)** | | - |
| Accounts payable and accrued liabilities | | **1,202,466** | | (137,013) |
| Amounts due to related parties | | **350,381** | | 11,059 |
| **Net cash (used) in operating activities** | | **(12,725,099)** | | (8,944,954) |
| **INVESTING ACTIVITIES** | | | | |
| Gunnison project construction | | **(628,266)** | | - |
| Purchase of equipment | | **(438,750)** | | (106,009) |
| Restricted cash | | **(3,081,600)** | | - |
| Royalty option exercise | | **3,782,500** | | - |
| Johnson Camp Mine acquisition | | **-** | | (2,200,000) |
| **Net cash (used) in investing activities** | | **(366,116)** | | (2,306,009) |
| **FINANCING ACTIVITIES** | | | | |
| Stock option exercises | | **(1,140,103)** | | 83,261 |
| Issuance of common shares | | **32,243,145** | | 17,404,412 |
| Share issuance costs | | **(201,253)** | | (1,190,308) |
| Proceeds from copper stream financing, net | | **9,762,766** | | - |
| **Net cash provided by financing activities** | | **40,664,555** | | 16,297,365 |
| **Increase in cash and cash equivalents** | | **27,573,340** | | 5,046,402 |
| **Effect of foreign exchange on cash and cash equivalents** | | **(82,476)** | | 7,899 |
| **Cash and cash equivalents, beginning of the year** | | **16,677,002** | | 11,622,701 |
| **Cash and cash equivalents, end of the year** | **$** | **44,167,866** | $ | 16,677,002 |
| Supplemental cash flow information | | | | |
| Interest paid | | **-** | | 66,000 |
| Income taxes paid | | **-** | | - |

The accompanying notes are an integral part of these consolidated financial statements.

**EXCELSIOR MINING CORP.**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
(Expressed in US Dollars)

| | Capital Stock | | | | | |
|---|---|---|---|---|---|---|
| | Number of Common Shares | Amount | Other Equity Reserves | Deficit | Accumulated Other Comprehensive Loss | Total |
| **Balance, December 31, 2016** | **167,363,952** | **$ 40,889,361** | **$ 5,337,733** | **$ (27,421,619)** | **$ (828,996)** | **$ 17,976,479** |
| Stock option exercises | 350,000 | 107,244 | (23,983) | - | - | 83,261 |
| Private equity placement | 22,168,000 | 17,404,412 | - | - | - | 17,404,412 |
| Share issue cost - cash | - | (1,190,308) | - | - | - | (1,190,308) |
| Share-based compensation | - | - | 364,561 | - | - | 364,561 |
| Loss for the year | - | - | - | (9,494,003) | - | (9,494,003) |
| **Balance, December 31, 2017** | **189,881,952** | **$ 57,210,709** | **$ 5,678,311** | **$ (36,915,622)** | **(828,996)** | **$ 25,144,402** |
| **Balance, December 31, 2017** | **189,881,952** | **$ 57,210,709** | **$ 5,678,311** | **$ (36,915,622)** | **(828,996)** | **$ 25,144,402** |
| Stock option exercises | 5,162,688 | (336,718) | (803,385) | - | - | (1,140,103) |
| Private equity placement | 43,337,017 | 32,243,145 | - | - | - | 32,243,145 |
| Share issue cost - cash | - | (201,253) | - | - | - | (201,253) |
| Share-based compensation | - | - | 2,034,776 | - | - | 2,034,776 |
| Loss for the year | - | - | - | (12,134,571) | - | (12,134,571) |
| **Balance, December 31, 2018** | **238,381,657** | **$ 88,915,883** | **$ 6,909,702** | **$ (49,050,193)** | **$ (828,996)** | **$ 45,946,396** |

The accompanying notes are an integral part of these consolidated financial statements.

## 1. NATURE OF OPERATIONS

Excelsior Mining Corp. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on June 9, 2005 and was classified as a Tier 1 issuer on the TSX Venture Exchange. On February 2, 2017, the Company commenced trading on the Toronto Stock Exchange and de-listed from the TSX Venture Exchange and continues to trade under the symbol "MIN". The address of the Company's registered office is #1240 - 1140 West Pender Street, Vancouver, BC, Canada V6E 4G1.

The Company has commenced construction on the Gunnison Project and is currently continuing to fund the holding and maintenance costs of the Johnson Camp Mine ("JCM"). On November 30, 2018, the Company completed a $75 million project financing package (the "Financing") as discussed in note 7 of these consolidated financial statements and received initial gross proceeds of $20 million.

The Company has been successful in obtaining significant equity and royalty financings over the last few years and intends to continue financing its future requirements through a combination of equity, debt and/or other arrangements. However, there is no assurance that the Company will be able to obtain such financings in the future or obtain them on favorable terms.

## 2. BASIS OF PRESENTATION

### a. Basis of preparation and consolidation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a historical cost basis, except for any financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

All dollar figures are expressed in United States dollars unless otherwise indicated. Canadian dollars are expressed as "CAD$". Certain comparative amounts in the financial statements have been changed to conform to the presentation of the current year financial statements. These changes have no impact on the net loss, deficit or cash flows for the periods as previously reported.

### b. Principles of Consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries. A subsidiary is an entity over which the Company has control. The Company controls an entity when the Company is exposed to, or has the rights to, variable returns from the Company's involvement with the entity and has the ability to affect those returns through the Company's power over the entity.

The results of the Company's subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases. All intercompany transactions and balances have been eliminated.

Details of Company's subsidiaries are as follows:

| Name | Place of Incorporation | Interest % | Principal activity |
|---|---|---|---|
| Excelsior Mining Arizona, Inc. ("Excelsior Arizona") | Arizona, United States | 100% | Exploration, evaluation and development of mineral property interests |
| Excelsior Mining JCM, Inc. ("Excelsior JCM") | Arizona, United States | 100% | Owner of copper production facilities |

### c. Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgment and assumptions that affect the reported amounts of assets, liabilities, shareholders' equity, and the disclosure of contingent assets and liabilities, as at the date of the financial statements, and expenses for the periods reported.

#### *Critical Judgments*

The Company applied judgment in determining that the stream arrangement, in its current status, is a derivative liability for accounting purposes. This judgment will be monitored as facts and circumstances change such as the exercise or expiry of the expansion and buyback options and the relationship of the metal deliverable under the arrangement to the Company's actual production.

#### *Key Sources of Estimation Uncertainty*

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant.

Significant estimates made by management affecting the consolidated financial statements include:

#### *Useful Life and Residual Value of Equipment*

Equipment is depreciated over its estimated useful life. Estimated useful lives are determined based on operating experience, current facts, and take into consideration the anticipated physical life of the asset, the potential for technological obsolescence, and potential new regulations. Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation expense and no assurance can be given that actual useful lives and residual values will not be significantly different from current assumptions.

#### *Stream Obligation*

The carrying value of the stream obligation represents management's best estimate of the fair value of the arrangement. The fair value incorporates estimates of the Company's construction and expansion plans, production volumes, copper prices, discount rates and applicable tax considerations.

#### *Asset Retirement Obligation*

The Company's provision for reclamation and closure cost obligations represent management's best estimate of the present value of the future cash outflows required to settle the liability. The provision reflects estimates of future costs directly attributable to remediating the liability, inflation, assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting future cash outflows. Changes in the factors above can result in a change to the provision recognized by the Company. To the extent the carrying value of the related mining property is not increased above its recoverable amount, changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amount of related mining properties.

#### *Income Taxes*

The Company is subject to income taxes in the United States. Significant judgment is required to determine the provision for income taxes. There are assumptions and uncertainties for which the ultimate tax determination is uncertain. The Company recognizes tax-related assets and liabilities based on the Company's current understanding of tax laws as applied to the Company's circumstances. The final tax outcome could be materially different from tax amounts initially recorded and such differences will impact the current and deferred tax provisions in the period in which the tax outcome is determined. In addition, the tax treatment of the initial proceeds received from Triple Flag involves significant judgment.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a. Financial Instruments and measurement

***Financial assets – Classification***

Financial assets are classified at initial recognition based on the applicable measurement model: amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI"). The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (loss) ("OCI"). For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Changes to IFRS 9, *Financial Instruments,* was adopted by the Company on January 1, 2018. See section l below of this note 3, "New Accounting Pronouncements" for the effects on the Company of the adoption.

***Financial liabilities***

Financial liabilities are designated as either: (i) FVTPL; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the balance sheet subsequent to inception and how changes in value are recorded. Accounts payable are classified as other financial liabilities and carried on the balance sheet at amortized cost.

Derivative instruments, including embedded derivatives in financial liabilities or non-financial contracts are recorded at FVTPL and, accordingly, are recorded on the consolidated statement of financial position at fair value. Fair values for derivative instruments are determined using valuation techniques, with assumptions based on market conditions existing at the statement of financial position date or settlement date of the derivative**.** The Company's stream obligation and foreign currency warrants to purchase common shares are classified as derivative liabilities.

### b. Material and supplies

Materials and supplies inventories are valued at the lower of weighted average cost and net realizable value, less any allowances for obsolescence. Replacement costs of materials and spare parts are generally used as the best estimate of net realizable value.

### c. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset is comprised of its purchase price or construction cost and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the reclamation of the asset. The purchase price or construction cost is the fair value of consideration given to acquire the asset.

Depreciation of property, plant and equipment commences when the asset has been fully commissioned and is available for its intended use.

Wellfield, site infrastructure and other tangible assets, including the solvent extraction-electrowinning plant, roads, pipelines and transmission lines will be depreciated using a unit-of-production method, which is determined each period based on copper pounds produced over the estimated proven and probable copper reserves of the orebody unless the useful life of the asset is less than the life of the mine.

Depreciation of other site assets, including vehicles, mobile equipment, and buildings are calculated using the straight-line method to allocate the initial cost over their estimated useful lives, as follows:

| Asset Class | Estimated useful life |
|---|---|
| Vehicles | 2-5 years |
| Mobile equipment | 2-5 years |
| Buildings | 10-25 years |

Depreciation of office equipment and software is based on the declining balance method at various depreciation rates ranging from 20% to 45% over their estimated useful lives.

Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

**d. Construction in progress**

Construction in progress costs recorded for assets under construction are capitalized as construction in progress. On completion, the cost of construction is transferred to the appropriate category of mineral properties, plant and equipment. No depreciation is recorded until the assets are fully commissioned and available for their intended use.

**e. Exploration and Evaluation Assets**

Costs related to the acquisition of exploration and evaluation assets are capitalized. Costs incurred for the exploration and evaluation of mineral properties, prior to the establishment of commercial viability and technical feasibility, are recognized in profit or loss as incurred. Exploration and evaluation assets are assessed for impairment indicators at the end of each reporting period.

Any option payments or proceeds from the sale of royalty interests received by the Company are credited to the capitalized cost of the related exploration and evaluation asset. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the period received.

Once the technical feasibility and commercial viability of the extraction of mineral reserves or resources from a mineral property has been determined, subsequent expenditures are classified as mineral property development costs within mineral properties, plant and equipment and are carried at cost until the properties to which the expenditures are related to are sold, abandoned or determined by management to be impaired in value.

The establishment of technical feasibility and commercial viability of a mineral property is assessed based on a combination of factors, including:

- The extent to which mineral reserves or mineral resources as defined in National Instrument 43-101 ("NI 43-101") have been identified through a feasibility study or similar document;
- The results of optimization studies and further technical evaluation carried out to mitigate project risks identified in the feasibility study;
- The status of environmental permits; and
- The status of mining leases or permits.

