



## Management's Discussion and Analysis

### Year Ended - December 31, 2017

(Expressed in Canadian dollars, unless otherwise noted)

April 30, 2018

*For further information on the Company, reference should be made to its public filings on SEDAR at [www.sedar.com](http://www.sedar.com). Information is also available on the Company's website at [www.gunpointexploration.com](http://www.gunpointexploration.com). This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2017, and related notes thereto which have been prepared in accordance with International Financial Reporting Standards. The MD&A contains certain forward looking statements, please review the disclaimers that are provided at the last page of this report.*

## OVERVIEW

Gunpoint Exploration Ltd. (the "Company" or "Gunpoint") is focused on the acquisition and exploration of precious metals located in the United States, Mexico and Guatemala. Gunpoint's primary property is the Talapoosa gold project ("Talapoosa") located in Nevada, USA. The Company also owns two Mexican properties, La Cecilia and La Gitana and the El Escorpion property in Guatemala.

The Company trades on the TSX Venture Exchange under the symbol "GUN". The Company has its head office in Vancouver, B.C.

## HIGHLIGHTS

- The Company's cash position as at December 31, 2017 was \$1.3 million.
- During the fiscal year 2017, the Company received from Timberline Resources Corporation ("Timberline") \$1.34 million (US\$1.0 million) cash and one million common shares of Timberline pursuant to an option agreement on Talapoosa. The market value of the common shares on the granting date was \$620,000.
- On January 31, 2017, the Company entered into an option agreement with Riverside Resources Inc ("Riverside") whereby Riverside has the option to acquire 100% interest in the La Cecilia-Margarita ("La Cecilia") gold project located in Sonora state, Mexico. Riverside can acquire a 100% interest in La Cecilia by making \$250,000 in cash payments and issuing 1.0 million Riverside common shares to the Company. During the year ended December 31, 2017, the Company received \$25,000 for the option payment and 100,000 common shares from Riverside.
- On March 31, 2018, Timberline did not make the option payment due March 31, 2018 to Gunpoint. Accordingly, Timberline's option to acquire the Talapoosa gold project has terminated and a 100% ownership of Talapoosa has reverted back to the Company.

## TALAPOOSA (NEVADA, USA)

### Overview

The Company owns a 100% interest in the Talapoosa project located in Lyon County, Nevada. Talapoosa is a low-sulphidation gold-silver property in the Walker Lane gold trend of western Nevada, approximately 45 kilometres east of Reno. The property consists of 509 unpatented lode mining claims owned by the Company, 26 unpatented lode mining claims leased from Sierra Denali Minerals, 4 additional fee land sections leased from Sario Land and Livestock, two additional fee land sections leased from Nevada Bighorns Unlimited Foundation and a portion of one additional

fee land section owned by American Gold Nevada. The total land package for the property is contiguous and covers 14,870 acres. The unpatented lode mining claims are administered by the Bureau of Land Management.

Talapoosa has a National Instrument 43-101 Standards for Disclosure for Mineral Projects (“NI 43-101”) compliant resource estimate (September 2010) hosting a measured and indicated resource of 632,000 ounces of gold (23.1 million tons at a grade of 0.035 oz/t AuEq) and an inferred resource of 326,000 ounces of gold (12.6 million tons at a grade of 0.033 oz/t AuEq) using a cut-off of 0.015 oz/t gold equivalent.

During 2011 the Company completed 15 core holes totaling 3,251 meters at Talapoosa. With the 2011 drill data, the Company re-modeled and re-interpreted the resource with independent consultants. In 2013, Tetra Tech WEI Inc. (“Tetra Tech”) provided an updated NI 43-101 resource estimate adding approximately 380,000 ounces of gold and 5.4 million ounces of silver compared to the previous NI 43-101 resource estimate. Set out in the table below is the updated Measured and Indicated Resource Estimate by Tetra Tech:

| Cutoff Au g/t | Ore Type         | Category  | Tonnes     | Grade Au g/t | Grade Ag g/t | Contained gold (ounces) | Contained silver (ounces) |
|---------------|------------------|-----------|------------|--------------|--------------|-------------------------|---------------------------|
| 0.45          | Oxide            | Measured  | 2,835,890  | 1.29         | 18.96        | 117,253                 | 1,728,323                 |
| 0.45          | Sulphide         | Measured  | 12,741,180 | 1.22         | 16.50        | 501,215                 | 6,760,763                 |
| 0.45          | Oxide            | Indicated | 1,280,900  | 1.10         | 14.25        | 45,328                  | 586,999                   |
| 0.45          | Sulphide         | Indicated | 11,504,500 | 0.94         | 12.36        | 349,005                 | 4,573,274                 |
| 0.45          | Oxide            | Total M&I | 4,116,870  | 1.23         | 17.49        | 162,581                 | 2,315,321                 |
| 0.45          | Sulphide         | Total M&I | 24,245,860 | 1.09         | 14.54        | 850,220                 | 11,334,037                |
| 0.45          | Oxide + Sulphide | Total M&I | 28,362,500 | 1.11         | 14.97        | 1,012,802               | 13,649,358                |
| 0.45          | Oxide - Sulphide | Inferred  | 10,159,000 | 0.72         | 6.65         | 233,532                 | 2,172,766                 |

(1) Prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum classification system

(2) The 2013 resource model used ordinary kriging grade estimate within a three-dimensional block model with mineralized zone defined by wireframed solids

(3) Resource estimate was completed in imperial units with the following conversions:

- 1 gram/tonne = 0.0291667 troy oz/short ton
- 1 tonnes = 1.10231 short ton

(4) A base cutoff grade of 0.45 g/t Au was used for reporting resources

(5) Capping was implemented for gold grades at 23.52 g/t and silver grades at 329.14 g/t

### Option agreement – Timberline Resource Corporation

On April 1, 2015, the Company closed a transaction with Timberline, granting Timberline an option (“Option”) to acquire from Gunpoint’s subsidiary, American Gold Capital US Inc. (“American Gold”), a 100% interest in Talapoosa located in Nevada. In consideration for the option, Timberline paid US\$300,000 and issue 2.0 million shares of common stock of Timberline to American Gold. The Timberline shares are subject to the following vesting schedule over 24 months:

| Vesting date (date initial securities are released from escrow) | Timberline Common Shares ('000) |
|---|---------------------------------|
| September 12, 2015 (vested)                                     | 500                             |
| March 12, 2016 (vested)   | 500                             |
| September 12, 2016 (vested)                                     | 500                             |
| March 12, 2017 (vested)   | 500                             |
|   | 2,000                           |

Pursuant to the Agreement, Timberline has until September 12, 2017 to exercise the Option to acquire a 100% interest in Talapoosa (the “Option Period”). Timberline can exercise the Option by making a US\$10.0 million cash payment to American Gold. For a period of five years after Timberline exercises the Option, Timberline would be required to pay American Gold an additional US\$10.0 million (payable in cash and Timberline common shares) if the daily price of gold averages US\$1,600 per ounce or greater for a period of ninety consecutive trading days. Timberline plans to

complete a feasibility study on Talapoosa during the option period. American Gold retains a 1% net smelter royalty on Talapoosa which Timberline can purchase for US\$3.0 million.

On August 10, 2015, Timberline filed a “Preliminary Economic Assessment on the Talapoosa Project” (“PEA”) on SEDAR (for further details, please see the full PEA on [www.sedar.com](http://www.sedar.com)). At a 5% discount rate, the PEA indicated an after-tax NPV of US\$136 million and 39% IRR at US\$1,150/oz gold and US\$16/oz silver.

On October 20, 2016, the Option Agreement was amended. The Company agreed to extend the Option (“Extended Option”) 18 months from September 12, 2017 to March 31, 2019. In consideration for the Extended Option, Timberline will pay US\$1 million and issue an additional 3.5 million common shares to the Company. In addition, Timberline’s repurchase option for the Company’s 1% net smelter return royalty (“NSR”) on Talapoosa has been eliminated.

The amended terms of the Option Agreement are as follows:

- Payment of US\$1 million and one million common shares of Timberline by March 31, 2017 (Received).
- Payment of US\$2 million and one million common shares of Timberline by March 31, 2018.
- A final payment of US\$8 million and 1.5 million common shares of Timberline by March 31, 2019 (“Option Exercise Closing Date”).
- Timberline undertakes cumulative project expenditures of a minimum of US\$7.5 million by December 31, 2018.
- Elimination of Timberline’s US\$3 million purchase option of the 1% NSR retained by the Company upon Timberline’s acquisition of Talapoosa.
- The Contingent Payment based on escalating gold prices has been amended such that if gold prices average greater than or equal to US\$1,600 over any 90-day period (“Trigger Event”) within a 5-year period commencing on the Option Exercise Closing Date, Timberline will pay Gunpoint an additional US\$10 million of which a minimum of US\$5 million will be payable within six months of the trigger event, and the remaining US\$5 million payable within twelve months of the Trigger Event, with both payments payable in cash or, at Timberline’s discretion, up to 50% in shares.

