

**Dated: March 22, 2017**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

This Management's Discussion and Analysis ("MD&A") covers the financial statements of Karoo Exploration Corp. (the "Company") for the year ended December 31, 2016 compared with December 31, 2015. This MD&A should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended December 31, 2016. The information contained in this report is current to March 22, 2017, and has not been reviewed by the Company's auditors.

The accompanying financial statements have been prepared by management and are in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this document has also been prepared by management and is consistent with the data contained in the Financial Statements.

The Company's certifying officers are responsible for ensuring that the Financial Statements and MD&A do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made. The Company's officers certify that the Financial Statements and MD&A fairly present, in all material respects, the financial condition, result of operations and cash flows, of the Company as the date hereof.

The Board of Directors approves the Financial Statements and MD&A, and ensures that the Company's officers have discharged their financial responsibilities. The Board's review is accomplished principally through the Audit Committee, which reviews and approves all financial reports prior to filing.

## **FORWARD-LOOKING STATEMENT**

Certain statements in this report may constitute forward-looking statements that are subject to risks and uncertainties. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they were made.

## **CORPORATE OVERVIEW**

The Company is in the business of exploration and evaluation of mineral properties in Tanzania, Africa through its wholly owned subsidiary, U3o8 Exploration Limited ("U3o8"). The Company also has had varying interests in metals and diamond properties located in Saskatchewan, Canada. The Company was incorporated under the laws of British Columbia on March 29, 2011. The Company is in the process of exploring and evaluating its mineral properties and has not yet determined whether these properties contain ore resources which are economically recoverable.

**KAROO EXPLORATION CORP.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2016

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The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of resources, the conversion thereof to economically recoverable reserves, a decision by the Company to undertake production, the ability of the Company to obtain the necessary approvals and financing to complete the development, and future profitable production from the properties or proceeds from disposition.

Ownership in mineral interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral interests. The Company has investigated ownership of its mineral interests and, to the best of its knowledge, such ownership interests are in good standing.

All of the properties in which the Company has an interest or the right to acquire an interest are currently in the exploration stage and, therefore, the Company has no source of operating cash flow. As a result, the Company has been dependent on raising cash through the sale of its common shares, either by way of private placement or through the exercise of warrants or options. The Company does not expect to deviate from this practice, and fully anticipates undertaking further private placements or public offerings in the future in order to finance the investigation and taking advantage of business opportunities which may arise. The common shares of the Company trade on the NEX board of the TSX Venture Exchange under the symbol "KE.H".

## **SUMMARY INFORMATION**

On August 15, 2013, the Company completed an amalgamation agreement with PrivCo ("PrivCo"), whereby the PrivCo and the Company's wholly owned subsidiary, 0954046 B.C. Ltd., amalgamated to form one corporation. Under the terms of the amalgamation agreement, the Company consolidated its issued and outstanding common shares on the basis of 5 pre-consolidated common shares for 1 post-consolidated common share. Under the terms of the amalgamation agreement, the Company issued 9,300,001 of its post-consolidated common shares to the shareholders of PrivCo in exchange for their securities in PrivCo.

The company is reviewing its properties and other potential properties for acquisition, and will disclose any material information related to acquisitions when it becomes available.

## **HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2016**

- The Company completed no significant business transactions during the year ended December 31, 2016.

## **EXPLORATION PROPERTIES**

### **1) Kalulu**

The Kalulu Property is located in the Selous Basin of southern Tanzania. The Selous Basin contains a thick accumulation of clastic sedimentary rocks that host numerous uranium occurrences, including Uranium One's Mkuju River Project. The Kalulu Property consists of a block of 5 non-surveyed contiguous prospecting licences, covering a total area of 956.4 km<sup>2</sup> within the Ruvuma and Lindi Regions of southern Tanzania. The property is centred at 37°04'42" East and 10°20'06" South and is located approximately 500 km SSE from the capital, Dodoma, and 460 km SW from the main commercial city of Dar es Salaam. The closest town is Tunduru, 70 km to the southeast, which is the administrative centre of the Tunduru District (Ruvuma Region).

The Selous Basin is one of a series of sub-basins that comprise the laterally extensive Karoo Supergroup throughout sub-Saharan Africa. Karoo Supergroup occurs from the Cape Province of South Africa to the Horn of Africa, and is dominantly composed of sediments of nonmarine origin, deposited between the Late Carboniferous and Early Jurassic. The stratigraphic sequence of the Selous Basin is subdivided into nine formations, of which the Mkuju Formation is the most prolific at hosting uranium mineralization, e.g., the Mkuju River Project 45 km NW of the Kalulu Project. This formation underlies much of the Kalulu Property and consists of braided stream deposits that are mainly coarse-grained sandstone or arkose with intercalations of red siltstone. Primary uranium mineralization at adjacent properties is hosted by carbonaceous fragments within coarse-grained arkose, or as sulphide concretions within coarse sandstone.