**f. Impairment of Long-lived Assets**

At the end of each reporting period, the Company's long-lived assets are reviewed to determine whether there are any indications that those assets may be impaired. If such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future pretax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

**g. Asset Retirement Obligation ("ARO")**

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated net present value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related assets. The capitalized amount is amortized over the estimated life of the assets. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is recognized in profit or loss for the period. The ARO can also increase or decrease due to changes in the original estimated undiscounted costs, or changes in the timing of these expenditures. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

**h. Income Taxes**

Income tax expense or benefit for the reporting period includes current and deferred income taxes. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax paid or payable in respect of previous years.

Deferred income tax is recognized using the liability method on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax basis of assets and liabilities. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting or taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the year that includes the date of enactment or substantive enactment of change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

### i. Share-Based Compensation Transactions

The Company grants stock options to buy common shares of the Company to directors, officers, employees, and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options. A fair value measurement for each grant is determined using an option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as share-based compensation expense. This includes a forfeiture estimate, which is revised as necessary based on actual forfeiture rates. The Other equity reserve account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to capital stock.

Restricted Share Units ("RSU") issued to employees and directors require the Company to withhold applicable income tax on exercised and settled amounts with the tax authorities. The Company's RSU policy allows for a net settlement arrangement, and RSU are classified in their entirety as cash-settled share-based payment transactions.

### j. Warrants

The Company recognizes the fair value of all warrants issued, recording the amount as an expense, an addition to a related asset, or a cost of issue of shares, as appropriate. Warrants are measured at the time of issue using an option-pricing model to determine their fair value. Warrants that are equity instruments are not remeasured subsequent to grant unless the terms and conditions of the warrants are modified. Warrants denominated in a currency other that the functional currency of the Company are considered to be a derivative and are recorded at fair value through profit and loss.

### k. Foreign Currency Translation

Items included in the financial statements of the Company and its wholly-owned subsidiaries, Excelsior Arizona, and Excelsior JCM, are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and its subsidiaries is the United States Dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of loss and comprehensive loss.

### l. Loss Per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the loss attributable to common shareholders, and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, except when the adjustment is anti-dilutive.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amounts that would have been determined, net of depreciation, if no impairment loss had been recognized.

### m. New Accounting Pronouncements

The Company adopted the amendments to IFRS 2, Share-based Payments ("IFRS 2") effective January 1, 2018 which allows an entity to classify RSU transactions with a net settlement feature in their entirety as an equity-settled share-based payment transaction. The Company first adopted an RSU program in 2018 so the amended standard had no impact on the Company's financial position or results.

The Company adopted IFRS 9, Financial Instruments ("IFRS 9") effective January 1, 2018 in accordance with the transitional provisions of the standard. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 requires financial assets to be classified into three measurement categories: those measured at fair value through profit and loss, at fair value through other comprehensive income, and at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings.

***IFRS 16, Leases***

On January 13, 2016, the IASB issued IFRS 16, Leases, according to which, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after January 1, 2019. The Company does not expect the adoption of this new standard to have any significant impact on its financial results.

(Expressed in US Dollars)

## 4. PROPERTY, PLANT AND EQUIPMENT

Details are as follows:

| | Land | Plant | Asset Retirement Obligation | Vehicles & Mobile Equipment | Computer Software and Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At January 1, 2017 | 93,798 | 11,941,392 | 918,954 | 115,440 | 355,986 | - | 13,425,570 |
| Additions | - | 74,102 | - | - | 31,907 | - | 106,009 |
| ARO Change in Estimate | - | - | 4,761,267 | - | - | - | 4,761,267 |
| At December 31, 2017 | 93,798 | 12,015,494 | 5,680,221 | 115,440 | 387,893 | - | 18,292,846 |
| **Accumulated Depreciation** | | | | | | | |
| At January 1, 2017 | - | - | - | (57,720) | (243,805) | - | (301,525) |
| Depreciation | - | - | (47,964) | (57,720) | (26,142) | - | (131,826) |
| At December 31, 2017 | - | - | (47,964) | (115,440) | (269,947) | - | (433,351) |
| **Net carrying amount** | **93,798** | **12,015,494** | **5,632,257** | **-** | **117,946** | **-** | **17,859,495** |
| **Cost** | | | | | | | |
| At January 1, 2018 | 93,798 | 12,015,494 | 5,680,221 | 115,440 | 387,893 | - | 18,292,846 |
| Additions | - | 226,251 | - | 104,456 | 108,043 | 1,478,388 | 1,917,138 |
| ARO Change in Estimate | - | - | 24,614 | - | - | - | 24,614 |
| Disposal | - | - | - | (25,538) | - | - | (25,538) |
| At December 31, 2018 | 93,798 | 12,241,745 | 5,704,835 | 194,358 | 495,936 | 1,478,388 | 20,209,060 |
| **Accumulated Depreciation** | | | | | | | |
| At January 1, 2018 | - | - | (47,964) | (115,440) | (269,947) | - | (433,351) |
| Depreciation | - | (11,430) | (184,772) | (44,835) | (34,431) | - | (275,468) |
| Disposal | - | - | - | 25,538 | - | - | 25,538 |
| At December 31, 2018 | - | (11,430) | (232,736) | (134,737) | (304,378) | - | (683,281) |
| **Net carrying amount** | **93,798** | **12,230,315** | **5,472,099** | **59,621** | **191,558** | **1,478,388** | **19,525,779** |

**Johnson Camp Mine ("JCM")**

On October 8, 2015, the Company entered into a definitive Asset Purchase Agreement (the "Purchase Agreement") to acquire the assets of Nord Resources Corporation ("Nord"), as they relate to the Johnson Camp Mine (the "Johnson Camp Transaction"). Under the terms of the Purchase Agreement, the Company agreed to acquire, through the court-appointed receiver (the "Receiver"), the Johnson Camp Mine including all fee title property, all patented and unpatented mining claims, all improvements, equipment, certificates of deposit, reports and records. The Company agreed to acquire the assets and certain liabilities of Nord's Johnson Camp Mine for total consideration of $8.4 million under the following terms:

- $5.2 million due on or prior to closing ("Initial Payment");
- $1.0 million due on or before December 31, 2016 ("First Instalment"); and
- $2.2 million due on or before December 31, 2017 ("Final Instalment").

The closing date of the transaction was December 14, 2015.

As at December 31, 2017, the Company paid the Initial, First and Final Instalments totaling $8.4 million. All of the Company's JCM acquisition obligations related to the secured interest-bearing promissory note have been met.

**Share Purchase and Royalty Agreement**

On July 19, 2013, the Company entered into a Share Purchase and Royalty Option Agreement (the "Callinan Agreement") with Callinan Royalties Corporation ("Callinan"), now a wholly-owned subsidiary of Altius Minerals Corporation ("Altius"). Under the terms of the Callinan Agreement, Callinan was to invest CAD$1,000,000 in the Company by way of a non-brokered private placement and up to a further CAD$21,000,000 through the purchase of a staged gross revenue royalty ("GRR") on the Gunnison Project.

Under the terms of the Callinan Agreement, Callinan made an initial investment as follows:

- Purchased 6,250,000 common shares of the Company at a price of CAD$0.16 per common share for aggregate consideration of CAD$1,000,000 (cash was received, and common shares were issued on July 31, 2013); and

- Concurrently paid CAD$2,000,000 to the Company in exchange for a 0.5% GRR (the "Initial GRR").

On July 29, 2014, Callinan exercised its first royalty option under the Callinan Agreement. As a result, Callinan paid the Company CAD$3,000,000 in return for an additional 0.5% GRR on the Gunnison Project. Combined with the initial GRR that Callinan acquired in July 2013, Callinan held a 1.0% GRR on the Gunnison Project as of July 2014.

Callinan also had the option to acquire an additional GRR on the Gunnison Project based on a construction option, as detailed below.

**Development Milestones**

1% of the additional GRR was staged and based upon the Company meeting specific development milestones. By the second quarter of 2016, the Company had achieved both development milestones, however Callinan did not exercise its option to acquire the associated additional GRR. As a result, there are no remaining royalty options associated with the development milestones.

**Construction Option**

The construction option gives Callinan the right to buy up to a 1% GRR for CAD$10,000,000 following completion of the feasibility study, receipt of all required permits and the Company securing a firm commitment for 50% of the required capital required for mine construction. One half (0.5%) of the construction option has vested, while one half (0.5%) of the construction option can no longer vest because Callinan did not exercise its options to acquire additional GRR based on the above two development milestones. Therefore, the construction option was reduced to 0.5% GRR for CAD$5,000,000. The exercise price of the construction option may be adjusted if the final design capacity of the plant is lower than 80 million pounds of copper per year.

(Expressed in US Dollars)

Altius is successor in interest to Callinan Royalties Corporation. On October 1, 2016, Altius Royalties Corp. and Callinan Royalties Corporation were amalgamated to form Altius.

On December 5, 2018, Altius exercised the final royalty option under the Callinan Agreement. As a result, Altius paid the Company CAD$5,000,000 in return for an additional 0.5% GRR on the Gunnison Project. Combined with the initial GRR that Altius acquired in July 2014 and August 2013, Altius holds a 1.625% GRR on the Gunnison Project while Plant Capacity is less than 75 million pounds of copper per year and 1.5% while the Plant Capacity is greater than or equal to 75 million pounds of copper per year. The purchase of the royalty resulted in a gain of $3,782,500.

## 5. RESTRICTED CASH

As of December 31, 2018, the Company has deposited cash of $3,304,390 (2017 - $222,790) as collateral to secure the issuance of bonds. Restricted cash payments of $3,081,600 in 2018 included $444,000 for a reclamation bond as part of the Mined Land Reclamation Plan for the JCM and $2,637,600 for the Class III Underground Injection Control Area Permit, required by the United States Environmental Protection Agency.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Trade payables | 283,451 | 197,086 |
| Accrued liabilities | 2,040,771 | 104,525 |
| Employee-related accruals | 190,750 | 171,506 |
| Other payables | 10,734 | - |
| | $ 2,525,706 | $ 473,117 |

Trade payables include the Company's obligations to suppliers of goods or services acquired on trade credit for goods received or services provided that have been invoiced but not yet paid out in cash. Accrued liabilities and employee-related accruals include estimated amounts for goods or services received but not yet invoiced by the supplier, as well as obligations that increase throughout the year and are settled at points in time, such as property taxes and employee bonus payments.

## 7. DERIVATIVE LIABILITIES

### Project Financing

On October 30, 2018 the Company entered into an agreement for a $75 million project financing package (collectively, the "Financing") with Triple Flag Mining Finance Bermuda Ltd. ("Triple Flag") for the purposes of developing the Gunnison Project. The Financing consists of a $65 million copper metal stream (the "Stream") and a concurrent $10 million private placement of common shares of Excelsior (the "Equity Placement"). The closing of the Financing occurred on November 30, 2018 (the "Closing Date") and resulted in Excelsior receiving initial gross proceeds of $20 million. This amount consisted of the initial $10 million of the $65 million deposit (the "Stage 1 Upfront Deposit") and $10 million of proceeds from the Equity Placement. The balance of the Stage 1 Upfront Deposit will be provided in instalments at the request of Excelsior as it expands or allocates previously received funds for the construction of the Gunnison Project. In conjunction with the arrangement, Excelsior issued to Triple Flag 3.5 million five-year common share purchase warrants, under a five-year term beginning on the Closing Date, entitling Triple Flag to purchase 3.5 million Excelsior common shares at a strike price of CAD$1.50 per share issued.

Under the terms of the metals purchase and sale agreement (the "Stream Agreement") between Triple Flag and Excelsior and its subsidiaries, Excelsior Arizona and Excelsior JCM, Triple Flag has committed to fund a deposit of $65 million against the future sale and delivery by Excelsior Arizona of a percentage of the refined copper production from the Gunnison Project. Excelsior will sell to Triple Flag a percentage of refined copper at a price equal to 25% of the copper spot price. The exact percentages of copper production to be sold to Triple Flag varies according to the total production capacity, based on a sliding scale.