Upon exercise of the Extended Option, Timberline will have paid US\$11.3 million and issued 5.5 million shares to the Company to acquire a 100% interest in Talapoosa. Gunpoint retains a 1% NSR in Talapoosa which is not subject to a buyback option.

During the first quarter of 2017, Gunpoint received \$1.34 million (US\$1.0 million) cash and one million common shares of Timberline. The market value of one million Timberline shares at the date of granting was \$620.0. As at December 31, 2017, American Gold owns 9% of the outstanding shares issued in Timberline.

On March 31, 2018, Timberline did not make the option payment due March 31, 2018 to Gunpoint. Accordingly, Timberline’s option to acquire the Talapoosa gold project has terminated and 100% ownership of Talapoosa has reverted back to the Company.

## **OTHER EXPLORATION PROJECTS**

### **Le Cecilia (Sonora State, Mexico)**

In 2010, the Company acquired the La Cecilia (“La Cecilia”) gold project from Chesapeake Gold Corp. (TSX-V: CKG) together with three other properties for consideration that resulted in Chesapeake becoming a majority shareholder. Located in northeastern Sonora State, Mexico, La Cecilia comprises three mineral concessions totalling 794 hectares and hosts epithermal gold mineralization in a rhyolite dome setting.

La Cecilia is a low-sulphidation, epithermal-type gold-silver system related to two well-developed northwest and northeast trending sets of faults centred on “Cerro Magallanes”, a rhyolite dome complex. The mineralization occurs as high grade in vein structures and as lower grade within broader zones of stockworks and breccias. Numerous other anomalous zones of silicification, brecciation and argillic alteration exist across the extent of the flow dome complex, an area of more than one kilometre by two kilometres.

On January 31, 2017, the Company entered into an agreement (“Option Agreement”) with Riverside Resources Inc. (TSX-V: RRI) whereby Riverside has been granted an option to acquire a 100% interest in La Cecilia.

Pursuant to Option Agreement and subject to TSX Venture Exchange approval (Received), Riverside has the right to acquire a 100% interest in La Cecilia by making \$250,000 in cash payments and issuing 1.0 million Riverside common shares to the Company over three years per following schedule:

- A payment of \$10,000 upon execution of the Option Agreement; (Received);
- A \$15,000 cash payment and issuance of 100,000 common shares of Riverside concurrent with the execution of registerable agreement in Mexico (“the Effective Date”) (Received);
- A \$25,000 cash payment and issuance of 200,000 common shares of Riverside on or before the first anniversary of the Effective Date; (Received on April 24, 2018)
- A \$75,000 cash payment and issuance of 400,000 common shares of Riverside on or before the second anniversary of the Effective Date;
- A \$125,000 cash payment and issuance of 400,000 common shares of Riverside on or before the third anniversary of Effective Date.

Riverside will be responsible for the property taxes and holding costs to maintain La Cecilia in good standing during the term of the agreement.

### **La Gitana (Oaxaca State, Mexico)**

The La Gitana gold property (“La Gitana”) is located in Oaxaca State, Mexico. La Gitana is a large low sulphidation epithermal system hosting precious metals mineralization that is both structurally and lithologically controlled. During 2005 and 2006, the Company completed 40 diamond drill holes comprising 8,462 meters on La Gitana. The drill program primarily tested Cerro di Oro, a 1.5 kilometer long, northwest trending, structurally-controlled, epithermal system where gold-silver mineralization is found as high-grade shoots in a set of northwest trending, sub-vertical structures, and as low grade disseminations within broad zones of quartz stockworks and breccias.

A NI 43-101 compliant technical report on La Gitana concluded that the exploration program undertaken by the Company on the Cerro di Oro zone of La Gitana (including detailed surface mapping and sampling, ground geophysics and diamond drilling) provided sufficient information to confirm the existence of well-defined gold-silver mineralization extending 500 meters in length, 50 to 150 meters wide and 50 to 300 meters deep. Step-out drilling also discovered additional gold-silver mineralization along strike for over 300 meters to the southeast.

