

# METALORE RESOURCES LIMITED

## MANAGEMENT'S DISCUSSION ANALYSIS ("MD&A")

### FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2020

*This Management's Discussion and Analysis ("MD&A") of the financial and operating results of Metalore Resources Limited ("Metalore" or the "Company") should be read in conjunction with the Company's condensed interim financial statements and related notes for the three and six months ended September 30, 2020. The financial information in this MD&A is prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated.*

## CORPORATE PROFILE

Metalore has been active in Mining Exploration for over seventy years and in Natural Gas Development for over fifty-five years. The Company participated in early development of the Provost gas field in Alberta from 1956 through 1961 and is the major player in developing the Norfolk gas field in Southwestern Ontario since 1964. Metalore pioneered state-of-the-art completion and fracturing technology in Ontario which has enhanced the long-term production from its natural gas wells.

The objectives of the Company are to: (1) sustain financial integrity, (2) sustain natural gas production, and (3) examine and explore mineral and/or hydrocarbon prospects of merit. Metalore has achieved these objectives while diligently protecting the Equity of its Shareholders. This unique Company prevailed for many years with the lowest number of shares issued of any resource explorer trading on the Toronto Stock Exchange (TSX). The Company's common shares are listed on the Toronto Stock Exchange, Venture (TSX.V) and trade under the symbol "MET", effective November 14, 2016.

## CURRENT DEVELOPMENTS

Following the commencement of a strategic review announced on October 28 2020, the Company commenced a review to explore a variety of strategic alternatives intended to maximize shareholder value. Such strategic alternatives may include, but are not limited to, a sale of the Company, a recapitalization of the Company, a merger with another entity, a sale of some or all of the assets of the Company, or a combination of any of the foregoing. There can be no assurance that this process will result in a transaction and there is no set timetable for actions to be taken in the process. The Company does not intend to discuss or disclose any developments related to the process until the Board has approved a definitive course of action or otherwise concludes the process.

## OVERALL PERFORMANCE

The Company has consistently drilled its wells on ultra wide spacing patterns to minimize the year to year decline and maximize longevity of its "non-renewable" resource commodity. Although gas prices have been depressed in recent years, the Company continues to maintain a high-level capacity of production.

## RESULTS OF OPERATIONS

The Company posted a net loss of \$45,823 (\$0.03 per share) for the three months ended September 30, 2020 compared to a net loss of \$91,721 (\$0.05 per share) for the comparative previous period. During the three months ended September 30, 2020, the Company had negative cash flow from operations of \$35,330 compared to negative cash flow from operations of \$540 for the comparative previous period. Revenue and expenses incurred during the three months ended September 30, 2020 consist of:

**Natural gas revenues were \$171,081** (September 30, 2019 – \$133,150). Production was 51,766 MMBtu (562.7 MMBtu per day) for the three months ended compared to 37,591 MMBtu (408.6 MMBtu per day) for the comparative previous period. The average composite selling price for the three months ended September 30, 2020 was \$3.30 CAD/MMBtu compared to \$3.54 CAD/MMBtu for the comparative previous period. The increase was due mainly to higher volumes of natural gas produced compared to the comparative previous period.

**Royalty expenses of \$11,000** (September 30, 2019 – \$8,000). The Company pays royalties to land owners, which may be individuals or companies that own surface or mineral rights. Royalties are calculated based on commodity prices and individual well production rates. Royalty payments can change due to commodity price fluctuations and changes in production volumes on a well-by-well basis.

**Production expenses of \$99,717** (September 30, 2019 – \$78,311). The increase in production expenses compared to the comparative previous period is mainly due to increases in property taxes and insurance, and additional maintenance performed in the current period. Company continues to focus on opportunities to maintain operational efficiencies.

**General and administrative expenses of \$38,770** (September 30, 2019 – \$28,518). The increase in general and administrative expenses compared to the comparative previous period is mainly due to a higher percentage of management's time and resources devoted to the general operations during the current period. The Company continues to evaluate and implement cost reduction measures on an ongoing basis, as previously outlined.

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**Depletion and depreciation of \$77,000** (September 30, 2019 – \$62,000). The Company calculates depletion and depreciation on natural gas properties and equipment based on proven plus probable reserves.

