

PHILIPPINE METALS INC.

FORM 51-102F1 MANAGEMENT DISCUSSION AND ANALYSIS NINE MONTH PERIOD ENDED DECEMBER 31, 2016 (expressed in Canadian Dollars)

1.1 Introduction and Date

The following Interim Management Discussion and Analysis (MD&A) provides a detailed analysis of the business of Philippine Metals Inc. (the “Company”) for the nine month period ended December 31, 2016. This MD&A should be read together with the company’s condensed consolidated interim financial statements for the nine months ended December 31, 2016 (the “Interim Financial Statements”) and related notes attached. Information in this MD&A should also be read in conjunction with the Company’s audited consolidated financial statements and the related notes for the year ended March 31, 2016 and the Management Discussion and Analysis for the year then ended. Those Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

This MD&A reflects information available as at February 27, 2016. All financial information in this MD&A related to the periods ended December 31, 2016 and December 31, 2015 has been prepared in accordance with IFRS. All amounts are stated in Canadian dollars unless otherwise indicated. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. Additional information related to the Company is available for view on SEDAR at www.sedar.com or the Company’s website at www.philippinemetals.com.

Management’s Responsibility for the Financial Statements

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

Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Statements in this document that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

1.2 Business Overview

Philippine Metals Inc. is incorporated in Alberta, Canada and is primarily engaged in the exploration and development of resource properties.

The Company trades on the TSX Venture Exchange as a Tier 2 issuer under the symbol “PHI” and also trades on the Frankfurt Exchange under the symbol “PM7”. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. Other than its mineral properties described below, the Company has no other properties under development.

The financial statements referenced herein have been prepared in accordance with IFRS with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to complete public equity financing, or to generate profitable operations in the future.

1.3 Overall Performance

Highlights

During the three-month period ended December 31, 2016 the Company:

- Recorded a net income of \$16,101 or \$0.00 per share as compared to a net loss of \$38,359 or \$0.01 per share for the period ended December 31, 2015;
- On October 31, 2016, realized a net gain of \$96,698 on extinguishment of a loan pursuant to the expiration on October 31, 2016 of an exclusivity period during which the Company and a third party agreed to explore a possible transaction;
- At December 31, 2016, had working capital deficiency of \$560,140, net of cash of \$16,960;
- In view of the continuing challenging operating environment for junior exploration companies, continued a care and maintenance approach and is minimizing expenditures related to its Cuatro Ciénegas Project in Mexico;
- Incurred no expenditures on its projects in Mexico or the Philippines; and
- Continued to promote discussions to identify potential partners for its Philippine projects but to date has not formalized any interest.

1.4 Exploration and Evaluation Assets and Activity

As at December 31, 2016, the Company, through its subsidiaries, is operating in the Mexico and the Philippines with respect to three mineral projects: the recently acquired Cuatro Ciénegas Project in Mexico; and in the Philippines, the Malitao Project and the Dilong Project.

Mexico

Cuatro Ciénegas Project

In view of the continuing global negative metals markets and related challenging equity and debt capital markets facing mining companies, in particular mineral exploration and development companies, the Company has adopted a care and maintenance approach and is minimizing expenditures related to its Cuatro Ciénegas Project in Mexico.

Philippines

On October 27, 2015, the Company provided formal and final notification to Citygroup Philippines Corporation (“Citygroup”) and Canaan Richfield Inc. (“CRI”) that following offers being made to return to them the Taurus and Suhi exploration permits and tenement rights, respectively, the Company would allow the exploration permits to expire unless Citygroup and CRI cooperated to effect the transfers of the properties in a timely manner. The Company has effectively closed its operations in the Philippines and, as at March 31, 2016, the Company wrote off the remaining nominal acquisition costs related to the Taurus and Suhi properties (the “Taurus Project”).

The Company continues to promote discussions to identify potential partners for its remaining Philippine projects but to date has not formalized any interest.