### **El Escorpion (Guatemala)**

Chesapeake has an option to purchase the El Escorpion (“El Escorpion”) gold-silver property, a 900 hectare concession in eastern Guatemala. El Escorpion is located 85 kilometers by paved road southeast of Guatemala City. El Escorpion is situated seven kilometers southwest and along trend of Tahoe Resources Inc.’s Escobal deposit which has a NI 43-101 compliant indicated mineral resource of 367 million ounces of silver grading 422 g/t, plus 37 million ounces of silver grading 254 g/t in the inferred category. Mineralization at Escobal is associated with steeply dipping and northeast-southwest trending intermediate sulfidation epithermal silver rich quartz veins with significant values in gold, lead and zinc. The Escobal land package completely surrounds the El Escorpion project.

Mapping and sampling by Chesapeake has identified two prospective areas with intermediate sulfidation epithermal precious and base metal mineralization. The outcropping mineralization at El Escorpion appears to have many similarities to that at Escobal and occurs in a fault controlled, intermediate sulfidation epithermal system characterized by several multistage, subparallel silver-lead-zinc quartz-carbonate veins and stockworks. To date, the northeast-southwest trending system has been traced continuously for over 1500 meters along strike and remains open to the northeast and southwest. The system is characterized by carbonate-minor quartz vein swarms in the southwest (Mina Blanca zone) and quartz stockworks and quartz veins in the northeast part of the concession (Escorpion –Los Pozos zones). The epithermal system is hosted in volcanoclastic sediments, porphyritic andesites and rhyodacitic rocks, the same rock types which host mineralization at Escobal.

To earn a 100% interest in El Escorpion, Chesapeake agreed to pay US\$351,000 in option payments over 5 years per the schedule below. A 1% NSR can be purchased for US\$585,000.

|  | US\$  |
|--|-------|
| Upon signing the agreement (paid)                | 16.0  |
| On January 28, 2012 (paid)                       | 25.0  |
| On January 28, 2013 (paid)                       | 30.0  |
| On January 28, 2014 (paid)                       | 35.0  |
| On March 23, 2015 (paid)                         | 25.0  |
| On July 28, 2015 (paid)                          | 20.0  |
| On January 28, 2016 (see schedule amended below) | 200.0 |
|  | 351.0 |

On May 20, 2016, the Company amended the final US \$200,000 payment schedule as per below:

|  | US\$  |
|--|-------|
| On or before signing the amendment (paid)  | 60.0  |
| On May 31, 2016 (paid)                     | 70.0  |
| On September 1, 2016 (paid)                | 35.0  |
| On December 15, 2016 (paid)                | 15.0  |
| On December 15, 2016 (payment outstanding) | 20.0  |
|  | 200.0 |

On June 14, 2013, the Company concluded an agreement in respect of El Escorpion with Chesapeake, whereby Gunpoint will acquire a 100% interest in El Escorpion. Gunpoint has agreed to acquire a 100% interest in El Escorpion by issuing and granting the following to Chesapeake.

- 500,000 common shares of Gunpoint
- 500,000 warrants exercisable at \$1.50 per share for a term of five years
- A 1.5% NSR royalty in the event Chesapeake purchases the existing 1.0% NSR
- 1.0 million common shares of Gunpoint in the event a NI 43-101 measured and indicated resource estimate of 1.0 million gold equivalent ounces is achieved on the Escorpion property.

On August 19, 2015, the Ministry of Energy and Mines granted title for the El Escorpion concessions. In late 2016, the Constitutional Court of Guatemala temporarily suspended permits for several mineral concessions in the country including El Escorpion. The Constitutional Court is seeking a review of the stakeholder engagement process. Gunpoint has initiated a follow up consultation with the local community to support the cancellation of the suspension. The property vendor has agreed to an extension of the final payment of \$20,000 to purchase El Escorpion until the exploration suspension is lifted.

