

## **GEM INTERNATIONAL RESOURCES INC.**

### **Management's Discussion and Analysis**

For the Nine Months Ended June 30, 2017

Form 51-102F1

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#### **Effective Date**

This Management's Discussion and Analysis ("MD&A") provides relevant information on the operations and financial results of Gem International Resources Inc. (the "Company") for the period ended June 30, 2017. It should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the period ended June 30, 2017 and the audited annual consolidated financial statements for the year ended September 30, 2016 and related notes thereto. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website [www.gemdiamondmining.com](http://www.gemdiamondmining.com).

All monetary amounts in this MD&A and in the Company's consolidated financial statements are expressed in Canadian dollars, unless otherwise stated.

The effective date of this MD&A is August 29, 2017.

#### **Forward-Looking Statements**

This MD&A contains forward-looking statements that are based on the Company's current expectations and estimate. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "suggest", "indicate" and other similar words or statements that certain events or conditions "may" or "will" occur. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause actual events or results to differ materially from estimated or anticipated events or results implied or expressed in such forward-looking statements. Such factors include, among others: the actual results of current exploration activities; conclusions of economic evaluations; changes in project parameters as plans to continue to be refined; possible variations in ore grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing; and fluctuations in metal prices. There may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

#### **Description of Business and Overall Performance**

The Company was incorporated on September 25, 1985 under the laws of British Columbia, Canada and is a junior natural resource company listed on the TSX Venture Exchange under the trading symbol "GI".

The Company is engaged in the acquisition, exploration and development of mineral properties with its principal focus on diamond, gold and other precious metals. Activities include acquiring mineral properties and conducting exploration programs.

## **GEM INTERNATIONAL RESOURCES INC.**

### **Management's Discussion and Analysis**

For the Nine Months Ended June 30, 2017

Form 51-102 F1

---

#### Dala diamond exploration project in Angola

On September 23, 2015, the Company entered into a letter agreement with Global Gems International Limited ("Global Gems") for an option to acquire 50% of the issued and outstanding shares of Global Gems (the "Option") and thereby attain 50% of a 45% interest in the Dala project, which 50% interest shall be held by Global Gems on behalf of the Company. The Dala project is located south of Saurimo, the capital of the Lunda Sul Province in Angola. In exchange for the Option, the Company has agreed to, over a two-year period, raise an aggregate cash of US\$800,000, issue an aggregate 2,750,000 common shares of the Company to the vendors and contribute an aggregate US\$5,000,000 towards the exploration expenditures.

On March 29, 2016, the Company's letter agreement with Global Gems for an option to acquire 50% of the issued and outstanding shares of Global Gems was terminated. Concurrently, the Company entered into a new agreement with Global Gems for an option to acquire 91.5% of the issued and outstanding shares of Global Gems and thereby attain 91.5% of a 45% interest in the Dala project. In exchange for the option, the Company has agreed to, over a two-year period, make total cash option payments of US\$800,000 (including US\$300,000 being the initial working capital as part of the exploration expenditures), issue a total of 5,000,000 million common shares of the Company to the vendors and contribute a total of US\$5,000,000 toward the exploration expenditures.

Dala is located in the heart of a highly prospective and productive diamond region of Angola, only 25 kilometres south of the world-class Catoca diamond mine, the world's fourth largest, and immediately adjacent to the regional centre of Saurimo. Dala is an early stage project with excellent potential for the discovery of both alluvial and kimberlite deposits. Two of the area's most productive alluvial diamond hosting rivers, Luachimo and Tchicapa flow northward through the license with over 100 km of combined drainage length, and there are numerous areas of currently active artisanal diamond production along these drainages and their tributaries.

The Company and its operating partner Global Gems have started the initial field and technical programs to prioritize start up areas for alluvial gravel testing. This includes establishment of a camp logistics base in Saurimo, as well as procurement of mining, diamond production and infrastructure equipment. Over 30 high priority areas have been identified where there are classic trap sites in active drainages and accumulations of river gravels preserved in old meanders and terraces. Observation of the extensive active and historical artisanal work areas by local garimpeiros at Dala indicate that extensive areas of Calonda Formation may be present. The Calonda Formation is a regional basal gravel and sheet wash unit in the Lunda Provinces that is often very diamondiferous and productive.

On January 23, 2017, the Company entered into an agreement (the "Amendment Agreement") with Global Gems to amend its existing arrangement for the earn-in of an interest in the Dala diamond exploration Project.

