

# **METALLIS RESOURCES INC.**

## **Management's Discussion and Analysis Nine months ended September 30, 2017**

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### **Introduction**

This Management Discussion and Analysis ("MD&A") is dated November 14, 2017 and should be read in conjunction with Metallis Resources Inc.'s ("the Company", "we", "our") condensed interim financial statements for the three and nine month periods ended September 30, 2017, and the annual financial statements for the year ended December 31, 2016 and the related notes thereto. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations, and includes material events and transactions up to the date of this report. Results are reported in Canadian dollars, unless otherwise noted. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results presented for the period ended September 30, 2017 are not necessarily indicative of the results that may be expected for any future period.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) if it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

The Company's common shares are listed on Tier 2 of the TSX-V under the trading symbol "MTS". Further information about the Company and its operations can be obtained from the offices of the Company, located at Suite #515 - 850 West Hastings St., Vancouver, BC, V6C 1E1, or from Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

### **Cautionary Note Regarding Forward-Looking Information**

This MD&A contains forward-looking statements about the Company's objectives, strategies, financial condition, results of operations, cash flows and businesses. These statements are "forward-looking" because they are based on current expectations, estimates, assumptions, risks and uncertainties. These forward-looking statements are typically identified by future or conditional verbs such as "outlook", "believe", "anticipate", "estimate", "project", "expect", "intend", "plan", and terms and expressions of similar import.

Such forward-looking statements are subject to a number of risks and uncertainties which include, but are not limited to: cyclical downturn, competitive pressures, dealing with business and political systems in a variety of jurisdictions, repatriation of property in other jurisdictions, payment of taxes in various jurisdictions, exposure to currency movements, inadequate or failed internal processes, people or systems or from external events, safety performance, expansion and acquisition strategy, legal and regulatory risk, extreme weather conditions and the impact of natural or other disasters, specialized skills and cost of labour increases, equipment and parts availability and reputational risk. Actual results could be materially different from expectations if known or unknown risks affect the business, or if estimates or assumptions turn out to be inaccurate. The Company does not guarantee that any forward-looking statement will materialize

and, accordingly, the reader is cautioned not to place reliance on these forward-looking statements.

The forward-looking statements in this MD&A are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future, including assumptions regarding the Company's ability to raise additional financing, execute business and operating strategies, and the Company's ability to ability to develop its mineral properties. Discussions regarding the future exploration of the Company's properties presume such assumptions such as that sufficient financing will successfully complete on reasonable terms, whether from equity or debt issuance, joint venture or the sale of assets.

The Company disclaims any intention and assumes no obligation to update any forward-looking statement, even if new information becomes available, as a result of future events or for any other reasons, except in accordance with applicable securities laws. Risks that could cause the Company's actual results to materially differ from its current expectations are also discussed in this MD&A.

### **Description of Business**

The Company is involved in mineral exploration with its primary focus on gold, copper and base metals in north-western British Columbia where it holds a 100% interest in 30 contiguous claims comprising the Kirkham Property (the "Property"), covering an area of 10,610 hectares. The Property is in the south-central part of B.C.'s "Golden Triangle", a significant North American exploration region, hosting numerous mineral deposits, operating mines and former producing mines. The famous Eskay Creek mine is 20 km northeast of the Property and the Snip mine (1991-1999) is 40 km to the northwest. Pretium's Valley of the Kings Brucejack high-grade gold mine, a US \$700 million underground mine which began commercial operations on July 3, 2017, is 20 km to the Property's east. In addition, Garibaldi Resources' recent -nickel-copper discovery is only a few kilometres north of the Kirkham Property border.

The Company has completed the initial drilling of several holes during and subsequent to the current reporting period, detailed and described below under Summary of Exploration and evaluation assets.

The mining exploration business involves a high degree of risk. The recoverability of the amounts expended on mineral interests by the Company is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration programs and development of its mineral properties and upon future profitable production or proceeds from disposition of its mineral interests. The Company has not yet determined whether the Property contains economically recoverable reserves. To date, the Company has not earned any revenues and is considered to be in the exploration stage. As at September 30, 2017 the Company has incurred net cumulative acquisition and exploration costs of \$1,148,461 on the Property.

### **Corporate Outlook**

Exploration work conducted by the Company in the past three years on the Property has identified several major anomalies which offer the Company a number of alternative exploration

follow-up programs. Regional exploration activities by other public companies have spurred market sentiment such that the Company's share price had increased to \$1.02 as at September 30, 2017, and was \$1.84 on November 14, 2017. The share price and trading volumes have both risen significantly since Q2 2017, and have allowed the company to raise financing sufficient for continued exploration of the Property including a phase two drilling program in 2018. In addition to private placements, the Company may also enter into debt issuances, joint ventures or other funding arrangements to further explore the Property, depending on the conditions of the market.

## **Summary of Exploration and evaluation assets**

### **Kirkham Property, British Columbia, Canada**

#### ***Overview***

The Kirkham Property ("the "Property") covers an area of 106 km<sup>2</sup> within a highly prospective metallogenic district known as the Golden Triangle in northwestern British Columbia. The Company acquired the Property through a combination of staking and purchase agreements with third parties between 2013 and 2015. The Property features several geological environments – porphyry, shear vein, volcanogenic massive sulphide and magmatic sulphide – each with several precious and base metal targets under consideration. Refer to a map of the property below.

#### ***Geology***

The Kirkham Property lies within the Stikine Terrane, near the boundary between the Intermontane and Coast Tectonic Belts of the Canadian Cordillera. It is underlain by volcanic and sedimentary rocks of the Upper Triassic Stuhini Group and the Lower to Middle Jurassic Hazelton Group. According to Kyba and Nelson (2016), the contact between these two rock formations is a key geological marker for copper-gold mineralization in the Golden Triangle. Also referred to as the "Red Line", this marker has been traced over a strike length of 10km (north-south) on the Kirkham Property.

#### ***Location and Access***

The Kirkham Property is located 65 km northwest of Stewart in northwestern British Columbia and is centered at 56°29' N latitude and 130°40' W longitude, within the Liard and Skeena Mining Divisions. The Property is accessible by helicopter. The nearest helicopter base is at Stewart, although helicopters are commonly stationed from Bob Quinn Lake and nearby exploration projects.

