

# **MONTEGO RESOURCES INC.**

## **Management Discussion and Analysis**

**For the nine months ended March 31, 2017**

The Management Discussion and Analysis (“MD&A”), prepared on May 30, 2017 should be read in conjunction with the unaudited condensed interim financial statements and the notes thereto for the nine month period ended March 31, 2017 of Montego Resources Inc. (“Montego” or the “Company”) and the Company’s audited financial statements with accompanying notes and related MD&A for the fiscal year ended June 30, 2016 which have been prepared in accordance with International Financial Reporting Standards. Additional information relating to the Company including the Company’s Annual Information Form is available on SEDAR at [www.sedar.com](http://www.sedar.com).

This management discussion and analysis may contain forward-looking statements in respect of various matters including upcoming events. The results or events predicted in these forward-looking statements may differ materially from the actual results or events. The Company disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **DESCRIPTION OF BUSINESS**

The Company was incorporated under the laws of the Province of British Columbia on July 20, 2012.

The Company is a junior mineral exploration company engaged in the business of acquiring, exploring and evaluating natural resource properties. The Company is currently focusing its financial resources on conducting an exploration program on the Redtop Sunrise Group. The Company has not yet determined whether this property contains reserves that are economically recoverable. The recoverability of amounts shown for resource property and related deferred exploration expenditures are dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development of the resource property and upon future profitable production or proceeds from the disposition thereof.

### **PREPAID EXPENSES**

As at March 31, 2017, the company had the following prepaid expenses:

	<b>March 31, 2017</b>	<b>June 30, 2016</b>
	\$	\$
Consulting fees	423,227	-

## EXPLORATION AND EVALUATION ASSET

	Acquisition Costs	Exploration Costs	Total
	\$	\$	\$
Balance, June 30, 2014	10,000	109,535	119,535
Acquisition costs paid in cash	15,000	-	15,000
Acquisition costs paid in shares issued	8,500	-	8,500
Other exploration costs	-	44,927	44,927
Balance, June 30, 2015	33,500	154,462	187,962
Exploration recovery	-	(25,384)	(25,384)
Balance, June 30, 2016	33,500	129,078	162,578
Acquisition costs paid in shares issued	622,730	-	622,730
Balance, March 31, 2017	656,230	129,078	785,308

### Redtop Sunrise Group

Pursuant to an option agreement dated July 25, 2012, with Rich River Exploration Ltd. and Craig Alvin Lynes, collectively, the “Optionors”, the Company was granted an option to acquire a 100% undivided interest in the Redtop Sunrise Group property (the “Property”) comprised of 11 mineral claims located near the Clearwater region of British Columbia.

During the year ended June 30, 2016 the Company received \$25,384 in British Columbia Mineral Exploration tax credits (“METC”) which were offset against capitalized exploration costs.

To earn the 100% interest, the Company agreed to issue 17,500 common shares of the Company to the optionors, make cash payments totaling \$100,000, and incur a total of \$1,000,000 in exploration expenditures as follows:

	Common Shares	Cash	Exploration Expenditures
	#	\$	\$
Upon execution of the agreement (paid)	-	10,000	-
On or before July 25, 2013 (incurred)	-	-	100,000
Upon listing of the Company’s common shares on Canadian Securities Exchange (“Listing”) (issued and paid)	8,500	15,000	-
On or before the first anniversary of the Listing <sup>1</sup>	9,000	-	-
On or before the second anniversary of the Listing	-	15,000	200,000
On or before the third anniversary of the Listing	-	25,000	300,000
On or before the fourth anniversary of the Listing	-	35,000	400,000
Total	17,500	100,000	1,000,000

<sup>1</sup> The date in which the 9,000 common shares are due was mutually extended to a date which has yet to be determined. The common shares have not yet been issued.

The Optionor will retain a 3% Net Smelter Returns royalty on the Property. The first 2% of the royalty may be purchased by the Company at \$500,000 for each 1%. The purchase of the remaining 1% is negotiable after commercial production commences. The Company is currently re-negotiating the terms of the agreement.

## Kiyuk Late Property

On September 2, 2016, the Company has completed the acquisition of the Kiyuk Lake property, located in Nunavut, Canada. The Company has acquired the property from Northern Empire Resources Corp. in consideration for the issuance of 668,000 common shares. The shares issued to acquire the property are subject to a four-month-and-one-day statutory hold period.

The Property consists of 57 mineral claims, aggregating 491 square kilometers in southern Nunavut, Canada. The common shares issued to acquire the Property are subject to a four-month-and-one-day statutory hold period. As part of the Agreement, the Company is subject to 2% net smelter royalty to be paid to the original vendor of the property.

During the quarter ended March 31, 2017, the company reached an agreement with Cache Exploration Inc. Under the agreement to transfer its wholly owned Kiyuk Lake property. In order to exercise the option Cache must pay to the Company \$500,000, as to \$200,000 on closing, as to \$200,000 on or before the date which is six months from closing and as to \$100,000 on or before the date which is 12 months from the closing. As at March 31, 2017 the Company has received \$200,000.