There are no developments to report in relation to cancellation of the Company’s Dilong exploration permit applications or the dispute relating to its Malitao exploration permit application.

Expenditures

During the nine month period, the Company incurred exploration and evaluation expenditures of \$34,820 (2015 - \$41,063), which included \$34,820 (2015 - \$36,775) relating to mining concession taxes payable in Mexico. The Company incurred no expenditures relating to its exploration and evaluation assets in the three-month periods ended December 31, 2016 and 2015.

1.5 Summary of Annual Results

	IFRS Year ended March 31, 2016 (\$)	IFRS Year ended March 31, 2015 (\$)	IFRS Year ended March 31, 2014 (\$)
Total revenues	Nil	Nil	Nil
Net loss and comprehensive loss	(294,805)	(563,761)	(509,886)
Net loss per share – basic and fully diluted	(0.06)	(0.11)	(0.10)
Total assets	208,507	90,695	628,787
Working capital	(475,628)	(56,487)	531,249
Long-term and financial liabilities	Nil	Nil	Nil
Shareholders' equity	(325,626)	(30,821)	532,940

The loss in the year ended March 31, 2016, reflects cost savings from reduced management fees incurred. The increased loss in the year ended March 31, 2015 is largely attributable to management fees paid during the year and costs incurred relating to the Transactions. No transaction costs were incurred in the year ended March 31, 2014 and the loss for the year includes the effect of a \$62,648 gain on the sale of equipment in the Philippines, and also reflects a lower level of exploration activity and associated operational costs in the Philippines as well as other cost saving measures implemented by the Company.

1.6 Results of Operations for the Three Months ended December 31, 2016

During the three month period ended December 31, 2016 the Company recorded net income and comprehensive income of \$16,101 or \$0.00 per share as compared to a net loss and comprehensive loss of \$38,359 or \$0.01 per share for the three month period ended December 31, 2015. The income during the period was attributable to a gain of \$96,698 on extinguishment of a loan, which was partly offset by general and administrative expenses of \$85,069 (2015 - \$33,424) including legal costs of \$13,554 (2015 - \$Nil) incurred in connection with aborted transaction discussions, and an accrual of \$30,000 (2015 - \$Nil) for management fees.

During the three month period ended December 31, 2016, the Company continued to actively manage and minimize its cash expenditures in Canada, Mexico and in the Philippines while commodity and equity markets remained challenging, and matters relating to the Malitao and Dilong EPAs remained before the Mines and Geosciences Bureau (“MGB”) of the Department of Environment and Natural Resources (“DENR”) in the Philippines.

1.7 Results of Operations for the Nine Months ended December 31, 2015

During the nine-month period ended December 31, 2016, the Company recorded a net loss and comprehensive loss of \$84,452 or \$0.02 per share as compared to a net loss and comprehensive loss of \$213,869 or \$0.04 per share for the nine-month period ended December 31, 2015. The loss for the nine-month period reflects general and administrative expenses for the period of \$213,777 (2015 - \$210,053), which was partly offset by gains relating to the extinguishment of loan of \$96,698 (2015 - \$Nil) and of accounts payable of \$17,260 (2015 - \$Nil).

The Company's general and administrative expenses are analysed below:

General and Administrative Expenses	Nine Months ended December 31, 2016 (\$)	Nine Months ended December 31, 2015 (\$)
Accounting and audit fees	27,000	27,862
Administration fees	13,723	37,851
Depreciation	-	662
Consulting fees	-	3,517
Exploration and evaluation expenses	34,820	41,063
Insurance	4,688	4,991
Legal fees	8,881	7,515
Management fees	90,000	10,542
Office and miscellaneous	7,914	6,953
Rent and utilities	2,700	6,350
Telephone	1,033	1,472
Transaction costs	13,554	54,980
Transfer agent and filing fees	9,464	6,295
Total General and Administrative Expenses	213,777	210,053

As noted, the Company is actively managing and minimizing its cash expenditures in Canada, Mexico and in the Philippines. The Company has effectively closed its operations in the Philippines and has returned the Taurus and Suhi exploration permits back to their original holders. The level of general and administration expenditures during the nine month period ended December 31, 2016 was broadly in line with the prior year period.