(Expressed in US Dollars)

The percentages applicable at certain projection levels are detailed in the table below.

| | Stage 1 (25 M lbs/yr) | Stage 2 (75 M lbs/yr) | Stage 3 (125 M lbs/yr) |
|---|---|---|---|
| Stage 1 Upfront Deposit | 16.5% | 5.75% | 3.5% |

Following a decision by Excelsior to expand the production capacity, Triple Flag has the option to invest a further $65 million in exchange for an increase in its entitlement to copper under the Stream ("Expansion Option"). Upon completion of an expansion, Excelsior has the option to reduce the amount of the Stream by 50% by making a buy-down payment to Triple Flag (the "Buy-Down Payment"). The Buy-Down Payment is calculated as an amount that provides Triple Flag with an internal rate of return of 15% on 50% of the Stage 1 Upfront Deposit and, if applicable, 15% on 50% of the Expansion Upfront Deposit [in each case after evaluating the value of Stream deliveries (net of the 25% purchase price payment for such deliveries) made to Triple Flag prior to its payment].

The table below shows the range of percentage of production to be purchased by Triple Flag based on specified production levels based on various scenarios that include Triple Flag's Expansion Option and Excelsior's Buy-Down Right. Actual amounts are calculated within the range, based on the proven production history.

| Scenario Description | Stage 1 (25 M lbs/yr) | Stage 2 (75 M lbs/yr) | Stage 3 (125 M lbs/yr) |
|---|---|---|---|
| Stage 1 Upfront Deposit + Expansion Option | 16.5% | 11.0% | 6.6% |
| Stage 1 Upfront Deposit + Expansion Option + Buy-Down Payment | 16.5% | 5.5% | 3.3% |
| Stage 1 Upfront Deposit + Buy-Down Payment | 16.5% | 2.875% | 1.75% |

The stream obligation is recorded at fair value at each statement of financial position date as the Company has determined that the stream obligation is a derivative liability carried at FVTPL.
The stream obligation was valued using Monte Carlo simulation valuation models. The key inputs used by the Monte Carlo simulation in generating future copper prices for purposes of valuing the stream obligations include: the copper forward curve based on Comex futures, long-term copper volatility at 24%, risk-free rate of return at 2.77% and tax rate at 30%. The valuation of the stream obligations also requires estimation of the Company's nonperformance or credit risk, and the Company's expansion plans, and anticipated production schedule of copper pounds delivered over the life of mine

As of December 31, 2018, the Company revalued the Stream and the 3.5 million common share purchase warrants independently resulting in a fair value of the Stream of $8,926,949 and the common share purchase warrants of $855,346.

In conjunction with the Stream, Excelsior also completed an Equity Placement to raise proceeds of $10 million (net of applicable fees and expenses). The Equity Placement consisted of the issuance to Triple Flag of an aggregate of 13,818,977 Excelsior common shares at an aggregate subscription price of $10 million, or equal to approximately CAD$0.95 per share at then-current exchange rates.

## 8. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation ("ARO") represents management's best estimate of the present value of costs that are expected to be incurred for mine closure and reclamation and rehabilitation costs for the JCM and the Gunnison Project. Based on the current projected mine life of the Gunnison Project, these costs and activities are not expected to begin until approximately 30 years after the start of construction on the Gunnison Project. During the fourth quarter of 2018, the Company reviewed the closure requirements under existing permits and the assumptions used in the present value calculation and adjusted the obligation to $9,456,074 as of December 31, 2018. The update was prepared by management and an independent third party and resulted in a net increase of $276,146 from the ARO at December 31, 2017 of $9,179,928.

(Expressed in US Dollars)

As of December 31, 2018, the estimated undiscounted JCM reclamation obligation is $11,923,326 (2017 - $11,095,400) and the estimated undiscounted Gunnison Project reclamation obligation is $53,580 (2017 - $nil). In addition to the undiscounted cost estimates, the primary assumptions that affect the present value calculation are the inflation rate and the discount rate. For the update prepared as of December 31, 2018, the Company used an inflation rate of 2.24% (2017 – 2.11%) and a discount rate of 3.02% (2017 – 2.74%) in calculating the present value of the obligation. The inflation rate is based on current inflation indices and the discount rate is based on the 30-year treasury bond index. During the year, the Company records accretion expense to recognize the increase in the present value of the obligation over time.

During the year ended December 31, 2018 the Company recorded $251,532 of accretion expense related to the asset retirement obligation (2017 - $117,827). Changes in the ARO for the years ended December 31, 2018 and 2017 are summarized below.

| Asset Retirement Obligation | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| **Balance, beginning of period** | **$** | **9,179,928** | **$** | **4,300,834** |
| Addition | | 41,650 | | - |
| Change in estimate | | (17,036) | | 4,761,267 |
| Accretion expense | | 251,532 | | 117,827 |
| **Balance, end of period** | **$** | **9,456,074** | **$** | **9,179,928** |

## 9. CAPITAL STOCK AND OTHER EQUITY RESERVES

Common Shares

The authorized share capital of the Company is comprised of an unlimited number of common shares with no par value. As of December 31, 2018, there were 238,381,657 common shares outstanding. During the year ended December 31, 2018 a total of 48,499,705 common shares were issued, summarized as follows:

- On January 19, 2018, the Company closed a private placement which resulted in the Company issuing 16,467,200 common shares, for gross proceeds of $12,800,000.

- On November 30, 2018, the Company issued 13,818,977 common shares to Triple Flag for the Equity Placement, for gross proceeds of $10,000,000.

- On December 5, 2018, the Company issued 13,050,840 common shares to Greenstone Resources L.P ("Greenstone") for the Greenstone Financing resulting in gross proceeds of $9,443,145. Prior to this transaction, Greenstone held 100,878,097 common shares of Excelsior (representing 48.56% of the Company's then-current issued and outstanding common shares). On December 6, 2018, following the closing of this transaction, Greenstone owned a total of 113,928,937 common shares of Excelsior, which maintained their ownership at approximately 48.56% of Excelsior's issued and outstanding common shares.

- During the year ended December 31, 2018, the Company issued a total of 5,162,688 common shares from stock options exercised.

Share purchase warrants

On November 30, 2018, the Company issued 3.5 million warrants to Triple Flag pursuant to the Financing at an exercise price of CAD$1.50 per share and exercisable until November 30, 2023. The warrants are exercisable into 3.5 million common shares of the company. The warrants are accounted for as a derivative liability.

(Expressed in US Dollars)

As of December 31, 2018, the Company recorded the fair value of the warrants issued based on a Black-Scholes-Merton option-pricing model with the following assumptions:

- Underlying Share Price (CAD$ 0.85)
- Valuation Date (December 31, 2018)
- Maturity Date (November 30, 2023)
- Strike Price (CAD$ 1.50)
- Volatility (60%)

Stock Options

The Company's stock option plan (the "Plan") provides for the grant of incentive stock options to employees, consultants, officers, and directors of the Company. On June 28, 2018 shareholders of the Company approved an amended Plan. The former Plan allowed for a fixed number of shares authorized for issuance of 17,966,400. The amended Plan reserves for issuance, along with the Company's other Security-Based Compensation Plans a maximum of 10% of the issued and outstanding Common Shares at the time of a grant of options. Options granted under the Plan have a maximum term of ten years. The exercise price of the options is determined by the Board of Directors and is not less than the closing price of the common shares on the last trading day prior to the date the options are granted. The vesting terms are at the Board of Directors' discretion.

The Plan is an evergreen plan which provides that if any option has been exercised, then the number of common shares into which such option was exercised shall become available to be issued upon the exercise of options subsequently granted under the Plan. The Plan will operate in conjunction with the Restricted Share Unit Plan (the "RSU Plan") and Performance Share Unit Plan (the "PSU Plan"), which were also approved by the Company's shareholders on June 28, 2018. The amended 2018 Plan, RSU Plan and PSU Plan are collectively referred to as the "Security-Based Compensation Plans".

The following is a summary of stock option activity for the years ended December 31, 2018 and 2017:

| **Stock Options** | **Number of Options** | **Weighted Average Exercise Price (CAD$)** |
|---|---|---|
| **Outstanding, December 31, 2016** | **15,876,000** | **$ 0.22** |
| Granted | 1,100,000 | $ 0.79 |
| Forfeited | (140,000) | $ 0.32 |
| Exercised | (350,000) | $ 0.23 |
| **Outstanding, December 31, 2017** | **16,486,000** | **$ 0.26** |
| Granted | 5,780,000 | $ 1.04 |
| Exercised | (9,936,000) | $ 0.31 |
| **Outstanding, December 31, 2018** | **12,330,000** | **$ 0.69** |
| **Exercisable, December 31, 2018** | **6,362,500** | **$ 0.35** |

On December 6, 2018, the Company announced the implementation of a stock option exercise program (the "Program") for the block of stock options that were due to expire on December 31, 2018. These stock options were originally issued from 2010 to 2012 and were held by the option-holders for between 6 and 8 years. The intent of the Program was to minimize any impact on the Company's share price by avoiding the sale of a large block of shares within a short time period. The Program was also set-up to minimize shareholder dilution resulting from the exercise of stock options. The Program involved two steps. First, option-holders completed a "net exercise" whereby option-holders received a net number of shares by reducing the amount they would otherwise be issued to cover the exercise price. As a second step, the Company repurchased from each option-holder (at the market price) a sufficient number of shares to cover the income taxes of the option-holders associated with the exercise. During December 2018, the Program resulted in a total of 1,630,727 shares being repurchased by the Company and cancelled, and a final net amount of 3,407,479 shares being issued to option-holders. The Program was completed without any shares being sold in the market to cover exercise price or tax obligations.

(Expressed in US Dollars)

During the year ended December 31, 2018, a total of 9,936,000 stock options were exercised, of which 4,773,312 stock options were exercised in exchange for a substituted right or repurchased and cancelled under the stock option exercise program, resulting in the net issuance of 5,162,688 common shares.

As at December 31, 2018, the following stock options were outstanding and exercisable:

| Outstanding | Exercisable | Exercise Price | | Remaining life (years) | Expiry Date |
|---|---|---|---|---|---|
| 500,000 | 500,000 | CAD$ | 0.26 | 0.80 | October 20, 2019 |
| 250,000 | 250,000 | CAD$ | 0.25 | 0.92 | December 1, 2019 |
| 100,000 | 100,000 | CAD$ | 0.30 | 1.64 | August 19, 2020 |
| 4,600,000 | 4,600,000 | CAD$ | 0.23 | 1.96 | December 16, 2020 |
| 200,000 | 150,000 | CAD$ | 0.77 | 3.09 | January 31, 2022 |
| 200,000 | 150,000 | CAD$ | 0.83 | 3.40 | May 24, 2022 |
| 200,000 | 100,000 | CAD$ | 1.18 | 3.61 | August 10, 2022 |
| 200,000 | 100,000 | CAD$ | 1.20 | 3.73 | September 21, 2022 |
| 300,000 | 150,000 | CAD$ | 1.15 | 3.97 | December 19, 2022 |
| 200,000 | 50,000 | CAD$ | 1.15 | 4.07 | January 24, 2023 |
| 300,000 | 75,000 | CAD$ | 1.11 | 4.09 | February 1, 2023 |
| 100,000 | 25,000 | CAD$ | 1.25 | 4.15 | February 22, 2023 |
| 150,000 | 37,500 | CAD$ | 1.29 | 4.27 | April 9, 2023 |
| 300,000 | 75,000 | CAD$ | 1.43 | 4.37 | May 15, 2023 |
| 4,530,000 | - | CAD$ | 1.00 | 4.84 | November 2, 2023 |
| 200,000 | - | CAD$ | 0.94 | 4.94 | December 7, 2023 |
| 12,330,000 | 6,362,500 | | | | |

The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yield, volatility factors of the expected market price of the Company's common shares, forfeiture rate, and expected life of the options. The Company recognized share-based compensation costs of $2,034,776 (December 31, 2017 - $364,561) in relation to stock options granted and vested during the year ended December 31, 2018.

