



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED APRIL 30, 2017**

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The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended April 30, 2017 ("MD&A") has been prepared as of August 17, 2017. It should be read in conjunction with the audited consolidated financial statements of Redzone Resources Ltd. (the "Company") for the year ended April 30, 2017.

The referenced audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in the Company's presentational currency of Canadian dollars unless otherwise indicated.

### **CORPORATE HIGHLIGHTS**

#### **Business description**

The Company's principal business activities include the acquisition and exploration of mineral properties, with its head office located in Vancouver, British Columbia, Canada. The Company holds a 55% controlling interest in the Lara Property in southern Peru and is currently earning up to a 100% interest in the Fortner and Boyd Lithium Property in Arizona USA. The Company is a reporting issuer in British Columbia, Alberta and Ontario and its common shares trade on the TSX Venture Exchange under the symbol REZ.

#### **Recent highlights**

On June 6, 2017 the Company closed a non-brokered private placement pursuant to which it issued 4,766,250 units at \$0.16 per unit for gross proceeds of \$762,600. Each unit consists of one common share of the Company and one-half share purchase warrant, with each whole share purchase warrant entitling the holder to acquire one additional common share at an exercise price of \$0.24, for a period of two years.

On February 22, 2017, the Company completed a National Instrument ("NI") 43-101 compliant technical report on the Fortner and Boyd Lithium Deposit that has been filed on SEDAR at [www.sedar.com](http://www.sedar.com). Sampling of the previously discovered pegmatite dyke yielded grades as high as 7.5% Li<sub>2</sub>O from a spodumene rich pegmatite grab sample. The report also identified ten new pegmatite outcrops throughout the Property, possibly indicating up to seven distinct pegmatite bodies.

On January 10, 2017 the Company reported that the size of the claim block under the Fortner and Boyd Lithium option was increased by an additional eleven unpatented lode claims to the north of the existing claim block.

#### **Fortner and Boyd Lithium Property**

On August 2, 2016 the Company entered into a binding letter agreement (the "original Agreement") for the grant to the Company of an option to acquire up to a 100% interest in the Fortner and Boyd Lithium Property ("Lucky Mica Claim Group" or the "Property") located in north central Maricopa County, Arizona. A related party holds a 50% interest in the Property. The Company could earn a 75% interest in the Property, subject to a 0.5% net smelter royalty ("NSR"), by making cash payments and share issuances over a two year period. The Company could earn the remaining 25% interest, subject to a 0.667% NSR by making cash payments and share issuances over the ensuing two year period.

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On July 27, 2017 the Company entered into a new option agreement (the "Amended Agreement"). Under the terms of the Amended Agreement the Company can earn a 100% interest in the property, subject to a 0.667% NSR, by completing the following:

- Paying US \$7,500 on date of execution of original Agreement (paid)
- Paying US \$10,000 within three business days of the approval date of the original Agreement (paid)
- Paying US\$30,000 on or prior to the earlier of i) 15 months following the date of the Amended Agreement or ii) the date of completion by the Company of an equity financing to raise aggregate gross proceeds of not less than \$500,000 (paid subsequent to April 30, 2017)
- The issuance and delivery of 300,000 common shares of the Company. (a total of 200,000 common shares have been issued at a fair value of \$28,000.)

The Company can acquire the NSR by making a one-time cash payment of US\$1,000,000.

As at April 30, 2017, a total of US \$8,750 of these cash payments were made and 100,000 common shares were issued to a Director of the Company who is a part owner of the Property.

The claims comprising the Lucky Mica Claim Group are situated approximately 8 miles south west of the city of Wickenburg in Maricopa County, Arizona. The Property consists of 25 contiguous unpatented lode claims totaling approximately 500 acres. The claims cover the "Fortner and Boyd Lithium Deposit" recorded as such by the United States Geological Survey as Deposit 10064183 and catalogued as Mineral Resources Data System ID TC38458, hereby referred to as the "Mineralization". The Mineralization occurs within a pegmatite dyke in granitic rocks and schists. The dyke contains lithium bearing micas noted as spodumene, amblygonite, lepidolite and beryl.

