

## Carpathian Gold Inc.

### Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and nine months ended September 30, 2015 and 2014.

The following management discussion and analysis (“MD&A”) should be read in conjunction with the audited consolidated financial statements of Carpathian Gold Inc. (“**Carpathian**” or the “**Corporation**”), for the year ended December 31, 2014 and the condensed interim consolidated financial statements for the three and nine months ended September 30, 2015 (“**Q3 2015**” and “**YTD 2015**”, respectively) and the Corporation’s other securities filings available on [www.sedar.com](http://www.sedar.com). The Corporation reports its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board. All financial figures contained in this MD&A are denominated in United States dollars (US\$), unless otherwise specified.

#### Date of MD&A

This MD&A is current as of November 24, 2015.

#### Cautionary Statements Regarding Forward-looking Information

Some statements contained in this MD&A constitute “forward-looking information” as defined by Canadian securities laws. These statements relate to future events of the Corporation’s future performance. Often, but not always, forward-looking information can be identified by the use of such words as “plans”, “expects”, “is expected”, “budgeted”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of, such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur, or be achieved. Forward-looking information involves uncertainties, risks and other factors that could cause actual results to differ materially from those anticipated in such forward-looking information. Forward-looking information and statements in this MD&A include, without limitation, those that relate to the following:

- the Corporation’s strategies and objectives with respect to the RDM project;
- the Corporation’s estimate of the quantity and quality of its mineral reserves and resources;
- the achievement of commercial production;
- the sufficiency of available funds and the requirement for additional funding;
- the expected ore grades, recovery rates and throughput;
- the Corporation’s production and cost guidance;
- the anticipated operation of plants, equipment and processes;
- the long-term demand and supply of gold;
- prices and price volatility for gold;
- the Corporation’s estimates of any reclamation costs;
- the Corporation’s future exploration, capital and operating costs; and
- general business and economic conditions.

Such forward-looking information is necessarily based on a number of factors and assumptions that, while considered reasonable by the Corporation as of the date of such statements, may prove to be incorrect, including, but not limited to, assumptions and factors relating to the following:

- the availability of financing for the Corporation’s activities;
- operating and capital costs;

- the estimated timeline for the ramp-up of production at the RDM project;
- the supply and demand for, and the level and volatility of the price of gold;
- timing of the receipt of regulatory and government approvals for its operations;
- the exchange rates between the Canadian dollar, the United States dollar and the Brazilian real;
- energy and fuel costs;
- the accuracy of the Corporation's mineral reserve and resource estimates and the geological and metallurgical assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources) and operational and price assumptions on which the mineral reserves and resource estimates are based; and
- general business and economic conditions.

Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the Corporation's actual results, performance or achievements to be materially different from those anticipated thereby. These risks, uncertainties and other factors include, but are not limited to those inherent to the gold exploration and development industry as well and those risks factors discussed in this MD&A under the heading "*Risks and Uncertainties*" and in the Corporation's Annual Information Form for the year ended December 31, 2014 as filed on SEDAR. Readers are cautioned that these risks, uncertainties and other factors are not exhaustive of the risks, uncertainties and other factors that may affect the forward-looking information.

All forward-looking information in this MD&A is qualified by this cautionary statement. Readers should not place undue reliance on forward-looking information. The forward-looking information contained in this MD&A is made as of the date hereof and is subject to change after such date. The Corporation does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking information and statements, except as prescribed by applicable securities laws.

## **Responsibility of Management and the Board of Directors**

Management is responsible for the information disclosed in this MD&A and the accompanying Financial Statements and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Corporation's Audit Committee, on behalf of the Board of Directors (the "**Board**"), provides an oversight role with respect to all public financial disclosures made by the Corporation and has reviewed and approved this MD&A and the accompanying Financial Statements.

## **Overview**

The Corporation is principally a mineral exploration and development company. Through its subsidiaries, the Corporation is currently involved in the exploration and development of mineral properties situated in two jurisdictions. In Minas Gerais State, Brazil, the construction, development and production ramp-up of the Corporation's Riacho dos Machados gold project ("**RDM**" or the "**Project**") was completed at the end of Q3 2014 and declared commercial production for Q4 2014. In Romania, the Corporation has carried out extensive exploration programs on three copper-gold porphyry systems referred to as Rovina, Colnic and Ciresata (collectively, the "**Rovina Valley Project**" or "**RVP**") with a view to advancing them to the pre- feasibility stage.

## **Brazil**

RDM is the Corporation's sole project in Brazil and the focus of its efforts since late 2008. RDM hosts a past producing mine that was operated by Vale S.A. as an open-pit heap-leach gold mine until 1997, with maximum pit depths at that time of approximately 60 m. The objectives of the work carried out since 2008 were to define a gold resource at RDM that could be of sufficient size to justify expanding and deepening the former open-pit mine, as well as to define additional gold mineralization and/or exploration targets along strike and at depth. The Corporation, through its Brazilian subsidiary, Mineração Riacho dos Machados ("**MRDM**"), owns 100% of RDM, which currently comprises one mining concession (1,000 ha), one mining concession in the approval process (1,230

ha) and 6 exploration licenses (9,091 ha). In addition, MRDM is in the process of applying for additional mining concessions covering areas not included in the above.

On April 6, 2011, the Corporation announced the results of an NI 43-101 feasibility study (the “**Feasibility Study**”) on the open-pit portion of the Project (the “**RDM Technical Report**”) and a construction decision.

The Feasibility Study was amended on November 15, 2011 (the “**Amended RDM Technical Report**”) to reflect updated qualified persons certificates and filed on that date on SEDAR, which is accessible at [www.SEDAR.com](http://www.SEDAR.com). In addition, an addendum to the Amended RDM Technical Report was issued by Golder Associates Brasil Consultoria e Projectos Ltda., and filed on SEDAR on November 15, 2011. This addendum primarily reflected the agreement by the Corporation with the Brazilian authorities that the Corporation would undertake to add an impervious liner to the tailing impoundment area, along with some additional environmental works. The extra cost for this additional work, along with certain scope changes that have been implemented to enhance future operations is estimated at approximately \$15 million. As of the date of this MD&A, the estimated start-up CAPEX for the Project, including the extra scope work discussed above is approximately \$185 to \$190 million.

The Amended RDM Technical Report is based on an owner operated conventional open-pit mining method with drill and blast, backhoe excavators, haul trucks, and auxiliary mobile equipment to support an operation processing approximately 2.5 million tonnes per year of ore and moving approximately 27.7 million tonnes per year of waste. The report identified total proven and probable reserves of 20.9 million tonnes of ore at a grade of 1.24 g/t Au with an operational strip ratio of 7.4 to 1. A combination of owner operated and contractor equipment will be used. The run-of mine (“**ROM**”) ore will be hauled from the open-pit with 60 tonne haul trucks and dumped directly into a hopper that feeds the primary crusher at a rate of 7,000 tonnes per calendar day or 2.555 million tonnes per year. A small ore stockpile of 5,000 tonnes will be established at the primary crusher area to cater for the event that the pit operation is stopped for any reason, so that the crushing plant can continue to operate.

The process plant is conventional with a primary jaw crusher, secondary and tertiary cone crushers in closed circuits with vibrating screens, a single stage ball mill in a closed circuit with cyclones, a CIL circuit, a cyanide destruction system, and an adsorption, desorption and recovery (“**ADR**”) plant to produce gold dore bars. The processing rate of the plant is expected to be 7,000 tonnes per calendar day at a head grade of approximately 1.24 g/t Au and is expected to average about 90% gold recovery based on the test work performed. Approximately 7,500 ounces of gold is planned to be produced on an average monthly basis over the life of the mine.

On June 11, 2015, MRDM received a Licença de Operação (“**LO**” or operating License), which is the definitive operational permit for the RDM Project. Prior to obtaining the LO, MRDM had operated the RDM Project under a provisional operating permit which was granted by SUPRAM on December 13, 2013.

In the third quarter of 2015, MRDM mined 124,134 tonnes of ore from the open-pit and processed at total of 55,156 of the mined tonnes. The process plant metallurgical gold recovery during this period is estimated at 86% and a total of 10,385 ounces of gold were produced.

The original target for gold production at MRDM in 2015 was 95,000 to 105,000 ounces at a cost of US\$902 per ounce. However, a limited water supply due primarily to abnormally low rainfall, will prevent these targets from being met.

As previously reported by the Corporation (News Release, June 24, 2015), the RDM project is situated in a semi-arid region of Brazil and is heavily dependent on the annual rainy season for its supply of water. However, the amount of rain during the most recent season has, like in many other parts of Brazil, fallen considerably short of annual averages. Consequently, the lack of availability of water, which is required for the operations at RDM, has caused a

temporary reduction in the levels of mining and processing activities at RDM. We have only been able to achieve minimal production levels, depending on the availability of water.

In order to implement the program of reduced production described above, MRDM has signed two agreements with its unionized employees. The first agreement is in respect of the reduction of working days of the employees, and the second agreement relates to the temporary suspension of the employment contracts of the employees.

Under the agreement related to the reduction of working days, employees' workdays have been reduced resulting in a reduction of wage costs in the amount of 25% monthly. Employees stay home but remain on call for the company to work as required. Employees are paid 100% of their wages for each day worked. As of the date of this report, 114 employees are working full time, and 65 employees are on call.

Under the contract suspension agreement, employment contracts are suspended and, therefore, employee benefits are not being paid by the company. In order to avoid dismissal of the employees and an economic crisis, the Brazilian Federal Government has created a program called "Bolsa de Qualificação Profissional (Sponsorship Professional Qualification), under which it provides an allowance of up to BRL 1,300 monthly (according to the Brazilian unemployment insurance rules) to each employee who has their contract suspended. The company that suspends an employee's contract must offer a professional training course to the employee during the period of suspension. MRDM has committed to enhancing the amount of the allowance provided by the Federal Government such that our employees receive the equivalent of 75% of their salary. As of the date of this report, 191 employees were enrolled in this program.

Both agreements expire on December 9, 2015.

As of the date of this MD&A, MRDM has poured a total of 82,001 ounces of gold and 33,011 ounces of silver since the first gold pour which took place in December of 2013.

On January 11, 2013, MRDM entered into a Project Loan Facility (the "**Facility**") with Macquarie Bank Limited ("**Macquarie Bank**") of up to US\$90 million to fund the construction and development of the RDM Mine. In conjunction with this Facility, MRDM, through Macquarie Bank, also entered into price protection programs in the form of currency swaps for the RDM Project's Capex (R\$1.90 to US\$1.00) and Opex (R\$1.983 to US\$1.00) as well as a gold price protection program (consisting of forward sales) for a total of 216,600 ounces of gold (approximately 26% of the open-pit reserves) at varying prices from US\$1,177 to US\$1,600 per ounce. During 2013, MRDM drew the entire US\$90 million against the Facility. The Facility has been amended a number of times to provide for the increase of the aggregate amount available thereunder to up to US\$274.00 million and to provide forbearance against certain defaults and covenants of MRDM under the Facility. As of the date of this MD&A, an aggregate of approximately US\$267.10 million has been drawn down by MRDM under the amended Facility. The current forbearance period expires on February 15, 2016 (See also "Subsequent Event Discussion").