The following assumptions were used for the Black-Scholes valuation of stock options granted during the year ended December 31, 2018 and 2017:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Risk-free interest rate | 2.09% | 1.45% |
| Expected life of options | 5.0 years | 5.0 years |
| Annualized volatility | 121.0 % | 119.7% |
| Dividend yield | 0% | 0% |

Restricted Share Units

The Company's RSU Plan, adopted on June 28, 2018, provides for the grant of restricted shares to employees, consultants, officers, and directors of the Company. An individual restricted share unit will have the same value as one common share. The number of RSUs awarded, and its associated vesting terms, are determined at the discretion of the Board of Directors. The maximum aggregate number of common shares issuable to participants at any time pursuant to the RSU Plan, together with all other Security-Based Compensation Plans of the Company, may not exceed 10% of the currently issued and outstanding common shares of the Company at the time of a grant of the RSU.

(Expressed in US Dollars)

Upon each vesting date, participants receive the issuance of common shares from treasury equal to the number of RSUs vesting, or a cash payment equal to the number of vested RSUs multiplied by the fair market value of a common share, calculated as the closing price of the common shares on the TSX for the trading day immediately preceding such payment date; or a combination thereof. The RSU Plan is considered a cash-settled award plan, therefore, the RSU Plan is classified as a liability, and is measured at fair value on the grant date and is subsequently adjusted for changes in fair value at each reporting date until settlement. The fair value of RSUs is estimated based on the quoted market price of the company's common shares.

During the year ended December 31, 2018, the Company granted a total of 550,000 RSUs with vesting period varying from 1 to 17 months.

A summary of the activity related to the Company's RSUs is provided below.

| **Restricted Share Units** | |
|---|---|
| **Balance, at December 31, 2017** | **-** |
| Granted | 550,000 |
| Vested | (75,000) |
| **Balance, at December 31, 2018** | **475,000** |

During the year ended December 31, 2018, the Company recorded compensation costs related to RSUs in the amount of $305,612 (2017 - nil), which were classified as share-based compensation costs.

Performance Share Units

The Company's PSU Plan adopted on June 28, 2018 provides for the grant of restricted shares to officers, employees, and consultants of the Company. An individual performance share unit will have the same value as one common share. The number of PSUs awarded, and its associated vesting terms, are determined at the discretion of the Board of Directors. The maximum aggregate number of common shares issuable to participants at any time pursuant to the PSU Plan, together with all other Security-Based Compensation Plans of the Company, may not exceed 10% of the currently issued and outstanding common shares of the Company at the time of a grant of the PSU.

Upon each vesting date, participants receive the issuance of common shares from treasury equal to the number of PSUs vesting, or a cash payment equal to the number of vested PSUs multiplied by the fair market value of a common share, calculated as the closing price of the common shares on the TSX for the trading day immediately preceding such payment date; or a combination thereof. On the basis that it is the Company's option and intent to settle any PSU redemptions by the issuance of common shares from treasury, the PSU Plan is considered an equity-settled award plan.

As of December 31, 2018, the Company had not granted any PSUs.

## 10. RELATED PARTY TRANSACTIONS

Related parties and related party transactions are summarized below:

Key Management Personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that key management personnel consists of the Company's Board of Directors and corporate officers, including the Company's Chief Executive Officer, Chief Operating Officer and Senior Vice President & Chief Financial Officer.

(Expressed in US Dollars)

Remuneration attributed to key management personnel is summarized as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | **2017** |
| Salaries, fees and benefits | $ 2,174,531 | $ 1,168,130 |
| Share-based compensation | 1,796,363 | 13,913 |
| Total | **$ 3,970,894** | **$ 1,182,043** |

Salaries, fees and benefits to key management includes all salaries, bonuses, fees, and other employment benefits, pursuant to contractual employment agreements, consultancy or management services arrangements.

Other Related Parties

King & Bay West Management Corp, ("King & Bay") is an entity owned by Mark Morabito, the Chairman of the Company, which employs or retains certain officers and personnel of the Company. King & Bay provides legal, regulatory and corporate secretarial services to the Company. These services are provided to the Company on an as-needed basis and are billed based on the cost or value of the services provided to the Company. The amounts shown in the table below represent amounts paid to King & Bay for the services of King & Bay personnel and for overhead and third-party costs incurred by King & Bay on behalf of the Company.

Kinley Exploration LLC ("Kinley") is an entity owned by Colin Kinley, a Director of the Company. Kinley provides certain technical services regarding Project preparation and development to the Company. These services are provided to the Company on an as-needed basis and are billed based on the cost or value of the services provided to the Company. The amount shown in the table below represents amounts paid to Kinley for the services of Kinley personnel and for out-of-pocket reimbursable expenses incurred by Kinley on behalf of the Company.

Transactions entered into with related parties other than key management personnel included the following:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | **2017** |
| King & Bay | $ 531,873 | $ 416,667 |
| Kinley | $ 127,150 | $ 130,500 |

As of December 31, 2018, amounts accrued and due to key management personnel and other related parties include the following:

- Corporate officers - $392,575 (December 31, 2017 - nil)
- King & Bay - $11,765 (December 31, 2017 - $44,959)
- Kinley - $nil (December 31,2017 - $9,000)

(Expressed in US Dollars)

## 11. INCOME TAXES

The 2018 tax reform act was enacted in the United States in December 2017. This act took effect January 1, 2018 with one of the significant changes being a reduction to the corporate income tax rate from 35% to 21%.

A reconciliation of income taxes at statutory rates is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| (Loss) for the year | $ (12,134,571) | $ (9,494,003) |
| Combined federal and state income tax rates | 24.87% | 38.19% |
| Income tax recovery based on the above rate | $ (3,017,989) | $ ( 3,625,285) |
| Increase due to: | | |
| Non-deductible costs | 9,341 | 3,189 |
| Income tax benefits not recognized | 3,008,649 | 3,622,096 |
| Income tax expense (recovery) | $ - | $ - |

The significant components of the Company's unrecorded net deferred tax assets (liabilities) are as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Non-capital losses - US | $ 4,776,713 | $ 5,108,622 |
| Non-capital losses - Canada | 3,606,544 | 2,851,359 |
| Property, plant and equipment | (1,409,397) | (2,214,873) |
| Exploration and evaluation assets | 2,401,155 | 2,484,203 |
| Asset retirement obligation | 2,341,461 | 2,283,140 |
| Other | 3,504,151 | 325,033 |
| Net deferred tax assets | $ 15,220,627 | $ 10,837,484 |

Deductible (taxable) temporary differences for which deferred taxes have not been recognized:

| | December 31, 2018 | December 31, 2017 | Expiry Date |
|---|---|---|---|
| Non-capital losses – US | $ 19,205,956 | $ 20,540,478 | 2031 to 2037 for pre-2018 losses. Unlimited thereafter |
| Non-capital losses - Canada | 13,871,325 | 10,966,766 | 2025 to 2038 |
| Property, plant and equipment | (5,666,831) | (8,905,446) | Unlimited |
| Exploration and evaluation assets | 9,654,436 | 9,988,352 | 2039 to Unlimited |
| Asset retirement obligation | 9,414,424 | 9,179,928 | Unlimited |
| Other | 14,089,304 | 1,306,877 | Unlimited |
| Net deferred tax assets | $ 60,568,614 | $ 43,076,955 | |

Tax attributes are subject to review, and potential adjustment, by tax authorities.

The Company did not recognize deferred tax assets in the amount of $15,220,627. Deferred tax assets are recognized for tax loss carryforwards and other temporary differences to the extent that it is more-likely-than-not that the Company would realize the related tax benefit through future taxable profits. The Company has determined that it is not more-likely-than-not that the Company would have sufficient future taxable profits to realize the benefit of the deferred tax assets.

(Expressed in US Dollars)

## 12. SEGMENTED INFORMATION

The Company operates in one reportable operating segment in North America.

Geographical information is as follows:

| | | As at December 31, 2018 | | As at December 31, 2017 |
|---|---|---|---|---|
| **Property, Plant and Equipment** | | | | |
| United States | $ | 19,397,656 | $ | 17,819,597 |
| Canada | | 128,123 | | 39,898 |
| | $ | 19,525,779 | $ | 17,859,495 |

## 13. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and evaluation, and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

In the management of capital, the Company considers components of equity.

The properties in which the Company currently has an interest are in the development and construction stage; as such the Company has obtained project financing for the development and construction activities of the Gunnison Project in the form of the Stream and Equity Placement discussed in note 7. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year.

## 14. FINANCIAL RISK MANAGEMENT

The Company has exposure to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk from its use of financial instruments.

This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Risk management is the responsibility of management and is carried out under policies approved by the Board of Directors. Material risks are monitored and are regularly discussed with the Audit Committee and Board of Directors.

Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates and interest rates will affect the Company's cash flows or value of its financial instruments.

*Foreign exchange risk*

The Company is subject to currency risk on financial instruments which are denominated in currencies that are not the same as the functional currency of the entity that holds them. Exchange gains and losses would impact earnings (loss).

The Company is exposed to currency risk through cash and cash equivalents, accounts payable and accrued liabilities which are denominated in CAD$. The Company has not hedged its exposure to currency fluctuations at this time.

*Interest rate risk*

The Company is subject to interest rate risk with respect to its investments in cash and cash equivalents. The Company's current policy is to invest excess cash in guaranteed investment certificates issued by its Canadian banking institution. The Company periodically monitors the investment it makes and is satisfied with the credit ratings of its banks.

Interest risk on cash and cash equivalents is minimal because these investments generally have a fixed interest rate

*Commodity price risk*

The Company is subject to commodity price risk from fluctuations in the market prices for copper. Commodity price risks are affected by many factors that are outside the Company's control including global or regional consumption patterns, the supply of and demand for metals, speculative activities, the availability and costs of metal substitutes, inflation and political and economic conditions. The financial instrument impacted by commodity prices is the stream obligation (derivative liability).

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents, tax receivables and restricted cash.

The Company limits its exposure to credit risk on financial assets through investing its cash and cash equivalents with high-quality North American financial institutions. The Company's receivables consist mainly of input tax credits receivable from the Government of Canada.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to maintain sufficient liquidity to meet its liabilities when due. The Company manages liquidity risk by monitoring actual and projected cash flows and matching the maturity profile of its financial assets and liabilities. Cash flow forecasting is performed regularly. The Company also holds surety bonds to support future environmental obligations.

As of December 31, 2018, the Company has cash and cash equivalents balance of $44,167,866 to settle current liabilities of $3,179,414

(Expressed in US Dollars)

Fair value estimation

The Company's financial assets and liabilities are measured and recognized according to a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The three levels of fair value hierarchy are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data

The carrying values of cash and cash equivalents, receivables, restricted cash, accounts payable and accrued liabilities, and amount due to related parties approximate their fair values due to the short-term maturity of these financial instruments.