Situated within the Golden Triangle, the Property is proximate to several mines and advanced exploration projects, including Barrick Gold's past-producing Eskay Creek Mine (20km northwest), Pretium Resources' Brucejack mine (40 km southeast) and Seabridge's KSM and Iron Cap deposits (30km southeast).

The closest road access is through the past producer Eskay Creek Mine road, connected by 60 km of controlled-access gravel road to Highway 37, nearly 5km south of the Bob Quinn Lake airstrip. In recent years, several infrastructure improvements have been made in the region. The major infrastructure development includes (1) paving of the nearby highway, (2) opening of ocean port facilities for export of concentrate at Stewart and (3) completion of the Northwest transmission line, which provides the necessary power for mineral production purposes.

### ***Early Exploration***

The company conducted two geophysical surveys, in 2013 and 2016, which collectively covered the entirety of the Property and identified numerous anomalies for follow-up:

- King: is a linear, very strong coincident resistivity and magnetic anomaly, which is outboard from the mineralized Hawilson Porphyry, covering the projection of a felsic to intermediate volcanoclastic and mudstone sequence.
- Fewright Creek: features an arcuate resistivity and magnetic anomaly surrounding a magnetic low. A small felsic plug has been mapped within this target. A large gossan; inferred to as phyllic alteration occurs on the western side of the target. These features are interpreted to represent a classic calc-alkaline porphyry copper-gold system that has experienced oxidation of magnetite in the center and propylitic alteration rim around the system. The geophysical results indicate that this anomaly increases in size with depth.
- King East: comprises large coincident magnetic and resistivity anomalies. Numerous gold-bearing veins and several small felsic stocks have been mapped on the southern part of this target.
- Thunder South (previously North Terwilligen): is divided by the “Red Line” with late Triassic Stuhini volcanics exposed to the southeast and Jurassic Hazelton rocks in the northwest. A distinct resistivity anomaly within Stuhini rocks is to be followed for potential porphyry style mineralization. A narrow (1-5 m wide) and ~300m-long gabbroic dike, possibly open to the south, oriented in a N35E direction, is exposed on the surface and is interpreted as basic intrusive rock with potential for magmatic sulphide mineralization.
- South Terwilligen: is characterized by coincident magnetic and resistivity anomalies indicating a shallow level porphyry environment. Moreover, the phyllic alteration of quartz-sericite-pyrite (QSP), gossan and surrounding propylitic alteration minerals also suggest upper portions of a preserved porphyry system.

Following the 2013 geophysical survey, the company acquired two large claims covering what is now called the Cliff prospect, which was identified on the basis of historical drilling (5 holes) and rock sampling results. In August 2014, Metallis conducted an exploration work program focusing on the King anomaly, which was identified during the 2013 geophysical survey. The planned program comprised of geochemical sampling, trenching and geological mapping.

In September 2015, Metallis completed abbreviated grass root exploration program on the property, comprised rock sampling and geological mapping of the southernmost part (and lowest accessible elevation) of the Hawilson Monzonite, which intrudes rocks of the Stikine Terrane. This intrusion phase is thought to be correlated to the Texas Creek -plutonic suite, which hosts most of the porphyry copper-gold mineralization in the Golden Triangle.

### ***2017 Exploration Program***

The 2017 exploration program focused on the Cliff, King and Thunder North prospects, the latter having been identified through geological mapping and prospecting in the early phase of the 2017 program. Mapping and prospecting at Thunder North identified a series of mafic to ultramafic outcrops containing sulphide mineralization typically associated with Ni-Cu mineralization,

adjacent to Garibaldi Resources' Nickel Mountain prospect. The goal of drilling was three-fold: (1) to extend the strike-length of the Cliff porphyry copper-gold system.(2) to test the VTEM chargeability anomaly in the King and (3) to test the structurally controlled phyllic alteration and gossans in Thunder North.

#### Cliff: Porphyry Copper-Gold:

The Cliff prospect covers the southern portion of an extensive porphyry copper-gold system associated with the six kilometer-long Hawilson intrusive body. This porphyry system is proximate to the "Red Line" a key geological marker for copper-gold mineralization in the Golden Triangle, which has been traced over a 10km strike length on the Kirkham Property.

Previous operators drilled five holes to the north of recent Metallis drilling. These are shallow holes drilled from the top of the ridge and showed increasing copper-gold grades with depth, as well as alteration patterns typical of the upper portions of a porphyry system. (See Kirkham geology map-2). Metallis drill holes KH17-06, 07 and 08 successfully extended the strike of known mineralization by 2-km to the south for a combined 5-km strike-length of porphyry style alteration and Cu-sulphide mineralization. Drilling in the Cliff zone encountered typical phyllic and potassic alteration, multi-generation veins and Cu-sulphides associated with calc-alkalic intrusions. This demonstrates that previous drilling was in the upper levels of porphyry copper-gold system and that the 2017 drill holes have begun to test the core of the system. Additional drilling is planned to target the central portions of this large porphyry system.