During the year ended April 30, 2017 the Company completed a National Instrument ("NI") 43-101 compliant technical report on the Property that has been filed on SEDAR at [www.sedar.com](http://www.sedar.com). Sampling of the previously discovered pegmatite dyke yielded grades as high as 7.5% Li<sub>2</sub>O from a spodumene rich pegmatite grab sample. The report also identified ten new pegmatite outcrops throughout the Property, possibly indicating up to seven distinct pegmatite bodies.

Based on the surface mapping, sampling, and sectional interpretation of the Lucky Mica dyke alone, target envelope tonnage for this body has been defined between 330,000 and 551,000 tonnes to a depth of 60m with target average grades between 0.3% and 2.5% Li<sub>2</sub>O. Work to date indicates up to seven distinct pegmatite bodies on the Property, with most of the sampling and mapping to date focused on the Lucky Mica dyke, the first of these dykes to be identified. These additional dykes could increase the mineral potential to between 330,000 and 3.0M tonnes. The potential quantity and grade for this "Mineral Potential" estimates is conceptual in nature; there has been insufficient exploration to define a mineral resource and it is uncertain if further exploration will result in the target being delineated as a mineral resource. It should be noted that no recent drilling has been completed on the Property, which is necessary to delineate potentially economic grade and thickness intervals

#### **Lara Property**

The Lara Property is made up of two porphyry centers known as Lara and Socos. They have been delineated with a corridor of hydrothermal alteration extending over several kilometers. Preliminary metallurgical test work, completed in the late 1990's, indicates that the enriched zone of the Lara Property is amenable to low cost solvent extraction and electro-winning processing.

The Company completed diamond drilling totaling 6,500m on the Lara property in southern Peru, the Ayacucho region, during its 2012 and 2011 fiscal years. Highlights of the fiscal 2012 and 2011 diamond drilling program can be found within press releases dated February 27, 2012 and February 22, 2011 respectively filed on SEDAR at [www.sedar.com](http://www.sedar.com).

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The Company has designed an in-fill core drilling program of 3,000 meters with the aim of defining an inferred resource. In addition the Company has identified other exploration targets on the Lara Property that require further examination. These programs have been put on hold until market conditions improve allowing the Company and its joint venture partner to fund the programs. There has been no drilling expenditures incurred during the year ended April 30, 2017

**SELECTED ANNUAL INFORMATION**

The following is a summary of certain selected audited consolidated financial information of the Company for the years ended April 30, 2017, 2016 and 2015.

|   | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|---|-------------|-------------|-------------|
|   | (\$)        | (\$)        | (\$)        |
| Total Revenues  | -           | -           | -           |
| Net Loss  | (610,612)   | (481,734)   | (428,303)   |
| Net Loss Per Share (basic and diluted) <sup>(1)</sup> | (0.05)      | (0.08)      | (0.07)      |
| Total Assets  | 6,017,066   | 5,324,614   | 5,721,893   |
| Long Term Debt  | -           | -           | -           |
| Dividends Declared                                    | -           | -           | -           |

<sup>(1)</sup> The basic and diluted loss per share calculation results in the same amount due to the anti-dilutive effect of outstanding stock options and warrants.

**QUARTERLY INFORMATION**

The following is selected financial data from the Company's unaudited quarterly financial statements for the last eight quarters ending with the most recently completed quarter, being the three months ended April 30, 2017

|  | <b>April 30,</b> | <b>January 31,</b> | <b>October 31,</b> | <b>July 31,</b> |
|--|------------------|--------------------|--------------------|-----------------|
|  | <b>2017</b>      | <b>2017</b>        | <b>2016</b>        | <b>2016</b>     |
| <b>Three months ended</b>                                      | (\$)             | (\$)               | (\$)               | (\$)            |
| Revenues   | -                | -                  | -                  | -               |
| Net Loss   | (279,599)        | (90,717)           | (106,127)          | (134,169)       |
| Loss per share attributable to shareholders <sup>(1) (2)</sup> | (0.02)           | (0.01)             | (0.01)             | (0.02)          |

|  | <b>April 30,</b> | <b>January 31</b> | <b>October 31</b> | <b>July 31</b> |
|--|------------------|-------------------|-------------------|----------------|
|  | <b>2016</b>      | <b>2016</b>       | <b>2015</b>       | <b>2015</b>    |
| <b>Three months ended</b>                                      | (\$)             | (\$)              | (\$)              | (\$)           |
| Revenues   | -                | -                 | -                 | -              |
| Net Loss   | (83,034)         | (36,833)          | (215,060)         | (146,807)      |
| Loss per share attributable to shareholders <sup>(1) (2)</sup> | (0.01)           | (0.01)            | (0.04)            | (0.02)         |