## SUMMARY OF CONSOLIDATED LOSS

| In \$000s   | Year Ended<br>December 31, 2017 | Year Ended<br>December 31, 2016 | Year Ended<br>December 31, 2015 |
|---|---------------------------------|---------------------------------|---------------------------------|
| Depreciation  | -                               | (0.5)                           | (2.2)                           |
| Exploration   | (2.5)                           | (38.4)                          | (125.0)                         |
| General & administration <sup>(1)</sup>                       | (93.9)                          | (92.8)                          | (36.9)                          |
| Share based compensation                                      | 23.6                            | (44.1)                          | (102.7)                         |
|   | (72.8)                          | (175.8)                         | (266.8)                         |
| Finance (cost) income, net                                    | (35.8)                          | (36.4)                          | (33.1)                          |
| Foreign exchange gain (loss)                                  | (90.7)                          | 8.8                             | 27.7                            |
| Impairment from disposal of PPE                               | -                               | (6.7)                           | -                               |
| Impairment of long-term investment                            | -                               | (100.6)                         | (1,305.6)                       |
| Other (expenses)  | 77.3                            | (53.4)                          | -                               |
| Gain on debt settlement                                       | -                               | 34.9                            | -                               |
| Net loss before tax   | (122.0)                         | (329.2)                         | (1,577.8)                       |
| Deferred income tax recovery                                  | 156.1                           | (27.2)                          | 132.7                           |
| Net loss after tax  | 34.1                            | (356.4)                         | (1,445.1)                       |
| Reclassification of impairment of losses included in net loss | -                               | 100.6                           | 1,305.6                         |
| Other comprehensive income                                    | (446.3)                         | 319.7                           | (1,308.3)                       |
| Net gain (loss) and comprehensive loss                        | (412.2)                         | 63.9                            | (1,447.8)                       |
| Basic/Diluted loss per share                                  | (0.00)                          | (0.01)                          | (0.03)                          |

(1) General and administration (“G&A”) consists of general and administrative expenses and professional fees

The Company incurred net income of \$34,100 for the year ended December 31, 2017, compared to net losses \$356,400 in 2016 and \$1.4 million in 2015. The net income was attributable to the La Cecilia property payments received from Riverside, together with less impairment on long-term investments and a deferred tax recovery. For the year ended December 31, 2017, the Company recognized nil impairment on long-term investments, compared to \$100,600 in 2016 and \$1.3 million in 2015. The difference in impairment over the years is due to the fluctuation in market value of these investments. Limited exploration activity also contributed to lower general and administrative expenses.

The Company recognized a \$23,600 gain on share-based compensation in the current period due to the cancellation of unvested stock options, compared to an expense of \$44,100 in 2016 and \$102,700 in 2015. Other income of \$102,900 was related to the cash payment and common shares received from the La Cecilia transaction with Riverside. In addition, the Company recognized a non-cash deferred income tax recovery of \$156,100 (which was triggered by a change in foreign tax rate), compared to a loss of \$27,200 in 2016 and a recovery of \$132,700 in 2015.

Other comprehensive loss of \$446,300 resulted from the unrealized loss (due to market conditions) in the Company’s equity holdings in Timberline, Jiulian and Riverside for the year ended December 31, 2017.

**Consolidated quarterly loss – 8 quarters historic trend**

| In \$000s                             | 3mths<br>31-Dec-17 | 3mths<br>30-Sep-17 | 3mths<br>30-Jun-17 | 3mths<br>31-Mar-17 | 3mths<br>31-Dec-16 | 3mths<br>30-Sep-16 | 3mths<br>30-Jun-16 | 3mths<br>31-Mar-16 |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Exploration                           | (0.6)              | (0.2)              | (0.3)              | (1.4)              | -                  | (16.5)             | (6.4)              | (16.3)             |
| Net gain (loss) before taxes          | (37.0)             | (71.5)             | 1.6                | (15.1)             | (38.0)             | (19.2)             | (72.9)             | (199.1)            |
| Deferred income tax recovery          | 156.1              | -                  | -                  | -                  | (27.2)             | -                  | -                  | -                  |
| Net (loss) income after taxes         | 119.1              | (71.5)             | 1.6                | (15.1)             | (65.2)             | (19.2)             | (72.9)             | (199.1)            |
| Total comprehensive (loss) income     | (112.4)            | (352.0)            | (435.3)            | 487.5              | (315.1)            | (174.2)            | 824.3              | (198.2)            |
| Basic/Diluted (loss) income per share | (0.00)             | (0.00)             | 0.00               | (0.00)             | (0.00)             | (0.00)             | (0.00)             | (0.00)             |
| Total assets                          | 7,737.7            | 8,063.2            | 8,418.6            | 8,851.8            | 8,380.5            | 8,660.8            | 8,797.7            | 7,931.3            |

**Three months ended December 31, 2017 vs. all prior quarters historically.**

The Company incurred net income before tax of \$119,100 for the three months ended December 31, 2017. Compared to the prior quarters in 2017 and 2016, which recorded losses with the exception of Q2, 2017, the net income was largely attributed to the cash payment and common shares received from Riverside for La Cecilia transaction. During the quarter, the Company incurred less general and administrative, overhead and stock-based compensation expenses. Also, a non-cash deferred income tax recovery of \$156,100 was recognized in Q4 2017, triggered by changes in the foreign tax rate.