## Black Dog Property

On March 9, 2017, the Company reached an agreement with Caprock Ventures Ltd. to acquire the Black Dog gold project located in Northern Quebec. The 1,400-hectare Black Dog project consists of a block of 27 mineral claims approximately 60 kilometers north of Nemiscau, Que., in an immediate area that has seen prospective exploration activity in recent years.

In consideration for the acquisition of the Black Dog project, over the course of four years, the company will be required to complete a series of cash payments totaling \$1.9-million (of which \$50,000 is due upon closing), issue two million common shares and incur expenditures of \$1.4-million on the project. Upon completion of the payments, share issuances and expenditures, the company will hold a 100-per-cent interest in the Black Dog project, subject to a 2-per-cent net smelter return royalty in favour of the vendor.

	<b>Common Shares</b>	<b>Cash</b>	<b>Exploration Expenditures</b>
	#	\$	\$
Upon execution of the agreement (paid)	-	100,000	-
On or before March 31, 2017 (incurred, issued and paid)	2,000,000	12,371	-
<b>Total</b>	<b>2,000,000</b>	<b>112,371</b>	<b>1,000,000</b>

## SELECTED ANNUAL INFORMATION

(\$000's except loss per share)

	June 30, <u>2016</u>	June 30, <u>2015</u>	June 30, <u>2014</u>
Revenue	\$ 0	\$ 0	\$ 0
Net Loss	\$ (179)	\$ (336)	\$ (100)
Basic and Diluted Loss Per Share	\$ (0.15)	\$ (0.40)	\$ (0.21)
Total Assets	\$ 173	\$ 246	\$ 140
Long-Term Debt	\$ 0	\$ 0	\$ 0
Dividends	\$ 0	\$ 0	\$ 0

## OPERATIONS

### Nine months period ended March 31, 2017

During the nine months ended March 31, 2017 the Company reported a net loss of \$1,162,536 (2016 - \$138,775). Included in the determination of operating loss was \$9,800 (2016 - \$12,313) spent on rent, \$76,748 (2016 - \$60,750) on management and administration, \$89,436 (2016 - \$33,675) on professional, \$19,317 (2016 - \$11,610) on transfer agent and filing fees, \$646,320 (2016 - \$Nil) on consulting fees, \$14,191 (2016 - \$4,218) on travel and promotion, \$21,975 (2016 - \$16,209) on office and miscellaneous, \$31,673 (2016 - \$Nil) on automobile, and \$1,000 (2016 - \$Nil) loss on sale of property. The Company also incurred a stock based compensation charge of \$252,076 (2016 - \$Nil). The increase in expenses was due to increased business activity during the quarter.

### Three months period ended March 31, 2017

During the three months ended March 31, 2017 the Company reported a net loss of \$163,807 (2016 - \$44,287). Included in the determination of operating loss was \$Nil (2016 - \$5,268) spent on rent, (\$43,950) (2016 - \$20,250) on management and administration, \$30,536 (2016 - \$8,528) on professional, \$10,673 (2016 - \$3,614) on transfer agent and filing fees, \$155,662 (2016 - \$Nil) on consulting fees, \$3,726 (2016 - \$Nil) on travel and promotion, \$5,157 (2016 - \$6,627) on office and miscellaneous, \$1,003 (2016 - \$Nil) on automobile, and \$1,000 (2016 - \$Nil) loss on sale of property.

## SUMMARY OF QUARTERLY RESULTS

(\$000's except earnings per share)

	March 31, 2017	December 31, <u>2016</u>	September 30, <u>2016</u>	June 30, <u>2016</u>
Revenue	\$ 0	\$ 0	\$ 0	\$ 0
NET LOSS	\$ (163)	\$ (211)	\$ (788)	\$ (40)
Basic and diluted Loss per share	\$ (0.01)	\$ (0.04)	\$ (0.39)	\$ (0.03)

	March 31, <u>2016</u>	December 31, <u>2015</u>	September 30, <u>2015</u>	June 30, <u>2015</u>
Revenue	\$ 0	\$ 0	\$ 0	\$ 0
NET LOSS	\$ (44)	\$ (55)	\$ (40)	\$ (57)
Basic and diluted Loss per share	\$ (0.04)	\$ (0.05)	\$ (0.03)	\$ (0.08)

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash at March 31, 2017 were \$834,718 compared to \$3,111 at June 30, 2016.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

### RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

The following amounts are due to related parties and have been included in accounts payable and accrued liabilities:

	<b>March 31, 2017</b>	<b>June 30, 2016</b>
	\$	\$
Accounts payable and accrued liabilities	72,135	117,792

The amounts are due to companies controlled by directors of the Company. The amounts are non-interest bearing, unsecured and are due upon demand.

The Company had the following related party transactions:

	<b>2017</b>	<b>2016</b>
	\$	\$
Expenses paid by director	4,200	-
Professional fees	40,000	16,800
Rent	-	6,750
Total	44,200	23,550

Professional fees and rent are paid to directors and companies controlled by directors of the Company.

Key management personnel receive compensation in the form of short-term employee benefits. Key management personnel include the directors of the Company. The remuneration of key management is as follows:

	<b>2017</b>	<b>2016</b>
	\$	\$
Management fees	76,748	60,750
	76,748	60,750

Management services were provided by companies owned by three directors of the Company.