<sup>(1)</sup> The basic and diluted loss per share calculation results in the same amount due to the anti-dilutive effect of outstanding stock options and warrants.

<sup>(2)</sup> The Company approved a 10:1 stock consolidation during the year ended April 30, 2016. All comparative figures have been updated.

The net loss for the three months ended April 30, 2017 is greater than other periods as the Company has accrued mining concession fees for the Lara property and recorded \$53,613 of share-based payments expense as the Company granted 300,000 stock options.

The loss for the quarter ended January 31, 2016 is lower than other quarters due to minimal business activity.



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The net loss for the quarters ended October 31, 2015 was higher due to the Company incurring in-depth business investigation consulting costs during the quarter.

**RESULTS OF OPERATIONS**

The loss for the year ended April 30, 2017 was \$610,612 compared with \$481,734 for the comparative year in 2016. At April 30, 2017 the Company had working capital of \$35,663 compared to a working capital deficit of \$13,573 at April 30, 2016. The company had cash of \$224,689 at April 30, 2017 compared to \$77,370 at April 30, 2016. Significant operational expenses in the comparative years include:

a) Business investigation costs \$31,395 (2016 - \$160,010)

The Company incurred in-depth property investigation costs during the year ended April 30, 2016 related to projects the Company did not proceed with.

b) Professional fees \$140,563 (2016 - \$62,160)

Professional fees increased due to one-time legal fees related to the Company's subsidiary being invoiced previous years fees in the current year.

c) Exploration costs \$193,522 (2016 - \$136,137)

Exploration fees increased during the year ended April 30, 2017 as the Company completed a NI 43-101 technical report on the Fortner and Boyd Lithium Property.

d) Office and Admin \$124,254 (2016 - \$55,454)

Office and admin costs increased during the year ended April 30, 2017 due to increased travel for corporate development events, rent, storage costs and one-time administration costs associated with changing office locations and management in Peru.

**Exploration Expenses**

During the year ended April 30, 2017 the Company incurred \$193,522 of exploration expenses, related to the Lara and the Lucky Mica Claim Group, compared with \$136,137 for the comparative year in 2016.

|                                      | 2017          |                | 2016       |                |
|--------------------------------------|---------------|----------------|------------|----------------|
|                                      | Lucky Mica    | Lara           | Lucky Mica | Lara           |
| Field work                           | \$ 25,137     | \$ 14,453      | \$ -       | \$ 36,445      |
| Environmental and community          | -             | 8,667          | -          | 13,160         |
| Geological                           | 21,108        | 13,492         | -          | -              |
| Mining title and permitting payments | 13,087        | 65,845         | -          | 47,002         |
| Personnel                            | -             | 31,733         | -          | 39,530         |
| <b>Total</b>                         | <b>59,332</b> | <b>134,190</b> | <b>-</b>   | <b>136,137</b> |



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### **LIQUIDITY AND CAPITAL RESOURCES**

As at April 30, 2017, the Company had cash of \$224,689 compared with \$77,370 as at April 30, 2016. The net increase of cash of \$147,319 for the year ended April 30, 2017 is due primarily to the Company completing a private placement and funding contributions for the Lara Project provided by the non-controlling shareholder, offset by cash used in operating activities (including changes in working capital) and mineral property acquisition costs.

#### **Capital Expenditures**

The Company incurred cash acquisitions costs of \$23,353 and issued 200,000 common shares (valued at \$28,000) related to the Fortner and Boyd Lithium Property during the year ended April 30, 2017.

The Company did not incur any capital expenditures during the year ended April 30, 2017.

