# METALLIS RESOURCES INC.

**Management's Discussion and Analysis**
**Year ended December 31, 2017**

## Introduction

This Management Discussion and Analysis ("MD&A") is dated March 16, 2018 and should be read in conjunction with Metallis Resources Inc.'s ("the Company", "we", "our") annual financial statements for the year ended December 31, 2017 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 year ended December 31, 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.**

## 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, nickel, and silver 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 in July 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 Company's Property.

The Company completed initial drilling of 1,648 metres on the Property in 2017, detailed and described below under Kirkham Property, British Columbia, Canada.

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 its exploration programs, the development of its mineral properties and upon future profitable production or proceeds from disposition of its property 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 December 31, 2017 the Company has incurred net cumulative acquisition and exploration costs of $1,510,341 on the Property, and had net current assets of $3,402,012.

## Highlights:

- Diamond drilling on the Cliff target confirms 3 km of continuous copper-gold mineralization and increasing grades at depth. The drilling assays show broad intersections of copper-gold mineralization, the largest being 146 meters of 0.34 g/t Au and 0.22% Cu, including a significant interval of 68 meters at **0.52 g/t Au** and **0.3% Cu.**

- Metallis has over $5 million cash on hand, enough to execute numerous 2018 exploration programs, and has only 31.9 million shares outstanding; in 2017, Metallis raised $4.6

million from private placements and a further $0.6 million from the exercise of stock options and share-purchase warrants, and has recently completed another $2.2 million private placement in 2018.

- Metallis is recognized by the TSX-V in its annual "2018 Venture Top 50" as one of the top performers in 2017 in terms of growth in share price, market capitalization and trading volume.

- Share price ended 2017 at $1.19, rising 750% from $0.14 at the beginning of the year.

- The Company has implemented industry standards and best practices on health-safety-environmental management. Drill sites and heli-pads that will not be reused in 2018 were reclaimed at the end of the 2017 season, and the multi-year based Annual Summary of Exploration Activities (ASEA) report for 2018 was filed with the B.C. Ministry of Mines, Energy and Gas.

- We initiated a scope of work to conduct an Archaeological Overview Assessment (AOA) to determine whether or not a heritage permit is deemed necessary for continued exploration of Kirkham.

## Corporate Outlook

The Company's 2017 results from exploration, regional exploration activities by other public companies, and an increase in investment, prices and liquidity in the exploration mining sector in general allowed the company to raise financing such that it now has in excess of $5 million, most of which is earmarked for 2018 property exploration, which is expected to include:

- Drilling, laboratory assays and metallurgical test work;
- Geological mapping and remote sensing utilizing high-resolution satellite images;
- Geochemical sampling and analysis;
- Airborne geophysical VTEM survey, data processing and modelling; and
- Petrographic and geochronological studies.

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. As exploration continues, the Company has and will continue to engage key stakeholders as it moves forward. Beyond 2018, the Company may also enter into further private placements, or debt issuances, joint ventures or other funding arrangements to further explore the Property, depending on the conditions of the market, the availability of financing, and the results from exploration.

## Kirkham Property, British Columbia, Canada

### *Overview*

The Kirkham Property covers an area of 106 $km^2$ 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 10 km (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 from nearby exploration projects. The Company uses an existing camp at a site owned by Altagas Ltd., situated approximately 12 km from the Property.

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 5 km south of the Bob Quinn Lake airstrip. The road lies at its closest about 12 km from the Property. In recent years, several infrastructure improvements have been made in the region, including improvements to Highways 37 and 37A, the opening of ocean port facilities for export of concentrate at Stewart and the completion by BC Hydro of the Northwest Transmission line, a 344 km, 287 kV transmission line between Skeena Substation (near Terrace) and a new substation near Bob Quinn Lake.

### *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:

- <u>King Target:</u> is located on the western margin of the Hawilson monzonite. 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 VTEM anomaly, 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.

- <u>Fewright Creek</u>: 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.

- 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.

- 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 comprised of geochemical sampling, trenching and geological mapping.

In September 2015, Metallis completed a grass roots exploration program on the Property, consisting of 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*

In early 2017, the Company conducted an extensive technical review of the Kirkham Property and analyzed all historic geological, geochemical, geophysical and drilling datasets of the Hawilson monzonite and all other prospective areas in the Kirkham claim block. Interpretation of the drilling data combined with magnetic, VTEM and soil anomalies allowed the company to outline a number of exploration targets and prospective areas for further exploration. The 2017 exploration program focused on the Cliff, King and Thunder North prospects, the latter having been identified through geological mapping and prospecting towards the end of the 2017 program. Additional targets including King and Cole porphyry centers have been identified through field mapping and prospecting. The Natt prospect located south of King Creek is interpreted as a VMS and/or shear vein hosted gold target to be followed up in 2018. Mapping and prospecting at Thunder North identified linear dikes of mafic intrusions (gabbros) with minor sulphides, typically associated with Ni-Cu mineralization, adjacent to Garibaldi Resources' Nickel Mountain prospect.