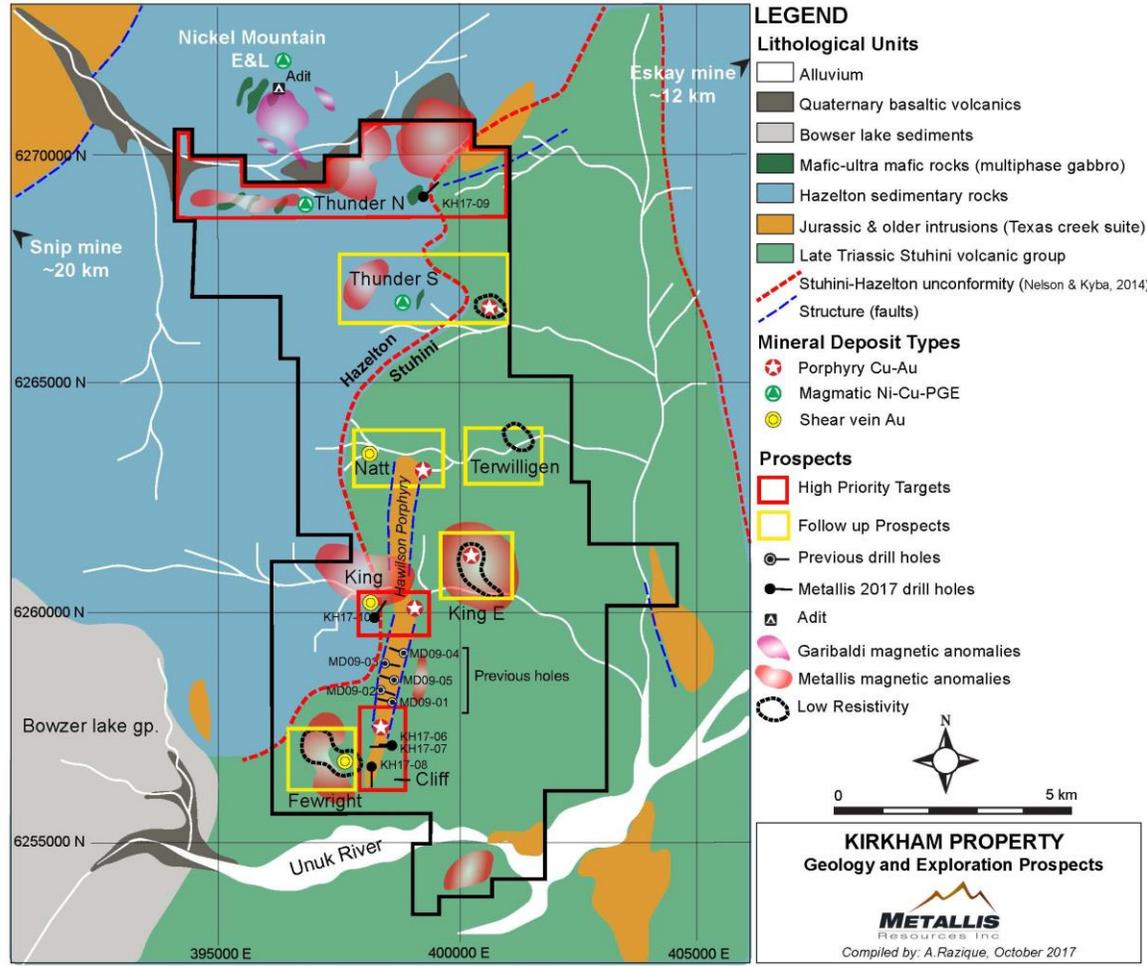
#### King: Intrusion Related Au-Sulphide Veins:

The King zone is located on the western margin of the Hawilson monzonite, a 6-km. long and 0.5 km. wide stock-dike intrusive complex in the middle of the Kirkham property. Historical work in the area identified several areas with pyrite-pyrrhotite veins containing elevated gold up to 9.5 g/t Au (BC ARIS #18614). A geophysical feature, extended for 380 meters by 220 meters by 15 meters in the western part of the King prospect is identified as being both conductive and magnetic. The initial test hole KH-17-10, intersected intercalated shale, siltstone and sandstone units with a network of quartz-calcite veins and zones of pyrrhotite-pyrite and traces of chalcopyrite mineralization.

#### Thunder: Magmatic Nickel-Copper:

Thunder North prospect is situated immediately to the south of Garibaldi Resources' E&L deposit at Nickel Mountain where Garibaldi's initial drill program discovered significant magmatic Ni-Cu-PGE mineralization. The reconnaissance-scale mapping exploration and target investigation was completed late in the season during a window of excellent weather and snow melt at high-altitude; Metallis discovered a number of outcropping mafic to ultra-mafic intrusive rocks favourable for magmatic Ni-Cu sulphide mineralization. Mapping of the surface expression of those rock units, supported by VTEM and aeromagnetic results confirm that this trend extends into Garibaldi property. Test hole KH-17-09 was drilled into a structurally controlled gossan zone with abundant pyrite mineralization.

## Kirkham Property Map



## Directors and Officers

There have been no changes to the board of directors or executive management in 2017 or 2016.

The directors are Fiore Aliperti, Jon Lever, Michael Sikich and Dr. David Webb. The officers are Mr. Aliperti (CEO), Mr. Lever (CFO), Mr. Dupre (Vice-President of Exploration) and Ms. Sameen Sheikh is Corporate Secretary.

The directors were reappointed by the shareholders at the Company's Annual General Meeting held May 15, 2017.

## Management changes

In April 2017, the Company appointed two individuals to its Advisory Board, joining Mr. Lawrence Roulston. The three members of the Advisory Board offer many years of senior exploration experience with many companies, different types of ores and geological conditions and exploration programs, and are a valuable asset of the Company. The individuals appointed during the period are as follows:

*Mr. Jeff Kyba:*

Mr. Kyba, P.Geo., has been directly involved in mineral exploration for 13 years, holding various positions with junior and mid-tier exploration companies and the provincial government. Most recently, he spent the past five years as the Regional Geologist for the BC Ministry of Mines responsible for monitoring mineral exploration and mining activity in northwest BC, which includes the area containing the Kirkham Property. Prior to 2011, Mr. Kyba worked as an exploration project geologist with Ivanhoe Australia, Hard Creek Nickel Corp. and as a senior regional mapping assistant with the BC Geological Survey. Mr. Kyba is well-known for the following theory: geologic contact between Triassic age Stuhini rocks and Jurassic age Hazelton rocks is the key marker for copper-gold mineralization. Most of the Golden Triangle's copper-gold deposits, whether they are large-scale porphyry and intrusion-related, are found within 2km of this contact. It's been infamously named "The Red Line".

*Mr. Stephen Wetherup:*

Mr. Wetherup is a structural and economic geologist with over 20 years of global exploration experience. Mr. Wetherup has worked for Fox Geological Consultants, Phelps Dodge Corporation of Canada and as a consulting geologist for numerous exploration companies including Freeport-McMoran. Mr. Wetherup is currently the Vice President – Geology with Caracle Creek International Consulting and the Vice-President of Exploration for Commander Resources Ltd. Mr. Wetherup will be leading and coordinating the Company's mapping activities.