The Amendment Agreement provides that the Dala Project would be enlarged to include exploration and exploitation rights for kimberlites within the Dala License including the 6 known kimberlite pipes located by previous operators. These only received very limited exploration and have not been fully evaluated. Numerous magnetic kimberlite targets remain untested at Dala and an extensive data base exists,

Under the Amendment Agreement the Company may acquire 88% of Global Gems' 45% interest in the restructured Dala Project by paying to Global Gems the amounts of US\$300,000 on or before each of the

## GEM INTERNATIONAL RESOURCES INC.

### Management's Discussion and Analysis

For the Nine Months Ended June 30, 2017

Form 51-102 F1

3<sup>rd</sup> and 4<sup>th</sup> anniversaries of TSX Venture approval and US\$400,000 on or before the 5<sup>th</sup> anniversary of such approval. The Company would also be required to incur US\$13,000,000 in exploration and development expenditures over 5 years (US\$3,000,000 for each of year 1 (which must be raised and paid by May 31, 2017) and year 2, US\$2,000,000 for year 3, and US\$2,500,000 for each of years 4 and 5). The US\$300,000 already provided to Global Gems as start-up capital would be credited against year 1 expenditures. The Company shall be entitled to a share of any revenues generated from saleable products, if any, from the property prorated to the proportion of expenditures spent to the total expenditures to be spent under the Amendment Agreement.

The Company will also be required issue to the principals of Global Gems 30,000,000 shares (10,000,000 shares on each of the 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> anniversaries of TSX Venture approval). After completing the private placement of not less than CDN\$500,000, the Company will pay to Global Gems the amount of US\$150,000, which also will be credited against year 1 expenditures.

Because of increasing volatile market conditions since executing the Amendment Agreement, certain conditions, principally fundraising, are unlikely to be fulfilled in a timely fashion. The agreement between the Company and Global Gems provided that funding in the amount of US\$707,700 for exploration expenditures was required by May 31, 2017. Due to lack of financing, the Company failed to make payment of the aforesaid amount and therefore the agreement was terminated on July 13, 2017.

#### Financing

On February 23, 2017, the Company completed a non-brokered private placement through the issuance of 18,000,000 units at a price of \$0.05 per unit for gross proceeds of \$900,000. Each unit consisted of one common share and one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Company for a term of two years from the date of closing at a price of \$0.15 per share. The funds has been used for working capital, the payment of US\$150,000 to Global Gems, and the preparation of legal documents and regulatory approval costs related to the closing of the Amending Agreement.

#### Selected Annual Information

The following financial data is derived from the Company's audited consolidated financial statements for the years ended September 30, 2016, 2015 and 2014.

		As at and for the Years Ended September 30,		
		2016	2015	2014
(a)	Interest income	\$194	\$196	\$53
(b)	Net loss	\$ (594,446)	\$ (504,870)	\$ (187,139)
	Loss per share	\$ (0.03)	\$ (0.05)	\$ (0.07)
(c)	Total Assets	\$628,278	\$13,762	\$21,184

**GEM INTERNATIONAL RESOURCES INC.**

**Management's Discussion and Analysis**

For the Nine Months Ended June 30, 2017

Form 51-102 F1

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**Results of Operations**

***For the Three Months Ended June 30, 2017 and 2016***

During the three months ended June 30, 2017, the Company reported a net loss of \$119,837 as compared to the previous comparable period at \$114,808.

Major expenses and their respective changes are as follows:

- Audit, accounting and legal fees were \$13,838 (2016 - \$19,991);
- Consulting fees were \$71,425 (2016 - \$51,350);
- Marketing and investor relations were \$13,469 (2016 - \$14,415);
- Regulatory and transfer agent fees were \$988 (2016 - \$9,046);
- Rent was \$4,500 which remained the same as last year;
- Travelling and promotion were \$14,663 (2016 - \$19,479).

***For the Nine Months Ended June 30, 2017 and 2016***

During the nine months ended June 30, 2017, the Company reported a net loss of \$622,012 as compared to the previous comparable period at \$260,912. The increase was mainly due to the Company recognised stock-based compensation expense of \$92,473 results from the grant of stock options. No stock options were granted during the same period in 2016. Increases were also noted in other general and administrative expenses.