**Positive funds from operations of \$16,845** (September 30, 2019 – positive funds from operations of \$24,031). The decrease in funds from operations compared to the comparative previous period is mainly due to increased expenses incurred during the current period, as outlined above and changes in non-cash working capital items during the period. Funds from operations is calculated as cash flow from operations (GAAP measure), plus decommissioning expenditures, plus change in non-cash working capital. See "Non-GAAP Measures" outlined herein.

### SELECTED QUARTERLY INFORMATION

The table below summarizes selected information reported for the most recent eight quarterly periods:

	30-Sep-2020	30-Jun-2020	31-Mar-2020	31-Dec-2019	30-Sep-2019	30-Jun-2019	31-Mar-2019	31-Dec-2018
Total assets	\$ 7,514,028	\$ 7,576,483	\$ 7,614,116	\$ 8,326,158	\$ 8,329,891	\$ 8,378,167	\$ 8,416,344	\$ 7,890,153
Total liabilities	\$ 858,406	\$ 875,037	\$ 892,074	\$ 987,156	\$ 1,003,718	\$ 1,015,020	\$ 1,019,146	\$ 925,634
Natural gas sales	\$ 171,081	\$ 130,398	\$ 140,879	\$ 221,726	\$ 133,150	\$ 116,083	\$ 192,860	\$ 251,453
Net (loss) income	\$ (45,823)	\$ (20,595)	\$ (400,087)	\$ (91,342)	\$ (91,721)	\$ (36,030)	\$ 428,057	\$ 34,532
Weighted average common shares outstanding	1,775,035	1,775,035	1,775,035	1,775,035	1,775,035	1,775,035	1,775,035	1,775,035
(Loss) earnings per share	\$ (0.03)	\$ (0.01)	\$ (0.23)	\$ (0.05)	\$ (0.05)	\$ (0.02)	\$ 0.24	\$ 0.02

### SELECTED ANNUAL INFORMATION

The table below summarizes selected information reported for the most recent three fiscal years ended:

For the years ended:	March 31, 2020	March 31, 2019
<b>Statement of Income and Loss</b>		
Revenue from natural gas sales	\$611,838	\$776,803
Net income (loss)	(619,180)	395,616
Earnings (loss) per share – basic and diluted	(0.35)	0.22
<b>Statement of Financial Position</b>		
Total Assets	7,614,116	8,416,344
Total Liabilities	892,075	1,019,146
Total Shareholders' Equity	6,722,041	7,397,197

### CAPITAL RESOURCES & LIQUIDITY

	March 31, 2020	March 31, 2019
Cash	\$584,937	\$318,821
Current Assets (including cash)	688,306	705,946
Current Liabilities	49,693	62,922
Excess of Current Assets over Current Liabilities	638,613	643,024

### CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations and commitments at September 30, 2020:

Contractual Obligations	Total	Less than one year	One to three years	After three years
Decommissioning obligations	\$1,938,162	\$nil	\$nil	\$1,938,162
Natural gas royalties	320,000	80,000	240,000	nil
Natural gas leases	36,600	36,600	nil	nil

Natural gas royalties are based upon minimum estimated natural gas production. Natural gas leases are based upon estimated leases necessary to maintain core production areas. Estimates of these costs have not been made beyond three years.

# **METALORE RESOURCES LIMITED**

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#### **FINANCINGS**

There were no financings during the three months ended September 30, 2020.

#### **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, cash equivalents, accounts receivable, an available credit facility in the amount of \$500,000, accounts payable and accrued liabilities. It is the management's opinion that the Company is not exposed to abnormal interest, currency or credit risk arising from these financial instruments. Management expects to adequately meet its present and future working capital and exploration and development requirements with cash flow from operations.

#### **DISCLOSURE CONTROLS and PROCEDURES**

Management has assessed the effectiveness of the Company's disclosure controls and procedures used for the audited financial statements and MD&A at March 31, 2020. Although certain weaknesses are inherent with small office operations, management has implemented certain controls such as segregation of duties within critical departments, frequent reviews and regular preparations of reconciliations of transactions to ensure absence of material irregularities. Management has concluded that the disclosure controls are effective in ensuring that all material information required to be filed has been made known to them in a timely manner. The disclosure controls and procedures are designed to ensure effective information required to be disclosed pursuant to applicable securities laws are accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

The Audit Committee of the Board of Directors has reviewed and approved the accompanying condensed interim financial statements for the three months ended September 30, 2020.