During the fourth quarter of 2017, the Company's corporate activities were focused on maintaining its mineral properties in good standing and coordinating due diligence activities for potential joint venture or divesture.

Total assets have decreased over the past two fiscal years due to the fluctuation of the fair value of its long-term investments and mineral properties.

**LIQUIDITY AND CAPITAL RESOURCES**

| In \$000s, nine months ended                  | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|-------------------|-------------------|-------------------|
| Cash outflows from operating activities       | (117.8)           | (198.6)           | (161.2)           |
| Cash inflows from financing activities        | -                 | 232.6             | 223.9             |
| Cash flow (outflow) from investing activities | 1,343.0           | (249.2)           | 273.9             |
| Net cash flows                                | 1,225.2           | (215.2)           | 336.6             |
| Cash balance                                  | 1,279.6           | 158.3             | 365.2             |

As at December 31, 2017, the Company's net working capital was \$373,800 compared to a net working capital deficiency of \$764,400 at December 31, 2016. The increase in working capital is attributable to the increase in cash payments received from the Timberline and Riverside option agreements.

Cash outflow from operating activities for the year ended December 31, 2017 was primarily administrative support for maintaining the Company's properties in good standing.

Excluding property option payments, there were no financing activities in 2017. In previous years, the Company received funding through advances from its parent company, Chesapeake Gold Corp. and a convertible debenture..

Cash inflow from investing activities for the year ended December 31, 2017 was significantly higher than 2016 and 2015. A US\$1 million Talapoosa option payment was received from Timberline and \$25,000 La Cecilia payment from Riverside.

The Company's ability to continue as a going concern is dependent on the Company's ability to raise funds. Cash inflow from investing activities for the year ended December 31, 2017 was significantly higher than 2016 and 2015. The Company received a US\$1 million Talapoosa option payment from Timberline and a \$25,000 La Cecilia payment from Riverside.

The Company's ability to continue as a going concern is dependent on the Company's ability to raise funds. The Company has placed its mineral properties on care and maintenance until the Company can obtain additional financing.

## SHAREHOLDERS' EQUITY

As at the December 31, 2017 and the date of this report the Company had 43,501,600 shares, 500,000 share purchase warrants and 905,000 stock options outstanding.

The following is a summary of share purchase warrants as at December 31, 2017 and the date of this report:

| Number of warrants | Exercise price per share | Expiry Date |
|--------------------|--------------------------|-------------|
| 500,000            | \$1.50                   | 14-Jun-18   |

The following is a summary of stock option outstanding as at December 31, 2017 and as at the date of the report:

| Number of options | Vested  | Exercise price per share | Expiry Date |
|-------------------|---------|--------------------------|-------------|
| 905,000           | 905,000 | \$0.25                   | 23-Apr-19   |

## REGULATORY DISCLOSURES

### *Off-Balance Sheet Arrangements*

As at the date of this report, the Company had no off-balance sheet arrangements as of the date of this report.

### *Related Party Transactions*

The Company's related parties include its subsidiaries, associates over which it exercises significant influence, Chesapeake, and key management personnel. Transactions with related parties for goods and services are made on normal commercial terms and are considered to be at arm's length.

For the year ended December 31, 2017, there were no management fees paid. The total accrued as at December 31, 2016 was \$nil.

As at December 31, 2017, the Company has a convertible debenture in the principal amount of \$700,000 (plus related accrued interest) outstanding indebted to the President of the Company.

As of December 31, 2017, an amount of \$1,036,200 was due to Chesapeake, the parent of the Company (December 31, 2016 - \$1,042,200). These amounts are unsecured and non-interest bearing.

### *Financial Instruments*

The following provides a comparison of carrying and fair values of each classification of financial instrument:

| In \$000s                                      | December 31, 2017 |            | December 31, 2016 |            |
|--|-------------------|------------|-------------------|------------|
|  | Carrying value    | Fair value | Carrying value    | Fair value |
| <b>Financial assets</b>                        |                   |            |                   |            |
| <i>Fair value to profit and loss ("FVTPL")</i> |                   |            |                   |            |
| Cash and cash equivalents                      | 1,279.6           | 1,279.6    | 158.3             | 158.3      |
| <i>Available-for-sale</i>                      |                   |            |                   |            |
| Long-term investment                           | 1,029.6           | 1,029.6    | 810.0             | 810.0      |
| <b>Financial liabilities</b>                   |                   |            |                   |            |
| <i>Other financial liabilities</i>             |                   |            |                   |            |
| Accounts payable & accrued liabilities         | 216.8             | 216.8      | 248.9             | 248.9      |
| Due to related party                           | 1,036.2           | 1,036.2    | 1,042.2           | 1,042.2    |

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).