### COMMITMENTS

The Company is obligated to make certain payments and issue shares in connection with the acquisition of its mineral property.

### SUBSEQUENT EVENTS

Pursuant to the terms of the agreement reached with the vendor, the company can acquire the property in consideration for the completion of a series of cash payments totalling \$1.2-million (U.S.), issuing 2.5 million common shares and incurring expenditures of at least \$700,000 (U.S.) on the property. Upon

completion of the payments, share issuances and expenditures, the company will hold a 100-per-cent interest in the property, subject to a 2-per-cent net smelter return royalty and a 1-per-cent net profit royalty.

The payments, share issuances and expenditures must be completed in accordance with the following schedule:

- At closing -- \$200,000 (U.S.) cash and 500,000 common shares;
- Six months from closing -- \$100,000 (U.S.) cash and 300,000 common shares;
- 12 months from closing -- \$200,000 (U.S.) cash, 400,000 common shares and expenditures of \$100,000 (U.S.);
- 24 months from closing -- \$300,000 (U.S.) cash, 500,000 common shares and expenditures of \$250,000 (U.S.);
- 36 months from closing -- \$400,000 (U.S.) cash, 800,000 common shares and expenditures of \$350,000 (U.S.).

Completion of the transaction with the vendor and the acquisition of the rights to the property remains subject to the satisfaction of a number of conditions, including the completion of filings with the Canadian Securities Exchange on behalf of the company, the approval of the TSX Venture Exchange on behalf of the vendor and certain other closing conditions as are customary in transactions of this nature. There can be no assurance that these outstanding conditions will be satisfied. The company will provide further information in respect of the transaction as soon as it is available.

## **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

### **New Accounting Standards Adopted by the Company**

There were no new or revised accounting standards applicable to the Company scheduled for mandatory adoption on July 1, 2015, and thus no standards were adopted in the current year.

### **Accounting Standards and Amendments Issued But Not yet Effective**

The following accounting standards were issued but not yet effective as of March 31, 2017:

#### ***IFRS 15 – Revenue from Contracts with Customers***

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact this standard may have on its financial statements.

#### ***IFRS 9 – Financial Instruments***

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") which is intended to reduce the complexity in the classification and measurement of financial instruments. In February 2014, the IASB tentatively determined that the revised effective date for IFRS 9 would be January 1, 2018. The Company is currently evaluating the impact the final standard may have on its financial statements.

## ***IFRS 7 – Financial Instruments: Disclosure***

IFRS 7 was amended to require additional disclosures on transition from IAS 39 to IFRS 9. The standard is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company is currently evaluating the impact the final standard may have on its financial statements.

## ***IFRS 16 – Leases***

IFRS 16 was issued on January 13, 2016, and will be effective for accounting periods beginning on or after January 1, 2019. Early adoption is permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting. The Company is currently evaluating the impact the final standard may have on its financial statements.

## **CRITICAL ACCOUNTING POLICIES**

### Share-based Compensation

The Company has a stock option plan, which is described in to the financial statements. The Company applies the fair value method to all share-based payments and to all grants that are direct awards of stock that call for settlement in cash or other assets. Compensation expense is recognized over the applicable vesting period with a corresponding increase in contributed surplus. When the options are exercised, share capital is credited for the consideration received and the related contributed surplus is decreased. The Company uses the Black Scholes pricing model to estimate the fair value of share-based compensation.

### Financial Instruments

Financial assets are classified into one of four categories:

- Fair value through profit or loss;
- Held-to-maturity;
- Available for sale; and
- Loans and receivables

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

#### *Financial assets at fair value through profit or loss (“FVTPL”)*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVTPL if

- It has been acquired principally for the purpose of selling in the near future;
- It is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

The Company does not have any assets classified as FVTPL assets, other than cash.

#### *Held-to-maturity (“HTM”)*

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as HTM investments.

### *Available-for-sale financial assets (“AFS”)*

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (i) loans and receivables, (ii) held-to-maturity investments or (iii) financial assets at FVTPL. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS monetary items, are recognized in other comprehensive income or loss. When an investment is derecognized, the cumulative gain or loss in the investment revaluation reserve is transferred to profit or loss.

### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value net against any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

### *Derecognition of financial assets*

A financial asset is derecognized when:

- The contractual right to the asset’s cash flows expire; or
- If the Company transfer the financial assets and substantially all risks and rewards of ownership to another entity.

### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occur after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of the estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of all financial assets is directly reduced by the impairment loss amount. With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

## **SHARE CAPITAL**

### Issued

The Company has 15,357,883 common shares issued and outstanding as at March 31, 2017 and May 30, 2017.

### Share Purchase Options

The Company has 310,000 stock options outstanding at March 31, 2017 and May 30, 2017.

### Share Purchase Warrants

The Company has 10,810,425 share purchase warrants outstanding at March 31, 2017 and May 30, 2017.

### Escrow Shares

The Company has 256,500 shares held in escrow as at March 31, 2017 and May 30, 2017.