The following tables present the Company's financial assets and liabilities by level within the fair value hierarchy.

| **As at December 31, 2018** | Carrying value | | | Fair value | | |
|---|---|---|---|---|---|---|
| | FVTPL | Amortized cost | Other financial liabilities | Level 1 | Level 2 | Level 3 |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | $ - | $ 44,167,866 | $ - | $ - | $ - | $ - |
| Restricted cash | - | 3,304,390 | - | - | - | - |
| | $ - | $ 47,472,256 | $ - | $ - | $ - | $ - |
| **Financial liabilities** | | | | | | |
| Accounts payable and accrued liabilities | $ - | $ - | $ 2,525,706 | $ - | $ - | $ - |
| Amount due to related parties | - | - | 404,340 | - | - | - |
| Restricted share units | 249,368 | - | - | - | 249,368 | - |
| Derivative liabilities | 9,782,295 | - | - | - | - | 9,782,295 |
| | $ 10,031,663 | $ - | $ 2,930,046 | $ - | $ 249,368 | $ 9,782,295 |

## 15. COMMITMENTS

The Company has the following commitments and contractual obligations as of December 31, 2018:

| **Contractual Obligations** | **Total** | **Less than 1 year** | **1-3 years** | **4-5 years** | **After 5 years** |
|---|---|---|---|---|---|
| Asset Retirement Obligation[1] | $ 11,976,906 | - | - | - | $ 11,976,906 |
| Operating Leases | $ 244,263 | $ 98,850 | $ 145,413 | - | - |
| Purchase Obligations | $ 18,005,969 | $ 18,005,969 | - | - | - |
| Total Contractual Obligations | $ 30,227,138 | $ 18,104,819 | $ 145,413 | - | $ 11,976,906 |

[1] Classification of such amounts is based on estimates of when reclamation work will be performed. Amounts represent undiscounted estimates and are not reflective of inflation.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# FOR THE YEAR ENDED DECEMBER 31, 2018

Management's Discussion and Analysis ("MD&A") is as of March 25, 2019 and relates to the financial condition of Excelsior Mining Corp. and its subsidiaries ("Excelsior" or the "Company") as of December 31, 2018. The MD&A supplements and complements Excelsior's audited Consolidated Financial Statements for the year ended December 31, 2018 (the "consolidated financial statements") and related notes. Other relevant documents to be read with this MD&A include the Annual Information Form ("AIF") for the year ended December 31, 2018. Comparison of the financial results in this MD&A is provided to the three months and year ended December 31, 2017. Readers are cautioned that the MD&A contains forward-looking statements and that actual events may vary from Management's expectations. Readers are encouraged to read the Cautionary Statements section included with this MD&A and to consult the Company's audited consolidated financial statements for the year ended December 31, 2018 and related notes, which are available on the Company's website at *www.excelsiormining.com*, and on the SEDAR website at *www.sedar.com*. The Company's audited consolidated financial statements for the year ended December 31, 2018 and 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar amounts are expressed and presented in thousands of United States dollars (unless otherwise noted). Canadian dollars are expressed as "CAD $".

This MD&A contains forward-looking statements and should be read in conjunction with the factors described in "Risk Factors" and "Forward Looking Information" presented later in this MD&A.

## APPROVAL

The Board of Directors of Excelsior Mining Corp. has approved the disclosure contained in this MD&A as of March 25, 2019.

## DESCRIPTION OF BUSINESS

Excelsior is a mineral exploration and development company that is advancing the Gunnison Copper Project ("Gunnison Project") located within the copper porphyry belt of southeast Arizona. Excelsior was incorporated under the *Business Corporations Act* of British Columbia on June 9, 2005. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "MIN", the top-tier over-the-counter market ("OTCQX") under the symbol "EXMGF", and the Frankfurt Stock Exchange under the symbol "3XS".

The Gunnison Project is a fully-permitted in-situ recovery copper extraction project. The Company has begun drilling the wellfield, procuring equipment, and building out the infrastructure including the equipment necessary to upgrade the adjacent Johnson Camp mine ("JCM") Solvent Extraction and Electrowinning ("SX-EW") plant assets, which were acquired in 2015.

The Company is currently proceeding with construction activities relating to the Gunnison Project as well as continuing property care and maintenance for the JCM heap leach pad. The Company completed two strategic milestones in the development of its business in the fourth quarter of 2018, which included obtaining the final operating permit and the construction financing package for the Gunnison Project. See below for additional details.

## PRIVATE PLACEMENT

On January 19, 2018 the Company closed the second and final tranche of its non-brokered private placement which consisted of issuing an additional 16,467,200 common shares at a price of CAD$1.00 per share, for gross proceeds of CAD$16,467,200 (approximately $12.8 million). The second tranche was subscribed for by an affiliate of Greenstone Resources L.P. ("Greenstone"). The net proceeds of the private placement were used during 2018 to advance the Gunnison Project, including completion of permitting activities, care and maintenance of the JCM facilities and heap leach pad, hiring key management, technical, and administrative staff, for both construction and the eventual operations of the Gunnison Project, finalizing basic and detailed engineering including the SX-EW plant upgrades and JCM infrastructure improvements, and preparing for the start-up of construction activities.

## UIC PERMIT

On October 16, 2018, the Company reached a key milestone and announced that the Environmental Protection Agency (the "EPA") issued the Underground Injection Control ("UIC") permit for the Gunnison Project. This action completed the permitting process as the UIC permit was the final operating permit required to start mine construction and commence production. The UIC Permit is effective for copper production of up to 125 million pounds per year.

To summarize Excelsior's 2018 developments in obtaining the UIC permit, on June 22, 2018 the EPA issued Excelsior the UIC Permit with an effective date of August 1, 2018. An appeal (the "Appeal") of the UIC Permit was subsequently filed by a coalition of non-governmental organizations (the "Petitioners") (See Excelsior Mining news release dated August 6, 2018 — "Excelsior Provides Permitting Update"). All appeals are reviewed by the Environmental Appeals Board (the "EAB"). On October 5, 2018 Excelsior announced that a Settlement Agreement (the "Agreement") had been concluded that would result in the dismissal of the Appeal. As per the terms of the Agreement, Excelsior, the EPA, and the Petitioners submitted to the EAB a joint motion to dismiss the Appeal (see Excelsior news release dated October 5, 2018 - "Excelsior Mining Confirms Agreement to Dismiss UIC Permit Appeal"). The EAB accepted the joint motion dismissing the Appeal, and the EPA then lifted the stay, thereby resulting in the UIC Permit becoming effective on October 16, 2018.

## PROJECT FINANCING

On October 30, 2018 the Company entered into an agreement for a $75 million project financing package (collectively, the "Triple Flag Financing") with Triple Flag Mining Finance Bermuda Ltd. ("Triple Flag"). The Triple Flag Financing consists of a $65 million copper metal stream (the "Stream") and a concurrent $10 million private placement of common shares of Excelsior (the "Triple Flag Equity Placement") and represents a major strategic milestone for Excelsior in transitioning the Gunnison Project into America's next new copper producer, with production expected to begin in the fourth quarter of 2019. The closing of the Triple Flag Financing occurred on November 30, 2018 (the "Closing Date") and resulted in Excelsior receiving initial gross proceeds of $20 million. This amount consisted of the initial $10 million of the $65 million deposit (the "Stage 1 Upfront Deposit") and the $10 million proceeds from the Triple Flag Equity Placement. The balance of the Stage 1 Upfront Deposit will be provided in instalments at the request of Excelsior as it expends or allocates previously received funds for the construction of the Gunnison Project.

Under the terms of the metals purchase and sale agreement (the "Stream Agreement") between Triple Flag and Excelsior and its subsidiaries, Excelsior Mining Arizona, Inc. ("Excelsior Arizona") and Excelsior Mining JCM, Inc., Triple Flag has committed to fund the Stage 1 Upfront Deposit against the future sale and delivery by Excelsior Arizona of a percentage of the refined copper production from the Gunnison Project. Excelsior will sell to Triple Flag a percentage of refined copper at a price equal to 25% of the copper spot price. The exact percentages of copper production to be sold to Triple Flag varies according to the total production capacity. These percentages are detailed in the table below.

| | Stage 1 (25 M lbs/yr) | Stage 2 (75 M lbs/yr) | Stage 3 (125 M lbs/yr) |
|---|---|---|---|
| Stage 1 Upfront Deposit | 16.5% | 5.75% | 3.5% |

Subsequent to notice from Excelsior that the Company will be expanding production capacity to an amount equal to or greater than 50 million pounds per year, Triple Flag will have the option to increase its stream participation by paying an additional $65 million (the "Expansion Upfront Deposit").

Excelsior also retains the option to reduce the amount of the Stream by 50% by making a buy-down payment to Triple Flag (the "Buy-Down Payment"). The amount of the Buy-Down Payment depends on whether Triple Flag has exercised its option to provide the Expansion Upfront Deposit. The Buy-Down Payment is calculated as an amount that provides Triple Flag with an internal rate of return of 15% on 50% of the Stage 1 Upfront Deposit and, if applicable, 15% on 50% of the Expansion Upfront Deposit (in each case after evaluating the value of Stream deliveries (net of the 25% purchase price payment for such deliveries) made to Triple Flag prior to its payment).

The table below shows the percentage of production to be acquired by Triple Flag based on scenarios that include Triple Flag's Expansion Option and Excelsior's Buy-Down Right.

| | Stage 1 (25 M lbs/yr) | Stage 2 (75 M lbs/yr) | Stage 3 (125 M lbs/yr) |
|---|---|---|---|
| Stage 1 Upfront Deposit + Expansion Option | 16.5% | 11.0% | 6.6% |
| Stage 1 Upfront Deposit + Expansion Option + Buy-Down Payment | 16.5% | 5.5% | 3.3% |
| Stage 1 Upfront Deposit + Buy-Down Payment | 16.5% | 2.875% | 1.75% |

In consideration of the Stream, Excelsior issued to Triple Flag 3.5 million five-year common share purchase warrants, under a five-year term beginning on the Closing Date, entitling Triple Flag to purchase 3.5 million Excelsior common shares at a strike price of CAD$1.50 per share issued.

In conjunction with the Stream, Excelsior also completed the Triple Flag Equity Placement to raise proceeds of $10 million (net of applicable fees and expenses). The Triple Flag Equity Placement consisted of the issuance to Triple Flag of an aggregate of 13,818,977 Excelsior common shares at an aggregate subscription price of $10 million, or equal to approximately CAD$0.95 per share at then-current exchange rates.

On November 21, 2018, Excelsior announced that Greenstone entered into a subscription agreement with respect to the exercise of Greenstone's pro-rata rights over the issuance of common shares of the Company. Accordingly, Excelsior issued to Greenstone an aggregate of 13,050,840 Excelsior common shares at an aggregate subscription price of $9.4 million, or equal to approximately CAD$0.95 per share at then-current exchange rates. Prior to this transaction, Greenstone held 100,878,097 common shares of Excelsior (representing 48.56% of the Company's then-current issued and outstanding common shares). On December 6, 2018 following the closing of this transaction, Greenstone owned a total of 113,928,937 common shares of Excelsior, which maintains their ownership at approximately 48.56% of Excelsior's issued and outstanding common shares.

On December 5, 2018, the Company announced that Altius Royalty Corporation ("Altius") exercised the final royalty option under the Share Purchase and Royalty Option Agreement dated July 19, 2013 between the Company and Altius. Altius is successor in interest to Callinan Royalties Corporation. On October 1, 2016, Altius Royalties Corp. and Callinan Royalties Corporation were amalgamated to form Altius. In accordance with the terms of the final royalty option, Altius paid the Company CAD$5.0 million and received an additional gross revenue royalty ("Construction GRR") on the Gunnison Project that is equal to (i) 0.625% while the plant capacity of all the plants operated or constructed by the Company or its affiliates for use in connection with the Gunnison Project ("Plant Capacity") is less than 75 million pounds of copper per year; and (ii) 0.5% while the Plant Capacity is greater than or equal to 75 million pounds of copper per year.

Combined with the GRRs that Altius previously acquired (see Excelsior news releases dated July 29, 2014 and August 1, 2013), Altius now holds a 1.625% GRR on the Gunnison Project while Plant Capacity is less than 75 million pounds of copper per year and 1.5% while the Plant Capacity is greater than or equal to 75 million pounds of copper per year.