The Corporation acts as a guarantor of MRDM's obligations under the Facility and related derivative contracts.

The gold mineralization at RDM is situated within a continuous 14 km long shear zone hosted in Precambrian metamorphic rocks with a demonstrated gold endowment. This shear zone is fully covered by the Corporation's mining concession, exploration licenses and applications for mining concessions that extend over a strike-length of approximately 40 kilometres. The most intensely explored zone to date has been at the RDM mine site location and only represents approximately 2 km of the southern portion of the 14 km long shear zone. There are numerous surface gold targets of similar gold grade that occur along strike at RDM within this shear zone and, to date, a total of at least nine (9) priority exploration targets have been identified, of which seven are to the north of the open-pit area and two to the south. The Corporation expected to embark on a drilling exploration program to evaluate these targets as well as other targets with the goal of defining further resources with the potential to provide additional plant feed and mine life; however, this exploration program has been largely deferred to a later date as a cost containment measure.

The exploration team is currently providing their technical and field support to the mine geology team for implementing ore-control, in-pit geology bench mapping, QA-QC sampling, reconciliation between the Resource-Reserve model to the short term model and to liberation blocks, variography updates and ore-control reporting.

Further information on RDM, including the NI 43-101 reports can be found on the Corporation's web site at [www.carpathiangold.com](http://www.carpathiangold.com).

Under current regulations, all exploration activities that the Corporation undertakes through MRDM must be carried out on valid mining or exploration licenses issued by the Departamento Nacional de Produção Mineral (“DNPM”), a department of the Brazilian federal government. The DNPM is responsible for the administration of all mining and exploration licenses, and prospecting permits. According to local regulations, MRDM must submit a final exploration report before the expiry date of any license or permit, which is usually three years from the date of grant. However, Brazilian mining laws and regulations are currently undergoing a major restructuring, and draft legislation to this effect has been submitted to the federal legislature for review and approval. The effects of this restructuring will, if adopted, be far-reaching in the ways that mining rights can be acquired and maintained in that country. Current proposals include an auction process for new licenses, minimum expenditures designed to eliminate the “warehousing” of mining permits and licenses as well as new fee schedules. They also provide for land owner participation where applicable. It is the Corporation's understanding, based on consultations with local counsel, that licenses currently held in good standing will be grandfathered and not subject to certain requirements of the proposed new regime.

The project operations, development and construction work is taking place on a mining concession on which MRDM owns the surface rights and the environmental licenses required to execute the construction of the Project. Each year, MRDM also pays the Brazilian government an annual fee based on the number of hectares forming part of each license (Taxa Anual por Hectare). As at the date hereof, the licenses held by MRDM represented a total of 10,091 hectares. MRDM is required to pay the Brazilian government a 1% royalty fee (the “CFEM”) on the value of the ore produced. However, and as mentioned above, the Brazilian government is currently considering the adoption of new mining legislation which would include increases in the CFEM royalties. (See also “*Risk Factors – Foreign Jurisdictions*”).

Environmental permits for exploration are granted for one to two year periods and all local agencies have the right to monitor and evaluate compliance with the issued permits even though such monitoring tends to be minimal in scope and nature. Any changes to the exploration activities that result in a greater environmental impact require approval.

The work MRDM carries out on its exploration licenses is largely restricted to drilling and ancillary activities associated with the drilling programs (i.e., low impact road construction, drilling stations). As such, the reclamation costs in respect of drilling activities are not material to MRDM and are factored into the budget for exploration programs.

As part of the completion of the Feasibility Study along with environmental impact assessments, a reclamation program was developed for the mining license. A total cost of \$8.2 million is the current estimate as the projected liability on the closure of the operations. Further environmental impact assessments will provide a more detailed analysis of the future costs of compliance with applicable environmental requirements and will also provide a better estimate of the eventual costs of reclamation obligations at the end of the mine life. MRDM has achieved commercial production as of October 1, 2014 and recorded the rehabilitation provision based on the percentage of completion of 100%. As at September 30, 2015, the rehabilitation provision has been discounted using a discount rate of 4.60% and an obligation of approximately \$6.0 million has been recorded (December 31, 2014 - \$5.8 million).

## Romania

The Corporation holds the Rovina Valley Project through an exploration license which covers a total of approximately 94 square kilometres (the “**Rovina License**”) that is currently being converted through a formal government process to a mining license. The Rovina Valley Project is the Corporation’s sole exploration project in Eastern Europe and the main focus of its exploration efforts there since 2005. It hosts three copper-gold porphyry systems or deposits: Rovina (the “**Rovina Deposit**”), Colnic (the “**Colnic Deposit**”) and Ciresata (the “**Ciresata Deposit**”). The Colnic Deposit is located approximately 2.5 km south of the Rovina Deposit and the Ciresata Deposit is approximately 4 km south of the Colnic Deposit.

The area covered by the Rovina License has access to all necessary power and water supplies. The topography of the area is hilly with forest vegetation and an elevation of approximately 900 m above sea-level.

On November 17, 2008, the Corporation released the results of an updated NI 43-101 Mineral Resource Estimate (the “**Resource Estimate**”) on the Rovina Valley Project indicating 193.1 million tonnes of 0.49 g/t Au and 0.18% Cu in the Measured and Indicated categories for a total of 3.07 million ounces of gold and 759.1 million pounds of copper and 177.7 million tonnes of 0.68 g/t Au and 0.17% Cu in the Inferred category for 3.89 million ounces of gold and 663.1 million pounds of copper. The complete report can be found on [www.SEDAR.com](http://www.SEDAR.com). The Ciresata deposit hosts significant mineralization above the cut-off grade of 0.70 g/t Au eq, which was not incorporated into the Resource Estimate due to low drill hole density on the edges of the Resource Estimate mineralization, and at depth where the mineralization is still open. Nearly every drill hole in the Ciresata Deposit bottomed in mineralization.

There has been no previous commercial mining activity at the Rovina Valley Project and the proposed mine site footprint, as defined by the PEA, does not include any known protected heritage sites or archaeological occurrences and has been specifically designed to minimize the impact on nearby communities.

During 2010, the Corporation announced the results of three deep diamond drill holes at the Ciresata Deposit. The three deep, vertical core holes (approximately 3,000 m) were designed to test for the depth extension of the Ciresata mineralization as the results of the PEA highlighted additional upside potential for resource growth at the Ciresata Deposit given that practically every drill hole bottomed in higher-grade gold and copper mineralization. The drill program was also designed to provide infill drill hole data, which would serve to upgrade the present resource category from inferred to indicated. The results of this drilling program have successfully met our objectives and have added significant depth extensions of gold and copper mineralization below previous drilling in addition to verifying and upgrading the grade tenor of the inferred resource estimate. Results of the three deep drill holes have added 280 to 300 m depth extension of Au-Cu mineralization below the previous drilling, and indicate that the deposit is still open laterally.

As a result of the success of the 2010 drill program, the Corporation embarked on a +35,000 metre drill program in 2011 in order to define the limits of the Ciresata Deposit, upgrade the RVP inferred resource to the Measured plus Indicated resource categories, as well as test satellite targets.

On July 17, 2012, the Corporation announced an updated NI 43-101 resource estimate (“**2012 Resource Estimate**”). This updated resource incorporated a total of 120,256 m of drilling database results from 241 drill holes. The 2012 Resource Estimate was completed by AGP Consultants Inc. (“**AGP**”) which is an independent engineering company. The 2012 Resource Estimate increased the previous measured plus indicated gold resource category by 134% to 7.19 million ounces and increased the measured plus indicated copper resource by 84% to 1,420 million pounds of copper. In addition the measured plus indicated gold resource grade increased by 12.2 % from the previous resource and the tonnage by 110%.

The 2012 resource update is shown below:

Resource	Tonnage	Au	Cu	Gold (MM oz)	Copper (MM lbs)	Au eq*
Category	(MM t)	(g/t)	(%)			(MM oz)
<b>Measured</b>						
Rovina (open-pit)	31.8	0.36	0.30	0.37	209.0	0.91
Colnic (open-pit)	29.4	0.64	0.12	0.61	75.0	0.80
Ciresata (underground)	29.7	0.86	0.16	0.82	105.0	1.09
<b>Total Measured</b>	<b>90.9</b>	<b>0.62</b>	<b>0.19</b>	<b>1.80</b>	<b>389.0</b>	<b>2.80</b>
<b>Indicated</b>						
Rovina (open-pit)	73.5	0.27	0.23	0.64	370.0	1.59
Colnic (open-pit)	106.3	0.47	0.10	1.59	226.0	2.18
Ciresata (underground)	135.1	0.72	0.15	3.15	435.0	4.26
<b>Total Indicated</b>	<b>314.9</b>	<b>0.53</b>	<b>0.15</b>	<b>5.38</b>	<b>1,031.0</b>	<b>8.03</b>
<b>Total Measured + Indicated</b>	<b>405.8</b>	<b>0.55</b>	<b>0.16</b>	<b>7.18</b>	<b>1,420.0</b>	<b>10.83</b>
Comparison to 2008 Resource Estimate	+ 110%	+12.2%	-11.1%	+134%	+87%	+113%
<b>Inferred</b>						
Rovina (open-pit)	13.4	0.19	0.20	0.08	60.0	0.24
Colnic (open-pit)	3.8	0.32	0.10	0.04	8.0	0.06
Ciresata (underground)	9.6	0.67	0.14	0.21	29.0	0.28
<b>Total Inferred</b>	<b>26.8</b>	<b>0.38</b>	<b>0.16</b>	<b>0.33</b>	<b>97.0</b>	<b>0.58</b>
Comparison to 2008 Resource Estimate	-85%	-43.7%	-3.1%	-92%	-85%	-90%

- \*Au eq. determined by using a gold price of US\$1,370 per ounce and a copper price of US\$3.52/lb. These prices are the 3-year trailing average as of July 10, 2012. Metallurgical recoveries are not taken into account for Au eq.
- Base case cut-off used in the table are 0.35 g/t Au eq. for the Colnic deposit and 0.25% Cu eq for the Rovina deposit, both of which are amenable to open pit mining and 0.65 g/t Au eq for the Ciresata deposit which is amenable to underground bulk mining.
- For the Rovina and Colnic porphyries, the resource is an in-pit resource derived from a Whittle shell model using gross metal values of \$1,350/oz Au price and \$3.00/lb Cu price, net of payable amounts after smelter charges and royalty for net values of US\$1,313/oz Au and US\$2.57/lb Cu for Rovina and US\$2.27/lb Cu for Colnic.
- Rounding of tonnes as required by reporting guidelines may result in apparent differences between tonnes, grade and contained metal content.

A consortium of leading engineering groups and specialists, led by AGP was selected in July 2011 to complete a Pre-Feasibility Study for the Rovina Valley Project, specifically on the Ciresata, Colnic and Rovina porphyry deposits. The Pre-Feasibility Study was put on hold in 2013, given the decline in commodity prices and the equity markets sentiment to fund low grade, large capital cost projects. The interim results of the pre-feasibility study are being reviewed internally for a smaller scale operation than was envisioned in the PEA study completed in March 2010.