The Company amended the terms of its agreement with Tanzania Minerals Corp. to extend the share payment obligations and property expenditures requirements as noted in Note 5 to the financial statements.

During the year ended December 31, 2014 the Company wrote off \$372,550 in associated costs to operations.

### **2) Pine Lake**

The Company holds a 50% interest in mineral claim S-99942, Northern Mining District, Saskatchewan. The other 50% interest is held by Claude Resources Inc.

This property is about 3km northeast of the Seabee mine of Claude Resources ("Claude"). Claude has been the operator of the joint venture on this property. The target on the property is another deposit similar to that being mined at the Seabee mine, i.e. a vein-type gold deposit. The Carina showing, which is a surface exposure of just such a gold vein-type deposit, has been the target of drilling by Claude.

During the year ended December 31, 2014, the Company decided not to pursue these claims and wrote off \$50,208 in associated costs to operations.

On July 9, 2015 the Company completed the sale of its 50% interest to Claude Resources Inc. (Claude). In consideration for the property, Claude issued 75,529 common shares at a deemed price of \$0.68 per share.

## **CHANGES IN ACCOUNTING POLICIES**

For a complete summary of the new accounting policies adopted, and recent accounting pronouncements see Note 4 of the audited consolidated financial statements for the year ended December 31, 2016.

## **RESULTS OF OPERATIONS**

### **For The Year Ended December 31, 2016 and 2015**

#### **Revenue:**

The company has no revenue.

#### **Expenses:**

**Consulting fees** for the year ended December 31, 2016 were \$36,000 compared to \$24,828 for the year ended December 31, 2015. The costs are higher because the CFO was under contract for the entire year, in the prior year period the CFO was under hire for nine months during 2015.

**General and administration** costs for the year ended December 31, 2016 were \$12,799 compared to \$29,285 for the year ended December 31, 2015. The lower costs reflect exchange filing fees being less due to the Company's cease trade order, which occurred in 2015.

**Professional fees** for the year ended December 31, 2016 were \$41,189 compared to \$19,471 for the year ended December 31, 2015. The higher fees were related to the company seeking a listing on the Canadian Stock Exchange.

#### **Net income (loss) for the period**

The net loss for the year ended December 31, 2016 was \$138,198 compared to net income of \$39,231 for the year ended December 31, 2015. This large decrease in loss is primarily due to the items noted above. Karoo also realized a property sale in the prior period attributing to the significant difference.

## **RESULTS OF OPERATIONS**

### **For the three months ended December 31, 2016 and 2015**

#### **Revenue:**

The company has no revenue, however, during the quarter the company recorded reductions in its accounts payables which resulted in a smaller loss in the quarter, as compared to the prior quarter.

#### **Expenses:**

**Consulting fees** for the three months ended December 31, 2016 were \$7,500 compared to \$10,500 for the three months ended December 31, 2015. The costs are consistent with the prior period and reflect fees owed to the Company's CFO. The fees were the result of less financial activity occurring within the company.

**General and administration** costs for the three months ended December 31, 2016 were \$895 compared to \$491 for the three months ended December 31, 2015. The costs are consistent with the prior period cost and reflect insurance and exchange filing fees.

**Professional fees** for the three months ended December 31, 2016 were \$19,939 compared to \$3,846 for the three months ended December 31, 2015. The higher fees were the result of the company seeking a listing on the Canadian Stock Exchange.

#### **Net income (loss) for the period**

The net loss for the three months ended December 31, 2016 was \$75,269 compared to a net income of \$31,862 for the three months ended December 31, 2015. This large increase in loss is primarily due to a loss on the settlement of accounts payable. As well the Company realized the sale of the Pine Lake property and had accounts payable reductions that created net income in the three months ending December 31, 2015.

