

# **Cartier Iron Corporation**

## **Management's Discussion and Analysis**

This Management's Discussion and Analysis ("MD&A") provides discussion and analysis of the financial condition and results of operations of Cartier Iron Corporation (the "Company") for the 6 months ended June 30, 2019 and should be read in conjunction with the unaudited condensed interim financial statements and the accompanying notes which have been prepared in accordance with International Financial Reporting Standards.

The MD&A is the responsibility of management and is dated as of August 29, 2019.

All dollar amounts in the MD&A are stated in Canadian dollars unless otherwise indicated.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.cartieriron.com](http://www.cartieriron.com).

### **Forward-Looking Statements**

This MD&A may contain, without limitation, statements concerning possible or assumed future operations, performance or results preceded by, followed by or that include words such as "believes", "expects", "potential", "anticipates", "estimates", "intends", "plans" and words of similar connotation, which would constitute forward-looking statements. Forward-looking statements are not guarantees. The reader should not place undue reliance on forward-looking statements and information because they involve risks and uncertainties that may cause actual operations, performance or results to be materially different from those indicated in these forward-looking statements. The Company is under no obligation to update any forward-looking statements contained herein should material facts change due to new information, future events or other factors. These cautionary statements expressly qualify all forward-looking statements in this MD&A.

**See page 9 for Material assumptions and risk factors for forward-looking statements.**

### **The Company**

The Company is a public company engaged in the acquisition, exploration and development of mineral resource properties. The Company is a reporting issuer in Ontario and Alberta and its common shares are listed for trading on the Canadian Securities Exchange ("CSE") under the trading symbol "CFE".

### **Overall Performance**

#### **Private placement of units and flow-through units**

On June 7, 2019, the Company completed a private placement of 4,062,500 units at a price of \$0.08 per unit for gross proceeds of \$325,000. Each unit consisted of one common share and one-half of a warrant, with each whole warrant entitling the holder to purchase one common share for \$0.12 until December 7, 2020. If the closing price of the common shares is over \$0.25 for 20 consecutive trading days following the expiry of the 4-month hold period, the warrants must be exercised within 10 business days of the Company providing written notice, or they will be cancelled.

On June 7, 2019, the Company completed a private placement of 4,000,000 flow-through units at a price of \$0.10 per unit for gross proceeds of \$400,000. Each unit consisted of one common share and one-half of a warrant, with each whole warrant entitling the holder to purchase one common share for \$0.15 until December 7, 2020. If the closing price of the common shares is over \$0.25 for 20 consecutive trading days following the expiry of the 4-month hold period, the warrants must be exercised within 10 business days of the Company providing written notice, or they will be cancelled.

In connection with the private placements, the Company paid cash commissions of \$30,030 and issued 95,375 broker warrants entitling the holder to purchase one common share for \$0.12 until December 7, 2020 and 91,000 broker warrants entitling the holder to purchase one common share for \$0.15 until December 7, 2020.

#### **Investment in Eloro**

As at June 30, 2019, the Company held 2,812,500 Eloro common shares (December 31, 2018 - 2,543,500 common shares) representing 7.68% (December 31, 2018 - 7.09%) of the outstanding Eloro common shares. As at August 28, 2019, the Company's investment in Eloro had a fair value of \$731,250.

#### **Gagnon**

The Company owns a 55% interest in Round Lake (formerly known as Penguin Lake, Black Dan and Aubrey-Ernie) and Jeannine, consisting of 141 claims covering 74.68 square kilometres in the Fermont Iron Ore District in the Labrador Trough in northeastern Québec ("Gagnon").

Table 1: Summary of Gagnon Holdings

Property	Number of claims	Area (km <sup>2</sup> )
Round Lake (formerly known as Penguin Lake, Black Dan and Aubrey-Ernie)	120	63.51
Jeannine Lake	21	11.17
<b>Totals</b>	<b>141</b>	<b>74.68</b>

A joint venture was formed between the Company and Champion to incur additional exploration expenditures. If a joint venture partner does not fund its proportionate interest in the joint venture, its interest will be diluted and, when its interest is reduced below 10%, its interest would be reduced solely to a 1% royalty. The other joint venture partner will have the option to reduce the royalty from 1% to 0.5% by making a payment of \$3,000,000.

In the event that a joint venture partner proposes to acquire any property within 10 kilometres of Gagnon, the acquirer must offer the property at cost to the other party for inclusion in Gagnon.