During 2012 and subsequent to the data closure date of the 2012 Resource Estimate update, the Corporation completed a total of 14,920 metres of drilling at the Rovina Valley Project, of which, 5,290 metres of drilling was for resource definition, 8,715 metres of exploration and satellite target drilling, predominantly at the Ciresata porphyry and 915 metres of geotechnical drilling.

Drilling activities on the Rovina Valley Project stopped on July 5, 2012 due to the impending expiry of the exploration license on August 29, 2012 and closure of the work program for the submittal of final documentation for the conversion to a mining license. In August 2012, the final exploration report was submitted to the NAMR and accepted. Romanian mining law states that the holder of an exploration license has the exclusive right to apply for a mining license at any time or within 90 days after the expiration date of the exploration license. The Corporation, through its wholly-owned subsidiary, SAMAX Romania SRL (“SAMAX”) notified the NAMR of its intention to exercise its exclusive statutory right to apply for a Mining License.

SAMAX subsequently and within the 90 day requirement, submitted the required Mining License Application (“MLA”) documentation including the mining study, the waste management plan, an environmental assessment, various impact studies and a closure plan. In March 2013, the Romanian National Agency for Mineral Resources (“NAMR”) approved and registered the MLA resources/reserves in the National Registry. In October 2013, the NAMR approved the mining waste management plan.

Although initially, the MLA was to be based on a large 40,000 tonne per day operation, the decline in commodity prices and increases in capital cost items since the filing of a preliminary economic assessment (“PEA”) in 2010, the Corporation initiated a review of the scope of the project as a smaller, lower capital intensive operation.

During the third quarter, 2014, the Corporation with a consortium of Romanian specialists completed a mining study for a 20,000 tonnes per day operation and associated environmental impact and risk studies which were submitted to the NAMR in August 2014. In October 2014, the NAMR approved the mining waste management plan as one of the key steps in the Mining License approval process. In addition, the Corporation continues to assess the scalability of a potential mining operation at the Rovina Valley project with the goal to optimize return on investment. The revised MLA may form the basis for the re commencement of the Pre-Feasibility Study.

On May 27, 2015, the NAMR granted a 20-year mining license (“MLA”) for the Rovina Valley Project. The granting of the MLA represents the first and most important step in the licensing process. Under Romanian law, the MLA will come into effect upon final review by several government departments and its publication in the official gazette. The Corporation will now proceed with an update to the Preliminary Economic Assessment of 2010 which will outline revised project costs and evaluate scalability options. The granting of the Rovina MLA represents the first time that Romania has granted a mining license for metals without the involvement of a state-owned enterprise.

Following the conversion to a mining license, approval to begin construction and mining operations will require a building authorization permit that will include land zoning and final environmental reviews and government approval resulting from a full Environmental Impact Assessment (“EIA”) study. During the conversion process from an exploration license to a mining license, no disruptive physical field work (i.e., drilling, land clearing, etc.) can be carried out on the property, until after the mining license has been approved.

Through its wholly-owned operating subsidiary, SAMAX, the Corporation continues to maintain its proactive local stakeholder engagement program. The program includes local community hall public meetings, a public information centre and partnership programs with local NGO’s and community leaders to implement community-based projects. The good relations with the community have allowed unhindered surface access for drilling in the Rovina Valley Project area which requires permission from landowners. In addition, the Corporation continues with its long lead time work activities for both the EIA and SIA documentation that will be required for the permitting of the project.

Further information on the Rovina Valley Project, including NI 43-101 reports can be found on the Corporation’s web site at [www.carpathiangold.com](http://www.carpathiangold.com).

All exploration activities undertaken by the Corporation in Romania must occur on valid exploration licenses or prospecting permits issued by the NAMR in Bucharest, which is responsible for the administration of all mining and exploration licenses and prospecting permits. According to the regulations and standard practices in Romania, the Corporation must submit reports of work completed and follow-up work programs on an annual basis to the NAMR.



Prior to initiation of any exploration activity, environmental approval of a proposed exploration program must be obtained from various land management agencies having local, county and/or regional jurisdiction. These local agencies are responsible for forestry, surface waters, archaeology and history, and are coordinated through the local environmental agency. The levels of environmental studies and approvals are determined by the local environmental agency following an approval template referred to as the ‘urbanisation certificate’. In practice, exploration activities, including drilling, are classified as low impact, and as such do not require comprehensive environmental impact studies.

Environmental permits for exploration are granted for one to two year periods and all local agencies have the right to monitor and inspect environmental impacts to evaluate compliance with issued permits even though such monitoring tends to be minimal in scope and nature. Any changes to the exploration activity that result in a greater environmental impact require approval.

Due to the fact that SAMAX is an exploration-stage company, the activities it conducts on its projects are largely restricted to drilling and ancillary activities associated with the drilling programs, such as access road and drill pad construction. As such, the reclamation costs in respect of drilling activities are not material to the Corporation and are factored into the Corporation’s budgets for exploration programs. If and when the Corporation wishes to enter the production stage, it will need to prepare a feasibility study as well as extensive environmental impact assessments studies. These environmental impact assessments will provide the Corporation with a better idea of the future costs of compliance with applicable environmental requirements and will also provide a better estimate of the eventual costs of reclamation obligations at the end of the mine life.

### *Results of Operations*

The following tables set out certain unaudited financial information for the last eight quarters:

For the quarters ended	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Revenues	2,918,915	14,732,609	22,391,584	17,932,070	-	-	-	-
Net (income) loss for the period	21,905,395	3,002,131	20,896,550	142,940,519	(10,355,700)	63,686,768	18,196,822	44,940,306
Basic and diluted (income) loss per share	0.03	0.00	0.03	0.21	(0.02)	0.14	0.03	0.08
Exploration and evaluation expenditures	303,499	199,620	234,580	663,957	756,163	274,345	628,321	652,148
Mine development expenditures	299,868	600,659	804,321	528,909	6,730,042	6,719,214	5,358,198	6,904,338

### **Third quarter ended September 30, 2015 (“Q3 2015”)**

During Q3 2015, MRDM was primarily focused on achieving as much production as possible based on the availability of water. No substantial exploration fieldwork was carried out in Brazil or Romania during Q3 2015. Both SAMAX (Romania) and MRDM (Brazil) continued to be engaged with/or reporting to their respective mineral-rights governmental agencies regarding the maintenance of mineral rights tenure.

MRDM recorded revenues of \$2,918,915 compared to \$14,732,609 in Q2 2015. Gross loss from mining operations in Q3 2015 was \$1,433,149 versus a gross profit of \$3,888,091 for Q2 2015. The net loss for Q3 2015 was \$21,905,395 compared to a net loss of \$3,002,131 for Q2 2015. Included in the loss for Q3 2015 is a non-cash gain of \$2,485,529 compared to a non-cash loss of \$8,528,141 in Q3 2015. These non-cash gains and losses are reported on the Corporation’s currency swaps and gold contract derivatives and arise from a movement in the foreign exchange rates on the Brazilian Real as well as on forward gold prices (see Financing Activities). The Company had a realized loss of \$14,075,145 in Q3 2015 compared to a realized gain of \$2,559,068 in Q3 2014. In Q3 2015, a

non-cash impairment charge of \$305,062 was recognized against the carrying value of Romania (see further discussion below). General and administrative costs in Q3 2015 were \$4,845,871 as compared to \$3,453,614 in Q3 2014 and were primarily due to restructuring costs both at the corporate head office and Brazilian locations. The Corporation incurred employee compensation expenses of \$722,678 in Q3 2015 as compared to \$1,542,209 in Q3 2014, the decrease being primarily due to lower expenses at MRDM due to reduced production as well as the execution of the two employment agreements previously described. Due to the movement in the value of the Canadian dollar and the Brazilian Real relative to the US\$, an unrealized foreign exchange gain of \$6,993,412 was recorded in Q3 2015 compared to an unrealized foreign exchange gain of \$4,417,652 in Q3 2014.

The basic and diluted earnings per share was a loss of \$0.03 in Q3 2015 versus income of \$0.07 in Q3 2014.

### **Nine months ended September 30, 2015 (“YTD 2015”)**

The following table sets out certain financial information for the nine month periods ended September 30, 2015 and 2014 (“YTD 2014”):

For the YTD	<b>YTD 2015</b>	YTD 2014
Net loss (gain) for the period	<b>45,804,076</b>	71,527,888
Basic and diluted (income) loss per share	<b>0.07</b>	0.12
Exploration and evaluation expenditures	<b>737,699</b>	1,653,829
Mine development expenditures	<b>1,704,848</b>	18,807,454

The net loss for YTD 2015 was \$45,804,076 compared to a net loss of \$71,527,888 for the corresponding period in 2014. Included in the YTD 2015 loss was a non cash loss on the currency swaps and gold contract derivatives of \$6,019,889 compared to a loss on derivatives of \$5,361,586 in YTD 2014. In addition, a realized loss of \$12,589,509 was recorded in Q3 2015 compared to a gain of \$2,559,068 in YTD 2014. Included in the YTD 2015, a non-cash impairment charge of \$733,850 was recognized against the carrying value of Romania (see further discussion below). General and administrative costs in YTD 2015 aggregated \$11,617,736 as compared to \$9,752,273 in YTD 2014, primarily due to restructuring costs both at the corporate head office and Brazilian locations. Employee compensation expenses of \$2,569,492 were lower during YTD 2015 as compared to \$2,800,770 in YTD 2014, primarily due to lower expenses at MRDM due to the execution of the two agreements with MRDM’s employees described above. The YTD 2015 foreign exchange gain of \$12,600,885 compared to a gain of \$3,262,229 for YTD 2014 was primarily due to the movement of the Canadian dollars against the US dollar.

The basic and diluted net loss per share was \$0.07 in YTD 2015 versus a \$0.12 loss per share in YTD 2014.

<b>Operating data</b>	<b>YTD 2015</b>	<b>Q3 2015</b>	<b>Q2 2015</b>	<b>Q1 2015</b>	<b>Q4 2014</b>
Tonnes ore mined	<b>838,480</b>	<b>124,134</b>	330,665	383,680	425,586
Tonnes processed	<b>813,950</b>	<b>55,156</b>	274,307	484,487	533,211
Grade (grams/tonnes)	<b>1.25</b>	<b>2.12</b>	1.38	1.07	1.18
Recovery	<b>84%</b>	<b>83%</b>	84%	84%	87%
Gold ounces					
- Produced	<b>27,517</b>	<b>3,128</b>	10,385	14,004	17,579
- Sold	<b>31,357</b>	<b>2,721</b>	11,206	17,430	18,431
Cash operating costs (per ounce) <sup>(1)</sup>	<b>1,274</b>	<b>2,377</b>	1,331	1,066	1,030
Total cash costs (per ounce) <sup>(1)</sup>	<b>1,451</b>	<b>2,898</b>	1,476	1,196	1,320
<b>Financial data</b>	<b>YTD 2015</b>	<b>Q3 2015</b>	<b>Q2 2015</b>	<b>Q1 2015</b>	<b>Q4 2014</b>
Revenues	<b>40,043,118</b>	<b>24,732,609</b>	24,732,609	22,391,584	17,932,070
Operating costs and mine site administrative expenses	<b>24,990,949</b>	<b>2,309,024</b>	8,436,722	13,245,202	9,829,277
Depreciation and amortization	<b>12,597,227</b>	<b>2,043,051</b>	4,854,674	5,699,502	5,740,732
Gross profit (loss) from mining operations	<b>2,454,942</b>	<b>(1,433,149)</b>	3,888,091	3,446,880	2,362,061

(1) Refer to “Cautionary non-GAAP Measures” disclosure at the end of this MD&A for a description and calculation of certain measures presented in this table.