## GUNNISON PROJECT CONSTRUCTION

On December 4, 2018, following the completion of the above two strategic milestones of permitting and construction financing, the Company announced the start of construction activities at the Gunnison Project.

Throughout the permitting process, ramp-up and pre-construction activities were ongoing at JCM to ensure an efficient transition into the pending construction and production phases. Basic and detailed engineering, along with the Project Execution and Construction Plans, were all completed. A general contractor and all other major contractors were selected. Key corporate systems, such as Safety and Environmental compliance, and the Enterprise Resource Planning (ERP) were implemented. Long lead procurement items were ordered, and drill casing was purchased and stored on site in preparation of the drilling equipment mobilization. Additionally, other support equipment and vehicles were leased or purchased.

The following is a summary of the construction activities that have commenced on the Gunnison Project.

### Wellfield Drilling and Infrastructure

The wellfield has been designed to provide maximum operational flexibility including reversing wells and adjustable flowrates to maximize copper production. The contract drilling program is advancing with five drill rigs currently on site. Collar drilling and cement casing of the wells is on-going in advance of down-hole activities, such as the installation of pumps and instrumentation. A total of 63 wells, including 41 production wells and 22 compliance wells totaling approximately 82,000 feet will be completed. The significant number of compliance wells will ensure groundwater monitoring according to state and federal regulatory requirements. Drilling of the production wellfield is expected to be completed by July 2019. The initial wellfield area will be 400 feet by 400 feet with a spacing of approximately 70 feet between injection and production wells.

### Access Road Construction

An additional access road south of the Interstate 10 Highway has been installed. Access to the production wellfield has been improved and overall transport efficiencies have been upgraded. The Gunnison Project is located near all critical infrastructure components such as road, rail, power and water.

### Pipeline Distribution and Infrastructure

Construction of the pipeline corridor connecting the processing facilities at JCM to the wellfield has commenced and is expected to be completed by May 2019. A two-mile high-density polyethylene (HDPE) pipeline corridor will safely transport solution to the JCM processing facilities. Pipeline corridor liners, double-pipe containment and maintenance ponds will ensure best practice in terms of environmental management and safety. Jack and bore, the method of horizontal drilling that is being employed to install a pipeline under the Interstate 10 Highway, is underway. Horizontal boring is scheduled to begin in April 2019.

**JCM SX-EW Plant Upgrades**
Upgrades to the JCM processing facilities include enhanced controls and instrumentation, new rectifiers, increased solution heating capacity as well as other modifications that is expected to allow the Gunnison Project to produce Grade A, 99.999% pure copper cathode.

**Electrical Distribution and Infrastructure**
Electrical distribution to the wellfield includes moving and utilizing the existing substation near the JCM crushing facilities that have been under care and maintenance during the exploration and permitting phases. This plan is expected to provide significant cost savings for the required capital investment for the Gunnison Project.

**Process Pond Upgrades and Completions**
The existing ponds are being modified to accommodate the copper solutions from the wellfield. Additional pregnant leach solution (PLS) capacity is also being created to provide operational flexibility for copper production.

**New Acid Storage Facilities**
These new facilities have been designed to enable the Company to store sulfuric acid and provide operational flexibility for the Company to take economic advantage of market acid pricing opportunities as they arise.

**Staff Ramp-up**
Key management, technical and administrative personnel have been contracted or hired for the initial construction phase and will ramp-up accordingly in order to operate the production facility at JCM. The administrative offices have also been fully refurbished. The number of employees at JCM as of December 31, 2018 totaled 33 individuals, and as of the date of this MD&A totals 53.

Total capitalized expenditures including accruals on the Gunnison Project as of December 31, 2018 were $1,478,388.

## STOCK OPTION EXERCISE PROGRAM

On December 6, 2018, the Company announced the implementation of a stock option exercise program (the "Program") for the block of stock options that were due to expire on December 31, 2018. These stock options were originally issued from 2010 to 2012 and were held by the option-holders for between 6 and 8 years. The intent of the Program was to minimize any impact on the Company's share price by avoiding the sale of a large block of shares within a short time period. The Program was also set-up to minimize shareholder dilution resulting from the exercise of stock options. The Program involved two steps. First, option-holders completed a "net exercise" whereby option-holders received a net number of shares by reducing the amount they would otherwise be issued to cover the exercise price. As a second step, the Company repurchased from each option-holder (at the market price) a sufficient number of shares to cover the income taxes of the option-holders associated with the exercise. During December 2018, the Program resulted in a total of 1,630,727 shares being repurchased by the Company and cancelled, and a final net amount of 3,407,479 shares being issued to option-holders. The Program was completed without any shares being sold in the market to cover exercise price or tax obligations.

## OUTLOOK

Construction of the Gunnison Project is expected to be completed in the third quarter 2019 and copper production is expected to begin in the fourth quarter 2019.

Total capitalized expenditures forecast for the Gunnison Project in 2019 is approximately $72.0 million.

## SELECTED ANNUAL INFORMATION

A summary of the Company's consolidated financial results for the years ended 2018, 2017, and 2016 are presented below:

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Revenue | $ | nil | $ | nil | $ | nil |
| Total assets | | 68,364,179 | | 34,851,406 | | 25,130,343 |
| Working Capital | | 42,354,596 | | 16,242,045 | | 8,930,478 |
| Total non-current liabilities | | 19,238,369 | | 9,179,928 | | 4,300,834 |
| Shareholders' equity | | 45,946,396 | | 25,144,402 | | 17,976,479 |
| Cash dividends paid | | - | | - | | - |
| Net loss for the year | | 12,134,571 | | 9,494,003 | | 4,290,128 |
| Basic and diluted loss per share | | 0.06 | | 0.06 | | 0.03 |

## REVIEW OF FINANCIAL RESULTS

The Company's total assets, working capital and shareholders' equity have all increased over the three-year period from 2016 to 2018 primarily due to the equity investments from Greenstone in 2017 and 2018, and the Triple Flag Financing in 2018.

The net loss for the years ended 2016 to 2018 have increased as the Company has advanced the Gunnison Project from exploration and evaluation, through feasibility and sustainability, and project advancement activities. The care and maintenance costs of the JCM facilities has remained relatively constant over the three-year period.

During the second half of 2016 and into 2017, the Company maintained a relatively constant level of quarterly spending while shifting the focus of its activities from acquiring JCM to Pre-feasibility Study and Feasibility Study filings, to permitting activities and currently shifting towards the beginning of project development. During this time, the Company also worked on integrating JCM into the long-term plans of the Company.

A comparison of the financial results for the year and the three-month period ended December 31, 2018 and December 31, 2017 is provided below.

**For the year ended December 31, 2018 compared to the year ended December 31, 2017:**

For the year ended December 31, 2018, the Company's net loss for the year was $12,134,571 ($0.06 per share) compared to a net loss of $9,494,003 ($0.06 per share) for the year ended December 31, 2017. The higher net loss for the year ended December 31, 2018 as compared to the same period of 2017 resulted from higher costs associated with advancing the Gunnison Project through the permitting, financing and construction-readiness stages. Partly offsetting this, the Company recognized a gain of $3,782,500 on the sale of royalty from the exercise of Altius' final royalty option payment in December 2018.

Significant changes in the "Expenses" categories listed in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2018 and 2017 are described below:

For the year ended December 31, 2018 the Company incurred JCM holding and maintenance cost of $3,450,124 (2017 - $2,749,495). These costs are primarily comprised of employee salaries, wages and benefits, utilities, property taxes, insurance, plant and equipment maintenance and environmental compliance costs.

These costs will continue through the construction phase of the Gunnison Project and will be included in operating costs when the Gunnison Project is in production.

For the year ended December 31, 2018 the Company incurred project advancement costs of $3,396,267 (2017 - $2,002,832) directly related to the Gunnison project construction-readiness activities. These costs include project employee ramp-up related costs including compensation, and technical services for detailed engineering and planning for the SX-EW upgrades and wellfield infrastructure.

For the year ended December 31, 2018 evaluation and permitting expenses incurred on the Gunnison Project amounted to $1,525,940 (2017 - $1,042,079), an increase of $483,861 compared to 2017. For the year ended December 31, 2018 the Company continued to focus on and incur expenditures related to obtaining the Gunnison Project permits, which were completed in October 2018.

Office and administration expenses for the year ended December 31, 2018 were $1,217,203 compared to $962,041 for the same period of 2017. The increase of $255,162 was primarily due to an overall higher level of corporate administrative support, including information technology costs, for the Gunnison Project.

Professional fees incurred for the year ended December 31, 2018 were $1,214,122 compared to $897,631 for the same period of 2017, representing an increase of $316,491. The increase in 2018 is primarily due to consulting fees associated with services that were performed to assist the Company in the strategy, analysis, recommendation and execution of the Triple Flag Financing for the Gunnison Project.

Directors' and officers' fees incurred for the year ended December 31, 2018 were $2,143,127 compared to $847,403 for the year ended December 31, 2017, representing an increase of $1,295,724. Higher directors' and officers' fees for the full year of 2018 resulted from an increase in executive compensation reflecting additions to the senior management team and increased activity in general.

For the year ended December 31, 2018 the Company incurred investor relations expenses of $500,512, an increase of $78,115 versus $422,397 incurred for the year 2017.

For the year ended December 31, 2018 the Company incurred share-based compensation expense of $2,340,388 (2017 – $364,561). The increase in share-based compensation expense of $1,975,827 is primarily due to stock option expense for management personnel in connection with obtaining the operating permits and preparing for the start of construction and future operations on the Gunnison Project, as well as the expense recognized for granting restricted share units to directors and officers.

For the year ended December 31, 2018 the Company incurred regulatory fees of $74,202 (2017 – $214,760). The decrease in regulatory fees of $140,558 is principally due to the one-time fee paid in 2017 for becoming listed on the TSX.

Significant changes in the "Other Items" listed in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2018 and 2017 are described below:

For the year ended December 31, 2018 the Company incurred financing expense of $251,532 (2017 – $183,827) which represents the accretion expense for the JCM asset retirement obligation. Financing expense in 2017 included accretion expense ($117,827) and interest expense on the debt associated with the JCM acquisition ($66,000).

For the year ended December 31, 2018 the Company recorded interest income of $280,197 (2017 - $74,694). Interest income for the full-year 2018 was higher than the same period of 2017 mainly due to an increase in interest income on cash investments, as a result of the Company's overall higher cash balance in 2018 from the equity private placements.

Other income for both years primarily represents sales of waste rock material from JCM.

## SELECTED QUARTERLY INFORMATION

The following table summarizes selected financial information for the Company for each of the past eight quarters ending December 31, 2018:

| | December 31, 2018 | September 30, 2018 | June 30, 2018 | March 31, 2018 |
|---|---|---|---|---|
| Net loss for the period | $ (731,523) | $ (4,148,182) | $ (3,516,003) | $ (3,738,862) |
| Loss per share (basic and diluted) | (0.00) | (0.02) | (0.02) | (0.02) |
| Total assets | 68,364,179 | 38,533,576 | 41,452,962 | 44,802,947 |

| | December 31, 2017 | September 30, 2017 | June 30, 2017 | March 31, 2017 |
|---|---|---|---|---|
| Net loss for the period | $ (2,612,229) | $ (2,446,338) | $ (2,300,626) | $ (2,134,810) |
| Loss per share (basic and diluted) | (0.02) | (0.01) | (0.01) | (0.01) |
| Total assets | 34,851,406 | 18,492,291 | 21,001,801 | 23,256,783 |

The net loss for the last eight quarters has tended to increase as the Company has advanced the Gunnison Project from exploration and evaluation, through feasibility and sustainability, and project advancement activities. The care and maintenance costs of the JCM facilities has remained relatively constant over the previous eight-quarter period. The net loss for the quarter-ended December 31, 2018 was lower than the quarter-ended September 30, 2018 as the Company recognized a gain on the sale of the royalty option to Altius of $3,782,500. In addition, the Company began capitalizing Gunnison Project costs on December 1, 2018.