As at June 30, 2019, facts and circumstances suggested that the carrying amount of Gagnon may exceed its recoverable amount. As required by International Financial Reporting Standard 6, *Exploration for and Evaluation of Mineral Resources* ("IFRS 6"), the Company assessed Gagnon for impairment. The Company concluded that there were a number of indicators of impairment, and accordingly, recorded an impairment of exploration and evaluation of \$3,294.

The Company has incurred the following cumulative exploration and evaluation expenditures on Gagnon:

Balance, December 31, 2018	\$ 3,877,545
Expenditures	13,623
Balance, June 30, 2019	3,891,168

As at June 30, 2019, Champion held 14,644,971 common shares of the Company (December 31, 2018 - 11,519,971), representing 22.35% of the outstanding common shares of the Company (December 31, 2018 - 25.48%). Pursuant to a standstill agreement, Champion may not sell or transfer more than 2,000,000 common shares during any 30-day period. One director of the Company is a director of Champion Iron Limited, the parent company of Champion.

### **Gagnon Holdings - Exploration**

The Gagnon Holdings are adjacent and in close proximity to Arcelormittal's Mont Reed property which encompasses the Mont Reed Mine deposit.

On December 19, 2013, the Company reported the completion of a National Instrument 43-101 compliant Mineral Resource Estimate ("MRE") for the Penguin Lake Project, authored by Abder Ladidi, P. Geo., an independent Qualified Person of MRB & Associates ("MRB") of Val d'Or, Quebec. Based on 10 drill holes totaling 3,315 m, the MRE reported 531 million tonnes ("Mt") grading 33.1% Total Iron ("FeT") of In-pit Inferred Resources at a 15% FeT cut-off grade. The global in-situ mineral resource of 534.8 Mt grading 33.1% FeT was subject to a Whittle pit optimization to estimate the portion of in-situ Mineral Resource within the pit shell. P&E Mining Consultants of Brampton, ON were contracted by MRB to run the pit shell using a 1.05:1.00 \$CDN:\$US exchange rate, a mining cost of \$2.50/Tonne, and a charge of \$18.10/Tonne for the total processing, G&A, and freight costs. The process recovery, estimated to be 82%, an iron ore price of \$1.77/dmtu, and a 48° overall pit-slope, were used to complete the Whittle pit optimization. The sensitivity of the resource estimates is demonstrated by comparing the proportion of the mineral resources that may be economically exploited within the optimized pit shell to the global in-situ resource. A summary of the Global In-Situ Mineral Resource Estimate is presented in Table 2 and the results of the In-Pit Mineral Resource are presented in Table 3.

Table 2: Global In-situ Mineral Resource Estimate, Penguin Lake Project

Cut-off Grade	Global Inferred Resources*				Below Cut-off			
	Tonnes (millions)	Grade			Tonnes (millions)	Grade		
		FeT%	CaO%	MgO%		FeT%	CaO%	MgO%
15%	534.8	33.1	3.1	2.8	0.0	0.0	0.0	0.0
20%	534.7	33.1	3.1	2.8	0.1	15.4	2.1	1.7
25%	531.4	33.2	3.0	2.8	3.4	23.2	4.7	3.0
30%	466.4	33.9	2.9	2.8	68.4	28.2	4.1	2.7

Table 3: In-Pit Mineral Resource Estimate, Penguin Lake Project

Cut-off Grade	In-Pit Inferred Resources*				Below Cut-off			
	Tonnes (millions)	Grade			Tonnes (millions)	Grade		
		FeT%	CaO%	MgO%		FeT%	CaO%	MgO%
<b>15%</b>	<b>531.2</b>	<b>33.1</b>	<b>3.1</b>	<b>2.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
20%	531.1	33.1	3.1	2.8	0.0	15.4	2.1	1.7
25%	527.8	33.2	3.0	2.8	3.4	23.2	4.7	3.0
30%	463.9	33.9	2.9	2.8	67.3	28.2	4.1	2.7

\* The quantity and grade of the reported Mineral Resources within the Project are categorized as Inferred Mineral Resources. Inferred Mineral Resources are that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from drill core. There is no guarantee that further exploration will upgrade the Inferred Mineral Resources to Indicated or Measured Mineral Resources. Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. The estimate of Inferred Mineral Resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues.