### **Selected Annual Financial Information**

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the Annual Financial Statements.

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Total assets	\$ 420,824	\$ 294,762	\$ 597,546
Total liabilities	439,402	431,475	249,384
Shareholders' equity (deficiency)	(18,578)	(136,713)	348,162
<b>Major operating expense items</b>			
Consulting fees	165,350	162,000	169,000
Investor relations	16,500	20,250	9,000
Professional fees	29,625	24,676	41,091
Share-based compensation	172,946	2,255	44,320
Travel and promotion	1,398	-	-
Net loss	\$ 406,201	\$ 608,898	\$ 121,514
Loss per share	\$ 0.02	\$ 0.04	\$ 0.01

*Analysis of annual cash flows:*

In 2016, the Company raised \$356,750 from issuing equity, of which \$311,000 was from private placements and \$45,750 was from the exercise of options and warrants. It also received \$31,651 from the sale and option of certain mineral property interests pertaining to the MMICP property. The Company spent \$152,291 on property work and \$246,482 on management and office operations, and maintained liquidity to manage its day-to-day working capital needs without significantly increasing its total liabilities, which rose approximately 2% in 2016.

In 2015, the Company issued share capital to raise \$130,768 after issuance costs, and sold 50% of its marketable securities for proceeds of \$43,975. It spent \$8,138 net of recoveries on its mineral properties and \$169,885 on operating activities for a net increase in cash during 2015 of \$1,720. Cash operating costs were approximately \$14,000 per month, less than the \$20,000 - \$25,000 monthly costs incurred in recent years primarily due to management's informal deferral of a substantial portion of its consulting and professional fees charged in the year.

*Analysis of annual operations for 2016 compared to 2015:*

The Company's loss in 2016 of \$406,201 was 33% lower than 2015's net loss of \$608,898. The difference is a result of year-to-year differences in such items as stock-based compensation, write-downs of property interests, and gains and losses on asset sales and fair value adjustments. Those items are listed in the Statements of Operations and Comprehensive Loss. Operating expenses, not including share-based compensation, were however substantially similar during the two years, \$273,953 in 2016 and \$253,212 in 2015, an increase of 8%. Marketing costs rose to \$10,411 from \$2,782 as the Company undertook two private placements. Other expense items increased 10-20% while investor relations costs declined 18% from \$20,250 to \$16,500. These variable changes are normal for early stage exploration companies. Investor relations fees of \$1,500 per month were charged by Buchalter Consulting Inc. until the contract was terminated on March 31, 2017.

Share-based compensation arises from the fair value computations over the vesting periods of stock option grants. With the exception of investor relations options grants, the Company's Stock Option Plan provides for full vesting of options at the time of grant. Share-based compensation was \$172,946 (2015 - \$2,255), attributable to the fair value of the 2016 option grant of 1,400,000 shares exercisable at \$0.10 per share for a five year period.

*Analysis of annual operations for 2015 compared to 2014:*

The Company had a net loss of \$608,898 (2014 - \$121,514) which can be analyzed into five clear categories: Operating expenses declined 20% to \$255,467 (2014 - \$319,714), write-off of exploration and evaluation assets was \$238,105 (2014 - \$32,397), gain on sale of subsidiary was \$nil (2014 - \$163,738), unrealized loss on marketable securities was \$58,425 (2014 - gain of \$79,500), interest and penalties were \$57,249 (2014 - \$nil) and all other items totalled (\$348) (2014 - \$12,641).

Operating costs include the day to day overhead needs, professional fees and those costs related to the Company's compliance with its continuous disclosure obligations as a public company. These costs include mainly consulting fees of \$162,000 (2014 - \$169,000), professional legal, audit and tax fees of \$24,676 (2014 - \$41,091), investor relations of \$20,250 (2014 - \$9,000), and share-based compensation of \$2,255 (2014 - \$44,320), all of which comprise 82% (2014 - 79%) of all operating expenses. Consulting fees charged by the officers, and detailed under Related

Party Transactions later in this MD&A, represented 100% (2014 – 95%) of all consulting fees incurred during the period. Professional fees were about 40% higher in 2014 as it included the consolidation of an Italian subsidiary, for which certain professional fees were incurred up to its date of disposition in mid 2014. The remainder of professional fees is substantially the audit fee which remained at approximately \$20,000. No stock options were granted in 2015, and the share-based compensation relates to the 2014 option grants, with a small portion vesting in 2015.

The write-off of exploration and evaluation assets was significant in 2015, comprising 39% of the net loss compared to 27% in 2014. A write-off of \$186,635 was recorded as at December 31, 2015 to impair the capitalized value of the Company’s MMICP property to \$1, after the subsequent termination of the MMICP option agreement by the optionee, Karsten Energy Corp. The decision to write-off the property was driven by a lack of other third party interest, and the Company’s own publicized intent to focus on its Kirkham Property, and consequently no significant exploration on MMICP was done after 2011.

The indemnification provision of \$68,750 was recorded pursuant to the completion of a CRA audit in early 2016 of the Company’s 2011 flow-through private placement, the results of which deemed certain previously renounced qualifying flow-through expenditures as non-qualifying expenditures. The provision reflects the expected income tax adjustment to the subscribers of the 2011 flow-through private placement financing in the event the CRA reassesses the subscribers, for which the Company is obligated to “make whole” the subscribers’ tax positions.