Notable changes in general and administrative are highlighted below:

- Administration fees decreased to \$13,723 (2015 - \$37,851) reflecting a reduction of administration fees paid in Canada and the termination of the back-office services agreement in the Philippines during fiscal Q2 2016;
- Management fees increased to \$90,000 (2015 - \$10,542) reflecting an accrual of management fees during the period after a suspension of management fees in Canada during fiscal Q4 2015; and
- The Company incurred transaction costs during the period of \$13,554 relating to the discussions with a third party in connection with a possible transaction that did not advance due to challenging financing markets. The prior year expenditures of \$54,980) related to the acquisition of the Cuatro Ciéngas Project in Mexico.

As at December 31, 2016, the Company had total assets of \$179,883 compared to \$208,507 as at March 31, 2016. The significant majority of the Company's asset value is represented by the carrying value of the Company's exploration and evaluation assets and cash. During the period a retainer of \$25,000 was paid to the Company's legal counsel, of which a portion is reflected in prepaid expenses and advances as December 31, 2016.

As at December 31, 2016, the Company had working capital deficiency of \$560,140 as compared with a working capital deficiency of \$475,628 as at March 31, 2016. The Company's working capital deficiency as at December 31, 2016 includes cash of \$16,960 (March 31, 2016 - \$45,761) and \$155,171 (March 31, 2016 - \$36,984) owed to related parties. The decrease in both working capital and cash during the period is attributed to general and administrative expenses, which were partly funded by the loan of \$96,968 that was received and extinguished without repayment during the period.

Subsequent Events

There is no material event that has occurred subsequent to December 31, 2016 not already disclosed herein.

1.8 Summary of Quarterly Results

Selected information derived from the Company's unaudited interim financial statements for the past eight quarters is as follows:

	Three Months Ended December 31, 2016	Three Months Ended September 30, 2016	Three Months Ended June 30, 2016	Three Months Ended March 31, 2016
Total revenues	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Net income (loss) and comprehensive loss	16,101	(83,627)	(38,691)	(80,936)
Total assets	179,883	212,461	200,477	208,507
Working capital (deficiency)	(560,140)	(576,180)	(514,319)	(475,628)
Long-term liabilities	-	-	-	-
Net income (loss) profit per share – basic and diluted	0.00	(0.01)	(0.01)	(0.02)

	Three Months Ended December 31, 2015⁽¹⁾	Three Months Ended September 30, 2015	Three Months Ended June 30, 2015	Three Months Ended March 31, 2015
Total revenues	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Net loss and comprehensive loss	(38,359)	(85,040)	(90,470)	(149,206)
Total assets	227,663	216,900	252,067	90,695
Working capital (deficiency)	(394,694)	(356,335)	(181,715)	(56,487)
Long-term liabilities	-	-	-	-
Net loss per share – basic and diluted	(0.01)	(0.02)	(0.02)	(0.02)

(1) Figures adjusted to reflect impact of change in accounting policy effective on April 1, 2015 for exploration and evaluation assets.

The reduced loss in the quarter ended June 30, 2015 reflects the suspension of management fees during the period. The loss in the quarter ended March 31, 2015, includes transaction costs of \$25,333. The decreasing losses in the quarters June 2015 through December 2015 reflect the impact of management's efforts to reduced general and administrative expenses over the period. The increased loss in the quarter ended March 31, 2016 reflects a \$30,000 accrual for management fees and increased exploration and evaluation expenses related to the Coronado exploration properties. The reduced loss in the quarter ended June 30, 2016 reflects the absence of any transaction fees. The increased loss in the quarter ended September 30, 2016 is attributable to increased exploration and evaluation expenses during the period. The income in the quarter ended December 31, 2016 is attributed to the gain on extinguishment of loan of \$96,698 from a third party.