#### **Financing Activities.**

On June 6, 2017 the Company closed a non-brokered private placement pursuant to which it issued 4,766,250 units at \$0.16 per unit for gross proceeds of \$762,600. Each unit consists of one common share of the Company and one-half share purchase warrant, with each whole share purchase warrant entitling the holder to acquire an additional common share at an exercise price of \$0.24, for a period of two years. The proceeds from the private placement will allow the Company to discharge its accounts payables and provide working capital.

On June 29, 2016 the Company closed a private placement of 5,599,888 units at a price of \$0.09 per unit to raise gross proceeds of \$503,990. Each unit is comprised of one common share and one share purchase warrant, with each share purchase warrant entitling the holder to acquire one additional common share at an exercise price of \$0.15, expiring on June 29, 2021. The proceeds from the private placement allowed the Company to discharge its accounts payables and make the acquisition payments for the Lucky Mica Claim Group.

The Company did not complete any financings during the year ended April 30, 2016

#### **Liquidity and Capital Resources**

As at April 30, 2017 the Company had working capital of \$35,663 compared with a working capital deficit at April 30, 2016 of \$13,573. The Company has no long term debt. The Company's operations consumed \$431,162 of cash during the year ended April 30, 2017 and the aggregate operating, investing and financing activities during the year ended April 30, 2017 resulted in an increase in cash balance from \$77,370 at April 30, 2016 to \$224,689 at April 30, 2017.

The Company is currently in the exploration stage and depends on the junior resource capital markets to raise funds to carry out its exploration programs. The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary equity financing to develop its mineral property interests, to meet its ongoing corporate overhead requirements and discharge its liabilities as they come due. Currently the Company believes it has enough working capital to discharge its obligations as they come due for the next twelve months.

### **CONTINGENCIES**

The Company has approved a compensation package to the Chief Executive Officer. On the completion of a corporate acquisition or merger, bonuses of up to 500,000 stock options, restricted share unit's equal to 1% of the value of the transaction and cash in the amount equal to 0.25% of the value of the transaction would become payable. As at April 30, 2017 no corporate acquisition or merger has been entered into and therefore no accrual for the compensation package has been recorded.

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**FINANCIAL INSTRUMENTS**

**Classification of financial instruments**

The Company's financial instruments consist of cash and accounts payable and accrued liabilities. The Company designated its cash as loans and receivables. The accounts payable and accrued liabilities are designated as other financial liabilities. The fair value of these instruments approximates their carrying amount due to their short-term to maturity.

Discussions of risks associated with financial assets and liabilities are detailed below:

**Foreign currency risk**

A portion of the Company's financial assets and liabilities are denominated in foreign currencies giving rise to risks from changes in foreign exchange rates. The Company is exposed to currency exchange rate risks to the extent of its activities in Peru and the USA. As at April 30, 2017, future changes in exchange rate would not have a material impact on the Company's financial instruments. The Company does not use derivative financial instruments to reduce its foreign exchange exposure.

**Credit risk**

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

**Liquidity risk**

The Company's liquidity requirements arise principally from the need to finance operating and exploration costs. The Company's approach to managing liquidity risk is to manage expenditures in a manner which ensures that it will have sufficient cash on hand to meet liabilities when due. The Company actively evaluates opportunities to minimize operating expenditures and plans its exploration activities to maintain liquidity.

**RELATED PARTY TRANSACTIONS**

Compensation paid or payable to Directors, the Chief Executive Officer and the Chief Financial Officer, for services provided during the years ended April 30, 2017 and 2016 was as follows:

|                      | <b>2017</b> | <b>2016</b> |
|----------------------|-------------|-------------|
|                      | \$          | \$          |
| Consulting fees      | 13,320      | 12,640      |
| Share-based payments | 83,379      | 32,341      |
|                      | 96,699      | 30,661      |

The Company incurred additional expenditures charged by a director during the years ended April 30, 2017 and 2016 as follows:

|                     | <b>2017</b> | <b>2016</b> |
|---------------------|-------------|-------------|
|                     | \$          | \$          |
| Exploration expense | 11,611      | -           |

Included in accounts payable and accrued liabilities at April 30, 2017 is \$19,215 (April 30, 2016 - \$7,786) due to related parties.