### **Quarterly Information**

	Three Months Ended September 30, 2017	Three Months Ended June 30, 2017	Three Months Ended March 31, 2017	Three Months Ended December 31, 2016
Total assets	\$ 3,014,385	\$ 417,207	\$ 420,824	\$ 416,055
Total liabilities	531,394	488,565	439,402	391,460
Shareholders’ equity (deficiency)	2,482,991	(71,358)	(18,578)	24,595
Consulting fees	78,900	50,220	41,500	42,850
Professional fees	331	945	20,000	2,390
Rent	5,541	5,104	5,217	5,093
Share-based compensation	295,895	-	-	-
Net income (loss)	(1,165,715)	(73,280)	(62,480)	(71,921)
Earnings (loss) per share	(0.05)	(0.00)	(0.00)	(0.01)

	Three Months Ended September 30, 2016	Three Months Ended June 30, 2016	Three Months Ended March 31, 2016	Three Months Ended December 31, 2015
Total assets	\$ 326,183	\$ 285,566	\$ 294,762	\$ 507,373
Total liabilities	410,787	463,400	431,475	293,169
Shareholders' equity (deficiency)	(84,604)	(177,834)	(136,713)	214,204
Consulting fees	40,500	40,500	40,500	40,500
Professional fees	7,235	-	20,000	4,176
Rent	5,093	5,092	4,962	4,963
Share based compensation	153,639	-	-	294
Net income (loss)	(224,679)	(47,121)	(341,917)	(100,232)
Earnings (loss) per share	(0.01)	(0.00)	(0.02)	(0.01)

## **Results of Operations**

*Three months ended September 30, 2017 compared to three months ended June 30, 2017:*

The Company's net loss this quarter of \$1,165,715 (Q2 2017 - \$105,224) is composed of a loss on commitment to issue shares of \$826,287 (Q2 - \$nil), share-based compensation of \$295,895 (Q2 - \$nil), consulting fees of \$78,900 (Q2 - \$49,500), other net operations expenses of \$33,007 (Q2 - \$57,974), and other income and gains of \$68,374 (Q2 - \$2,250).

The loss on commitment to issue shares relates to an agreement entered into in June 2017 whereby certain exploration drilling services to be provided would be settled for shares. The services were rendered in August and September 2017, totalling \$177,815. Based on the allowable discounted market price on the dates of service, the Company was committed to the issuance of a total of 454,345 common shares. The shares were issued in October 2017, and accordingly, the fair value of those shares on issue was accrued as at Sept 30, 2017, resulting in a loss on commitment to issue of \$826,287.

Share-based compensation of \$295,895 is the fair value of 1,000,000 stock options granted during the period, pursuant to the Black-Scholes option pricing model, as detailed in the Company's financial statements for the three month period ended September 30, 2017.

Other operations expenses in Q2 were higher than Q3, due to higher professional and regulatory fees incurred in Q2 along with a \$10,000 research report the Company had prepared. Other income and gains were higher in Q3 compared to Q2, and is composed of a gain on settlement of accounts payable of \$44,601 (Q2 - \$nil) (the Company paid \$30,000 in full settlement of an amount of \$74,601 due to an unrelated party), an unrealized gain on marketable securities of \$9,000 (Q2 - \$2,250), other income on settlement of flow-through premium liability of \$14,700 (Q2 - \$nil) and \$73 (Q2 - \$nil) of interest income. The other income on settlement of flow-through premium liability of \$14,700 was a book entry and was recorded upon the Company incurring certain qualifying expenditures on the Property.

The overall operating costs remain consistent over both Q3 and Q2, as total operating expenses in the current period, not including share-based compensation, was \$111,907 compared to \$107,474 in Q2. Included in this amount are related party consulting fees of \$40,500 incurred in each period. Other consulting fees totalled \$38,400 (Q2 - \$9,000), incurred for data management, redesigning the Company's website, and other administrative needs. The remaining operating expenses, as noted above, were higher in Q2 for professional fees, regulatory costs and advertising, marketing and promotion. In the current quarter the Company incurred advertising marketing and promotion costs of \$15,600, of which \$13,939 or 90% was related to a mining trade show. The Company currently does not have an investor relations ("IR") consultant, nor any stock options outstanding that were previously granted to IR consultants. The Company terminated an IR consultant in Q1 2017.

Management's notes that its operating costs are in the range of \$35,000 per month, an increase of about \$10,000 per month compared to recent years, due to the general increase in the scale of operations as exploration activities have increased along with the financings, driving the need for greater overhead support and resources.

The Company issued common shares and raised a total of \$2,165,156 in Q3, \$493,819 in Q2 and \$12,500 in Q1, net of issuance costs. Two private placements closed in Q3 for total proceeds of \$1,880,217, and the exercise of 814,112 warrants raised \$284,939, for a total of \$2,165,156. A single private placement closed in Q2, yielding net proceeds of \$493,819. The cash resources available to the Company allowed it to ramp up its exploration activities, paying total exploration costs of \$614,570 in Q3 (compared to \$59,870 during Q1 and Q2). Accordingly, cash rose in Q3 from \$250,053 on June 30, 2017 to \$1,734,230 as at September 30, 2017, an increase of \$1,484,177.

*Three months ended September 30, 2017 compared to three months ended September 30, 2016:*

The net loss in Q3 2017 of \$1,165,715 (2016 - \$71,921) includes a loss on commitment to issue shares of \$826,287 (2016 - \$nil) and share-based compensation of \$295,895 (2016 - \$nil) while all other income and expense items totalled \$43,533 (2016 - \$71,921). The loss on commitment to issue shares and share-based compensation amounts are detailed above. Related party consulting fees were \$40,500 in both periods, and other consulting fees were \$38,400 (2016 - \$2,350). Other consulting fees included fees for administrative needs as the Company embarked on a robust exploration program this past summer. Overheads consisting of office expenses, professional fees, regulatory fees, rent and travel fluctuated over the three-month periods, but totalled \$17,302 (2016 - \$16,076), consistent in the aggregate.

In the current period the Company disbursed Kirkham Property exploration costs of \$614,570 (2016 - \$95,376). Drilling activities commenced in August 2017 and continued into September. The Company contracted with two drilling services companies, one of which settled its account for shares, giving rise to an \$826,287 loss on commitment to issue shares as described above.