## Liquidity and Capital Resources

As at September 30, 2015, the Corporation had cash and cash equivalents of \$726,046 (\$310,736 – at December 31, 2014) and restricted deposits of \$1,332,609 (\$1,248,017 - at December 31, 2014) and a working capital shortfall of \$247,079,408 (\$201,718,503 at December 31, 2014).

The Corporation’s available funds are not sufficient to fund the operation of the RDM project, the exploration work in Romania, working capital requirements and corporate administration. The Corporation continues to pursue strategic alternatives, including a possible sale or financial restructuring. The Corporation is currently assessing various financing options in order to secure additional funding and, in the interim, has been engaged in on-going discussions with Macquarie Bank to temporarily increase the amount available to the Corporation under the Facility until those alternative financing options are secured. To date, Macquarie Bank has continued to provide increases in the amount available under the Facility. Nevertheless, there is no assurance that these initiatives will be successful or sufficient or that Macquarie will continue to provide further advances (see also “Subsequent Event Discussion”). These circumstances lead to significant doubt as to the ability of the Corporation to meet its obligations as they become due and, accordingly, the ultimate appropriateness of use of the accounting principles applicable to a going concern.

The condensed interim consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities or reported expenses and balance sheet classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

As a result of delays in the completion of the construction at the RDM project, MRDM, as borrower, and the Corporation (as guarantor) have defaulted on certain covenants imposed under the Facility arrangement with Macquarie Bank. These covenant defaults relate to financial and operational difficulties experienced by the Corporation, including delays in commencement of production and unplanned cost overruns. As a result, on October 18, 2013, MRDM and the Corporation entered into a Forbearance and Amendment Agreement, as subsequently amended from time to time, (the “**Forbearance Agreement**”) with Macquarie Bank, under which the lenders have agreed to continue forbearing from exercising their rights under the Facility through February 15, 2016 (see also “Subsequent Event Discussion”). This has also resulted in the Corporation reclassifying all scheduled repayment under the Facility as current liabilities. In addition, under the terms of the Forbearance Agreement

Macquarie Bank has agreed, at its discretion, to provide an additional Tranche 3 under the Facility, the availability of which shall be in the absolute discretion of the lenders.

### **Financing Activities**

On January 13, 2013, MRDM entered into the Facility with Macquarie Bank of up to US\$90 million to fund the construction and development of the RDM project. In conjunction with this Facility, MRDM, through Macquarie Bank, also entered into price protection programs in the form of currency swaps for the RDM Project's Capex (R\$1.90 to US\$1.00) and Opex (R\$1.983 to US\$1.00) as well as a gold price protection program (consisting of forward sales) for a total of 216,600 ounces of gold (approximately 26% of the open-pit reserves) at varying prices from US\$1,177 to US\$1,600 per ounce. During 2013, MRDM drew the entire US\$90 million against the Facility. The Facility has been amended a number of times to provide for the increase of the aggregate amount available thereunder to up to US\$274.00 million and to provide forbearance against certain defaults and covenants of MRDM under the Facility. As of the date of this MD&A, an aggregate of approximately US\$267.10 million has been drawn down by MRDM under the amended Facility. The current forbearance period expires on February 15, 2016 (see also "Subsequent Event Discussion").

The Corporation acts as a guarantor of MRDM's obligations under the Facility and related derivative contracts.

### **Impairment**

As at September 30, 2015, a number of impairment indicators were noted by the Corporation in accordance with IAS 36 for its property, plant and equipment and mine assets and in accordance with IFRS 6 for its exploration and evaluation assets. Consequently, the Corporation undertook an impairment test on each of its identified cash generating units ("CGUs"), focused on MRDM and the Rovina Valley Project. A CGU is generally an individual operating mine or development project.

#### *Rovina Valley Project*

During 2015, the key impairment indicators noted for this CGU were a reduction in the scope of the Rovina Valley Project to a less capital intensive build and smaller scale operations due to decline in commodity prices since the first Preliminary Economic Assessment completed on the project in March 2010 and uncertainty as to whether the draft amended mining law in Romania will be passed enabling construction of mine in Romania.

The fair value less costs to dispose ("FVLCD") method was used to determine the recoverable amount as this was determined to be a higher valuation than a value in use calculation. The recoverable amount as determined by the Corporation for the CGU was \$nil.

The key assumptions and estimates used in determining the FVLCD were the probability of the mining law being passed in Romania and estimate of value a market participant would be willing to pay for the CGU based on recent marketing efforts by the Corporation.

Based on the test described above, exploration and evaluation assets was impaired by \$305,602 and \$733,850 for the three and nine months ended September 30, 2015, respectively. These impairment charges were included within the loss for the period in the statement of comprehensive loss. The fair value of the CGU was measured using market approach and Level 3 inputs.

#### *MRDM*

During 2015, the key impairment indicators noted for this CGU were: the delays of the Company to achieve commercial production levels in accordance with its life of mine plan; its market capitalization being below the carrying value of the net assets of the Corporation as a whole; negative cash flows from operating activities and a significant debt facility with Macquarie repayable on demand due to the Corporation defaulting on covenants.

Subsequent to year-end further indicators of impairment were identified, including a forecast reduction in planned production capacity due to shortfall in availability of water required for the production process.

FVLCD was used to determine the recoverable amount as this was determined to be a higher valuation than a value in use model. The recoverable amount as determined by the Corporation for the CGU was \$57,510,816.

For the MRDM CGU, for the three and nine months ended September 30, 2015, impairment charges totaled \$Nil.

The fair value of the CGU was measured using a weighted probability method based on market approach. At September 30, 2015, the fair value of the CGU was measured using discounted after-tax cash flows based on cash flow projections in the Corporation's current life of mine plans. There has been a change in the valuation technique as the Corporation expects to realize the value of the CGU from a sale rather than through continued operations of the CGU. Accordingly in 2015, Corporation has used a market approach to value the CGU.

The key assumptions and estimates used in determining the FVLCD were indicative offers received by the Corporation to purchase MRDM and forecast cash flows associated with the plan of operating the mine at a lower planned production capacity due to the current water shortfall. The projected cash flows cover a 12 month period based on the latest expectation of future metal prices, future capital expenditures, production cost estimates and exchange rates. Based on observable market or publicly available data, including spot and forward metal prices, we make an assumption on future gold prices to estimate future revenues. The key assumptions used by the Corporation in the projected cash flows for their impairment testing are: a future gold price of \$1,200 per ounce; a Brazilian Reais to US\$ exchange rate of 3.2:1; and an ore grade of 1.8g Au/t.

The key assumptions that impact the forecasted cash flows are commodity price, exchange rate and ore grade. A 10% decrease in the gold price holding all other assumptions constant would result in a decrease in the fair value of MRDM from \$57,510,816 to \$56,694,955 as at September 30, 2015. A 10% decrease in the exchange rate, holding all other assumptions constant, would result in a decrease fair value of MRDM from \$57,510,816 to \$56,056,783 as at September 30, 2015. A negative 30% change in the ore grade, holding other variables constant, reduces the fair value of MRDM to \$55,766,927. Should there be a significant decline in commodity price, exchange rate or ore grade, the Corporation would take actions to assess the implications on carrying value of the assets, production plan and cost structure for MRDM.

## Disclosure of Outstanding Share Data

As at the date of this report the total issued and outstanding number of Common Shares is 694,169,911.

## Options

As at September 30, 2015, stock options held by directors, officers, employees and consultants are as follows:

	Options Outstanding	Fair Value at Grant Date	Exercise Price Cdn\$	Remaining Contractual Life	Options Exercisable
Directors	200,000	71,579	0.56	30 days	200,000
Directors, officers and employees	5,241,000	1,810,603	0.58	321 days	5,241,000
Directors, officers and employees	3,520,000	327,527	0.40	1 years 318 days	3,520,000
Officer and employee	300,000	41,849	0.40	2 years 10 days	300,000
Employees	1,200,000	23,241	0.03	3 years 263 days	800,000
<b>Balance at September 30, 2015</b>	<b>10,461,000</b>	<b>2,274,799</b>		<b>1 years 203 days</b>	<b>10,061,000</b>

## Warrants

As at September 30, 2015, the following Common Share purchase warrants were outstanding:

	Number of Warrants	Weighted Average Exercise Price Cdn\$
Balance at December 31, 2013	-	-
Issued on Finalization of Facility	20,000,000	0.40
Balance at September 30, 2015 and December 31, 2014	20,000,000	0.40

The fair value of the Common Share purchase warrants was estimated at \$3,256,109 on the grant date using the Black-Scholes valuation model using the exercise price of Cdn\$0.40, expiry of January 11, 2016 and estimated volatility of 65%.

As at the date hereof, on a fully diluted basis, the total issued and outstanding number of Common Shares is 694,169,911.

The Common Shares were de-listed from the Toronto Stock Exchange at the close of business on July 21, 2015. On July 22, 2015, the Common Shares were posted for trading and listed on the Canadian Securities Exchange.

## Commitments

As of December 1, 2010, the Corporation entered into a sub-lease agreement for office space through to March 31, 2018. The minimum annual rent thereunder is Cdn\$35,640 plus applicable expenses for the entire term. In addition, the Corporation entered into a lease agreement in respect of additional office space for the period June 1, 2012 to March 31, 2018. The minimum annual rent thereunder was Cdn\$39,618, which increased to Cdn\$44,020 as of October 1, 2014, all plus applicable expenses. As of September 1, 2015, all of the Corporation's premises covered by these agreements were sub-subleased or sub-leased, as the case may be, from the Corporation by a third party through to March 31, 2018 at full recovery.

As at September 30, 2015, the Corporation's Brazilian subsidiary had entered into contracts for the construction, development and operating activities in Brazil as follows:

	Within 1 year	2 to 3 years	Total
Construction and supply contracts	2,873,522	-	2,873,522
Office lease	73,237	18,309	91,546

In addition, the Brazilian subsidiary has signed agreements for services and supplies to be used during the operations of the RDM Project, including for the supply of diesel fuel.

## Off-balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements.

## Related Parties

As at September 30, 2015, there were no amounts due to or from related parties (December 31, 2014 - \$Nil).

## Financial Instruments – Derivatives

### *Gold Stream Transaction*

On May 20, 2010, the Corporation's wholly owned subsidiary MRDM entered into a gold purchase and sale agreement (the "**Agreement**") with Macquarie Bank for its RDM project in Brazil.

Under the terms of the Agreement, as amended from time to time, Macquarie Bank made upfront cash payments (the "**Upfront Payments**") totalling \$30 million in return for which it acquired the right to purchase 12.5% of the gold produced from the Project at a price of \$400 per ounce of payable gold delivered ("**Delivered Gold Ounce**"). Macquarie Bank also has the right to extend its participation to purchase 12.5% of the additional gold produced from any underground operation within the mining concession and five contiguous exploration licenses, as well as any open pit and/or underground operation on the balance of the property outside of the existing mining concession and five contiguous exploration licenses referred to above (the "**Expanded Production**"), by contributing 12.5% of the capital required to develop the Expanded Production and paying \$450 per Delivered Gold Ounce.