#### **NATIONAL INSTRUMENT 51-101 STANDARDS OF DISCLOSURE FOR OIL AND GAS ACTIVITIES**

Metalore has complied with all filing requirements pursuant to National Instrument 51-101 (Standards for Disclosure for Oil and Gas Activities) by filing forms 51-101 F1, F2 and F3 with SEDAR.

#### **RISKS AND UNCERTAINTIES**

##### **Mining exploration risks**

The business of exploration for minerals involves a high degree of risk. Very few properties that are explored are ultimately developed into producing mines. Both mining exploration properties, in the Beardmore area and Cedartree Lake are being maintained in good standing for further development when financing becomes available.

##### **Hydrocarbon risks**

The exploration for and development of non-renewable hydrocarbons is dependent upon technical expertise, price variations, dry holes and ultimately depleted reservoirs. All the hydrocarbon properties are in Southwestern Ontario.

##### **Commodity prices**

Even if Metalore's exploration programs are successful, factors beyond the control of the Company will affect the marketability of any resources discovered. Inflation, international economic and political trends, currency fluctuations, interest rates and worldwide production levels all have a bearing on commodity prices. The effect of these factors cannot accurately be predicted.

#### **AUDITOR, TRANSFER AGENT and REGISTRAR**

The auditors of the Company are S&W LLP. The Transfer Agent and Registrar for the common shares of the Company is Computershare Trust Company of Toronto, Canada.

#### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with accounting principles generally accepted in Canada. Based on regular reviews of its internal control procedures during and at the end of the period covered by this MD&A, management believes its internal controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

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There have been no significant changes to the Company's internal control over financial reporting that occurred during the three months ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures ("DC&P") and the design of internal controls over financial reporting ("ICFR"). The objective is to ensure that all transactions are properly authorized, identified and entered into the accounting system on a timely basis to minimize risk of inaccuracy, failure to fairly reflect transactions, failure to fairly record transactions necessary to present financial statements in accordance with IFRS, unauthorized receipts and expenditures, or the inability to provide assurance that unauthorized acquisitions or dispositions of assets can be detected. The Company's system of internal controls provides for the separation of duties for receiving, approving, coding and handling of invoices and entering transactions into the accounts.

## RECENT ACCOUNTING PRONOUNCEMENTS

The adoption of IFRS 15 and IFRS 16 is not expected to have a material impact on the Company's financial statements. For more information on these recent accounting pronouncements, please refer to the notes to the audited financial statements for the year ended March 31, 2020.

## NON-GAAP MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS (or "GAAP"). This MD&A contains the terms "funds from operations", "funds from operations per share", and "working capital", which do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. The Company uses these measures to help evaluate its performance.

Management uses funds from operations to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments. Funds from operations is a non-GAAP measure and has been defined by the Company as net income (loss) plus non-cash items (depletion and depreciation, asset impairments, share based compensation, non-cash finance expenses, realized gains and losses on the disposal of assets, and deferred taxes) and excludes the change in non-cash working capital related to operating activities and expenditures on decommissioning obligations. The Company also presents funds from operations per share whereby amounts per share are calculated using weighted average shares outstanding, consistent with the calculation of earnings per share. Funds from operations is reconciled from cash flow from operating activities under the heading "Funds from Operations".

Management uses working capital as a measure to assess the Company's financial position. Working capital is calculated as current assets less current liabilities.

## CRITICAL ACCOUNTING ESTIMATES

The condensed interim financial statements, including comparatives, have been prepared using IFRS. The preparation of condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the condensed interim financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Significant areas requiring the use of management estimates include, but are not limited to, the determination of carrying value of exploration and evaluation assets, the valuation of share-based compensation transactions, deferred tax assets and liabilities, and accrued liabilities and contingencies.

### Income taxes

The *Income Tax Act (Canada)* has many special provisions that pertain to the mining and oil and gas industries. For income tax purposes, the Company's mineral and petroleum and natural gas exploration and development expenditures qualify for various resource related tax credits. These tax credits are accumulated in "pools" and can be deducted in the calculation of taxable income. In general, any remaining balance in these pools not deducted are carried forward indefinitely for deduction in future years. Consequently, the Company will not be subject to current income taxes until income from other sources exceeds the remaining balances in these tax pools.

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#### **Provisions**

Provisions are recognized for liabilities of uncertain timing when the Company has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized and treated as a separate asset when it is virtually certain that reimbursement will be received if the Company settles the obligation.