During the 2017 field season, the Company drilled five diamond core holes for a total of 1,648 meters of drilling. The objectives of the 2017 drill program were 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 target; and
3. Test the structurally controlled phyllic alteration and gossans in Thunder North.

The drilling program was conducted in two phases. The 1$^{st}$ phase of drilling consisted three HQ diamond core holes (KH17-06 to KH17-08) comprising 1,040 meters drilled in the Cliff porphyry target. The 2nd phase drilling program included two diamond core holes totalling 598 meters. This short program towards the end of 2017 field season was targeted to test the structurally controlled gossans along the contacts between mafic intrusions and andesite-diorite host rocks in Thunder North as well as a discrete VTEM anomaly in the King target for shear vein gold mineralization in the area.

All drill holes were sampled at 2 meter intervals including 10% of alternating QAQC samples (standards, blanks and duplicates) and analyzed for Aqua Regia ICP-ES/MS analysis (AQ 200) at Bureau Veritas in Vancouver.

Review of the historic geochemical sampling and assays combined with outcropping alteration and gossan zones throughout Kirkham property allowed for the collection of representative samples for porphyry copper-gold and magmatic sulphide mineralization. A total of 42 surface samples including 29 selective and 13 continuous rock-chip samples were collected and analyzed for Aqua Regia ICP-ES/MS analysis (AQ 200) at Bureau Veritas in Vancouver.

***Kirkham Property key exploration targets:***

<u>Cliff: Porphyry Copper-Gold:</u>

The Cliff prospect covers the southern portion of an extensive porphyry copper-gold system associated with the 6 km 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 10 km strike length on the Property.

In 2017 the Company drilled three holes on this target, totalling 1,040 meters. According to Chief Geologist, Abdul Razique, the alteration footprint and drilling assays from the Cliff target reflect a sizeable porphyry copper-gold system open in all directions. The distribution of copper-gold grades has provided critical information and vectors to target the deeper high-grade potassic core of the system. "To see gold grades as high as these in zones that are clearly peripheral to the core of the porphyry system are very encouraging", noted Dave Dupre, VP of Exploration.

Cliff 2017 drilling highlights:

- Confirmation of 3 km of continuous copper-gold mineralization along the southern half of the 6 km long Hawilson monzonite, the porphyry system's source rock;

- Extensive potassic alteration and copper-gold mineralization associated with calc-alkalic intrusions. The intensity of potassic alteration, veins and chalcopyrite-pyrite mineralization increases with depth; and

- Broad intersections of copper-gold mineralization, the largest being 146 meters of 0.34 g/t Au and 0.22% Cu, including a significant interval of 68 meters at **0.52 g/t Au** and **0.3% Cu.**

The assay results demonstrate that the Cliff porphyry intrusions are overprinted by high-grade gold bearing silicified zones, as evidenced by 2m intervals of **3.15 g/t Au** in hole KH17-07, and **2.66 g/t Au** and **3.36 g/t Au** in hole KH17-08.

Previous operators drilled five holes to the north of the Company's 2017 drill holes. The historical holes 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. 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. 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. Additional drilling is planned for 2018 to target the central portions of this large porphyry system.

King: Intrusion Related Au-Sulphide Veins:

In 2017, the Company drilled one exploratory hole (KH-17-10) to a depth of 350 meters. The drill hole intersected intercalated shale, siltstone and sandstone units with a network of quartz-calcite veins and disseminated to vein-hosted, 1-3%, pyrrhotite-pyrite and trace chalcopyrite that explained the conductive anomaly. The fine-grained, locally banded sulphides show evidence of VMS exhalatives in the area. However, the alteration intensities, multi-generational veins and coarse-grained sulphides indicate propylitic alteration assemblage and vector towards a porphyry copper-gold system associated with Hawilson Monzonite exposed to the east (see King: Porphyry Copper-Gold: below).