The 10 drill holes that define the MRE drilled only the southern portion of the deposit. The deposit occurs in the form of a multiply refolded tightly overturned synform that produces a bowl-like shape of shallow dipping iron formation host rock. No recent drilling has been completed in the northern portion of the deposit however, the strong correlation of magnetic response to where iron formation surfaces and a historic drill hole located in the NW portion of the deposit allow for projection of the modelled iron formation and an estimate of the exploration target potential<sup>1</sup>. The interpreted 3D model of iron formation includes an additional 700 to 900 million tonnes of similar grade as suggested by the current Inferred Resource, predominantly in the undrilled portion of the deposit to the north and northwest where additional resources might be identified.

A comparison of the current global in-situ mineral resource and in-pit mineral resource demonstrates the amenable geometry of the deposit to open-pit mining with 99+% of the in-situ resource occurring within the optimized pit shell. Furthermore, it is apparent that a natural geological cut-off grade exists for the modelled high-grade iron oxide deposit that is above the economic cut-off grade. As can be seen by the quantity and grade of below cut-off grade material at the higher cut-off grades, the natural cut-off grade of the deposit is near 25% FeT where only 0.6% of the material is below cut-off at an average grade of 23.2% and well above the economic cut-off grade of 15% FeT.

The current resource reported in the MRE comprises less than half of the modelled bowl-shaped deposit and makes the Penguin Lake deposit the largest iron resource in the southern Gagnon Terrane.

Through 2016 and 2017, the Company completed metallurgical testwork studies and investigated base-case process flowsheet aspects for the Penguin Lake deposit. Metallurgical test results announced by the Company on April 28, 2015, indicate that the iron at the Penguin Lake deposit will be most efficiently liberated by a 2-stage process designed to yield iron-fines to produce a final sinter product.

The metallurgical tests were targeted towards producing a concentrate of 65% iron (Fe) and 4.5% silica (SiO<sub>2</sub>) from an average sample-grade of 30% Fe. Stage-1 gravimetric separation tests by Wilfley Table on 18 samples returned average grades of 65.3% Fe, 4.5% SiO<sub>2</sub> and 1.1% MgO. Iron concentrate of similar grade (65% Fe / <4.5% SiO<sub>2</sub>) will be sought from the second-stage regrinding and magnetic separation process. Additional tests to determine the process model for optimal second-stage iron recovery are on-going. Overall iron recoveries of >80% are targeted for the 2-stage circuit. The maximum 4.5% SiO<sub>2</sub> content for the Penguin Lake concentrate is a value imposed by the Company, guided by today's selective-market requirement for the highest-quality iron concentrate.

On April 26, 2019, the Company announced its intention to define and build on the existing resource base at Penguin Lake with both exploration and definition drilling, in addition to the mineralogical studies and preliminary metallurgical testing completed to date. The Company plan to dispatch a technical team to the Penguin Lake site after winter breakup, in order

<sup>1</sup> Exploration Target Potential is not a Mineral Resource. There is insufficient work completed to estimate the quantity and grade or quality of the exploration target on the basis of geological evidence and sampling. There is no guarantee that further exploration will define additional mineral resources from any portion of the exploration target potential.

to prepare the property for an exploration program later this year.

The Company will evaluate the exploration programs at the Gagnon Holdings while managing its capital resources to ensure it has sufficient capital to support its ongoing operations. Further exploration and development of the Company's properties are contingent upon the Company raising an adequate amount of financing.

### **Big Easy**

The Company owns a 100% interest in Big Easy consisting of 507 mining claims (December 31, 2018 - 507) covering 126.8 square kilometres (December 31, 2018 - 126.8) located in Newfoundland and Labrador.

Pursuant to the definitive agreement, in order to complete the acquisition of Big Easy, the Company must issue common shares and incur exploration expenditures, as follows:

	<b>Common shares</b>	<b>Exploration expenditures \$</b>
Upon signing of definitive agreement (issued)	500,000	—
November 21, 2018 (issued and expended)	500,000	500,000
November 21, 2019	500,000	800,000
November 21, 2020	1,000,000	1,200,000
	<hr/> 2,500,000	<hr/> 2,500,000

On April 24, 2019, the Company and the vendors of Big Easy amended the terms of the definitive agreement so that the Company's commitments have been waived and postponed for the length of the period from the dates set forth in the definitive agreement and the date on which permitting issues related to the Big Easy watershed encumbrances are resolved to the Company's satisfaction.