#### **Contingencies**

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves exercise of significant judgment and estimates of the outcome of future events.

#### **Recording of depletion**

The amount of depletion recorded is dependent upon the amount of recoverable reserves that are in place by the Company. The estimate of these reserve balances is prepared on an annual basis by an independent petroleum engineer. In the course of estimating these reserves and their value, assumptions are made about future commodity prices, decline rates, remediation costs, future capital costs, future operating costs and operations up-time.

#### **Impairment testing**

The key areas where impairment tests are conducted are with the petroleum and natural gas ("P&NG") assets. In determining whether an impairment has occurred, or a previously recorded impairment loss can be reversed, a review of estimated future cash flows is required. The future cash flows contain many measures of uncertainty including future reserves, operating costs and production rates. These estimates are subject to change as new information becomes available or as changes in technology or regulations dictate.

## **SHARE-BASED COMPENSATION TRANSACTIONS**

#### **Stock options**

The fair value of stock options granted to directors, officers, employees and consultants is measured at grant date based on the Black-Scholes valuation model and applying assumptions of risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares, expected forfeitures and expected life of the options.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial risk management goals are to ensure that the outcome of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance and protecting the Company's statement of financial position from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk with overall exploration and development strategy, diversifying risk, mitigation through preventive controls, and transferring risk to third parties.

#### **Fair value**

The carrying values for primary financial instruments, including cash and equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair values due to their short-term maturities. There have been no major or significant changes that have had an impact on the overall risk assessment of the Company during the period. The objectives and strategy for the exploration and evaluation asset portfolio remains unchanged.

The Company's exploration and development activities expose it to the following financial risks:

#### **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's exposure to credit risk is concentrated in two specific areas: the credit risk on operating balances including accounts receivable and cash and equivalents held with Canadian financial institutions. The maximum exposure to credit risk is equal to the carrying values of these financial assets.

#### **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, such as foreign currency exchange rates, commodity prices, interest rates and liquidity. A discussion of the Company's primary market risk exposures, and how those exposures are currently managed, follows:

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### **Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's financial assets and liabilities and operating costs are principally denominated in Canadian dollars. The Company has historically had insignificant operations in United States ("US") dollars. The Company has no US dollar hedging program due to its minimal exposure to financial gain or loss as a result of foreign exchange movements against the Canadian dollar.

### **Commodity price risk**

Commodity prices, and in particular gold spot prices, fluctuate and are affected by factors outside the Company's control. Current and expected future spot prices have a significant impact on the market sentiment for investment in mineral exploration companies and may impact the Company's ability to raise equity financing for ongoing working capital requirements.

### **Interest rate risk**

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest rate risk is minimal as there are no outstanding loans or interest-bearing debts. The Company has not entered into any interest rate swaps or other active interest rate management programs at this time.

### **Liquidity risk**

This is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity management is to ensure sufficient cash will be available to meet all financial commitments and working capital obligations as they become due.

### **Wildcat Hydrocarbon risk**

Possibly the highest risk business venture known worldwide would be drilling for deep hydrocarbon pools in a virgin, unproven sedimentary basin. The historically accepted record of successful, virgin, wildcat wells is one out of eight drilled.

### **Sensitivity analysis**

The Company believes that movements in investments in equity securities that are reasonably possible over the next twelve-month period will not have a significant impact on the Company. Management believes that the Company's cash position and short-term investments provide adequate liquidity to meet all the Company's near-term obligations.

## **CONTINGENT LIABILITY**

The Company maintains a surety bond in the amount of \$70,000, which is the maximum required by the Ministry of Natural Resources as assurance for the abandonment of dry holes and or depleted wells.

## **OUTSTANDING SHARE DATA**

As at September 30, 2020 and the date hereof the Company had 1,775,035 common shares outstanding.

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### FORWARD LOOKING STATEMENTS

This management discussion and analysis contains certain forward-looking statements relating but not limited to the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events may not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information as a result of new information, future events or other such factors which affect this information, except as required by law.

ADDITIONAL INFORMATION RELATED TO THE COMPANY IS AVAILABLE FOR VIEW ON SEDAR at <http://www.sedar.com/>.

This MD&A is dated as of November 18, 2020



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Donald W. Bryson  
Director and Chief Financial Officer