Major expenses and their respective changes are as follows:

- Audit, accounting and legal fees were \$60,677 (2016 - \$59,366);
- Consulting fees were \$312,225 (2016 - \$115,850);
- Marketing and investor relations were \$48,275 (2016 - \$6,160);
- Property investigation costs were \$7,294 (2016 - \$24,291);
- Regulatory and transfer agent fees were \$17,073 (2016 - \$19,768);
- Rent was \$13,500 which remained the same as last year;
- Stock-based compensation was \$92,473 (2016 - \$nil);
- Travelling and promotion were \$68,477 (2016 - \$21,144)

## GEM INTERNATIONAL RESOURCES INC.

### Management's Discussion and Analysis

For the Nine Months Ended June 30, 2017

Form 51-102 F1

#### Summary of Quarterly Results

The following table summarizes information derived from the Company's financial statements for each of the eight most recently completed quarters:

Quarter Ended	Jun 30	March 31	Dec 31	Sep 30	Jun 30	March 31	Dec 31	Sep 30
Year	2017	2017	2016	2016	2016	2016	2015	2015
	\$	\$	\$	\$	\$	\$	\$	\$
Interest Income	8	57	3	159	31	1	3	7
Net Loss	(119,837)	(404,974)	(97,201)	(333,533)	(114,808)	(68,722)	(77,383)	(106,756)
Basic & Diluted Loss per share	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)

Significant variances in the Company's reported loss from quarter to quarter most commonly arise from: (i) decisions to write off acquisition and deferred exploration costs when management concludes there has been an impairment in the carrying value of a mineral property or the property is abandoned, and (ii) the granting of stock options, which results in the recording of non-cash charge for stock-based compensation expense that can be quite large in relation to other general and administrative expenses incurred in any given quarter. Other than these, the level of operating expenditures driving the net losses for the periods reflect the ongoing corporate activities to develop the properties as discussed above.

The Company did not write-off any capitalized property acquisition and exploration costs during the most recent eight quarters. For the quarter ended March 31, 2017, the Company recognized stock-based compensation expense of \$92,473.

#### Liquidity and Capital Resources

At June 30, 2017, the Company had net working capital deficiency of \$77,284 as compared to net working capital of \$38,335 at September 30, 2016. The Company had cash on hand of \$9,807 as compared to \$26,364 as at September 30, 2016.

The Company has financed its operations through equity issuances. Although the Company has been successful in raising funds in the past, there can be no assurance that equity funding will be accessible to the Company at the times and in the amounts required to fund the Company's activities. The Company is dependent upon the equity markets to finance all of its activities and it is anticipated that it will continue to rely on this source of funding for its exploration expenditures and to meet its ongoing working capital requirements.

#### Off-Balance Sheet Arrangement

The Company has no long term debt, does not have any used lines of credit or other arrangements in place to borrow funds, and has no off-balance sheet arrangements. The Company has no current plans to use debt financing and does not use hedges or other derivatives.

**Transaction with Related Parties**

During the period ended June 30, 2017, the Company entered into the following transactions with related parties:

- a) Office rent of \$13,500 (2016 - \$13,500) and accounting fees of \$27,000 (2016 - \$27,000) were incurred by the Company and as at June 30, 2017, \$4,725 (2016 - \$nil) remained payable to a company related to a director of the Company;<sup>(1)</sup>
- b) Incurred consulting fees of \$45,000 (2016 - \$45,000) and as at June 30, 2017, \$10,800 (2016 - \$nil) remained payable to a company owned by a director of the Company;<sup>(2)</sup>
- c) Incurred consulting fees of \$45,000 (2016 - \$nil) and as at June 30, 2017, \$5,000 (2016 - \$nil) remained payable to a company owned by a director & CEO of the Company;<sup>(3)</sup>
- d) Incurred consulting fees of \$4,500 (2016 - \$4,500) and as at June 30, 2017, \$500 (2016 - \$1,000) remained payable to a director of the Company;<sup>(4)</sup>
- e) Accrued accounting fees of \$7,500 (2016 - \$7,500) for accounting services provided by the CFO of the Company and as at June 30, 2017, \$2,500 (2016: \$2,500) remained payable.

The above transactions with related parties, occurring in the normal course of operations, were measured at the exchange amount which represented the amount of consideration established and agreed to by the related parties.

**Key Management Compensation**

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors. Key management personnel compensation disclosed above comprised the follow:

	June 30, 2017	June 30, 2016
Key management personnel:		
CEO	\$ 45,000	\$ 45,000
CFO	7,500	7,500
Directors	49,500	6,000
	<u>\$ 102,000</u>	<u>\$ 58,500</u>

<sup>(1)</sup> The Company shares office space and other accounting services with other companies who may have similar officers or directors. The costs associated with this space and services are administered by 794267 B.C. Ltd., a management company owned by an individual related to a director of the Company.

<sup>(2)</sup> The amounts were paid to Elite Vantage Development Ltd., which is controlled by Simon Tam, President and director of the Company. Elite charges \$5,000 per month for the management and consulting services provided to the Company.