**KAROO EXPLORATION CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the year ended December 31, 2016

**SELECTED ANNUAL INFORMATION**

	<b>Year ended December 31, 2016</b>	<b>Year ended December 31, 2015</b>	<b>Year ended December 31, 2014</b>
Finance income (expense)	\$(2,163)	\$(2,191)	\$(6,082)
Net Income (loss)	\$(138,198)	\$23,804	\$(1,148,654)
Basic & diluted income (loss) per share	\$(0.01)	\$0.00	\$(0.06)
Total assets	\$2,867	\$8,275	\$19,141
Total long-term liabilities	\$-	\$-	\$-
Cash dividends	\$-	\$-	\$-

**SUMMARY OF QUARTERLY RESULTS**

	<b>4<sup>th</sup> Quarter Ended December 31, 2016</b>	<b>3<sup>rd</sup> Quarter Ended September 30, 2016</b>	<b>2<sup>nd</sup> Quarter Ended June 30, 2016</b>	<b>1<sup>st</sup> Quarter Ended March 31, 2016</b>
(a) Revenue	\$ -	\$ -	\$ -	\$ -
(b) Net income (loss)	\$(93,877)	\$(14,447)	\$(16,439)	\$(13,435)
(c) Net income (loss) per share <sup>1</sup>	\$(0.01)	\$(0.00)	\$(0.00)	\$(0.00)
(d) Total assets	\$2,867	\$3,587	\$7,922	\$4,156
(e) Total liabilities		\$196,499	\$186,811	\$178,240
	<b>4<sup>th</sup> Quarter Ended December 31, 2015</b>	<b>3<sup>rd</sup> Quarter Ended September 30, 2015</b>	<b>2<sup>nd</sup> Quarter Ended June 30, 2015</b>	<b>1<sup>st</sup> Quarter Ended March 31, 2015</b>
(a) Revenue	\$ -	\$ -	\$ -	\$ -
(b) Net income (loss)	\$38,582	\$34,362	\$(15,413)	\$(33,727)
(c) Net income (loss) per share <sup>1</sup>	\$0.00	\$0.00	\$(0.00)	\$(0.00)
(d) Total assets	\$8,275	\$11,498	\$7,233	\$5,951
(e) Total liabilities	\$168,924	\$204,009	\$240,826	\$224,131

<sup>1</sup> Numbers have been rounded to the next decimal for presentation purposes.

The Company is in the business of exploration and evaluation of mineral properties, and therefore has had no revenue to report since inception. The Company's operating costs consist primarily of corporate consulting, professional fees and general and administrative expenses.

## **LIQUIDITY**

The Financial Statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. The Financial Statements do not reflect adjustments that may be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate, adjustments maybe necessary to the carrying amounts and/or classification of assets and/or liabilities and the reported expenses in these consolidated financial statements. Such adjustments could be material.

As at December 31, 2016, the Company has accumulated losses of \$1,987,556 since its inception, and expects to incur further losses in pursuit of its mineral exploration opportunities. The Company has cash of \$1,118 as at December 31, 2016, and a working capital deficit of \$296,300.

The Company's ability to continue as a going concern in the long term is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The Company is a junior exploration company without operating revenues and therefore, the Company must utilize its current cash reserves, funds obtained from the exercise of warrants and stock options and other financing transactions to maintain the Company's capacity to meet working capital requirements and ongoing exploration program, or to fund any further development activities. See "Risk Factors" of this MD&A.

The Company will require additional financing in order to continue its exploration activities. The Company does not expect to generate material revenue from mining operations or to achieve self-sustaining commercial mining operations for the foreseeable future. Consequently, the Company may seek future financing by means of private placements or debt financing in order to fund its exploration activities. There is no guarantee that additional financing will be available or that it will be available on terms acceptable to management of the Company. No assurance can be given that the Company will be successful in raising the funds required to realize on the Company's exploration programs. These factors all cast doubt about the liquidity of the Company and its ability to continue as a going concern.

## **CAPITAL RESOURCES**

The Company defines capital as consisting of equity, being comprised of issued capital stock, reserves, deficit and accumulated other comprehensive income. The Company's objectives when managing capital are primarily to support the creation of shareholder value, but also to ensure that the Company is able to meet its financial obligations as they become due. The Company has not declared or paid any dividends on its common shares.

The mineral exploration opportunities in which the Company currently has interests are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed.

**KAROO EXPLORATION CORP.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2016

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The Company's officers take full responsibility for managing the Company's capital and do so through periodic meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process.

## **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, due to related parties, due to related party – long term portion, and accounts payable and accrued liabilities. The fair value of the Company's receivables, due from related party, and accounts payable and accrued liabilities approximate the carrying value, which is the amount on the consolidated statements of financial position dates due to their short-term maturities or ability of prompt liquidation. The Company's other financial instrument, cash, under the fair value hierarchy is based on level one quoted prices in active markets for identical assets or liabilities.

### *Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk as the majority of its cash is held at a large Canadian bank.

The Company's receivables consist mainly of input tax credits receivable from the Government of Canada, and amounts due from related parties, and as a result the Company does not believe it is subject to significant credit risk.

### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Company had cash of \$1,118 to settle current liabilities of \$299,167. The Company will have to raise additional funds in order to meet its obligations as they become due.

### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

#### a) Interest rate risk

The Company has cash balances and no interest bearing debt. The interest earned on cash is insignificant, and the Company does not rely on interest received to fund its operations. As a result, the Company is not at a significant risk to fluctuating interest rates.

**KAROO EXPLORATION CORP.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2016

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b) Currency risk

The Company's operations are in Canada and Tanzania. The international nature of the Company's operations results in foreign exchange risk as transactions are denominated in foreign currency.

The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and copper, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

## SHARE CAPITAL

**Authorized:** Unlimited common shares without par value

**Issued and Outstanding:**

The Company has the following common shares issued and outstanding:

<b>Security Description</b>	<b>March 22, 2017</b>	<b>December 31, 2016</b>
Common shares	20,725,313	20,725,313

## TRANSACTIONS WITH RELATED PARTIES

Related parties and related party transactions impacting the accompanying financial statements are summarized below and include transactions with the following individuals or entities:

**Key management personnel**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

**KAROO EXPLORATION CORP.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2016

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Remuneration attributed to key management personnel can be summarized as follows:

	For the year ended	
	December 31, 2016	December 30, 2015
Short-term benefits*	\$ 36,000	\$ 24,500
	\$ 36,000	\$ 24,500

\*included in consulting fees

**Other related parties**

Other related parties include Tanzania Minerals Corp. which shares two common directors.

Transactions entered into with related parties other than key management personnel include the following:

**Other related parties**

- a) As at December 31, 2016, \$86,520 (December 31, 2015 - \$86,520), plus accrued interest of \$4,326 was included in due to related parties and is due to Tanzania Minerals Corp. as of December 31, 2016. Interest, at an annual rate of 2.5%, is payable on the outstanding balance on a quarterly basis. The repayment date of the note is June 25, 2017. As at December 31, 2016 the note payable and accrued interest remain outstanding.
- b) As at December 31, 2016, due to related parties included \$40,050 (December 31, 2015 - \$11,060) which is due to the Company's CFO. The amount is non-interest bearing with no fixed terms of payment.
- c) As at December 31, 2016, due to related parties included \$22,500 (December 31, 2015 - \$Nil) which is due to a company with a common director. The amount is non-interest bearing with no fixed terms of repayment.

**COMMITMENTS**

As at the date of this report, there are no outstanding commitments.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **RISKS AND UNCERTAINTIES**

Resource exploration and evaluation is characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Company may be affected by numerous factors which are beyond the control of the Company and which cannot be accurately predicted, such as market fluctuations of metal prices, the proximity and capacity of milling facilities, mineral markets, processing reagents and equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environment protection, the combination of which factors may result in the Company not receiving an adequate return on investment capital.

### **Exploration and Evaluation Efforts May Not Be Successful**

There is no certainty that the expenditures to be made by the Company in the exploration of its properties as described herein will result in the discovery of mineralized material in commercial quantities. Most exploration projects do not result in the discovery of commercially mineable ore deposits and no assurance can be given that any particular level of recovery of ore reserves will in fact be realized or that any identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body which can be legally and economically exploited. Estimates of reserves, mineral deposits and production costs can also be affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results. Short term factors relating to ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production scale. Material changes in ore reserves, grades, stripping ratios or recovery rates may affect the economic viability of any project.

### **Lack of Cash Flow**

None of the Company's properties have advanced to the commercial production stage and the Company has no history of earnings or cash flow from operations. The Company does not expect to generate material revenue from mining operations or to achieve self-sustaining commercial mining operations for the foreseeable future years. The Company has paid no dividends on its shares since inception and does not anticipate doing so in the foreseeable future. Historically, the only source of funds available to the Company is through the sale of its securities. Future additional equity financing would cause dilution to current shareholders.

### **No Resources or Proven Reserves**

The properties in which the Company has an interest or the right to earn an interest are in the exploratory stage only and are without demonstrated resources or reserves.

### **No Guarantee of Clear Title to Mineral Properties**

While the Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties and properties in which it has the right to acquire or earn an interest are in

**KAROO EXPLORATION CORP.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2016

---

good standing, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects.

**Uncertainty of Obtaining Additional Funding Requirements**

Programs planned by the Company will necessitate additional funding, which could cause a dilution of the value of the investment of the shareholders of the Company. The carrying value of mining properties indicated in the statement of financial position depends on the discovery of mineralization that can be profitably exploited and on the Company's capacity to obtain additional funds in order to realize these programs.