The transactions covered by the Agreement have been recorded as a sale of a partial mineral property interest and the Upfront Payments have been accounted for as a recovery of exploration and development costs. Accordingly, no immediate gain or loss has been recognized on the transaction. These funds were used for the on-going construction activities in Brazil. As at December 31, 2012, the full \$30 million in Upfront Payments had been received (\$15 million - at December 31, 2011).

In addition, the Agreement provided that, if during the period from July 1, 2013 to June 30, 2014, MRDM had not produced a minimum of 80,000 ounces of refined gold (of which 10,000 ounces would be deliverable to Macquarie Bank), then Macquarie Bank, would have the right to require MRDM and the Corporation, jointly and severally, to refund to Macquarie Bank an amount (the "**Production Shortfall Payment**") equal to that percentage of the Upfront Payments which is equal to the percentage of underproduction of refined gold over such 12-month period compared with that which was projected for such 12-month period as set out in the life of mine plan agreed at the time of closing of these transactions. MRDM and the Corporation have received notice from Macquarie Bank for payment of the Production Shortfall Payment. During said 12-month period, MRDM produced a total of 8,168 ounces of refined gold, compared to the 100,000 ounces of refined gold that was projected to be produced under the life of mine plan that was agreed to at the time of closing of the gold stream transactions. Given the foregoing, the underproduction of refined gold during the 12-month period ending June 30, 2014 is equal to 91.8% and, therefore, a Production Shortfall Payment of US\$27,549,600 is owed to Macquarie Bank under the gold stream transactions.

Notwithstanding the foregoing, if any Production Shortfall Payment becomes due to Macquarie Bank under the Agreement, and at such time both the Corporation and MRDM are in violation or default of any debt covenant under the credit, debt or loan facility for the Project debt, or the payment of such amounts by the Corporation and/or MRDM would each constitute a default under such credit, debt or loan facility, then MRDM and the Corporation shall have the right to defer payment of such Production Shortfall Payment to Macquarie Bank until the later of the date upon which such violation or default of such credit, debt or loan facility has been remedied and the date on which the amount owing to Macquarie Bank may be paid by the Corporation and/or MRDM without constituting a default under such credit, debt or loan facility. MRDM and the Corporation have elected to defer payment of the Production Shortfall Payment accordingly. Until paid in full to Macquarie Bank, the Production Shortfall Payment shall bear interest at the Default Rate (as defined in the Agreement). In respect of MRDM, Macquarie Bank has agreed to forebear its rights to charge or accrue interest on the refund amount or exercise any such rights with respect to interest until February 15, 2016 (see also "Subsequent Event Discussion").

The Corporation acts as a guarantor of MRDM's obligations under the Agreement. In light of the above, the Corporation has recorded a liability of \$27,549,600 as the Production Shortfall Payment.

### *Project Loan Facility*

In conjunction with the entering into of the Facility, MRDM, through Macquarie Bank, also entered into price protection programs in the form of currency swaps for the Project's Capex at R\$1.90 to US\$1.00 and Opex at R\$1.983 to US\$1.00. In addition and concurrently with the currency swaps, MRDM entered into a gold price protection program ("**Gold Contracts**") comprised of 216,600 ounces of gold (approximately 26% of the open-pit reserves) at varying prices from \$1,177 to \$1,600 per ounce. The fair value of the Gold Contracts was a liability of \$92,727,754 prior to settlement on September 28, 2015.

The Capex currency swaps were put in place in order to mitigate the risks associated with fluctuations in the Brazilian Reais (R\$) during the mine construction period relative to the US\$. The Opex currency swaps were arranged to cover R\$/US\$ currency fluctuations during the initial years of the mine operations for a notional amount of R\$317,202,176. The fair value of the OPEX was an asset of \$78,815,543 prior to settlement on September 28, 2015.

The fair value of currency swap contracts is determined by discounting contracted cash flows using a discount rate derived from observed LIBOR and swap rate curves and credit default swap (the "**CDS**") rates. In the case of currency contracts, the Corporation converts non-U.S. dollar cash flows into U.S. dollars using an exchange rate derived from currency swap curves and CDS rates. The fair value of commodity forward contracts is determined by discounting contractual cash flows using a discount rate derived from observed LIBOR and swap rate curves and CDS rates. Contractual cash flows are calculated using a forward pricing curve derived from observed forward prices for each commodity. Currency contracts and commodity forward contracts were in a net asset position and therefore, the Corporation used CDS spread for Macquarie Bank. Gold options are valued based on valuations taken from the CME Group Inc. gold options quote site using American options for strike range of \$1,600 and expiry date of December 2016.

The Facility is a five-year agreement with standard commercial terms as are customary in agreements of this nature. Subject only to interest breakage costs, MRDM may repay the Facility at any time, with no adverse penalties. The Corporation has granted Macquarie Bank 20 million common share purchase warrants at an exercise price of Cdn\$0.40 per warrant for a period of three years. The fair value of these warrants was estimated at \$3,256,109 using a Black-Scholes model. In addition, MRDM has granted Macquarie Bank a call option on 10,000 ounces of gold exercisable at \$2,000 per ounce for a three year period from the date of commencement of operations (the "**Gold Option A**"). The Gold Options had a fair value of \$1,400,000 liability on the date of grant. Total cost of debt issuance amounted to \$7,097,513, which includes \$1,800,000 fee to Macquarie and \$641,404 of other costs. The Corporation acts as a guarantor of MRDM's obligations under the Facility and related derivative contracts until such time as project completion is achieved as defined under the terms of the Facility.

On August 28, 2013, the Corporation entered into an agreement with Macquarie Bank to amend the Facility as follows:

- a) MRDM granted Macquarie Bank Gold options (the "**Gold Option B**") to acquire 10,000 ounces of gold at \$1,600 per ounce for a three year period from the date of commencement of operations; and
- b) Amended the strike price of the previous Gold Option A to acquire 10,000 ounces of gold from \$2,000 to \$1,600 per ounce.

The additional Gold Option B had a fair value of \$1,525,000 liability on the date of the amendment and the previously issued Gold Option A has an additional fair value of \$805,000 on the day of amendment. Total cost of amended debt issuance amounted to \$2,378,200 which includes the increase in fair value of original 10,000 ounces of gold and the fair value of the options for the additional 10,000 ounces of gold, and \$48,200 of other costs and have been netted against the Facility balance. The cost of the amendment offset the carrying value of the Facility as such extension was determined to be a modification rather than an extinguishment for accounting purposes.



The fair value of the Gold Option A granted to Macquarie Bank in 2013 and the Gold Option B was a liability of \$162,934 prior to settlement on September 28, 2015.

As a result of delays in the completion of the construction at the RDM Project, MRDM, as borrower, and the Corporation (as guarantor) have defaulted on certain covenants under the Facility arrangement with Macquarie Bank. These covenants are both financial and operational in nature and include, *inter alia*, delays in the commencement of production and unplanned cost overruns. Due to the Forbearance Agreement all deferred debt issuance costs have been written off to Mine Development assets, resulting in deferred financing costs of \$9,475,713 for the year ended December 31, 2013.

As at September 30, 2015, the principal balance outstanding on the Facility was \$255,565,320. Interest accrued during the three and nine months ended September 30, 2015 was \$9,359,876 (September 30, 2014 \$6,180,618) and \$24,981,918 (September 30, 2014 - \$15,528,135), respectively. Facility fees paid for the three and nine months ended September 30, 2015 were \$1,671,788 (September 30, 2014 - \$549,424) and \$3,182,124 (September 30, 2014 - \$3,079,319), respectively. Interest paid for the three and nine months ended September 30, 2015 were \$11,126,364 (September 30, 2014 - \$3,457,272) and \$29,352,550 (September 30, 2014 - \$11,084,051), respectively.

The Corporation entered into a Forbearance Agreement on October 18, 2013, whereby Macquarie Bank agreed to forebear exercising their rights and remedies of Creditors under the Facility with respect to the defaults during the forbearance period. This period has been amended from time to time, with the latest amendment providing for a forbearance period to February 15, 2016.

The Facility bore interest rates at LIBOR plus a margin of 5.5% for Tranche 2 and 5.0% for Tranche 1 prior to entering into the Forbearance Agreement. These rates were to be reduced to LIBOR plus 5.0% and 4.5%, respectively on commencement of production.

As a result of the defaults under the terms of the Facility, the interest rate payable for the \$90 million drawn under Tranche 1 and 2 have been increased to LIBOR plus a margin of 9.0% and 9.5%, respectively.

Under the terms of the Forbearance Agreement, as amended, Macquarie Bank had initially agreed to provide up to \$30 million, at its discretion, of additional financing under a “Tranche 3” of the Facility. Macquarie Bank has agreed on numerous occasions to increase the financing available under Tranche 3 of the Facility to up to \$184.00 million, resulting in a total Facility of \$274.00 million, and to extend the repayment date for any funds drawn down under Tranche 3 of the Facility to February 16, 2016 (see also “Subsequent Event Discussion”). Tranche 3 bears interest at 20% per annum, and a facility fee of 5% is payable in respect of each drawdown thereunder.

As of the date of this MD&A, the Corporation has drawn \$177.10 million against the Facility’s Tranche 3, resulting in a total of \$267.10 million of principal outstanding under the Facility.

*Summary of Derivatives at December 31, 2014*

	Notional Amount by Term to Maturity (\$)			Total	Fair Value (\$)
	Within 1 year	2 to 3 years	4 to 5 years		
<b>Currency contracts:</b>					
OPEX contract	31,992,151	85,312,402	63,984,302	181,288,855	(66,104,760)
<b>Commodity contracts:</b>					
Gold contract	68,525,970	145,920,000	109,440,000	323,885,970	72,584,622
Gold Options	-	32,000,000		32,000,000	(460,000)

### *Fair Values of Derivative Instruments*

	Balance Sheet Classification	Fair Value as at September 30, 2015	Fair Value as at December 31, 2014	Balance Sheet Classification	Fair Value as at September 30, 2015	Fair Value as at December 31, 2014
<b>Currency contracts:</b>						
OPEX contract		-	-	Current liabilities	-	9,212,007
OPEX contract		-	-	Non-current liabilities	-	52,892,753
<b>Commodity contracts:</b>						
Gold contract	Current assets	-	14,433,715	Current liabilities	-	-
Gold contract	Non-current assets	-	58,150,907	Non-current liabilities	-	-
<b>Gold Options</b>		-	-	Non-current liabilities	-	460,000

Changes in the fair value of the Gold Options derivative in the Agreement and the Currency and Gold Contract derivatives are recognized in the condensed consolidated statement of loss (income) as gains or losses on non-hedge derivatives.