King: Porphyry Copper-Gold:

The King porphyry system located ~500m east of King VTEM anomaly was identified during the 2017 field mapping. This target is represented by extensive 400 x 300 meters of exposed phyllic alteration coincident with a linear, very strong resistivity and magnetic anomaly which is outboard from the mineralized Hawilson monzonite hosted by Stuhini andesitic volcanic and calcareous sedimentary rocks. The outcropping intrusions are characterized by preserved porphyritic textures and intense quartz-sericite-pyrite (QSP) alteration, gossan (Jarosite-hematite-limonite) along with Mn and Cu oxides. The altered rocks locally indicate network of porphyry and late epithermal quartz veins. The historic and current geochemical sampling and assay work in the area identified several areas with pyrite-rich veins containing elevated gold up to 9.5 g/t Au (BC ARIS #18614) to be followed in the 2018 exploration program.

King East:

King East prospect is represented by a large (1 km x 2 km) coincident magnetic and resistivity anomaly within the early Triassic Stuhini rocks. Numerous gold-bearing veins and several small felsic stocks have been mapped on the southern part of this target. The historical mapping and geochemical sampling indicate the potential of mafic intrusions and porphyry copper-gold mineralization in the area which is expected to be followed up in the 2018 field season utilizing higher resolution VTEM magnetic and EM anomalies, geological mapping and geochemical sampling.

Natt VMS/Shear vein Gold:

The NATT prospect is a rift-fill segment of the Eskay rift that hosts limestone and exhalites. Historic work by previous operators including surface rock-chip and soil sampling indicate that the Natt prospect exhibits potential for hosting VMS exhalative precious and base metal deposits. Natt will also be viewed for potential epithermal and/or shear vein gold mineralization due to its vicinity to the Hawilson Monzonite exposed nearly 500 meters to the east. Detail geological mapping, surface sampling and geophysical VTEM survey is planned for 2018 to generate drilling targets and address the nature of the Natt prospect.

Cole Porphyry Copper-Gold:

The Cole prospect located to the north of King Creek is the northern continuation of the Hawilson monzonite porphyry complex on the Property. Prior field mapping outlined several NNE-trending porphyry outcrops with intense sericitic/argillic alteration and oxidation, and mapping and sampling in 2017 outlined an extensive (200 meter x 400 meter) phyllic alteration foot print on the northern flanks of the 6 km long Hawilson monzonite complex. The diorite and monzodiorite porphyry intrusions are emplaced as NNE-trending ($015^{o}$) linear dikes hosted by Stuhini andesitic volcanics and unconformably overlaid Hazelton sedimentary rocks to the west. The porphyry and contrary rocks are characterized by quartz-sericite-pyrite (QSP) assemblage and gossans comprising hematite-Jarosite-limonite ± Mn-oxides. The QSP alteration and gossan are surrounded by propylitic alteration of chlorite-epidote-carbonates. The surface rock-chip geochemistry consisting 0.2-0.9% Cu in rocks and 300 to >600 ppm Cu in soil reflect porphyry style copper-gold mineralization in the area.

Etta VMS/Shear vein Gold:

The volcano-sedimentary package to the north of the King Creek is relatively complicated. The Etta showings located ~500 meters west of Cole Lake are associated with a thick sequence of andesitic and dacitic volcanics and interlayered sedimentary rocks are exposed near the red line of Kyba (2014) illustrating the Triassic-Jurassic unconformity. Detailed geological mapping, sampling and a geophysical VTEM survey are planned to follow a prominent geochemical anomaly with up to 1.0g/t Au, and generate drilling targets in this prospect.

Thunder North: Magmatic Nickel-Copper:

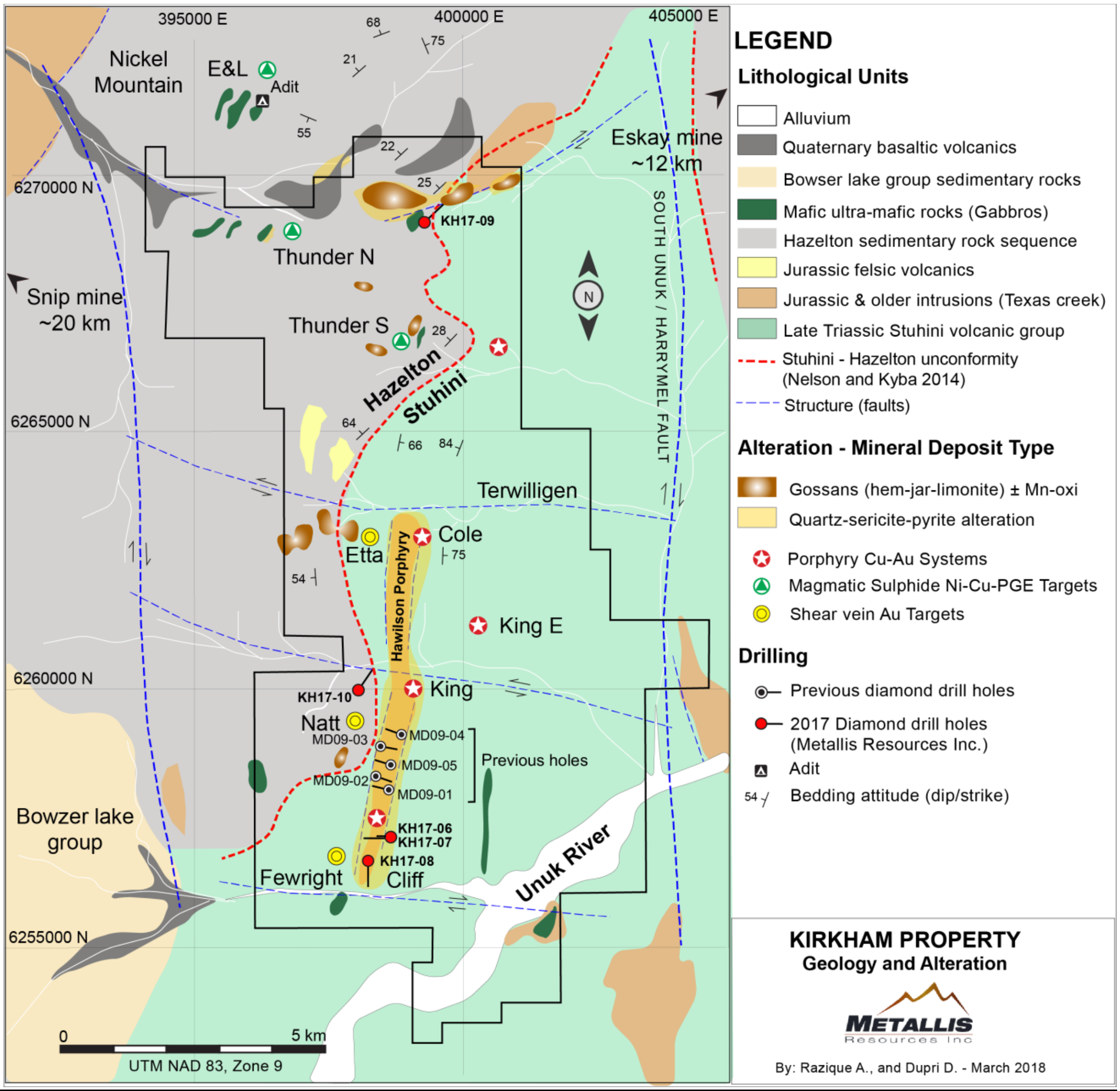
The Thunder North prospect is located immediately south of Garibaldi’s E&L (Nickel Mountain) Project on the western flank of the Eskay Rift. The project area is underlain by extensive mafic volcanic and sedimentary rocks of the Hazelton Formation that host the nickel sulfide mineralization at E&L. Towards the end of the 2017 field season, and following the discovery of massive sulfide mineralization at E&L, the Company rapidly undertook a program of mapping, sampling, and drilling on the Thunder North target in order to identify outcropping gabbroic rocks. A small body of un-mineralized weakly differentiated medium-grained gabbro was identified with up to 7.5wt% MgO. A drill hole (KH17-09) collared adjacent to the gabbro tested a pyritic gossan at the margin of the gabbro, but the drill hole did not cross into the gabbroic body.

The textures and compositions of the outcropping intrusive rocks at Thunder North indicate the presence of gabbroic rocks in Hazelton formation along the western margin of the Eskay Rift. This segment of the rift has seen no historic exploration for nickel sulfide mineralization, so the discovery of these rocks has influenced the design of the 2018 exploration program which will be focused on magmatic Ni, Cu, Co mineralization in mafic rocks. The summer program in 2018 for Thunder North will include a new high-resolution (83.3m line-spacing) Versatile Time Domain Electromagnetic (VTEM) Survey as well as geological mapping and geochemical sampling to identify additional mafic intrusions.

Thunder South: Magmatic Nickel-Copper:

The Thunder South prospect is represented by massive andesitic volcanic rocks of Stuhini and volcano-sedimentary sequence of Hazelton formations. The Stuhini and Hazelton rocks are separated by a distinct Triassic-Jurassic unconformity outlined as the “Red Line”(Nelson and Kyba 2014). A narrow (1-5 meter wide) and ~300 meter 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. The 2018 high-resolution (83.3 meter line-spacing) VTEM Survey combined with geological mapping and sampling during the summer 2018 field season will generate additional targets at Thunder South.

Kirkham Property Map




## Directors and Officers

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

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 Mrs. Sameen Oates is Corporate Secretary.