## **GEM INTERNATIONAL RESOURCES INC.**

### **Management's Discussion and Analysis**

For the Nine Months Ended June 30, 2017

Form 51-102 F1

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<sup>(3)</sup> The amounts were paid to Frontier Asset Management Ltd., which is controlled by Denis Hayes, CEO and director of the Company.

<sup>(4)</sup> The amounts were incurred with respect to the Company's non-executive directors, Mr. Craig Walker for his services provided to the Company.

#### **New Accounting Standards Adopted**

No new IFRS accounting standards have been adopted by the Company during the nine-month period ended June 30, 2017.

Certain pronouncements were issued by the IASB are mandatory for accounting periods after June 30, 2017 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded from the discussion below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

(i) IFRS 9, Financial Instruments, ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company will evaluate the impact of adopting IFRS 9 on its consolidated financial statements, including the possibility of early adoption in future periods.

(ii) IFRS 15, issued in May 2014, will specify how and when entities recognize, measure, and disclose revenue. The standard will supersede all current standards dealing with revenue recognition, including IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

(iii) In January 2016, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard (IFRS) on lease accounting which was incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in June 2016. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lease assets and liabilities are initially recognized on a present value basis and subsequently, similarly to other non-financial assets and financial liabilities, respectively. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 Revenue from Contracts with Customers.

## **GEM INTERNATIONAL RESOURCES INC.**

### **Management's Discussion and Analysis**

For the Nine Months Ended June 30, 2017

Form 51-102 F1

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#### **Financial Instruments and Other Instruments**

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

The Company's financial instruments comprise of cash, receivables, marketable securities, accounts payable and accrued liabilities.

The fair value of cash and marketable securities are based on level 1 input of the fair value hierarchy. The carrying values of receivables and accounts payable and accrued liabilities approximate their fair values due to their short-term maturity.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate risk, currency risk and/or credit risk arising from these financial instruments.

#### **Management's Responsibility for the Financial Statements**

Information provided in this MD&A, including financial information extracted from the Financial Statements, is the responsibility of management. In the preparation of the Financial Statements, estimates are sometimes necessary to make a determination of future value for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying Financial Statements.

#### **Critical Accounting Estimates**

The financial statements prepared in accordance with IFRS requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to assessments of the recoverability and carrying value of exploration and evaluation assets, assumptions used in determining the fair value of share-based payments, recognition and valuation of deferred income tax amounts as well as provision for restoration and environmental costs. Due to the inherent uncertainty involved with making such estimates, actual results could differ from these estimates. Future events and risk factors inherent in the mining industry could result in changes in these estimates and assumptions.

#### **Outstanding Share Data**

As at the date of this MD&A, the Company had the following securities issued and outstanding:

- (1) Common shares – 58,265,539
- (2) Share purchase warrants – 42,120,000
- (3) Stock options – 5,420,000

## **GEM INTERNATIONAL RESOURCES INC.**

### **Management's Discussion and Analysis**

For the Nine Months Ended June 30, 2017

Form 51-102 F1

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#### **Risk Factors relating to the Company's Business**

Mineral exploration and mining involve considerable financial and technical risk. Substantial expenditures are usually required to establish ore reserves, to evaluate metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration programs planned by the Company will result in profitable commercial mining operations. Unusual or unexpected geological formations, unstable ground conditions that could result in cave-ins or land slides, floods, power outages or fuel shortages, labour disruptions, fire, explosions, and the inability to obtain suitable or adequate machinery, equipment or labour are risks associated with the conduct of exploration programs and the operation of mines. At this point, the Company has no experience in the development and operation of mines and in the construction of facilities required to bring mines into production, and may rely upon consultants for expertise with respect to the construction and operation of a mining facility.

Future exploration and development activities on the Company's properties will require additional financing. There is no assurance that additional funding will be available to the Company when need or that, if available, the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of the property interests of the Company with the possible dilution or loss of such interests. The effects of these cannot be accurately predicted, but any of these issues could impede development or render it uneconomic.

The Company expects that uncertainty remains with respect to global economy, available capital and exploration risk to the resource industry. The Company intends to manage its cash resources and review opportunities as circumstances demand.

#### **Additional Information**

Additional information pertaining to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website [www.gemdiamondmining.com](http://www.gemdiamondmining.com)

#### **Directors and Officers**

Simon Tam – Director and President

Denis Hayes – Director and CEO

Craig Walker - Director

Eric Schjelderup – Director

Simon Ma – CFO