Unrealized gains or losses arising from the changes in fair value of the Gold Options derivatives and currency and commodity contracts derivatives for the three and nine months ended September 30, 2015 amounted to a gain of \$2,485,529 (September 30, 2014 – gain of \$8,528,141) and loss of \$6,019,889 (September 30, 2014 – loss of \$5,361,586), respectively. Realized gains arising from settlement of all currency and commodity contract derivatives for the three and nine months ended September 30, 2015 amounted to a loss of \$14,075,145 (September 30, 2014 – gain of \$2,559,068) and a loss of \$12,489,509 (September 30, 2014 – gain of \$2,559,068), respectively. These realized and unrealized gains and losses are recognized in the consolidated statement of loss as net gains or losses on derivative contracts.

### *Net realized and unrealized (gains) losses on Derivatives*

	Three-Month Period Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
<b>Currency contracts:</b>				
OPEX contract	(13,026,693)	26,071,781	OPEX contract	(15,698,051)
<b>Commodity contracts:</b>				
Gold contract	24,290,177	(36,832,990)	Gold contract	34,173,317
Gold Options	326,132	(326,000)	Gold Options	134,132

### **Risks and Uncertainties**

The operations of the Corporation as well as those of its subsidiaries are speculative due to their nature, the locations in which they operate, and their relative stages of its development. The following risk factors pertain to the business and operations of the Corporation and its subsidiaries.

#### *Limitations under the Facility*

The Corporation's Facility with Macquarie Bank limits, among other things, the Corporation's ability to permit the creation of certain liens, make investments, dispose of material assets or, in certain circumstances, pay dividends. In addition, the Facility limits the Corporation's ability to incur additional indebtedness and requires the Corporation to maintain specified financial ratios and meet financial covenants. Events beyond the Corporation's control, including changes in general economic and business conditions, may affect the Corporation's ability to satisfy these covenants, which could result in a default under the Facility. As events of default have occurred under the Facility, the lender

could, subject to the Forbearance Agreement as amended from time to time, elect to declare all principal amounts outstanding thereunder at such time, together with accrued interest, to be immediately due. An event of Default under the Facility may also give rise to an event of default under existing and future debt agreements and, in such event, the Corporation may not have sufficient funds to repay amounts owing under such agreements.

### *The Corporation's Level of Debt*

The Corporation's indebtedness as a result of the Facility, among other things, could:

- make it difficult for the Corporation to satisfy its obligations;
- increase the Corporation's vulnerability to general adverse economic and industry conditions;
- limit the Corporation's flexibility in planning for, or reacting to or capitalizing on, changes in the Corporation's business, the markets in which the Corporation operates and in government regulations;
- place the Corporation at a competitive disadvantage compared to companies that have less debt;
- limit the Corporation's ability to borrow or raise additional funds; and
- prevent Macquarie Bank from extending the forbearance period in respect to any defaults thereunder.

### *Uncertainty of Strategic Review Process*

The Corporation's Board has initiated a process and is working together with Macquarie Bank and its financial advisors to identify, examine and consider a range of strategic options available to the Corporation in order to rectify the Corporation's severe financial constraints and liquidity issues, and to complete a transaction that is in the best interest of all stakeholders. There can be no assurances that the Corporation will be able to complete a successful business transaction or sale (including the Restructuring described in the "Subsequent Event Discussion") under this strategic process.

### *Nature of Mineral Exploration and Mining*

The exploration and development of mineral deposits involve significant risks over an extended period of time which even a combination of careful evaluation, experience and knowledge may not eliminate. As a result, few properties which are explored are ultimately developed into producing mines. The long term profitability of Carpathian's operations will be in part related to the cost and the success of its exploration programs, which programs may be affected by a number of factors out of the Corporation's control, such as commodity prices, the availability of skilled personnel, qualified vendors and the availability of critical equipment and capital.

Substantial expenditures on drilling and related costs are required to establish reserves, to determine the technical and economic feasibility of mining and extraction and, if warranted, to develop the mining and processing facilities and infrastructure of any given project. Although substantial benefits may be derived from the discovery of a major mineralized deposit, it is impossible to ensure that proposed exploration programs on the properties will result in profitable mining operations. There is no assurance that the Corporation's expenditures will result in discoveries of commercially viable ore bodies. Furthermore, there can be no assurance that the Corporation's estimates of future exploration expenditures will be accurate.

Actual expenditures may be significantly higher than currently anticipated. Whether a deposit will be commercially viable depends on a number of factors, including, but not limited to, the particular attributes of the deposit (e.g. size and grade of the deposit), costs and efficiency of the recovery methods that can be employed, proximity to infrastructure, land use and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in Carpathian not receiving an adequate return on its invested capital.

### *Exploration and Development Risks*

Mineral exploration and mining involve considerable financial and technical risks. Substantial expenditures are

usually required to establish ore reserves, to evaluate mineral treatment processes and to construct mining and processing facilities. The Corporation cannot assure that the current exploration programs planned by the Corporation will result in profitable commercial mining operations, as few properties that have been explored are ultimately developed into producing mines. Unusual or unexpected geological formations, unstable ground conditions that could result in cave-ins or landslides, floods, power outages or fuel shortages, labour disruptions, fires, explosions, and the inability to obtain suitable or adequate machinery, equipment, materials or labour are risks associated with the conduct of exploration programs and the operation of mines, any of which could result in legal liabilities arising therefrom. The Corporation has relied, and may continue to rely, upon consultants for expertise with respect to the construction and operation of a mining facility.

### *Construction and Start-up of New Mines*

The success of construction projects and the start-up of new mines by the Corporation is subject to a number of factors including the availability and performance of engineering and construction contractors, mining contractors, suppliers and consultants, the receipt of required governmental approvals and permits in connection with the construction of mining facilities and the conduct of mining operations (including environmental permits), the successful completion and operation of the ore pass, the plant, the conveyors to move the ore and other operational elements. Any delay in the performance of any one or more of the contractors, suppliers, consultants or other persons on which the Corporation is dependent in connection with its construction activities, a delay in or failure to receive the required governmental approvals and permits in a timely manner or on reasonable terms, or a delay in or failure in connection with the completion and successful operation of the operational elements in connection with new mines could delay or prevent the construction and start-up of new mines as planned. There can be no assurance that current or future construction and start-up plans implemented by the Corporation will be successful; that the Corporation will be able to obtain sufficient funds to finance construction and start-up activities; that available personnel and equipment will be available in a timely manner or on reasonable terms to successfully complete construction projects; that the Corporation will be able to obtain all necessary governmental approvals and permits; and that the completion of the construction, the start-up costs and the ongoing operating costs associated with the development of new mines will not be significantly higher than anticipated by the Corporation. Any of the foregoing factors could adversely impact the operations and financial condition of the Corporation.

### *Foreign Jurisdictions*

The Corporation's assets are all located outside of Canada. It may be difficult or impossible to effect service or notice to commence legal proceedings upon foreign governments, persons and businesses. Even if effected, it may not be possible to enforce against such parties, judgements obtained in Canadian courts predicated upon the civil liability provisions available under Canadian laws.

The Corporation conducts its operations in Brazil and Romania through two foreign subsidiaries which directly and indirectly hold all of the assets in connection with the RDM Project and the Rovina Valley Project. Accordingly, any limitations placed by the Brazilian or Romanian governments on the transfer of cash or other assets between the Corporation and its subsidiaries could restrict the Corporation's ability to fund the RDM Project or the Rovina Valley Project licenses efficiently. Any such limitations could have an adverse impact on the Corporation's prospects, financial condition and results of operations.

The Corporation's assets are located in Brazil and Romania, which causes it to be subject to certain risks, including possible political or economic instability, which may result in the impairment or loss of licenses or mineral rights. Mineral exploration and mining activities may be affected in varying degrees by instability and government regulations relating to the mining industry, which could include the cancellation or renegotiation of licenses and other contracts, changes in local domestic laws or regulations, changes in tax laws, royalty and tax increases, restrictions on production, price controls, expropriation of property, fluctuations in foreign currency, foreign exchange controls, import and export regulations, restrictions on the export of gold, restrictions on the ability to repatriate earnings and pay dividends, environmental legislation, employment practices and mine safety. There can

be no assurance that such restrictions and controls will not be imposed in the future and such restrictions, controls or fluctuations may materially affect the Corporation's financial position as well as the Corporation's ability to develop its assets. Any changes in the laws, rules or regulations, policies or shifts in political attitudes regarding foreign investment in the Brazilian or Romanian mining industry are beyond the Corporation's control and may adversely affect its business. (See also "Brazil – Exploration Activities")

#### *No Assurance of Title to Exploration Licenses or Surface Rights*

To carry out its activities, the Corporation must obtain licenses and/or permits to explore for minerals in any given area. These licenses are granted by government agencies and, once granted, are registered with such agencies. The Corporation has conducted title searches on all of its exploration licenses and, to the best of its knowledge; the titles to all of its licenses are in good standing. However, this should not be construed as a guarantee of such titles. The Corporation's licenses may be subject to prior unregistered agreements or transfers or third party claims or may also be affected by other undetected defects, such as prior unregistered liens, agreements, transfers or claims, including Native title claims. There is no assurance that the interests of the Corporation in any of its licenses may not be challenged or impugned. Exploration licenses do not include the surface rights to the areas covered by such licenses nor access thereto. In the event that a positive development and or production decision is made, the Corporation would need to acquire the surface rights to the areas covered by such licenses and possibly other surface rights providing access to such areas. These surface rights may be owned by governmental authorities or private interests, and there is no guarantee that the Corporation would ever be able to acquire such surface rights on reasonable terms or at all.

#### *Environmental and other Regulatory Requirements*

The operations of the Corporation are subject to Romanian and Brazilian laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. The Corporation believes that it is in substantial compliance with all applicable material laws and regulations, however, there can be no assurance that all permits which the Corporation may require for its operations, particularly environmental permits, will be obtained on reasonable terms or that compliance with such laws and regulations would not have an adverse effect on the profitability of any mining project that the Corporation may undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Furthermore, non-governmental organizations ("NGOs") have been very active in certain parts of the world in blocking or attempting to block the acquisition of permits for large scale mining projects. There have been many recent instances where mining projects have been blocked or extensively delayed because of numerous means employed by NGOs as well as their extensive recourse to the courts to obtain injunctions and other procedural and legal remedies.

#### *Permits, Licenses and Approvals*

The operations of the Corporation require permits, licenses and approvals from various governmental and non-governmental authorities. The Corporation has obtained, or will be required to obtain, all necessary permits, licenses and approvals required to carry on its operations under applicable laws and regulations. Notably, MRDM is currently operating under the APO and there is no guarantee that an LO will be issued. However, such permits, licenses and approvals are subject to changes in regulations and in various operating circumstances. There can be no assurance that the Corporation will be able to obtain all necessary permits, licenses and approvals required to carry out exploration, development and mining operations in connection with its projects.

#### *Environmental Liability*

Mining, like many other extractive natural resource industries, is subject to potential risks and liabilities associated

with environmental pollution and waste disposal. Environmental liability may result from mining activities conducted by other parties prior to the Corporation's involvement with its properties. To the extent the Corporation is subject to uninsured environmental liabilities, the payment of such liabilities would reduce funds otherwise available to the Corporation and could have a material adverse effect on the Corporation. Should the Corporation be unable to fund fully the cost of remedying an environmental problem, the Corporation might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy.