*Nine months ended September 30, 2017 compared to nine months ended September 30, 2016:*

For the nine-month period ended September 30, 2017, a net loss of \$1,344,219 (2016 - \$343,721) was incurred, composed of operating costs of \$589,681 (2016 - \$345,090), loss on commitment to issue shares of \$826,287 (2016 - \$nil), and other income and net gains of \$71,749 (2016 - \$1,369). Operating costs, not including share-based compensation of \$295,895 (2016 - \$153,639), were \$293,786 (2016 - \$191,451), an increase of \$102,335 or 53%. As noted above, higher costs were incurred this period especially for consulting fees (\$74,770 higher) and advertising,

marketing and promotion (\$27,479 higher), which together account for 99% of the net increase in operating costs. In the current period, the company hired consultants for website, internet and email management systems support, stakeholder assessments and industry networking. The Company incurred additional advertising and marketing costs mainly through the preparation of a research report (\$10,000) and attendance at a US mining trade show (\$13,968). The most significant recurring operating expenses are related party consulting fees of \$121,500 for the nine-month periods ended September 30, 2017 and 2016, comprising 41% (2016 – 63%) of all operating expenses not including share-based compensation. Refer to Related Party Transactions later in this MD&A.

The net increase in cash for the current period totalled \$1,716,928 (2016 - \$40,883), primarily a result of the Company completing its private placements at successively higher prices. The Company disbursed net \$649,412 on the Property and \$309,996 on its operations at a monthly rate of approximately \$35,000.

The following details the private placements completed during the period:

- a) On May 8, 2017, the Company closed the first tranche of a private placement in the amount of \$338,980. The Company issued 1,591,559 units at \$0.18 per unit for proceeds of \$286,480 and 210,000 flow-through units at \$0.25 per flow-through unit, for proceeds of \$52,500. Each unit consists of one common share and ½ of one non-transferable share purchase warrant (“Warrant”). Each flow-through unit consists of one flow-through common share and ½ Warrant. Each whole Warrant is exercisable into one common share at \$0.35 for a two year period. The Warrants are subject to an acceleration clause under which the expiry date becomes 30 days after the last of 10 consecutive days if and whereby the closing price of the Company’s shares are greater than or equal to \$0.50 per share, contingent upon the Company issuing a new release announcing the triggering of the acceleration provision. A flow-through premium liability of \$14,700 was recorded in respect of the flow-through units issued, as a deduction to share capital. No fair value was assigned to the warrant component of the units. As at September 30, 2017, 429,112 warrants had been exercised for proceeds of \$150,189.
- b) On June 26, 2017, the Company closed the second and final tranche of the above noted private placement, issuing an additional 874,000 units for proceeds of \$157,320. No fair value was assigned to the warrant component of the Units. Issuance costs of \$2,482 were recorded on the private placement.
- c) On August 14, 2017, the Company closed a private placement in the amount of \$626,750, by the issuance of 2,507,000 units at \$0.25 per unit. Each unit consists of one common share and ½ of one non-transferable share purchase warrant (“Warrant”). Each Warrant is exercisable into one common share at a price of \$0.40 per share for a two year period. The Warrants are subject to an acceleration clause under which the expiry date becomes 30 days after the last of 10 consecutive days if and whereby the closing price of the Company’s shares are greater than or equal to \$0.50 per share, contingent upon the Company issuing a new release announcing the triggering of the acceleration provision. No fair value was assigned to the warrant component of the units. Issuance costs of \$14,556 were incurred on the private placement, including finders’ fees of \$9,500.
- d) On September 22, 2017, the Company closed a private placement in the amount of \$1,311,130. The Company issued 1,400,945 units at \$0.55 per unit for proceeds of \$770,520 and 772,300 flow-through Units at \$0.70 per flow-through unit, for proceeds of

\$540,610. Each unit consists of one common share and ½ of one non-transferable share purchase warrant (“Warrant”). Each flow-through unit consists of one flow-through common share and ½ Warrant. Each whole Warrant is exercisable into one common share at a price of \$0.80 per share for a two year period. The Warrants are subject to an acceleration clause under which the expiry date becomes 30 days after the last of 10 consecutive days if and whereby the closing price of the Company’s shares are greater than or equal to \$1.20 per share, contingent upon the Company issuing a new release announcing the triggering of the acceleration provision. A flow-through premium liability of \$115,845 was recorded in respect of the flow-through Units issued, as a deduction to share capital. No fair value was assigned to the warrant component of the units. Issuance costs of \$43,107 were incurred on the private placement, including finders’ fees of \$35,801.

### **Liquidity and capital management**

The Company has no commercial operations or source of revenue, no long term debt, and no externally imposed capital requirements other than those specified under continuous listing requirements. Its capital is comprised of shareholders’ equity. The Company’s objectives when managing capital are to fund critical exploration work, meet its on-going liabilities, continue as a going concern, maintain creditworthiness and to ultimately maximize returns for shareholders over the long term. Private placement financings cause dilution to shareholders, but the relative dilution declines as the share issuance price rises. Management plans its exploration programs with the objective of adding enterprise value with each phase of work performed, serving to mitigate the effect of dilution. There were no changes in the Company’s approach to its capital management objectives during the period ended September 30, 2017.

Meeting current and future liabilities and obligations as a non-revenue early stage developer requires mid-term financial planning and consideration of the Company’s internal, exploration and financing risks at any particular time. The Company endeavours to maintain capital balances over the periods to alleviate unexpected cash flow shortfalls. The capital for operations and property exploration has historically come from proceeds from the issuance of common shares and the sale of non-core assets. The net proceeds raised from equity financings and the sale of assets during 2015 and 2016 were sufficient to complete defined exploration programs and meet most day to day obligations related to corporate overhead. Private placements completed in 2017 sufficiently funded this summer’s drilling program, next summer’s drilling program, other additional exploration work as deemed necessary, and working capital, going forward.

Capital scarcity in the exploration sector in recent years caused management to accept the deferral of the payment of significant portions of its fees to help conserve cash resources. Subsequent to September 30, 2017, the Company paid most of its amounts due to related parties and expects to settle all such amounts by the end of the year.

Certain non-deferrable overhead costs relate to the Company’s obligations as a public company and primarily include audit fees and regulatory and transfer agent fees. These fees totalled approximately \$50,000 and \$40,000 in 2016 and 2015, respectively, and are expected to be \$50,000 - \$60,000 for 2017. Minimizing these fees remains challenging in a world of increasing compliance and regulation.