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

## 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 resource to 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 leads and coordinates 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, 2017 | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---|---|---|
| Total assets | $ 4,989,285 | $ 420,824 | $ 294,762 |
| Total liabilities | 76,369 | 439,402 | 431,475 |
| Shareholders' equity (deficiency) | 4,912,916 | (18,578) | (136,713) |
| **Major operating expense items** | | | |
| Consulting fees | 254,350 | 165,350 | 162,000 |
| Investor relations | 4,500 | 16,500 | 20,250 |
| Marketing | 45,397 | 10,411 | 2,782 |
| Professional fees | 42,976 | 29,625 | 24,676 |
| Regulatory and transfer agent fees | 25,484 | 18,768 | 15,550 |
| Share-based compensation | 295,895 | 172,946 | 2,255 |
| Net loss | $ (473,290) | $ (406,201) | $ (608,898) |
| Basic and diluted loss per share | $ (0.02) | $ (0.02) | $ (0.04) |

*Analysis of annual cash flows:*

In 2017, the Company raised a total gross amount of $5,267,204 from issuing equity, of which $4,634,181 was from private placements, $72,100 was from the exercise of stock options and $560,923 from the exercise of warrants. Issuance expenses were $205,585, all paid in cash.

The Company spent $1,064,977 (2016 - $134,861) on property exploration during the year, and $714,901 (2016 - $263,912) on operating activities. During 2017, the Company reduced its total liabilities by $363,033, or 83%. Accounts payable and accrued liabilities and amounts due to related parties declined $311,888 in 2017. Cash operating expenditures in 2017 (operating expenses less share-based compensation) were $422,578, or about $35,000 per month. Overall, the Company's monthly operating costs have risen reasonably to about $35,000/month from $25,000/month in 2016, due to increases in exploration, personnel, communications, financings and general corporate activities.

The Company ended 2017 with $3,324,071 in cash and cash equivalents.

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.

In 2015, the Company raised $137,500 from private placements, and paid issuance costs of $6,732. No stock options or warrants were exercised in 2015. The Company also 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 prior 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 2017 compared to 2016:*

The Company's net loss in 2018 of $473,290 was $67,089, or 17% higher than 2016's net loss of $406,201. The net loss is composed of operating expenses of $718,473 (2016 - $446,899), an increase of $271,574, and other gains (losses) and income credits of $245,183 (2016 - $40,698), an increase of $204,485. The other gains (losses) and income credits are composed of other income on settlement of flow-through premium liability of $112,940, gain on reversal of indemnification provision of $68,750 and gain on settlement of accounts payable and accrued liabilities of $44,634, and remaining other gains and credits of $18,859 (2016 - $40,698) which include unrealized gain on marketable securities, interest income, gain on sale of exploration and evaluation assets, and other income from the sale of a property option, all of which are detailed in the Statements of Operations and Comprehensive Loss.

The other income on settlement of flow-through premium liability recognizes the proportion of the flow through premium liability satisfied by the Company's incurrence of specified qualifying property expenditures during the period.

The gain on reversal of the indemnification provision of $68,750 recognizes managements reversal of the provision based on the passage of time, completion of an audit by the Canada Revenue Agency with no follow-up reassessments, no receipt of any notice of indemnification for additional taxes payable with respect to the unspent flow-through funds raised, and other factors. The provision was initially recorded pursuant to the completion of the 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 reflected 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.

The gain on settlement of accounts payable and accrued liabilities was primarily due to the settlement of an outstanding legal bill at a substantial discount to the booked value.

As noted above, total operating expenses were $718,473 (2016 - $446,899), primarily composed of share-based compensation of $295,895 (2016 - $172,946), consulting fees of $254,350 (2016 - $165,350), marketing of $45,397 (2016 - $10,411) and professional fees of $42,976 (2016 - $29,625). These expense categories comprise $638,618 (2016 - $378,332) or 89% (2016 – 85%) of total operating expenses.

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 is calculated using the Black-scholes option pricing model, and was higher in 2017 mainly because the value of the stock option grant (1,000,000 options at $0.39) exceeded the prior year's grant (1,400,000 options at $0.10), but also as the Company's share price and volatility rose compared to the prior year. Third party consulting fees increased $89,000 to $92,350 in 2017 from $3,350 in 2016, while related party consulting fees remained the same at $162,000 for both years. In 2017, the Company engaged consultants mainly for IT services (rebuilding the Company website, uploading exploration data and documents and converting software platforms) and other general corporate matters.