The Company agreed to issue 100,000 common shares as a finder's fee, of which, 50,000 common shares with a fair value of \$4,500 have been issued and 50,000 common shares will be issued upon completion of the acquisition.

In the event that the Company does not issue common shares or incur exploration expenditures, the definitive agreement will terminate and the Company will transfer the mining licences and claims to the vendor.

The property is subject to a 3% net smelter royalty ("NSR"). The Company has options to further reduce the NSR by:

- (a) 0.25% until November 21, 2021 by making a payment of \$250,000; and
- (b) a further 0.25% until November 21, 2022 by making a payment of \$250,000.

In the event that the Company wishes to sell any or all of the property prior to November 21, 2020, the Company must obtain the permission of the vendor.

With respect to the common shares issued or to be issued to the vendor:

- a) the vendor will not grant a security interest in the common shares;
- b) the vendor has the right to sell tranches of less than 300,000 common shares;
- c) until November 21, 2021, the Company has a right of first refusal in the event that the vendor receives a third party offer to acquire any tranche of more than 300,000 common shares; and
- d) until November 21, 2021, the vendor shall not vote or encourage anyone else to vote against any resolution put before the shareholders of the Company upon the recommendation of the Board of Directors
- e) until November 21, 2021, the vendor shall not vote or encourage anyone else to vote in favour of:
  - (i) the election of board nominees that have not been proposed by the then Board of Directors, or
  - (ii) any shareholder resolution or proposal unless the Board of Directors recommends voting in favour of such shareholder resolution or proposal.

### **Big Easy-Exploration**

On May 1, 2018 the Company announced the successful completion of a 48-line kilometre Induced Polarization/Resistivity (IP/Res) survey at the Big Easy by MES Geophysics of St. John's, Newfoundland under the direction of Dr. Chris Hale, P.Geo., Chief Geophysicist for the Company.

Big Easy is a remarkably preserved and extensive low sulphidation epithermal gold-silver system that occurs on a prominent boundary between volcanic and sedimentary rocks in the Neoproterozoic Avalon Zone.

The new IP/Res data highlight an extensive mineralized epithermal system that includes both the Big Easy and ET mineralized zones where historical drilling intersected gold-bearing epithermal quartz veins including 6.05 g Au/t and 174 g Ag/t over 1.5m (Hole BE-11-13) and 7.65 g Au/t over 1.0m (Hole BE-11-07), (Newfoundland and Labrador, Department of Natural Resources, Mines Branch Assessment File Reports on the property). This chargeability anomaly can be traced over a strike length of more than four kilometres between the Big Easy and ET showings. This anomaly is open to the north and south. The Company previously staked an additional 98 claims to cover the potential northern extension bringing the total property to 467 claims covering 116.8 km<sup>2</sup>. These claims cover a potential strike length of 23.5km.

The Company's exploration strategy is to complete targeted exploration by stepping out and defining the epithermal system to better understand the structural controls on the distribution of mineralization especially focusing on potential bonanza grade zones. The first step, the IP/Res survey, has confirmed that there is an extensive mineralized zone on the Big Easy property. Higher chargeability anomalies occur over both the Big Easy and ET showings. Midway and to the southwest there are two additional prominent anomalies that may reflect mineralization at depth.

On August 30, 2018, the Company announced that it had commenced a drilling program at Big Easy. In total, four diamond drill holes were completed in the fall of 2018. Hole BE18-30 intersected a major new anomalous alteration zone grading 0.11 g Au/t and 2.65 g Ag/t over 180.4m core length on the western edge of the Central chargeability anomaly. The results from the drill program confirmed that the Central chargeability anomaly reflects an extensive zone of epithermal alteration and mineralization that is up to 200m wide with a depth extent of at least 250m (see press releases December 20, 2018 and January 16, 2019). The zone is open along strike and downdip. The grades are consistently anomalous throughout the entire section of this hole suggesting the potential for a well mineralized core zone in the strongest part of the chargeability anomaly.

The holes completed only tested the western and eastern edges of the Central anomaly due to the constraints of the bog which overlies the anomaly. The Central Anomaly sits on the north-eastern margin of a "Protected Public Water Supply" area centred on the Clarenville, NL area. This area is considered to be in the drainage basin for the Shoal Harbour River, which is the potable water supply for the town of Clarenville and environs. Drilling can be done within a "Protected Public Water Supply Area" but requires extensive additional permitting. While moving the drill sites out of the Area mitigates the additional permitting, it adds additional meterage to planned drill holes and drilling from the west is much less effective in evaluating the target as the mineralized zone dips steeply to the east.