The following table sets forth the Company's assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following table sets forth the Company's assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| In '000              |            |         |         |                         |
|----------------------|------------|---------|---------|-------------------------|
|                      | Level 1    | Level 2 | Level 3 | Total December 31, 2017 |
| Cash                 | \$ 1,279.6 | \$ -    | \$ -    | \$ 1,279.6              |
| Long-term investment | 1,029.6    | -       | -       | 1,029.6                 |
|                      | \$ 2,309.2 | \$ -    | \$ -    | \$ 2,309.2              |

| In '000              |          |         |         |                         |
|----------------------|----------|---------|---------|-------------------------|
|                      | Level 1  | Level 2 | Level 3 | Total December 31, 2016 |
| Cash                 | \$ 158.3 | \$ -    | \$ -    | \$ 158.3                |
| Long-term investment | 810.0    | -       | -       | 810.0                   |
|                      | \$ 968.3 | \$ -    | \$ -    | \$ 968.3                |

### **Capital Management**

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its resource properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity as well as cash and investments.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may

attempt to issue new shares, issue new debts, acquire or dispose of assets or adjust the amount of cash and cash equivalents, and investments.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments, such as Canadian Government treasury bills, banker's acceptances or Guaranteed Investments Certificates, with initial maturity terms less than one year from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

### ***Significant Accounting Policies***

Please refer to the audited annual financial statements for the year ended December 31, 2017 which was filed on SEDAR.

## **RISKS AND UNCERTAINTIES**

The Company is in the business of acquiring, exploring and developing gold and silver properties. The Company is exposed to a number of risks and uncertainties that are common to other resource exploration companies in the same business.

The risks and uncertainties described in this section are considered by management to be the most important in the context of the Company's business. The risks and uncertainties below are not inclusive of all the risks and uncertainties the Company may be subject to and other risks may apply.

### **Early Stage – Need for Additional Funds**

Gunpoint has no history of profitable operations and its present business is at an early stage. The Company anticipates that it may make substantial capital expenditures for the acquisition, exploration, development and production of its mineral properties in the future. The Company currently has no revenue and may have limited ability to expend the capital necessary to undertake or complete future exploration or development programs. As such, the Company is subject to many risks common to other companies in the same business, including under-capitalization, cash shortages, and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that Gunpoint will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

The Company expects to obtain financing in the future primarily through further equity and/or debt financing, as well as through joint venturing and/or optioning out the Company's properties to qualified mineral exploration companies. There can be no assurance that the Company will succeed in obtaining additional financing, now or in the future. Failure to raise additional financing on a timely basis could cause the Company to suspend its operation and eventually to forfeit or sell its interest in its properties.

### **Exploration and Development**

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits, but also from finding mineral deposits that, though present, are of insufficient size and/or grade to return a profit from production.

The Company does not have any operating mines at present. All the Company's properties are in the exploration stage. There is no assurance that a commercially viable mineral deposit exists on any of the Company's properties and substantial additional work will be required in order to determine the presence of any such deposit.

All of the mineral claims to which Gunpoint has a right to acquire an interest are in the exploration stages only, and are without a known body of commercial ore. Upon discovery of a mineralized occurrence, several stages of exploration and assessment are required before its economic viability can be determined. Development of the subject mineral properties would follow only if favorable results are determined at each stage of assessment. Few precious and base metal deposits are ultimately developed into producing mines.

There is no assurance that Gunpoint's mineral exploration activities will result in any discoveries of commercial bodies of ore. The long-term profitability of Gunpoint's operations will in part be directly related to the costs and success of its exploration programs, which may be affected by a number of factors.

### **Operating Hazards and Risks**

Mining operations involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome.

In the course of exploration, development and production of mineral properties, certain risks, and in particular unexpected or unusual geological operating conditions, including rock bursts, cave-ins, fires, flooding and earthquakes, may occur. Operations in which Gunpoint has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of mineral deposits, any of which could result in damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damages.

Although Gunpoint maintains liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event Gunpoint could incur significant costs that could have a materially adverse effect upon its financial conditions.