The quarterly results presented above do not necessarily reflect any recurring expenditure patterns or predictable trends, however the net loss by quarter during 2018 has trended higher than the net loss by quarter in 2017 due to the gradual ramp-up and increase in costs associated with advancing the Gunnison Project through the permitting, financing and construction-readiness stages. During 2017, the Company maintained a relatively constant level of quarterly spending while shifting the focus of its activities from acquiring JCM, to pre-feasibility and feasibility filings, and to permitting activities and project advancement.

The Company has been in an exploration and project advancement phase, and as a result has not generated any revenue in each of the last eight quarters.

**Three months ended December 31, 2018 compared to the three months ended December 31, 2017:**

For the three-months ended December 31, 2018 the Company's net loss was $731,523 ($nil per share) compared to a net loss of $2,612,229 ($0.01 per share) for the three-months ended December 31, 2017. The lower net loss for the three-month period ended December 31, 2018 as compared to the same period of 2017 resulted from a gain on the exercise from Altius of their final royalty option payment ($3,782,500). Excluding this item, costs were higher in the three-month period ended December 31, 2018 compared to the same period of 2017 due to higher JCM holding and maintenance costs, higher Directors and officer fees and higher non-cash share-based compensation costs, as described further below.

Significant changes in the "Expenses" categories listed in the consolidated statements of loss and comprehensive loss for the three-months ended December 31, 2018 and 2017 are described below:

For the three-months ended December 31, 2018 the Company incurred JCM holding and maintenance costs of $1,083,903 (2017- $713,046). These costs are primarily employee salaries, wages and benefits, utilities, property taxes, insurance, plant and equipment maintenance, and environmental compliance costs, which are expected to be ongoing until construction of the Gunnison Project has been completed. After construction is completed, and the Gunnison Project is in production, these costs will be included in operating costs.

For the three months ended December 31, 2018 the Company incurred project advancement costs of $218,379 (2017 - $654,277) directly related to the Gunnison project construction readiness activities. These costs include project employee ramp-up related costs including compensation, and technical services for detailed engineering and planning for the SX-EW upgrades and wellfield infrastructure. Costs were lower in the three-month period ended December 31, 2018 as compared to the same period of 2017 due to completion of construction-readiness activities at the end of November. Construction costs were capitalized starting December 1, 2018.

For the three months ended December 31, 2018 evaluation and permitting expenses incurred on the Gunnison Project amounted to $111,673 (2017 - $175,492). The costs for the three-months ended December 31, 2018 were lower than the comparable period of 2017 as permitting activities were completed in 2018 with the current quarter costs represent the remaining legal fees and costs to settle the Appeal of the UIC Permit, and ongoing compliance costs at JCM.

Office and administration expense for the three-months ended December 31, 2018 was $415,269 compared to $493,313 during the same period of the prior year. The decrease of $78,044 was primarily due to capitalizing the costs that are directly attributable to the Gunnison Project beginning December 1, 2018. The costs in this category are higher overall due to a higher level of corporate administrative support for the Gunnison Project.

Directors' and officers' fees incurred during the three months ended December 31, 2018, were $685,666 compared to $51,849 during the same period of the prior year, representing an increase of $633,817. Higher directors' and officers' fees resulted from an increase in executive compensation.

During the three months ended December 31, 2018, the Company incurred share-based compensation expense of $1,327,163 (2017 – $138,063). The increase in non-cash share-based compensation expense of $1,189,100 is primarily due to stock option expense for newly-hired management personnel in preparation for the start of construction and future operations on the Gunnison Project, and expenses for Restricted Share Units granted to directors and officers.

Significant changes in the "Other Items" listed in the consolidated statements of loss and comprehensive loss for the three-months ended December 31, 2018 and 2017 are described below:

During the three-months ended December 31, 2018, the Company realized interest income of $81,257 versus interest income of $28,737 for the comparable period of 2017. Interest income was higher for each period in 2018 compared to the same period of 2017 mainly due to an increase in interest income on cash investments from the Company's overall higher cash balance in 2018.

## LIQUIDITY AND CAPITAL RESOURCES

The Company had cash and cash equivalents of $44,167,866 as of December 31, 2018 (December 31, 2017 - $16,677,002). Cash and cash equivalents increased $27,490,864 during the year ended December 31, 2018 compared to an increase of $5,054,301 in 2017 primarily due to an increase in cash provided by investing activities from the Triple Flag Stage 1 Upfront Deposit, and equity investments from Triple Flag and Greenstone.

Net cash used in operating activities for the year ended December 31, 2018 was $12,725,099 compared to $8,944,954 for the year ended December 31, 2017. The increase in cash used in operating activities is mainly attributable to an increase in JCM holding and maintenance cost, higher Gunnison project-readiness costs for project advancement, evaluation and permitting, financing, and Directors and officers fees as discussed above.

Net cash used in investing activities for the year ended December 31, 2018 was $366,116 compared to net cash used of $2,306,009 for the same period of 2017. The net cash used in 2018 was the result of cash expenditures for the Gunnison Project construction which began December 1, 2018 ($628,266), equipment purchases ($438,750), and restricted cash collateral ($3,081,600) for the required bonds related to the UIC Permit and Mined Land Reclamation Plan for JCM. Partly offsetting these cash outflows during the 2018 full-year period were the proceeds received from Altius of $3,782,500 for their exercise of the final royalty option.

Net cash provided by financing activities for the year-ended December 31, 2018 was $40,664,555 compared to $16,297,365 for the full-year period of 2017. During 2018, the Company received $9,762,766 from Triple Flag for the Stage 1 Upfront Deposit, $10,000,000 in proceeds from the Triple Flag Equity Placement, $12,744,505 of net proceeds from the second tranche of the non-brokered private placement with Greenstone in January and $9,443,145 in net proceeds from the Greenstone private placement in December.

The Company had working capital of $42,354,596 at December 31, 2018 (December 31, 2017 – $16,242,045). The increase in working capital primarily resulted from the increase in cash discussed above. The increase in accounts payable and accrued liabilities of $2,052,589, due to the start of construction activities on the Gunnison Project, also contributed to the increase in working capital at December 31, 2018.

The Company is currently proceeding with construction activities on the Gunnison Project as scheduled and continues to incur the JCM holding and maintenance costs. With the completion of the Triple Flag Financing and equity placements from Greenstone, the Company expects to have sufficient funds to cover the construction costs of the first phase of the Gunnison Project and to meet its estimated annual corporate costs for at least the next year. Additional funding from Triple Flag will be advanced according to the terms of the financing arrangement in order to complete construction of the Gunnison Project.

As of December 31, 2018, the Company did not have any pre-arranged sources of financing except for the Triple Flag Financing.

## STATEMENT OF FINANCIAL POSITION INFORMATION

The following financial data are selected from the Company's annual statements of financial position:

| | As at December 31, 2018 | As at December 31, 2017 |
|---|---|---|
| Cash and cash equivalents | $ 44,167,866 | $ 16,677,002 |
| Receivables | 177,046 | 70,735 |
| Prepaid expenses | 902,936 | 21,384 |
| Materials and supplies | 286,162 | - |
| Property, plant and equipment | 19,525,779 | 17,859,495 |
| Long term deposits | 3,304,390 | 222,790 |
| **Total Assets** | $ 68,364,179 | 34,851,406 |

| | As at December 31, 2018 | As at December 31, 2017 |
|---|---|---|
| Accounts payable and accrued liabilities | $ 2,525,706 | $ 473,117 |
| Amounts due to related parties | 404,340 | 53,959 |
| Restricted share units | 249,368 | - |
| Derivative liability | 9,782,295 | - |
| Asset retirement obligation | 9,456,074 | 9,179,928 |
| Capital stock | 88,915,883 | 57,210,709 |
| Other equity reserves | 6,909,702 | 5,678,311 |
| Deficit | (49,050,193) | (36,915,622) |
| Accumulated other comprehensive loss | (828,996) | (828,996) |
| **Total Liabilities and Equity** | $ 68,364,179 | $ 34,851,406 |

### Assets

Cash and cash equivalents increased by $27,490,864 during the year ended December 31, 2018 as previously discussed in "Liquidity and Capital Resources" above.

Long term deposits increased $3,081,600 due to the restricted cash collateral that was used for the required bonds related to the UIC Permit and Mined Land Reclamation Plan for JCM.

### Liabilities

Accounts payable and accrued liabilities increased by $2,052,589 for the year ended December 31, 2018, mainly as a result of the increase in expenditures related to the construction activities on the Gunnison Project.

Derivative liability of $9,782,295 at December 31, 2018 consisted of the fair value of the Triple Flag Stage 1 Upfront Deposit ($8,926,949) and the fair value of the common share purchase warrants issued to Triple Flag ($855,346).

The increase in the asset retirement obligation ("ARO") of $276,146 for the year ended December 31, 2018 was primarily due to the accretion of $251,532 of the JCM ARO for the year ended December 31, 2018. The ARO also increased as a result of establishing an ARO for the Gunnison Project.

## Equity

Capital stock increased by $31,705,174 primarily due to the equity investments from Greenstone and Triple Flag. Greenstone's investments included the net proceeds from the private placement of $12.7 million in January 2018 and the private placement of $9.4 million in December 2018. Triple Flag's investment consisted of the Triple Flag Equity Placement of $10 million in November 2018.

During the year ended December 31, 2018, the other equity reserves account increased by $1,231,391 as a result of share-based compensation expense of $2,034,776, which was partially offset by the tax payments associated with the Stock Option Program.

### Outstanding Share Capital

The Company's authorized capital consists of an unlimited number of common shares without par value and an unlimited number of non-voting common shares without par value. The Company has securities outstanding as follows:

The Company has securities outstanding as follows:

| Security Description | December 31, 2018 | Date of report |
|---|---|---|
| Common shares | 238,381,657 | 238,657,960 |
| Stock options | 12,330,000 | 12,030,000 |
| Warrants | 3,500,000 | 3,500,000 |
| Restricted share units | 475,000 | 100,000 |

During the year ended December 31, 2018 a total of 48,499,705 common shares were issued, summarized as follows:

- On January 19, 2018, the Company closed a private placement which resulted in the Company issuing 16,467,200 common shares of the Company, for gross proceeds of $12,800,000.
- On November 30, 2018, the Company issued 13,818,977 common shares to Triple Flag for the Triple Flag Equity Placement, for gross proceeds of $10,000,000.
- On December 5, 2018, the Company issued 13,050,840 common shares to Greenstone in a private placement resulting in gross proceeds of $9,443,145. Prior to this transaction, Greenstone held 100,878,097 common shares of Excelsior (representing 48.56% of the Company's then-current issued and outstanding common shares). On December 6, 2019 following the closing of this transaction, Greenstone owned a total of 113,928,937 common shares of Excelsior, which maintains their ownership at approximately 48.56% of Excelsior's issued and outstanding common shares.
- During the year ended December 31, 2018, the Company issued a total of 5,162,688 common shares from stock options exercised.

**Contractual Obligations**

The Company has the following contractual obligations as at December 31, 2018:

| Contractual Obligations | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| Asset Retirement Obligation[1] | $11,976,906 | - | - | - | $11,976,906 |
| Operating Leases | $ 244,263 | $ 98,850 | $ 145,413 | - | - |
| Purchase Obligations | $18,005,969 | $ 18,005,969 | - | - | - |
| Total Contractual Obligations | $30,227,138 | $ 18,104,819 | $ 145,413 | - | $11,976,906 |

(1) Classification of such amounts is based on estimates of when reclamation work will be performed. Amounts represent undiscounted estimates and are not reflective of inflation.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements, other than the operating leases referred to in the table above.