1.9 Liquidity and Capital Resources

As at December 31, 2016, the Company had working capital deficiency of \$560,140 (year ended March 31, 2016 – \$475,682) including cash of \$16,960 (year ended March 31, 2016 - \$45,761). The increase in working capital is substantially attributable general and administrative expenses during the period.

	December 31, 2016	March 31, 2016
Cash	\$ 16,960	\$ 45,761
Working capital (deficiency)	560,140	(475,628)
Shareholders' equity	(410,078)	(325,626)

On September 7, 2016, the Company entered into a loan agreement with an unrelated third party and received an initial cash advance of US\$75,000 to fund the Company's immediate working capital needs. The loan was extended pursuant to granting an exclusivity period during which the third party and the Company agreed to explore a possible transaction. If a transaction is not completed, the amount of the advance is repayable only under certain circumstances. No letter of intent or other agreement has been entered into and the exclusivity period expired on October 31, 2016. The parties agreed not to extend the exclusivity arrangement and pursuant to the expiration of the exclusivity period, the loan was forgiven. The Company has recognized a gain on the extinguishment of loan for \$96,698 in profit and loss for the three and nine-month periods ended December 31, 2016.

There were no other financing activities during the nine month period ended December 31, 2016.

As at December 31, 2016, the Company had 45,625 stock options which expired unexercised on January 6, 2017.

The Company currently has no operating revenues other than interest income but has been successful in meeting its acquisition and exploration capital and other operational funding requirements by completion of equity placements. The Company is considered to be in the exploration stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration programs. Despite success in completing these financings, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. If adequate financing is not available when required, the Company may be required to delay, scale back or eliminate various programs and may be unable to continue in operation.

The Company expects to incur further losses in the development of its business, all of which cast substantial doubt on the Company's ability to continue as a going concern. The Company will require additional financing in order to meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

During the year ended March 31, 2016, the Company received subscription receipts of \$295,957 in connection with the private placement announced. In February 2016, the Company's private placement submission to the TSX Venture Exchange was withdrawn and the subscription proceeds were converted to an unsecured, non-interest bearing loan.

The Company will require further funds to cover its general and administrative expenses for the next 12 months. The Company may seek such additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

1.10 Off-Balance Sheet Arrangements

The Company has no-off balance sheet arrangements other than what is reported in the Interim Financial Statements. The Company's off-balance sheet commitments are related to its mineral properties detailed in Note 6 to the Interim Financial Statements.

In accordance with the Dilong Deed of Assignment, monthly payments of US\$2,500 are payable to the original Dilong EPA holders (the "Heirs") until the Dilong EPA is approved by the DENR. However, the total cumulative amount of such monthly payments is to be recognized as a deduction against a US\$25,000 payment due when the DENR approves the Dilong EPA. In view of the actions taken by the DENR to cancel the Dilong EPA, the Company initiated discussions with the Heirs in early 2013 to amend and clarify the payments due pursuant to the Dilong Deed of Assignment. Accordingly, in February 2013, the Company suspended any further monthly payments pending the outcome of the discussions to amend the Deed of Assignment. The Company has presented to and discussed proposals with the Heirs but no amendment has been agreed nor are there any ongoing discussions currently.

The Company is also required to make all payments necessary to maintain the Suhi tenements in good standing, including any permit renewal or other required expenditures, otherwise ownership of the tenement EPs reverts back to the original holder of the tenement EPAs. On October 27, 2015, the Company provided formal and final notification to Citygroup Philippines Corporation ("Citygroup") and Canaan Richfield Inc. ("CRI") that following offers being made to return to them the Taurus and Suhi EPs and tenement rights, respectively, the Company would allow the exploration permits to expire unless Citygroup and CRI cooperated to effect the transfers of the properties in a timely manner. The Company is unable to determine if there are any further costs associated with the return of the properties and has not accrued any related amounts in the Interim Financial Statements during the current period.