Cash is also potentially available from the future sale of marketable securities consisting of 225,000 common shares of Seahawk Ventures Inc. (“Seahawk”), a company listed on the CSE Exchange (Toronto) under the symbol “SHV”, which were valued at \$0.35 per share at the date of

this report, for a total fair value of \$78,750 (the same price as on September 30, 2017). The Seahawk shares do not have any trading restrictions but have limited liquidity in the market as a junior exploration company. The Company will consider selling the shares its remaining shares in view of the prevailing market conditions at the time.

The Company's working capital at the date of this report is approximately \$3,465,000 as follows:

<b><u>Analysis of working capital, November 14, 2017</u></b>		(\$ 000's)
Cash and cash equivalents	\$	3,445
Receivables, advances and deposits		65
Marketable securities		79
Accounts payable and accrued liabilities		(5)
Due to related parties		(50)
Indemnification provision		<u>(69)</u>
 Total net working capital	 \$	 <u>3,465</u>

Prior to the current period, the Company had experienced working capital deficiencies for several years but was able to meet its necessary obligations associated with its day to day operations through prudent management of its cash resources and through the use of certain creditor agreements and arrangements. Management still considers it unlikely that the indemnification provision will be unlikely to be realized. The Company completed a flow-through financing in 2011, and did not spend all the funds on qualifying activities, triggering tax reassessments to the original institutional subscribers. The CRA would need to reassess the institutional subscribers which in turn would need to reissue flow-through documentation for each of their beneficial shareholders, followed by a claim for the differential tax amounts.

### **Outstanding share information**

The total number of common shares outstanding as of the date of this report is 29,628,209 shares.

Share activity subsequent to September 30, 2017 is as follows:

On October 6, 2017, the Company completed a private placement raising gross proceeds of \$2,200,000. The Company issued 1,000,000 Units at a price of \$1.10 per Unit. Each Unit consists of one common share and ½ of one non-transferable share purchase warrant ("Warrant"). Each full Warrant is exercisable into one common share at \$1.50 per share for a two year period. Proceeds from the financing will be used for further exploration of the Kirkham Property, and for general working capital. No fair value was assigned to the warrant component of the private placement. Total issuance costs of \$144,250 were incurred in connection with the private placement, including a finder's fee of \$132,000.

On October 25, 2017, the Company issued 454,345 common shares to settle \$177,815 of debt pursuant to a drilling services agreement entered into in June 2017. The shares were issued at the allowable discounted market price as at the dates of billing, in accordance with TSX-V policy and upon approval by the TSX-V. The Company accrued the fair value of the commitment to issue shares at September 30, 2017 in the amount of \$1,004,102

being the fair value of the shares at the time of issuance, recording a loss on issuance of \$826,287 for the period ending September 30, 2017.

Three consultants exercised a total of 190,000 stock options for proceeds of \$59,600.

662,890 warrants were exercised for proceeds of \$232,012.

### **Stock options**

At the date of this report, there are 2,035,000 stock options outstanding, as follows:

Number of Options Sept 30, 2017	Number of Options granted	Number of Options Exercised	Number of Options Nov 13, 2017	Exercise Price	Expiry Date
1,225,000	-	50,000	1,175,000	\$ 0.10	April 23, 2021
1,000,000	-	140,000	860,000	0.39	August 18, 2022
2,225,000	-	190,000	2,035,000		

### **Warrants**

As at the date of this report, there are 4,125,900 share purchase warrants outstanding, as follows:

Number of Warrants Sept 30, 2017	Number of Warrants issued	Number of Warrants Exercised	Number of Warrants Nov 13, 2017	Exercise Price	Expiry Date
540,000	-	220,000	320,000	\$ 0.35	August 2, 2018
471,668	-	193,890	277,778	0.35	May 9, 2019
437,000	-	249,000	188,000	0.35	June 28, 2019
1,253,500	-	-	1,253,500	0.40	August 16, 2019
1,086,622	-	-	1,086,622	0.80	August 16, 2019
-	1,000,000	-	1,000,000	1.50	October 6, 2019
3,788,790	1,000,000	662,890	4,125,900		

### **Related party transactions**

The following related parties include directors and key management personnel, including those entities in which such individuals may hold positions that result in them having control or significant influence over the financial or operation policies of these entities:

- a) Avanti Consulting Inc. (“Avanti”), a company controlled by the current CEO and director, provides consulting services to the Company.
- b) Lever Capital Corp., a company owned by the current CFO and director, provides consulting services to the Company.
- c) The Company’s Corporate Secretary provides general administrative services, bookkeeping and corporate secretarial services.

- d) D. G. Dupre and Associates Inc. (“Dupre”), a company that is controlled by the Vice President of Exploration, provides geological consulting services to the Company, the amounts of which are capitalized as geological costs under exploration and evaluation assets.

The aggregate value of fee-based transactions (exclusive of share-based compensation) and outstanding balances relating to the above noted related parties are as follows:

		<b>Transactions for the period ended September 30, 2017</b>	Transactions for the year ended December 31, 2016	<b>Balance payable as at September 30, 2017</b>	Balance payable as at December 31, 2016
Avanti Consulting Inc.	(a)	\$ 63,000	\$ 84,000	\$ 50,175	\$ 109,100
Lever Capital Corp.	(b)	22,500	30,000	55,868	57,643
Corporate secretary	(c)	36,000	48,000	765	12,450
D.G. Dupre and Associates Inc.	(d)	22,500	30,000	44,767	59,142
<b>Total</b>		<b>\$ 144,000</b>	<b>\$ 192,000</b>	<b>\$ 151,575</b>	<b>\$ 238,335</b>

#### Other related party transactions

In the period ended March 31, 2017, a director exercised 125,000 stock options at \$0.10 per share for proceeds of \$12,500.

There were no other related party transactions during the current period.

#### Off Balance Sheet Arrangements

As of the date of this report, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

#### Risk Factors

Investing in the common shares of the Company has risks. Prospective investors should carefully consider the risks described below, together with all of the other information included in this MD&A before making an investment decision. If any of the following risks actually occurs, the business, financial condition or results of operations of the Company could be harmed. In such an event, the trading price of the common shares could decline and prospective investors may lose part or all of their investment.