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**ACCOUNTING STANDARDS**

The following new or revised standards have been issued but are not yet effective. The Company intends to adopt these standards when they become effective.

**IFRS 9 Financial instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 also amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in OCI, and guidance on financial liabilities and derecognition of financial instruments. The mandatory effective date of IFRS 9 for the Company will be the annual period beginning on May 1, 2018, with early adoption permitted. The Company has initially assessed that there will be no material reporting changes as a result of adopting this new standard, however, there may be enhanced disclosure requirements

**IFRS 16 Leases**

This standard replaces IAS17-Leases and requires lessees to account for leases on the statement of financial position by recognizing a right to use asset and lease liability. The mandatory effective date for the Company is for annual period beginning on May 1, 2019. The Company has initially assessed that there will be no material reporting changes as a result of adoption this new standard.

**IAS 7 Statement of Cash Flows**

In January 2016, IASB amended IAS 7, "Statement of Cash Flows", The amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. This amendment will be mandatory for the Company for reporting periods beginning on or after May 1, 2017. The Company has initially assessed that there will be no material reporting changes as a result of adoption this new standard.

**OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

**OUTSTANDING SHARE DATA AND DILUTION CALCULATION**

The Company has authorized share capital consisting of common shares without par value and preferred shares issuable in series. The number of shares authorized is unlimited. The Company has issued warrants for the purchase of common shares and stock options. The table below summarizes the Company's common shares and stock options that are convertible into common shares as at August 17, 2017:

|  |                   |
|--|-------------------|
| Issued and outstanding common shares   | 15,631,284        |
| Share options outstanding with a weighted average exercise price of \$0.14           | 956,000           |
| Share purchase warrants outstanding with a weighted average exercise price of \$0.17 | 7,983,013         |
| <b>Fully Diluted</b>   | <b>24,570,297</b> |

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**RISKS AND UNCERTAINTIES**

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

Operational risks include finding and developing reserves economically, marketing production and services, product deliverability uncertainties, changing governmental law and regulation, First Nations consultation, hiring and retaining skilled employees and contractors and conducting operations in a cost effective and safe manner. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations. Insurance may be maintained at levels consistent with prudent industry practices to minimize risks, but the Company is not fully insured against all risks, nor are all such risks insurable.

Financial risks include commodity prices and interest rates all of which are beyond the Company's control. Additional financial risks are the Company's ability to raise capital and to repay indebtedness it incurs.

Regulatory risks include the possible delays in getting regulatory approval to the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the Company must meet in order to maintain its exchange listing.

The Company has no significant source of operating cash flow and no revenues from operations. External financing, primarily through the issuance of common shares is the main source of funding for the Company. Although the Company has been successful in raising the necessary funds in the past, there can be no assurance that it will be able to do so in the future.

**DISCLOSURE CONTROLS AND PROCEDURES**

In connection with National Instrument 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the year ended April 30, 2017 and this accompanying MD&A (together the "Annual Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Filings on SEDAR at [www.sedar.com](http://www.sedar.com).

**FORWARD LOOKING STATEMENTS**

Certain statements contained in this document constitute forward-looking statements. Such forward-looking information includes, but is not limited to, statements with respect to the potential of the Company's properties; the future price of copper, gold and other minerals; success of exploration activities; cost and timing of future exploration and development; the estimation of mineral resources; conclusions of economic evaluations; requirements for additional capital and other statements relating to the financial and business prospects of the Company. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, including, but not limited to risks related to: (i) the Company's goal of creating shareholder value by concentrating on the acquisition and

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development of properties that have the potential to contain economic mineral deposits; (ii) management's outlook regarding future trends; and (iii) government regulation and environmental liability.

The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are interdependent, and management's future course of action would depend on its assessment of all information at that time. Readers are cautioned not to place undue reliance on these forward-looking statements, which are made as of the date hereof and, except as required by law, we undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward looking statements contained herein are expressly qualified by this cautionary statement.

**OTHER INFORMATION**

Additional information related to the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website at [www.redzoneresources.ca](http://www.redzoneresources.ca)