In addition, in respect of the granting of the Malitao and Dilong Project exploration permits the following payments would also become due:

- Malitao Project – a lump-sum equal to US\$275,000 less the cumulative balance of monthly payments made previously payable upon the granting of the exploration permit. As at June 30, 2013, the Company had made monthly payments totalling US\$275,000. Subsequent equal instalments (\$91,666.67, less any monthly instalments paid) are due on the first, second and third anniversary of the granting of the exploration permit totalling US\$275,000 in aggregate; and
- Dilong Project – US\$25,000 per year on each anniversary date of the granting of the exploration permit up to a maximum of US\$375,000. Monthly payments outlined above terminate at the time the exploration permit is granted (pending the outcome of discussions to amend the Deed of Assignment).

1.11 Transactions with Related Parties

During the nine month periods ended December 31, 2016, the Company entered into the following transactions with related parties:

a) Purchase of services:

	December 31, 2016 \$	December 31, 2015 \$
Rent to a company controlled by an officer and director of the Company	2,700	4,600
Legal services fees to law firms in which the Company's and its subsidiary's corporate secretaries are partners	18,007	10,562

b) Key management compensation:

Key management includes the President, CEO and CFO and, until August 31, 2015, the former President and the former Treasurer of the Company's Philippine subsidiary. The compensation paid or payable to key management or companies controlled by them for director and/or management services is shown below:

	December 31, 2016 \$	December 31, 2015 \$
Fees reported as management fees of \$90,000 (2014 - \$10,543) and consulting fees of \$Nil (2015 - \$1,558)	90,000	12,101

c) Accounts payable to (receivable from) related parties:

	December 31, 2016 \$	March 31, 2016 \$
Key management or companies controlled by them for management and consulting services and related out-of-pocket expenses	155,171	36,984
Law firms in which the Company's and its subsidiary's corporate secretaries are partners for legal services	-	6,040
	155,171	15,994

Amounts due to related parties are due to officers and companies controlled by directors and officers, are unsecured, are non-interest bearing and have no specific terms of repayment.

1.12 Outstanding Share Data

The following table summarizes the outstanding share capital as of the date of this MD&A:

	Number of shares issued or issuable
Common shares	5,539,535
Preferred shares	-
Stock options	-

There were no security transactions during the nine-month period ended December 31, 2016 impacting the Company's share capital or other securities. On January 6, 2017, the 45,625 remaining option outstanding as at October 31, 2016 expired unexercised. For further information and details concerning outstanding share data and options see Note 9 of the Interim Financial Statements.

1.13 Financial Risk Management and Financial Instruments

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk and price risk), credit and liquidity risk. There have been no changes in the risk management approach or in any risk management policies during the period ended December 31, 2016.

The Company's Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements; the Interim Financial Statements and this MD&A should be read in conjunction with the Company's annual financial statements for the year ended March 31, 2016.

There have been no changes in the risk management approach or in any risk management policies since the year end.

Fair value estimation

The Company's financial instruments consist of cash, restricted cash, receivables, accounts payable and accrued liabilities and accounts payable to related parties and loans payable. The fair values of the Company's accounts receivable, accounts payable and accrued liabilities, accounts payable to related parties and loans payable approximate their carrying values due to the short-term nature of these instruments.

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

1.14 New Accounting Policies

Accounting policies

The Interim Financial Statements have been prepared in accordance with IAS 34, "Interim financial reporting". The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended March 31, 2016, which have been prepared in accordance with IFRSs.

The accounting policies adopted in the Interim Financial Statements are consistent with those adopted in the previous financial year ended March 31, 2016.