The Company incurred higher marketing costs in 2017, increasing $34,986 to $45,397. It paid $10,000 to have a research report prepared, attended two exploration trade shows, advertised in a few publications and held more meetings. These costs helped generate market interest in the Company, facilitate communication with investors and shareholders and contributed to the Company’s successful completion of four private placement financings in the year, raising $4,634,180 before issuance costs of $205,585. The Company terminated an investor relations consulting contract of $1,500 per month on March 31, 2017, incurring $4,500 in IR fees for the year (2016 - $16,500). Thereafter, the CEO managed investor relations engagement and communications. Total marketing and investor relation costs were 6.9% (2016 – 6.0%) of total operating expenses.

Certain overhead expenses relate to the Company’s obligations as a public company consisting of audit fees, legal fees related to public company matters and regulatory and transfer agent fees. These fees totalled $68,500 in 2017 and $48,400 in 2016, an increase of 42% which management considers reasonable given the completion of four private placements in 2017 and the exercise of 1,597,280 warrants. Minimizing these fees remains challenging in an environment of increasing compliance and regulation.

*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, as 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. Investor relations fees of $1,500 per month were charged by Buchalter Consulting Inc. (until the contract was subsequently terminated on March 31, 2017). The expenditure changes discussed above are reasonable given the relatively small size of the Company.

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.

## Quarterly Information

| | Three Months Ended December 31, 2017 | Three Months Ended September 30, 2017 | Three Months Ended June 30, 2017 | Three Months Ended March 31, 2017 |
|---|---|---|---|---|
| Total assets | $ 4,989,285 | $ 3,014,385 | $ 719,002 | $ 417,207 |
| Total liabilities | 76,369 | 531,394 | 424,465 | 488,565 |
| Shareholders' equity (deficiency) | 4,912,916 | 2,482,991 | 294,537 | (71,358) |
| Consulting fees | 55,730 | 78,900 | 69,500 | 50,220 |
| Professional fees | 32,356 | 331 | 9,344 | 945 |
| Marketing | 14,269 | 16,477 | 2,678 | 11,973 |
| Share-based compensation | - | 295,895 | - | - |
| Net income (loss) | 44,642 | (339,428) | (105,224) | (73,280) |
| Earnings (loss) per share- basic | (0.00) | (0.02) | (0.01) | (0.00) |

| | 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 assets | $ 420,824 | $ 416,055 | $ 326,183 | $ 285,566 |
| Total liabilities | 439,402 | 391,460 | 410,787 | 463,400 |
| Shareholders' equity (deficiency) | (18,578) | 24,595 | (84,604) | (177,834) |
| Consulting fees | 41,500 | 42,850 | 40,500 | 40,500 |
| Professional fees | 20,000 | 2,390 | 7,235 | - |
| Marketing | 2,678 | 6,762 | 1,641 | 1,371 |
| Share based compensation | - | 19,307 | 153,639 | - |
| Net income (loss) | (62,480) | (71,921) | (224,679) | (47,121) |
| Earnings (loss) per share- basic | (0.00) | (0.01) | (0.01) | (0.00) |

## Results of Operations

*Three months ended December 31, 2017 compared to three months ended September 30, 2017:*

The Company earned net income of $44,642 in Q4 (Q3 2017 – loss of $339,428), composed of consulting fees of $55,730 (Q3 2017 - $78,900), professional fees of $32,356 (Q3 2017 - $331), share-based compensation of $nil (Q3 2017 - $295,895), other operations expenses of $40,706 (Q3 2017- $32,676), gain on reversal of indemnification provision of $68,750 (Q3 2017 - $nil), other income on settlement of flow-through share premium liability of $98,240 (Q3 2017 - $14,700), and other income (expense) and gains (losses) of $6,444 (Q3 2017 - $(1,125)).

In Q3 2017 the Company had reported a loss on commitment to issue shares of $826,287. For year-end however, the Company has reversed this loss and instead of valuing the issuance of such shares at fair value on date of issuance (which gave rise to a Q3 loss), it has valued the shares based on the value of services rendered, which was $177,815. This is not a change in accounting policy as IFRS allows either reporting method, but the Company decided that valuing shares issued based on value of services rendered is the more practical interpretation for reporting. The services were rendered in August and September 2017 and based on the allowable discounted market price on the dates of service provided, the Company was committed to the issuance of a total of 454,345 common shares. The shares were issued in October 2017.

The net income reported for Q4 2017 results mainly from the Q4 gain on reversal of indemnification provision (discussed above under *Analysis of annual operations for 2017 compared to 2016),* and other income on settlement of flow-through share premium liability, which together total $166,990, exceeding total operating expenses of $128,792. The other income on settlement of flow-through premium liability recognizes the proportion of the flow through premium liability satisfied by the Company's incurrence of specified qualifying property expenditures in Q4 2017.