This issue does not affect the Big Easy Zone, or the concessions to the north end of the property nor the south end of the property. However, as only the Big Easy Zone is sufficiently advanced for detailed work, with the rest of the property at a very early stage in exploration, the decision was made to suspend work at the Big Easy until such time as market and regulatory conditions improve for early stage exploration.

In light of the foregoing, the Company and the vendors of the Big Easy have amended the terms of the definitive agreement whereby the Company acquired a 100% interest in the Big Easy (see press releases October 31, 2017 and November 22, 2017) such that the Company's commitments pursuant to the definitive agreement have been waived and postponed for the length of the period from the dates set forth in the definitive agreement and the date on which the permitting issues related to the Big Easy watershed encumbrances are resolved to the Company's satisfaction.

Further information on Big Easy can be found in an independent National Instrument 43-101 Technical Report ("NI 43-101 Report") prepared by Mercator Geological Services Limited and filed by the Company on SEDAR ([www.sedar.com](http://www.sedar.com)) on June 5, 2018. The NI 43-101 Report summarizes all historical work on the property and has an effective date of April 20, 2018. Further exploration and development at Big Easy is contingent upon the Company raising an adequate amount of financing.

## **Risks and Uncertainties**

### ***Going concern***

The Company is in the exploration stage and has no revenue. As at June 30, 2019, the Company had a working capital deficit of \$367,673 and for the 6 months ended June 30, 2019, the Company recorded a loss of \$313,042 and incurred a cashflow deficit from operations of \$46,291. The working capital deficit, losses and cashflow deficit limit the Company's ability to fund operations and the acquisition, exploration and development of mineral resource properties. As a result, there is significant doubt about the Company's ability to continue as a going concern.

The continued operation of the Company is dependent upon the support of its creditors and the Company's ability to secure advances from related parties and equity financings to meet its existing obligations and finance the acquisition, exploration and development of mineral resource properties. The Company is actively seeking to raise the necessary advances and equity financing, however, there can be no assurance that additional financing will be available.

## Exploration

The Company is exposed to the inherent risks associated with mineral exploration and development, including the uncertainty of mineral resources and their development into mineable reserves; the uncertainty as to potential project delays from circumstances beyond the Company's control; and the timing of production; as well as title risks, risks associated with joint venture agreements and the possible failure to obtain mining licences.

## Results of Operations

	3 months ended June 30,		6 months ended June 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Expenses</b>				
Professional fees	1,804	8,499	8,888	15,499
Consulting fees	86,100	83,500	164,100	160,500
Stock-based compensation	—	16,000	—	16,000
General and administrative	52,744	54,046	68,653	102,040
Investor relations	6,847	29,643	19,956	46,547
Interest	1,709	—	3,565	—
Depreciation	10,582	—	21,164	—
Gain on sale of marketable securities	(8,033)	—	(8,033)	—
Decrease in fair value of marketable securities	19,671	15,495	8,991	20,639
Impairment of exploration and evaluation	10,329	6,372	13,623	11,766
Gain on settlement of accounts payable	—	(659,849)	—	(659,849)
Other recoveries	(8,162)	22	(8,162)	367
Part XII.6 tax	—	—	—	139
	173,592	(446,273)	292,747	(286,351)
Loss before loss on investment in associate	(173,592)	446,273	(292,747)	286,351
Dilution gain on change in interest in associate	—	5,102	13,261	24,861
Share of loss of an associate	(16,906)	(26,874)	(33,556)	(44,378)
Loss before income taxes	(190,498)	424,500	(313,042)	266,834
Deferred income taxes	—	24,727	—	43,092
Loss and comprehensive loss	(190,498)	449,227	(313,042)	309,926

### 6 months ended June 30

The Company incurred a loss of \$313,042 compared to income of \$309,926 in the comparative period of the previous year. The variance was due to a gain of \$659,849 on the settlement of accounts payable recorded in the comparative period of the previous year.

### 3 months ended June 30

The Company incurred a loss of \$190,498 compared to income of \$449,227 in the comparative period of the previous year. The variance was due to a gain of \$659,849 on the settlement of accounts payable recorded in the comparative period of the previous year.