New accounting policies

Effective on April 1, 2015, as permitted under IFRS 6, *Exploration for and Evaluation of Mineral Resources*, the Company voluntarily changed its accounting policy for exploration and evaluation expenditures to expense exploration and evaluation costs in the consolidated comprehensive statement of loss in the period in which they were incurred, whereas previously the

Company capitalized on the consolidated statement of financial position the acquisition cost of mineral properties and exploration and evaluation expenditures directly related to specific mineral properties, net of recoveries received.

The Company has determined that this change in accounting policy enhances the reliability of the financial statements because of the difficulty in demonstrating that these costs meet the definition of an asset. The Company has also determined that reflecting its exploration and evaluation costs as line items in the consolidated statement of comprehensive loss and consolidated statement of cash flows better reflects the economic substance of its operating activities during the fiscal periods presented. This change in accounting policy has been applied retrospectively.

The effect of the change in accounting policy on the condensed consolidated interim statement of comprehensive loss and the condensed consolidated interim statement of cash flows for the three and nine-month periods ended December 31, 2015 is set out below:

Condensed consolidated interim statement of comprehensive loss for the three and nine months ended December 31, 2015:

	Three months ended December 31, 2015			Nine months ended December 31, 2015		
	As previously reported \$	Effect of change in accounting policy \$	As restated under new accounting policy \$	As previously reported \$	Effect of change in accounting policy \$	As restated under new accounting policy \$
Expenses						
Exploration and evaluation expenses	-	-	-	-	41,063	41,063
Other items						
Impairment of exploration and evaluation assets	-	-	-	4,288	(4,288)	-
Loss and comprehensive loss	(38,359)	-	(38,359)	(177,094)	(36,775)	(213,869)

Condensed consolidated interim statement of cash flows for the six months ended December 31, 2015:

	As previously reported \$	Effect of change in accounting policy \$	As restated under new accounting policy \$
Net cash flow used in operating activities			
Loss for the period	177,094	(36,775)	(213,869)
Impairment of exploration and evaluation assets	4,288	(4,288)	-
Net cash flow used in investing activities			
Exploration and evaluation assets expenditures	(166,063)	41,063	(125,000)
Increase in cash during the period	26,169	-	\$ 26,169

Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the reporting period. Actual results may differ from those estimates.

In preparing the Interim Financial Statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended March 31, 2016.

1.15 Risk Factors

Readers should carefully consider the Risk Factors as set out in the Company's MD&A for the year ended March 31, 2016 (available on the SEDAR website at www.sedar.com), before deciding whether to invest in the common shares of the Company.

The operations of the Company are speculative due to the high risk nature of its business which includes the acquisition, financing, permitting, exploration, development of mining properties. These risk factors could materially affect the Company's future operations and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. The risks and uncertainties incorporated in this section by reference are not inclusive of all the risks and uncertainties the Company may be subject to, and other risks may apply, but are considered by management to be the most important in the context of the Company's business.

1.16 Internal and Disclosure Controls over Financial Reporting

The Alberta Securities Commission in which the Company is registered has exempted Venture Issuers from certifying disclosure controls and procedures, as well as, Internal Controls of Financial Reporting as of December 31, 2007, and thereafter. Since the Company is a Venture Issuer, it is now required to file basic certificates, which it has done for the nine month period ended December 31, 2016. The Company makes no assessment relating to the establishment and maintenance of disclosure controls and procedures as defined under Multilateral Instrument 52-109 as at December 31, 2016.

1.17 Outlook

The Company's primary focus for the foreseeable future will be to raise funding to recapitalize the Company's balance sheet and to ensure that business has sufficient working capital to fund its minimum ongoing general and administrative costs. The Company is in the process of reviewing the next steps or options for the Cuatro Ciénegas Project. Management will continue to actively seek alternative strategic opportunities for the Company and shareholders to realize on or protect the value in their investment, including identifying potential partners for its remaining projects in the Philippines.