The Company's exploration activities can therefore be interrupted at any moment if the Company is incapable of obtaining the necessary funds in order to continue any additional activities that are necessary.

**Mineral Prices May Not Support Corporate Profit**

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of same. Factors beyond the control of the Company may affect the marketability of any substances discovered. The price of minerals is volatile over short periods of time, and is affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining techniques.

**Competition**

The mining industry is intensively competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for the recruitment and retention of qualified employees.

**Environmental Regulations**

The current and future operations of the Company, including further exploration, development activities and commencement of production on its properties, require permits from various Provincial, Federal and State governmental authorities.

Such operations are subject to various laws governing land use, the protection of the environment, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, mine safety and other matters. There can be no assurance, however, that all permits which the Company may require for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

**KAROO EXPLORATION CORP.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2016

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Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violation of applicable laws or regulations.

**Environmental Impact**

The Company does not believe that there are any significant environmental obligations requiring material capital outlays in the immediate future and anticipates that such obligations will only arise when full scale development commences. As the Company's project is still in the exploration and evaluation stage and no significant environmental impact has occurred to date, the Company does not currently consider that expenditures required meeting any ongoing environmental obligations at the projects material to its results or to financial condition to the Company at this time. However, these costs may become material in the future and will be reported in the Company's filings at that time.

**Uncertainty of Reserves and Mineralization Estimates**

There are numerous uncertainties inherent in estimating proven and probable resources and reserves, including many factors beyond the control of the Company. The estimation of resources and reserves is a subjective process and the accuracy of any such estimates are a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may justify revision of such estimates. No assurances can be given that the volume and grade of reserves recovered and rates of production will not be less than anticipated. Assumptions about prices are subject to greater uncertainty and metal prices have fluctuated widely in the past. Declines in the market price of base or precious metals also may render reserves or mineralization containing relatively lower grades of ore uneconomic to exploit. Changes in operating and capital costs and other factors including, but not limited to, short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades, may materially and adversely affect reserves.

## **KAROO EXPLORATION CORP.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended December 31, 2016

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#### **Operating Hazards and Risks Associated with the Mining Industry**

Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Hazards such as unusual or unexpected formations and other conditions are involved.

Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious and base metals, any of which could result in work stoppages, 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 damage. The Company may become subject to liability for cave-ins and other hazards for which it cannot insure or against which it may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration activities.

#### **The Ability to Manage Growth**

Should the Company be successful in its efforts to develop its mineral properties or to raise capital for other mining ventures it will experience significant growth in operations. If this occurs management anticipates that additional expansion will be required in order to continue development. Any expansion of the Company's business would place further demands on its management, operational capacity and financial resources. The failure to manage growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

#### **Lack of Dividend Policy**

The Company does not presently intend to pay cash dividends in the foreseeable future, as any earnings are expected to be retained for use in developing and expanding its business. However, the actual amount of dividends received from the Company will remain subject to the discretion of the Company's Board of Directors and will depend on results of operations, cash requirements and future prospects of the Company and other factors.

#### **Possible Dilution to Present and Prospective Shareholders**

The Company's plan of operation, in part, contemplates the accomplishment of business negotiations by the issuance of cash, securities of the Company, or a combination of the two, and possibly, incurring debt. Any transaction involving the issuance of previously authorized but unissued common shares, or securities convertible into common shares, would result in dilution, possibly substantial, to present and prospective holders of common shares.

#### **Dependence on Key Personnel**

The Company strongly depends on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term.

As the Company's operations expand, additional general management resources will be required, especially since the Company encounters risks that are inherent in doing business in several countries.

**KAROO EXPLORATION CORP.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2016

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**Conflict of Interest**

Certain directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploring natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board of Directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

**Lack of Trading**

The lack of trading volume of the Company's shares reduces the liquidity of an investment in the Company's shares.

**Volatility of Share Price**

Market prices for shares of early stage companies are often volatile. Factors such as announcements of mineral discoveries, financial results, and other factors could have a significant effect on the price of the Company's shares.

**CORPORATE GOVERNANCE**

Management of the Company is responsible for the preparation and presentation of the financial statements and the accompanying notes, the MD&A, and other information contained in this report.

Management also has the responsibility for the maintenance of adequate accounting records and internal controls, prevention and detection of fraud and errors, safeguarding of assets, selection, and application of suitable policies, and appropriate disclosure and the timely disclosure of financial information in the financial statements. The preparation of the financial statements in accordance with IFRS is also the responsibility of management.

**APPROVAL**

The Board of Directors of the Company has approved the disclosure contained in this MD&A.

**ADDITIONAL INFORMATION**

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com)