#### Financing

The Company may not be successful at raising future financing or disposing of its marketable securities and if it expends all of its cash on hand, it could therefore become insolvent or face bankruptcy proceedings. Without sufficient funds, it may not be able to carry on operations, and it may not be able to continue to develop or even maintain its exploration and evaluation assets. If the only alternative is to sell the Company’s assets, any funds received may not be sufficient to allow the Company to continue as a going concern.

### Possible Trading Suspension or Delisting

The Exchange may suspend from trading or delist the securities of the Company where the Company has failed to submit documents to the Exchange in the time periods required or has otherwise failed to meet minimum standards. Suspension from trading of the common shares may, and delisting of the common shares will, result in the regulatory securities authorities issuing a consolidated interim cease trade order against the Company. In addition, delisting of the common shares will result in the cancellation of all of the currently issued and outstanding common shares of the Company held by Insiders. Trading in the common shares of the Company may be halted at other times for other reasons also.

### Dilution

If the Company issues treasury shares to finance acquisition or participation opportunities, or to raise exploration and working capital financing, shareholders may suffer dilution of their investment and/or control of the Company could change.

### Directors and Officers

The directors and officers of the Company may not be devoting all of their time to the affairs of the Company but will be devoting such time as required to effectively manage the Company. For the current period however, the CEO and Corporate Secretary have devoted 100% of their time to the Company. Directors and officers of the Company may be engaged in the search for assets or businesses on their own behalf or on behalf of others such that conflicts may arise from time to time. As a consequence of such conflicts, the Company may be exposed to liability and its ability to achieve its business objectives may be impaired.

### Reliance on Management

The Company is relying solely on the past business success of its directors and officers to identify, acquire and develop strategic assets of merit. The success of the Company is dependent upon the efforts and abilities of its directors and officers and from the results of exploration. The loss of any of its directors or officers could have a material adverse effect upon the business and prospects of the Company.

### Title to mineral resource properties

Title to mineral exploration permits and mineral claims cannot be guaranteed and may be subject to regulatory changes and possible expropriation or cancellation. To the extent financing is not available, resource property fees and lease payments, work commitments, rental payments and option payments, if any, may not be completed and could result in a loss of property ownership or earning opportunities for the Company.

### Results from exploration

The results of the Company's exploration programs may not be successful, and its properties may need to be written off or abandoned, in which case the Company would not have any principal asset.

### Community relations

Public scrutiny of mining projects has brought corporate social responsibilities into strategic planning. Garnering community and public support for future mine development and construction includes public engagement and involvement of key community stakeholders, encompassing transfer of economic benefits and environmental stewardship. The lack of a social license to operate could impair the value of the Company's resource properties or delay or prevent exploration, development or construction activities.

### New accounting standards

There were no new IFRS or IAS accounting standards that became effective in 2016 that had a material impact on the Company's financial statements.

There is a new standard *IFRS 9 "Financial Instruments"* effective for annual periods beginning on or after January 1, 2018, which is intended to reduce complexity in the classification and measurement of financial instruments. This new standard is a partial replacement of IAS 39 Financial Instruments: Recognition and Measurement. Management is assessing the impact on its financial statements and disclosures.

### **Financial Risks**

The Company's financial risk exposures and their impact on the Company's financial instruments are summarized below:

#### Credit Risk

Credit risk arises from the potential that one or more counterparties fail to meet their obligations. The Company is normally exposed to credit risk through its cash and receivables. The Company manages credit risk associated with its cash by using reputable financial institutions, from which management believes the risk to be remote. Receivables have primarily consisted of recoverable sales taxes, mineral exploration tax credits and other trade receivables, for which management believes the collectability of these amounts to be assured.

#### Liquidity Risk

The Company has historically relied on equity issuances and asset sales to satisfy its capital requirements and maintain liquidity. It will continue to rely on the equity markets, debt markets and the continued support of its directors, creditors and other related parties. Financings completed in 2017 have greatly mitigated liquidity risk, as the funds financed the summer drilling program, and will be sufficient to finance a 2018 drilling program and the Company's working capital needs through the ensuing year. However, in order to execute further exploration programs, additional funds may be required and the ability of the Company to arrange such financings in the future will depend on the prevailing market conditions which are influenced by the Company's results from its exploration. Accordingly, there can be no assurance the Company will be able to obtain any required financing in the future on acceptable terms.

The Company's approach to managing liquidity risk has been to proactively raise funds when possible, without undue shareholder dilution, through the sale or option of mineral properties or other assets, or the sale of equity units, common shares or flow-through common shares, all of which the Company has done. Management budgets conservatively, minimizes its day to day

operating costs and carefully plans its exploration work programs, to minimize overall liquidity risk.

#### Interest rate risk

The Company is not exposed to risk in the event of interest rate fluctuations. The Company has not entered into any interest rate swaps or other financial arrangements that mitigate the exposure to interest rate fluctuations.

#### Market risk

The Company is exposed to market risk because of the fluctuating values of its publicly traded marketable securities. The Company has no control over these fluctuations and does not hedge its investments. Based on the September 30, 2017 portfolio value, every 10% increase or decrease in the share price of marketable securities held would have impacted profit (loss) for the year, up or down, by approximately \$7,875 (December 31, 2016 - \$6,638) before income taxes.

#### Foreign currency risk

The Company's functional currency is the Canadian dollar and the majority of its purchases are transacted in Canadian dollars. From time to time, the Company has funded certain costs in foreign currencies. The frequency and magnitude of such transactions are not significant and the foreign currency risk is considered negligible.

#### Fair value hierarchy

The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair values of cash and marketable securities are measured based on level 1 inputs of the fair value hierarchy.

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

Information provided in this report, and the accompanying condensed interim annual financial statements, are the responsibility of management. In the preparation of these reports, 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 condensed interim financial statements. Management maintains a system of internal controls to provide reasonable assurances that the Corporation's assets are safeguarded and to facilitate the preparation of relevant and timely information.