#### *Uncertainty of Mineral Resource Estimates*

The figures for mineral resources presented herein are estimates, and no assurance can be given that the anticipated tonnage and grades will be achieved or that the indicated level of recoveries of gold and copper will be realized. The ore grade actually recovered by the Corporation may differ from the estimated grades of the mineral resources. Such figures have been determined based on assumed gold and copper prices and operating costs. Mineral resource estimates for properties that have not commenced production are based, in most instances, on very limited and widely spaced drill hole information, which is not necessarily indicative of conditions between and around the drill holes. Accordingly, such mineral resource estimates may require revision as more drilling information becomes available or as actual production experience is gained. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Inferred mineral resources are considered too speculative geologically to have economic considerations applied to them that would enable them to be characterized as mineral reserves. There is no certainty that mineral resources will be converted into mineral reserves.

#### *Mineral Deposits, Production Costs and Metal Prices*

The economics of developing mineral deposits are affected by many factors including variations in the grade of ore mined, cost of operations and fluctuations in the sale prices of products. The value of Carpathian's mineral properties is heavily influenced by metal prices. Metal prices can and do change substantially over a short period of time, and are affected by numerous factors beyond the control of the Corporation, including, but not limited to, changes in the level of supply and demand, international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, new discoveries, speculative activities and increased production arising from improved mining and production methods. There can be no assurance that the prices of mineral products will be sufficient to ensure that the Corporation's properties can be mined profitably. Depending on the price received for minerals produced, the Corporation may determine that it is impractical to commence or continue commercial production.

The grade of any ore ultimately mined from a mineral deposit may differ from the Corporation's estimates based on drilling results. Production volumes and costs can be affected by such factors as the proximity and the capacity of processing facilities, permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. Short-term factors relating to ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on the results of the operations. Moreover, there can be no assurance that any gold, silver, copper or other minerals recovered in small-scale laboratory tests will be achieved under production scale conditions. Although precautions to minimize risks will be taken, processing operations are subject to hazards such as equipment failure or failure of tailings impoundment facilities, which may result in environmental liability.

#### *Volatility of Gold Price*

The price of gold is primarily influenced by interest rates, volatility in the credit and financial markets, strong investment demand and inflation expectations. As with many other commodities, the price of gold has fluctuated widely in recent years as well as within the recent month. While the price of gold is currently in the order of \$1,069, there can be no assurance that gold prices will remain at such levels or be such that the Corporation's properties can be exploited at a profit. If the price of gold declines, it could have a material adverse effect on the Corporation's

share price, business and operations.

In connection with the RDM Project financing facility entered into with Macquarie Bank, the Corporation had entered into gold forward sales agreements representing 216,600 ounces, at varying prices from \$1,177 to \$1,600 per ounce. Deliveries under these agreements are to be spread out over the first five years of production. On September 28, 2015, these gold forwards have been closed out.

#### *Volatility of Copper Price*

The price of copper is dependent on the global supply and demand factors that are beyond the control of the Corporation. The price of copper is currently in the order of \$2.06 per pound, however there can be no assurances that the price will remain at this level or be at such a price that the Corporation's properties can be exploited at a profit.

#### *Currency Fluctuations*

Currency fluctuations may affect the costs that the Corporation incurs for its exploration programs and at its operations. Gold and copper are sold throughout the world based principally on a U.S. dollar price, but some of the Corporation's operating expenses are incurred in other currencies including Euros, Romanian Lei and Brazilian Reals. The fluctuation of the Euro or Real against the U.S. dollar will influence the cost of gold and copper production at such mining operations and could materially affect the Corporation's earnings and financial condition.

The Corporation has entered into currency swaps for its 2012-2013 RDM Project capital expenditures program, as well as currency swaps to cover its operational expenditures for the years 2013 to 2018, in order to mitigate against adverse fluctuations in the Brazilian Real vis-a-vis the U.S. dollar. On September 28, 2015, these currency swaps have been closed out.

#### *Hedging Activities*

Derivative products can be used to manage the risks associated with, among other things, changes in commodity prices and foreign currency exchange rates. The Corporation has entered into such arrangements. The Corporation enters into hedging contracts to limit the impact of fluctuations as a result of volatilities in the world markets by hedging a portion of its requirement of Brazilian Reals and U.S. dollar, and its expected sales of gold.

#### *Infrastructure*

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Corporation's operations, financial condition and results of operations.

#### *Liquidity Concerns and Future Financing*

The viability of further development and exploration of the various mineral properties in which the Corporation holds interests will depend upon the Corporation's ability to obtain financing through joint ventures, equity financing, debt financing or other means. As noted elsewhere in the MD&A, the Corporation is in default of its borrowing agreement and is subject to the Forbearance Agreement. There is no assurance that the Corporation will be successful in obtaining required financing when needed. Volatile markets for precious and base metals may make it difficult or impossible for the Corporation to obtain debt financing or equity financing on favourable terms or at all. Failure to obtain such additional financing could result in the dilution or complete loss of the Corporation's interests in these properties.

### *Competition*

The mineral exploration and mining business is competitive in all of its phases. The Corporation competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Corporation, in the search for and the acquisition of attractive mineral properties. The ability of the Corporation to acquire properties in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable properties or prospects for mineral exploration. There is no assurance that the Corporation will continue to be able to compete successfully with its competitors in acquiring such properties or prospects.

### *Acquisitions and Integration*

From time to time, the Corporation examines opportunities to acquire additional mining assets and businesses. Any acquisition that the Corporation may choose to complete may be of a significant size, may change the scale of the Corporation's business and operations, and may expose the Corporation to new geographic, political, operating, financial and geological risks. The Corporation's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, negotiate acceptable terms for any such acquisition, and integrate the acquired operations successfully with those of the Corporation. Any acquisitions would be accompanied by risks. For example, there may be a significant change in commodity prices after the Corporation has committed to complete the transaction and established the purchase price or exchange ratio; a material ore body may prove to be below expectations; the Corporation may have difficulty integrating and assimilating the operations and personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise, and maintaining uniform standards, policies and controls across the organization; the integration of the acquired business or assets may disrupt the Corporation's ongoing business and its relationships with employees, customers, suppliers and contractors; and the acquired business or assets may have unknown liabilities which may be significant. In the event that the Corporation chooses to raise debt capital to finance any such acquisition, the Corporation's leverage will be increased. If the Corporation chooses to use equity as consideration for such acquisition, existing shareholders may suffer dilution. Alternatively, the Corporation may choose to finance any such acquisition with its existing resources. There can be no assurance that the Corporation would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

### *Litigation Risks*

All industries, including the mining industry, are subject to legal claims, with and without merit. The Corporation may become involved in legal disputes in the future. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material effect on the Corporation's financial position or results of operations.

### *Dependence on Key Individuals*

The Corporation is dependent on a relatively small number of key personnel, and the loss of any one of them could have an adverse effect on the Corporation. In addition, while certain of the Corporation's officers and directors have experience in the exploration and development of mineral producing properties; the Corporation will remain highly dependent upon contractors and other third parties in the performance of its exploration and development activities. There can be no guarantee that such contractors and third parties will be available to carry out such activities on behalf of the Corporation or be available upon commercially acceptable terms.



### *Conflicts of Interest*

The directors and officers of the Corporation do not devote all of their time to the affairs of the Corporation. The directors and officers of the Corporation are also directors and officers of other companies, some of which conduct business similar to that of the Corporation. The directors and officers of the Corporation are required by law to act in the best interest of the Corporation. They have the same obligations to the other companies to which they act as directors and officers. The discharge by the directors and officers of their obligations to the Corporation may result in a breach of their obligations to the other companies and, in certain circumstances; this could expose the Corporation to liability to those companies. Similarly, the discharge by the directors and officers of their obligations to the other companies could result in a breach of their obligation to act in the best interest of the Corporation. Such conflicting obligations may expose the Corporation to liability to others and impair its ability to achieve its business objectives.

### *Compliance with Anti-Corruption Laws*

The Corporation is subject to various anti-corruption laws and regulations including, but not limited to, the Canadian *Corruption of Foreign Public Officials Act*. In general, such laws prohibit a company and its employees and intermediaries from bribing or making prohibited payments to foreign officials or other persons to obtain business or gain some other business advantage. The Corporation's operations are located in Brazil and Romania, countries which, according to Transparency International, are perceived as having significantly higher levels of corruption relative to Canada. The Corporation cannot predict the nature, scope or effect of future anti-corruption regulatory requirements to which its operations may be subject or the manner in which existing laws may be administered or interpreted.

Failure to comply with applicable anti-corruption legislation could expose the Corporation and/or its senior management to civil and/or criminal penalties, other sanctions, remedial measures, legal expenses and reputational damage, all of which could materially and adversely affect the Corporation's business, financial condition and results of operations, as could any investigation of any potential violations of applicable anti-corruption legislation by Canadian or foreign authorities.

As a consequence of these legal and regulatory requirements, the Corporation has adopted policies and procedures with regard to business ethics and anti-corruption which have been designed to ensure that the Corporation and its employees comply therewith. However, there can be no assurance or guarantee that such efforts have been or will be completely effective in ensuring the Corporation's compliance and the compliance of its employees, consultants, contractors or agents with all applicable anti-corruption laws and regulations.

### *Insurance*

The Corporation currently holds a certificate of insurance underwritten by Encon Group Inc. providing for Directors and Officers Liability coverage of up to \$15,000,000, inclusive of defence costs. Additionally, the Corporation carries a general liability policy in the amount of \$10,000,000. Furthermore, the Corporation, for and on behalf of MRDM, has obtained all-risk property insurance in the amount of \$204.9 million, machinery breakdown insurance in the amount of \$100 million and bullion insurance in the amount of \$6 million in order to insure the risks associated with the operations of the RDM Project. There is no guarantee that these policies will provide sufficient protection for the Corporation and or MRDM against certain risks associated with mineral exploration, commercial exploitation and related corporate activities. Even with these policies in place, there remains a risk that unusual liabilities may not be covered or that the insured amounts may prove insufficient.

### *Fluctuation in Market Value of Carpathian's Shares*

The market price of the Corporation's publicly-traded Common Shares is affected by many variables not directly related to the performance of the Corporation, including, but not limited to, the market in which the Common Shares are traded, the strength of the economy generally, the availability and attractiveness of alternative investments and

the breadth of the public market for the stock. The effect of these factors on the market price of the Common Shares in the future cannot be predicted.

#### *Rising Production Costs*

Carpathian is faced with the challenge of rising production and energy costs. Changes in the Corporation's production costs could have a major impact on its profitability. Such rising costs are caused by, among other things, materials, personnel costs, energy, high input commodity prices, higher royalty and tax structures, a weak U.S. dollar and long delays in permitting mineral projects and may affect the ability of mining companies to explore, commence or sustain economically viable production at their mines.

#### *Equipment, Materials and Skilled Technical Workers*

The Corporation is dependent on the availability of affordable and accessible equipment, replacement parts, and repair services and the absence or disrepair of such equipment, parts and services could affect or halt exploration or eventual production on the properties of the Corporation. There can be no guarantee that such equipment, parts or repair services will be available to the Corporation, or that such equipment, replacement parts or repair work will be available on commercially reasonable terms.