Other operations expenses in Q4 of $40,706 were higher than Q3 ($32,676) and are composed of amortization of $105 (Q3 - $105), office expenses of $12,343 (Q3 - $2,595), marketing costs of $14,269 (Q3 - $16,477), rent of $5,226 (Q3 - $5,541), trustee and filing fees of $5,517 (Q3 - $3,830) and travel of $3,246 (Q3 - $2,642). Through both periods the Company processed many warrants being exercised, issued a series of press releases, held meetings with the advisory board, engaged certain IT services to redesign of the Company website, and incurred certain periodical advertising costs.

Consulting fees consist of related party consulting fees of $40,500 (Q3 – $40,500), along with other consulting fees of $15,230 (Q3 - $38,400). Consultants were hired in Q3 and Q4 for data management, redesigning the Company's website, and other administrative needs. 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 issued common shares in Q4, raising a total of $2,535,584 (Q3 - $2,222,819), from private placements and the exercise of stock options and warrants, as follows: One private placement of 2,000,000 units closed in Q4 for $2,200,000 while two private placements totalling 4,680,245 units closed in Q3 for total proceeds of $1,937,880. Private placement issuance costs were $145,440 in Q4 and $57,663 in Q3. The fees were relatively higher in Q4 as a 6% finder's fee was paid in respect of the single subscriber. In Q4, 783,168 warrants were exercised for proceeds of $275,984, compared to Q3 when 814,112 warrants were exercised raising $284,939. In Q4, 190,000 (Q3 – Nil) stock options were exercised by employees and contractors, none of which were insiders, for a total of $59,600. The cash resources available to the Company from the above noted issuances allowed it to ramp up its exploration activities, paying total exploration costs of $390,537 in Q4 (Q3 - $614,570). Cash rose from $1,734,230 as at September 30, 2017 to $3,324,071 as at December 31, 2017, an increase of $1,589,841.

To conform to the current period's presentation, certain prior period numbers have been reclassified. There is no change to the total operating expenses of each period.

*Three months ended December 31, 2017 compared to three months ended December 31, 2016:*

The net income in Q4 2017 of $44,642 (2016 – loss of $40,874) comprises total operating costs of $128,792 (2016 - $82,502), gain on reversal of indemnification provision of $68,750 (2016 - $nil), other income on settlement of flow-through share liability of $98,240 (2016 - $nil), unrealized gain on marketable securities of $nil (2016 - $40,875), and net interest and other items of $6,444 (2016 - $1). Operating costs were $46,290 higher in 2017, substantially due to consulting fees which rose $14,230, marketing which rose $7,507, office costs which rose $10,120 and professional fees which rose $12,356. Related party consulting fees remained $40,500 over both periods.

**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, at this time, its issued share capital. The capital for operations and property exploration has historically and primarily come from the issuance of common shares but at times the Company sells non-core assets, as another means of raising capital. The Company's objectives when managing its capital are to fund critical exploration work, meet its on-going liabilities, continue as a going concern, maintain creditworthiness by maintaining capital balances over the periods to alleviate unexpected cash flow shortfalls, 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. In that respect, each of the Company's past four private placements have closed at successively higher unit prices. The Company raised enough funds in 2017 and 2018 for its 2017 and 2018 exploration programs and working capital needs at least over the ensuing year, and currently has over $5 million in cash and cash equivalents, with no material debt. There were no changes in the Company's approach to its capital management objectives during the year ended December 31, 2017.

Meeting capital management objectives, as a non-revenue early stage explorer, demands that the Company consider its Company's internal, exploration and financing risks at any particular time, as its weighs different courses of action. In recent years however, with capital scarcity in the exploration sector, management assisted with the Company's liquidity by deferring portions of its fees. As at December 31, 2017, all related party accounts were paid up.

The Company holds 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 $0.455 per share at the date of this report, for a total fair value of $102,375. 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 these shares as opportunities materialize, in view of the prevailing market conditions at the time.

The Company's working capital at the date of this report is approximately $5,434,000 as follows:

| **Analysis of working capital, March 16, 2018** | | ($ 000's) |
|---|---|---|
| Cash and cash equivalents | $ | 5,350 |
| Receivables, advances and deposits | | 20 |
| Marketable securities | | 110 |
| Accounts payable and accrued liabilities | | (28) |
| Flow-through premium liability | | (18) |
| Total net working capital | $ | 5,434 |

## Outstanding share information

The total number of common shares outstanding as of the date of this report is 31,993,629 shares.