### **Supplies, Infrastructure, Weather and Inflation**

Gunpoint's property interests are often located in remote, undeveloped areas and the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost cannot be assured. These are integral requirements for exploration, production and development facilities on mineral properties. Power may need to be generated on site.

Due to the partial remoteness of its exploration projects, Gunpoint may be forced to rely on the accessibility of secondary roads and air transport for the supply of goods and services.

### **Metal Prices**

The mining industry, in general, is intensely competitive and there is no assurance that a profitable market will exist for the sale of metals produced even if commercial quantities of precious and/or base metals are discovered. Factors beyond the control of Gunpoint may affect the marketability of metals discovered. Pricing is affected by numerous factors beyond Gunpoint's control, such as international economic and political trends, global or regional consumption and demand patterns, increased production and smelter availability. There is no assurance that the price of metals recovered from any mineral deposit will be such that they can be mined at a profit.

### **Title Risks**

Although Gunpoint has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. Gunpoint's mineral property interests may be subject to prior unregistered agreements, or transfers, or indigenous claims, and title may be affected by undetected defects.

### **Environmental Regulations, Permits and Licenses**

Gunpoint's operations are subject to various laws and regulations in the various jurisdictions in which the Company operates that govern the protection of the environment, exploration, development, production, taxes, labour standards, occupational health, waste disposal, safety and other matters.

Environmental legislation provides restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact statements. Environmental legislation is evolving in a direction of stricter standards and enforcement, and higher fines and penalties for non-compliance. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. Gunpoint intends to fully comply with all environmental regulations.

The current operations of Gunpoint require permits from various United States, Mexican, and Guatemalan domestic authorities and such operations are governed by laws and regulations governing prospecting, development, mining,

production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental, mine safety and other matters.

Gunpoint believes that it is in substantial compliance with all material laws and regulations which currently apply to its activities. There can be no assurance, however, that all permits which Gunpoint may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

### **Competition and Agreements with Other Parties**

The mining industry is intensely competitive in all its phases, and Gunpoint competes with other companies that have greater financial resources and technical capacity. Competition could adversely affect Gunpoint's ability to acquire suitable properties or prospects in the future.

Gunpoint may, in the future, be unable to meet its share of costs incurred under such agreements to which it is a party and it may have its interest in the properties subject to such agreements reduced as a result. Also, if other parties to such agreements do not meet their share of such costs, Gunpoint may not be able to finance the expenditures required to complete recommended programs.

### **Economic Conditions**

Unfavourable economic conditions may negatively impact Gunpoint's financial viability. Unfavorable economic conditions could also increase Gunpoint's financing costs, decrease net income or increase net loss, limit access to capital markets and negatively impact any of the availability of credit facilities to the Company.

### **Dependence on Management**

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of Gunpoint could result and other persons would be required to manage and operate Gunpoint.

## **FORWARD LOOKING STATEMENTS**

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation. Such forward-looking statements and information herein include, but are not limited to, statements regarding prospective metal production, timing and expenditures to develop the properties, mineral resources, grades and recoveries, cash costs per ounce, capital and operating expenditures and sustaining capital and the ability to fund mine development. The Company does not intend to, and does not assume any obligation to update such forward-looking statements or information, other than as required by applicable law.

Forward-looking statements or information involve known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company and its operations to be materially different from those expressed or implied by such statements. Such factors include, among others: ability to finance mine development, fluctuations in the prices of metals, fluctuations in the currency markets (particularly the Mexican peso, Canadian dollar and U.S. dollar); changes in national and local governments, legislation, taxation, controls, regulations and political or economic developments in Canada, the United States and Mexico; operating or technical difficulties in mineral exploration, development and mining activities; risks and hazards of mineral exploration, development and mining (including environmental hazards, industrial accidents, unusual or unexpected geological conditions, pressures, cave-ins and flooding); inadequate insurance, or inability to obtain insurance; availability of and costs associated with mining inputs and labour; the speculative nature of mineral exploration and development, diminishing quantities or grades of mineral reserves as properties are mined; risks in obtaining necessary licenses and permits, and challenges to the Company's title to properties.

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements or information, there may be other factors that cause results to be materially different from those anticipated, described, estimated, assessed or intended. There can be no assurance that any forward-looking statements or information will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements or information. Accordingly, readers should not place undue reliance on forward-looking statements or information.

***Other technical information***

Mr. Todd McCracken (P. Geo) of Tetra Tech is the Qualified Person as defined by NI 43-101 and is responsible for technical information in the updated Resource Estimate for Talapoosa.