Carpathian is dependent on the availability of affordable and accessible materials. There can be no guarantee of the availability, quality and reliability of the supply of neither such materials, nor that such materials will continue to be available to the Corporation on commercially reasonable terms.

The Corporation is also dependent on the availability of skilled technical workers to carry out various functions on the properties of the Corporation. There can be no guarantee that such skilled workers will be available to carry out such activities on behalf of Carpathian or that such workers will be available on commercially reasonable terms.

#### *Nature and Climatic Conditions*

The Corporation and the mining industry continually face geotechnical challenges which could adversely impact the Corporation's production and profitability. Unanticipated adverse geotechnical and hydrological conditions, such as severe rainfall, floods, landslides, droughts, pit wall failures and rock fragility may occur, and such events may not be detected in advance. Geotechnical instabilities and adverse climatic conditions can be difficult to predict and are often affected by risks and hazards outside of the Corporation's control. Such conditions could result in limited access to mine sites, suspensions or reductions in operations, government investigations, increased monitoring costs, remediation costs, loss of ore and other impacts which could cause the Corporation's projects to be less profitable than currently anticipated and could result in a material adverse effect on the Corporation's results of operations and financial position.

#### *Water*

A key operational risk is the availability of sufficient water supplies to support mining operations. Large amounts of water are used in the extraction and processing of minerals and metals. The Corporation's RDM Project is situated in a semi-arid region of Brazil and is heavily dependent on the annual rainy season for its supply of water. Prolonged drought conditions in the region can contribute to lower-than-expected water recharge in wells as well as lower-than-expected water production from the pit dewatering program. Water is an integral requirement for exploration, development and production facilities on mineral properties. Drought conditions can limit plant throughput and production. The Corporation's ability to obtain and secure alternate supplies of water at a reasonable cost depends on many factors, including: regional supply and demand; political and economic conditions; problems that affect local supplies; delivery and transportation; and relevant regulatory regimes. There is no guarantee that the Corporation can secure an alternate source of water in the event of a prolonged drought.

### *Negative Operating Cash Flow*

The Corporation had negative operating cash flow for Q3 2015 and year to date. To the extent that the Corporation has negative cash flow in future periods, the Corporation may need to deploy a portion of its cash reserves to fund such negative cash flow.

### *Current Global Financial Conditions*

In recent years global financial conditions have been characterized by markedly increased volatility and have led to intervention by governments in many financial markets. Access to public financing has been negatively impacted by the lack of readily available money. These factors may impact the ability of the Corporation to obtain equity and/or debt financing in the future or on terms favourable to the Corporation. Additionally, these factors, as well as other related factors, may cause decreases in the asset values that are deemed to be other than temporary, which may result in additional impairment losses.

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

The Corporation's Interim Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their supervision, of the design and operating effectiveness of the Corporation's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) as at September 30, 2015 and have concluded that the disclosure controls and procedures were appropriately designed and have been effective, subject to the material weaknesses described below.

The Corporation has also established internal controls over financial reporting (as defined in National Instrument 52-109) ("**ICFR**") to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and preparation of its financial statements for external purposes in accordance with GAAP. The Corporation's Interim Chief Executive Officer and Chief Financial Officer assessed, or caused an assessment under their supervision, of the design and operating effectiveness of the Corporation's ICFR as at September 30, 2015 using the Committee of Sponsoring Organizations Internal Control – Integrated Framework. Based on that assessment, it was determined that the Corporation's ICFR was designed appropriately and was effective with the below noted exceptions.

The Corporation's audit committee is working with management and monitoring the implementation of the other control enhancement steps envisioned below.

### ***Material weakness of Controls***

Based on management's evaluation of controls, it was concluded that the Corporation's disclosure controls and procedures and its ICFR had material weaknesses. A material weakness is defined as a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the Corporation's annual or interim financial statements will not be prevented or detected on a timely basis. The weaknesses in disclosure controls and procedures and ICFR, and the additional processes undertaken to address such weaknesses, can be summarized as follows:

#### ***Material weakness in the control environment***

Management has concluded that, as of September 30, 2015, a material weakness existed in the design of internal control over financial reporting caused by failure of the Corporation to establish and communicate its expectations regarding standards of business conduct in the interests of developing and maintaining a culture of integrity, and to oversee compliance with such standards. This material weakness could result in business and accounting practices that could put both the Corporation's reputation and its financial reporting at risk. This material weakness should also be considered a material weakness in the Corporation's disclosure controls and procedures.

Management and the Board are in the process of developing procedures to communicate it effectively and monitor

its implementation throughout the organization.

### ***Remediation of the material weakness from the prior year and related material changes in internal controls over financial reporting***

At the end of fiscal 2013, Management had concluded that material weaknesses existed in the design of internal control over financial reporting caused by the discovery that possible irregularities in connection with procurement for the RDM Project may have occurred at the Corporation's subsidiary. After an internal investigation was performed, it was determined that additional investigative steps were required. The Board engaged external forensic accounting and external legal advisors to undertake, and to assist in undertaking, of additional investigative procedures. The investigation identified problems with procurement practices, possible misconduct by MRDM personnel and the override of controls by management at MRDM that may have contributed to the irregularities identified.

As a result of the Corporation's decision to record an impairment of the assets of MRDM to their fair value as of December 31, 2013 and 2014. We have concluded that the audited consolidated financial statements of the Corporation are appropriately stated and no financial impact needs to be recorded to reflect any of the findings from the investigation noted above.

To remediate the material weaknesses in the Corporation's ICFR, Management is in the process of strengthening the internal control environment and procedures at all subsidiaries, supplementing its Code of Business Conduct and Ethics with an Anti-Corruption policy to specifically deal with bribery and corruption in general as well as the requirements of the Canadian *Corruption of Foreign Public Officials Act*, implementing a policy to obtain periodic verification from all major suppliers and annual confirmations from all employees of the Corporation and its subsidiaries of their compliance with these policies. The Anti-Corruption Policy was approved by the Corporation's Board on April 27, 2015. The Corporation is in the process of implementing this policy.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

The design of any system of controls is also based in part upon 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.

### **Subsequent Event Discussion**

Subsequent to September 30, 2015, the Corporation announced that, as a result of an agreement (the "**Option Agreement**") entered into between Macquarie Bank and Brio Gold Inc. ("**Brio**"), Brio has been granted an option to (i) acquire all of Macquarie Bank's rights and interests in the Facility, the gold purchase agreement and the gold sale and purchase agreement and related guarantees previously entered into by Macquarie Bank and the Corporation, MRDM and certain other subsidiaries of Carpathian (collectively, the "**Obligors**"), and (ii) receive from Macquarie Bank an assignment of Macquarie Bank's security in respect of the foregoing agreements (all of the foregoing agreements and the security are collectively referred to as the "**Financial Assets**").

Pursuant to the Option Agreement, Macquarie Bank has agreed to forbear from exercising any default-related rights, remedies, powers or privileges, or from instituting any enforcement actions or collection actions against the Obligors under the Financial Assets until the earlier of (i) the exercise or early termination of the Option Agreement and (ii)

February 15, 2016. Under the Option Agreement, to the extent that cash flows from the RDM project are insufficient to meet ongoing costs and expenses, Macquarie Bank has agreed with Brio to continue to provide funding to MRDM, subject to the terms and conditions set out in the Option Agreement. Any drawdowns requested by MRDM under the Facility remain subject to the discretion of Macquarie Bank.

Furthermore, the Corporation has entered into an agreement with Brio and Macquarie Bank (the “**Restructuring Agreement**”) whereby the Corporation and Brio have agreed that, in the event Brio exercises its option to acquire the Financial Assets under the Option Agreement, the Corporation will work with Brio with respect to a restructuring procedure to be initiated by Brio with the objective of transferring 100% ownership of the RDM project to Brio (the “**Restructuring**”). Pursuant to the Restructuring Agreement, Brio will deliver to the Corporation and its directors a full release and discharge with respect to any liability under the Financial Assets, including the Corporation’s guarantee thereof. Following the Restructuring, the Corporation shall continue to own its Romanian assets, but shall have no ownership or interest in, or liabilities in respect of, MRDM or the RDM project.

As well, upon closing of the Restructuring, Brio has agreed to a US\$1 million subscription of common shares of the Corporation, the whole at a price to be mutually agreed and subject to the requirements of the Canadian Securities Exchange.

#### **Q4 2015 Outlook**

In Q4 2015, the Corporation is focused on increasing production at the RDM project, the whole depending on the amount of rain received at the RDM project and the availability of water. As well, the Corporation will continue to pursue strategic alternatives, including the Restructuring referred to above. While the Corporation also plans on advancing the permitting process with the regulatory bodies for its Rovina Valley Project, it will do so at a very conservative pace depending on the level of financing that is available to the Corporation. All environmental base line work and social programs will also continue on both the RDM and Rovina Valley Projects. Achievement of these objectives remain dependent on the Corporation’s ability to access necessary financing, as required. The Corporation continues to operate as prudently as possible with an emphasis on cost containment.

#### **Cautionary and non-GAAP Measures and Additional GAAP Measures**

Note that for purposes of this section, GAAP refers to IFRS. The Corporation believes that investors use certain non-GAAP and additional GAAP measures as indicators to assess gold mining companies. They are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared with GAAP. Non-GAAP and additional GAAP measures do not have standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other companies.

#### ***Cash costs***

The Corporation discloses “cash costs” because it understands that certain investors use this information to determine the Corporation’s ability to generate earnings and cash flows for use in investing and other activities. The Corporation believes that conventional measures of performance prepared in accordance with IFRS do not fully illustrate the ability of its operating mines to generate cash flows. The measures as determined under IFRS, are not necessarily indicative of operating profit or cash flows from operating activities. Cash cost figures are calculated in accordance with a standard developed by The Gold Institute, which was a worldwide association of suppliers of gold and gold products and included leading North American gold producers. The Gold Institute ceased operations in 2002, but the standard remains the generally accepted standard of reporting cash costs of production in North America. Adoption of the standard is voluntary and the cost measures presented herein may not be comparable to other similarly titled measures of other companies.

The measure of cash costs, along with revenue from sales, is considered to be a key indicator of a company’s ability to generate earnings and cash flows from its mining operations. This data is furnished to provide additional

information and is a non-GAAP measure. It should not be considered in isolation as a substitute for measures of performance prepared in accordance with IFRS and is not necessarily indicative of operating costs, operating profits or cash flows presented under IFRS.

The Corporation's business model is focused on the production and sale of gold, which accounts for all of the Corporation's total revenue generated. The emphasis on precious metals therefore entails the necessity to provide investors with cash costs information that is relevant to their evaluation of the Corporation's ability to generate earnings and cash flows for use in investing and other activities.

### ***Additional Measures***

The Corporation uses other financial measures the presentation of which is not meant to be a substitute for other subtotals or totals presented in accordance with IFRS, but rather should be evaluated in conjunction with such IFRS measures. The following other financial measure are used:

- Gross profit from mining operations – represents the amount of revenue in excess of cost of sales.

### **Additional Information**

Additional information relating to the Corporation is available from SEDAR at [www.sedar.com](http://www.sedar.com).

### **Approved by the Board of Directors**

**Dated:** November 24, 2015