**RELATED PARTIES**

Related parties and related party transactions are summarized below and include transactions with the following individuals or entities:

Key Management Personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that key management personnel consists of the Company's Board of Directors, corporate officers, including the Company's Chief Executive Officer ("CEO"), Chief Operating Officer and Senior Vice President & Chief Financial Officer ("CFO").

Remuneration attributed to key management personnel is summarized as follows:

| | Year Ended December 31, | |
|---|---|---|
| | **2018** | **2017** |
| Salaries, fees and benefits | $ 2,174,531 | $ 1,168,130 |
| Share-based compensation | 1,796,363 | 13,913 |
| Total | $ 3,970,894 | **$ 1,182,043** |

Salaries, fees and benefits to key management includes all salaries, fees, and other employment benefits, pursuant to contractual employment agreements, consultancy or management services arrangements

Other Related Parties

King & Bay West Management Corp, ("King & Bay") is an entity owned by Mark Morabito, the Chairman of the Company, which employs or retains certain officers and personnel of the Company. King & Bay provides legal, regulatory and corporate secretarial services to the Company. These services are provided to the Company on an as-needed basis and are billed based on the cost or value of the services provided to the

Company. The amounts shown in the table below represent amounts paid to King & Bay for the services of King & Bay personnel and for overhead and third-party costs incurred by King & Bay on behalf of the Company. The fees for such services were made on terms equivalent to those that King & Bay charges to arm's length parties.

Kinley Exploration LLC ("Kinley") is an entity owned by Colin Kinley, a Director of the Company. Kinley provides certain technical services regarding Project preparation and development to the Company. These services are provided to the Company on an as-needed basis and are billed based on the cost or value of the services provided to the Company. The amount shown in the table below represents amounts paid to Kinley for the services of Kinley personnel and for out-of-pocket reimbursable expenses incurred by Kinley on behalf of the Company. The fees for such services were made on terms equivalent to those that Kinley charges to arm's length parties.

Transactions entered into with related parties other than key management personnel included the following:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | **2017** |
| King & Bay | $ 531,873 | $ 416,667 |
| Kinley | $ 127,150 | $ 130,500 |

As at December 31, 2018, amounts accrued and due to key management personnel and other related parties include the following:

- Corporate officers - $392,575 (December 31, 2017 - nil)
- King & Bay - $11,765 (December 31, 2017 - $44,959)
- Kinley - $nil (December 31,2017 - $9,000)

Transactions with related parties were in the normal course of operations and were measured at the amount of consideration established and agreed to by the related parties.

## ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The accounting policies applied in the preparation of these audited consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2017, except for the adoption of IFRS 9, Financial Instruments, which was effective and has been applied from January 1, 2018. A summary of the Company's significant accounting policies is provided in Note 2 to the audited consolidated financial statements for the year ended December 31, 2018 and 2017 and a discussion of changes in accounting policies, specifically the adoption of IFRS 9 is in Note 2 Summary of Significant Accounting Polices in the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2018 and 2017.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, shareholders' equity, and the disclosure of contingent assets and liabilities, as at the date of the financial statements, and expenses for the periods reported. A summary of the Company's critical estimates and judgments is provided in Note 2 Significant Accounting Policies and Basis of Presentation to the audited consolidated financial statements for the year ended December 31, 2018 and 2017.

The Company applied judgment in determining that the stream arrangement, in its current status, is a derivative liability for accounting purposes. This judgment will be monitored as facts and circumstances change such as the exercise or expiry of the expansion and buyback options and the relationship of the metal deliverable under to the Company's actual production.

As a part of the Company's process of revising and updating the JCM operating and reclamation permits, during the fourth quarter of 2018, the Company performed an updated analysis of the estimated JCM and Gunnison Project reclamation costs resulting in an estimated present value liability of $9,456,074. This updated analysis resulted in an increase to the ARO liability of $41,650 for the Gunnison Project. The ARO liability for the JCM facilities is estimated at $9,414,424 as of December 31, 2018. The Company does not anticipate incurring any of the JCM reclamation costs until the end of the projected Gunnison Project operations.

## FINANCIAL INSTRUMENTS

A summary of the Company's financial instruments is provided in Note 14 in the audited consolidated financial statements for the year ended December 31, 2018 and 2017.

The Company classifies the fair value of financial instruments according to the following hierarchy based on the reliability of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying value of all the Company's financial instruments approximates their fair value.

The stream obligation was recorded at fair value at each statement of financial position date as the Company determined that the stream obligation was in substance a debt instrument with embedded derivative linked to copper commodity price and interest rates. The Company elected to measure the stream obligation in its entirety at FVTPL.

The stream obligation was valued using Monte Carlo simulation valuation models. The key inputs used by the Monte Carlo simulation in valuing the stream obligations include: the copper forward curve based on Comex futures, long-term copper volatility, call option exercise prices and risk-free rate of return.

In addition, in valuing the stream obligation, management used the following significant observable inputs: the copper forward curve based on Comex futures and the long-term copper volatility.

The valuation of the stream obligations also requires estimation of the Company's nonperformance or credit risk and the anticipated production schedule of copper pounds delivered over the life of mine.

As at December 31, 2018, the Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are held at large North American financial institutions some of which are interest bearing accounts. The Company's receivables consist mainly of input tax credits receivable from the Government of Canada.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

As at December 31, 2018, the Company has cash and cash equivalents balance of $44,167,866 to settle current liabilities of $3,179,414.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and commodity and equity prices and foreign currency fluctuations.

(a) Interest Rate Risk

The Company's current policy is to invest excess cash in guaranteed investment certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The risk that the Company will realize a loss as a result of a decline in the fair value of short-term investments is extremely low.

Interest rate risk on cash and cash equivalents is minimal because these investments have a fixed yield rate.

(b) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

## CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining disclosure controls and procedures. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities.

The CEO and CFO have certified that they have designed disclosure controls and procedures (or caused them to be designed under their supervision) and they are operating effectively to provide reasonable assurance that material information relating to the issuer and its consolidated subsidiaries is made known to them by others within those entities as of December 31, 2018.

### Internal Control Over Financial Reporting

The Company maintains a system of internal controls over financial reporting, as defined by National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings in order to provide reasonable assurance that assets are safe-guarded and financial information is accurate and reliable and in accordance with IFRS.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, based on the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2018, the Company's internal control over financial reporting is effective.

During the year ended December 31, 2018, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### Limitation of Controls and Procedures

Our management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

## TECHNICAL INFORMATION

Excelsior's technical work on the Gunnison Copper Project is supervised by Stephen Twyerould, Fellow of AUSIMM, President & CEO of Excelsior and a Qualified Person as defined by National Instrument 43-101. Mr. Twyerould has reviewed and approved the technical information contained in this MD&A.

Additional information about the Gunnison Copper Project can be found in the technical report filed on SEDAR at www.sedar.com entitled: "Gunnison Copper Project, NI 43-101 Technical Report, Feasibility Study" dated effective December 17, 2016.

## ADDITIONAL INFORMATION

Additional disclosure concerning the Company, including the Annual Information Form ("AIF") for the year ended December 31, 2018, is available on the SEDAR website, www.sedar.com.

## FORWARD LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws concerning anticipated developments and events that may occur in the future. Forward-looking information contained in this MD&A includes, but is not limited to, statements with respect to: (i) the market and future price of copper and related products; (ii) requirements for additional capital; (iii) development, construction and production timelines and estimates; (iv) the future effects of environmental compliance requirements on the business of the Company; and (v) the statements under the heading "Outlook" in this MD&A, including statements about the construction of the Gunnison Project and the production of copper.

In certain cases, 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 state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information contained in this MD&A is based on certain factors and assumptions regarding, among other things, the estimation of mineral reserves and resources, the realization of resource estimates, copper and other metal prices, the timing and amount of future exploration and development expenditures, the estimation of initial and sustaining capital requirements, the estimation of labor and operating costs, the availability of necessary financing and materials to continue to explore and develop the Gunnison Project in the short and long-term, the progress of development activities, the receipt of necessary regulatory approvals and permits, the estimation of insurance coverage, and assumptions with respect to currency fluctuations, environmental risks, title disputes or claims, and other similar matters. While the Company considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. Forward looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information including, without limitation, the following risks and uncertainties referred to under the heading "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2018:

- risks relating to the fact that the Company depends on a single mineral project;
- risks inherent in the exploration and development of mineral deposits, including risks relating to changes in project parameters as plans continue to be redefined including the possibility that mining operations may not commence at the Gunnison Project;
- risks relating to variations in mineral resources and reserves, grade or recovery rates resulting from current exploration and development activities;
- risks related to fluctuations in the price of copper as the Company's future revenues, if any, are expected to be derived from the sale of copper;
- risks related to a reduction in the demand for copper in the Chinese market which could result in lower prices;
- financing, capitalization and liquidity risks, including the risk that the financing necessary to fund the development and construction activities at the Gunnison Project may not be available on satisfactory terms, or at all;
- the Company has no history of mining operations and no revenues from operations and expects to incur losses for the foreseeable future;
- risks related to the Company obtaining various permits required to conduct its current and anticipated future operations;

- risks related to disputes concerning property titles and interest;
- risks relating to the ability to access infrastructure;
- operational risks inherent in the conduct of mining activities, including the risk of accidents, labor disputes, increases in capital and operating costs and the risk of delays or increased costs that might be encountered during the development process;
- risks related to the significant governmental regulation that the Company is subject to;
- environmental risks;
- climate change risks;
- reliance on key personnel;
- risks related to increased competition in the market for copper and related products and in the mining industry generally;
- cybersecurity risks;
- risks related to potential conflicting interests among the Company's directors and officers;
- exchange rate fluctuations between the Canadian and United States dollar;
- the absence of dividend payments;
- uncertainties inherent in the estimation of mineral resources;
- risks related to current global financial conditions;
- land reclamation requirements may be burdensome;
- risks associated with the acquisition of any new properties;
- the Company may become subject to legal proceedings; and
- risks relating to the Company's Common Shares.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking information is made as of the date of this MD&A.

## RISK FACTORS

**Readers are cautioned that the risk factors discussed above are not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Except as required by applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward-looking information and readers should also carefully consider the matters discussed under the heading, "Forward Looking Information", in this MD&A and under the heading, "Risk Factors", in the AIF.**

## CAUTIONARY NOTE TO U.S. INVESTORS – INFORMATION CONCERNING PREPARATION OF RESOURCE AND RESERVE ESTIMATES

This MD&A has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. Unless otherwise indicated, all resource and reserve estimates included in this MD&A have been prepared in accordance with Canadian National Instrument 43-101 ("NI 43-101") and the Canadian Institute of Mining and Metallurgy Classification System. NI 43-101 is a rule developed by the Canadian Securities Administrators which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects.

Canadian standards, including NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission ("SEC"), and resource information contained herein may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, the term "resource" does not equate to the term "reserves". Under U.S. standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. The SEC's disclosure standards normally do not permit the inclusion of information concerning "measured mineral resources", "indicated mineral resources" or "inferred mineral resources" or other descriptions of the amount of mineralization in mineral deposits that do not constitute "reserves" by U.S. standards in documents filed with the SEC. U.S. investors should also understand that "inferred mineral resources" have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "inferred mineral resource" will ever be upgraded to a higher category. Under Canadian rules, estimated "inferred mineral resources" may not form the basis of feasibility or pre-feasibility studies. Investors are cautioned not to assume that all or any part of an "inferred mineral resource" exists or is economically or legally mineable. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in place tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of "reserves" are also not the same as those of the SEC. Accordingly, information concerning mineral deposits set forth herein may not be comparable with information made public by U.S. companies subject to the reporting and disclosure requirements of the SEC.