Share activity subsequent to December 31, 2017 is as follows:

On January 26, 2018, the Company closed a private placement, raising gross proceeds of $2,181,142. The Company issued 1,897,142 units at a price of $1.15 per unit. Each unit consists of one common share and ½ of one Warrant. Each full Warrant is exercisable into one common share at $1.60 per share for a three year period. Proceeds from the financing will be used for 2018 exploration of the Kirkham Property, and for general working capital. No residual value was assigned to the warrant component of the private placement. Total issuance costs of $23,026 were incurred in connection with the private placement, including a finder's fee of $10,488.

348,000 warrants were exercised for total proceeds of $163,950.

### Stock options

At the date of this report, there are 2,035,000 stock options outstanding, unchanged from December 31, 2017.

### Warrants

As at the date of this report, there are 4,606,193 share purchase warrants outstanding, as follows:

| Number of Warrants Dec 31, 2017 | Number of Warrants issued | Number of Warrants Exercised | Number of Warrants March 16, 2018 | Exercise Price | Expiry Date |
|---|---|---|---|---|---|
| 265,000 | - | 25,000 | 240,000 | $ 0.35 | August 2, 2018 |
| 250,000 | - | - | 250,000 | 0.35 | May 9, 2019 |
| 188,000 | - | - | 188,000 | 0.35 | June 28, 2019 |
| 1,216,000 | - | 258,000 | 958,000 | 0.40 | August 16, 2019 |
| 1,086,622 | - | 65,000 | 1,021,622 | 0.80 | September 22, 2019 |
| 1,000,000 | - | - | 1,000,000 | 1.50 | October 6, 2019 |
| - | 948,571 | - | 948,571 | 1.60 | January 26, 2021 |
| 4,005,622 | 948,571 | 348,000 | 4,606,193 | | |

## 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. a company controlled by the current Chief Executive Officer and director, provides consulting services to the Company.

b) Lever Capital Corp., a company owned by the current Chief Financial Officer and director, provides consulting services to the Company.

c) The Company's Corporate Secretary provides general administrative services, bookkeeping and corporate secretarial services to the Company.

d) D. G. Dupre and Associates Inc., 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:

| | | **Transactions for the year ended December 31, 2017** | Transactions for the year ended December 31, 2016 | **Balance payable as at December 31, 2017** | Balance payable as at December 31, 2016 |
|---|---|---|---|---|---|
| Avanti Consulting Inc. | **(a)** | **$ 84,000** | $ 84,000 | **$ -** | $ 109,100 |
| Lever Capital Corp. | **(b)** | **30,000** | 30,000 | **-** | 57,643 |
| Corporate Secretary | **(c)** | **48,000** | 48,000 | **-** | 12,450 |
| D.G. Dupre and Associates Inc. | **(d)** | **30,000** | 30,000 | **-** | 59,142 |
| Total | | **$ 192,000** | $ 192,000 | **$ -** | $ 238,335 |

Other related party transactions

During Q1 2017, a director exercised 125,000 stock options at $0.10 per share for proceeds of $12,500. During the year ended December 31, 2017, 600,000 (2016 - 1,200,000) stock options were granted to directors and officers having a fair value on issue of $177,537 (2016 - $148,240).

There were no other related party transactions during 2017.

## 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.

## 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 year 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- Future changes in accounting policies:*

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2017 reporting period. These standards have been assessed as having no significant impact on the Company's future financial statements:

IFRS 9, Financial Instruments

The IASB intends to replace IAS 39 – "*Financial Instruments: Recognition and Measurement*" in its entirety with IFRS 9 in three main phases. IFRS 9 is the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be classified and subsequently measured at amortized cost or at fair value, based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified and subsequently measured at amortized cost, except for financial liabilities classified as fair value through profit or loss, financial guarantees and certain other exceptions. The standard is effective for years beginning on or after January 1, 2018.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 contains new standards on revenue recognition that will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. These standards are effective for the fiscal periods beginning on or after January 1, 2018.

IFRS 16, Leases

The new standard on leases supersedes IAS 17, *Leases*, and related interpretations. The standard is effective for years beginning on or after January 1, 2019.

## 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 and 2018 have greatly mitigated liquidity risk, and the cash on hand is sufficient to finance the Company's 2018 drilling and exploration programs 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 non-core 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 in recent years. 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 December 31, 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 expenses 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 Company's financial instruments consist of cash and cash equivalents, certain of the Company's receivables, marketable securities, accounts payable and accrued liabilities and due to related parties. With the exception of cash and cash equivalents and marketable securities, all financial instruments held by the Company are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values.

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

## Management's Responsibility for the Annual Financial Statements

Information provided in this report, and the accompanying annual financial statements for the year ended December 31, 2017, 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 annual 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.