## Summary of Quarterly Results

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
	\$	\$	\$	\$	\$	\$	\$	\$
		(note 1)		(note 2)		(note 3)		
Revenue	—	—	—	—	—	—	—	—
Income (loss)								
- Total	(158,423)	(431,031)	(139,301)	449,227	(135,601)	(819,561)	(122,544)	(190,498)
- Per share	(0.004)	(0.011)	(0.003)	0.009	(0.003)	(0.015)	(0.002)	(0.003)

## Notes

1. Loss for Q4 2017 reflects an impairment of exploration and evaluation of \$571,802.
2. Income for Q2 2018 reflects a gain on settlement of accounts payable of \$659,849.
3. Loss for Q4 2018 reflect the reversal of a gain on settlement of accounts payable of \$659,849 recorded in Q2 2018.

## Liquidity and Capital Resources

### Capital resources

At June 30, 2019, the Company had a cash balance of \$470,111 and an investment in Eloro with a fair value of \$703,125.

As the Company is in the exploration stage and has no revenue, the Company has financed its operations with advances from related parties and equity financings. The Company is dependent upon the support of its creditors and the Company's ability to secure advances from related parties and equity financings to meet its existing obligations and to fund its working capital requirements and the acquisition, exploration and development of mineral properties.

### Estimated working capital requirements for 2019

	\$
Corporate and general costs (note 1)	200,000
Claim renewals and work commitments	15,000
	<hr/> 215,000

Note 1: Excluding consulting fees to management, the payment of which is being deferred, corporate and general costs for the years ended December 31, 2018 and 2017 were approximately \$240,000 and \$185,000, respectively. For the year ended December 31, 2019, the Company estimates its corporate and general costs at approximately \$200,000. For the 6 months ended June 30, 2019, excluding consulting fees to management, the Company incurred general costs of \$98,000.

Management is of the opinion that sufficient working capital will be obtained from advances from related parties and equity financings to meet the Company's liabilities and commitments as they become due. In the event that the Company is not able to obtain sufficient working capital from related parties and equity financings, the Company could consider selling Eloro common shares.

### Transactions with Related Parties

	6 months ended June 30, 2019 \$	Outstanding as at June 30, 2019 \$
<b>Consulting fees</b>		
Gambier Holdings Corp., a company controlled by Thomas G. Larsen, for his services as Chief Executive Officer	60,000	78,047
Alexander Horvath, a director	6,000	23,730
Marlborough Management Limited, a company controlled by Miles Nagamatsu, for his services as Chief Financial Officer	45,000	117,000
J. Estepa Consulting Inc., a company controlled by Jorge Estepa, for his services as Vice President and Corporate Secretary	45,000	117,000

### Champion holdings in common shares of the Company

Champion holds 14,644,971 common shares of the Company, representing approximately 22.35% of the outstanding common shares of the Company.

### New standards and interpretations not yet adopted

On January 1, 2019, the Company adopted *IFRS 16, Leases* ("IFRS 16"). According to IFRS 16, a contract is or contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. With exceptions for certain short-term leases and leases of low-value assets, IFRS 16 requires a lessee to recognize lease contracts as a right-of-use asset representing its right to use an identified asset for a period of time and a lease liability representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying the standard as an adjustment to retained earnings and no restatement of comparative information which continues to be reported under *IAS 17, Leases*. The Company is a party to one lease for office premises

The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability and any lease payments made at or before the commencement date. Right-of-use assets are subsequently depreciated from the commencement date of the lease to the earlier of the end of the lease term or the end of the useful life of the asset. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability.

The lease liability is initially recognized as the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's applicable incremental borrowing rate. The incremental borrowing rate is the rate which the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset. The lease liability is subsequently measured by reducing the carrying amount to reflect lease payments made and to reflect any reassessments or modifications.

At January 1, 2019, the impact of adopting IFRS 16 on the Company's statement of financial position was as follows:

<b>Assets</b>	<b>\$</b>
Right-of-use asset	126,981
<b>Liabilities</b>	
Current	
Current portion of lease liabilities	39,820
Lease liabilities	87,160
	126,981

### **Financial Instruments and Other Instruments**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### *Cash, accounts payable and accrued liabilities and due to Eloro*

The fair values of cash, accounts payable and accrued liabilities and due to Eloro at June 30, 2019 approximated their respective carrying value due to their short term to maturity.

#### *Marketable securities*

The fair value of marketable securities is estimated based on observable inputs.

#### *Classification of fair value of financial instruments*

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1: quoted prices in active markets for identical assets and liabilities;

Level 2: inputs, other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3: inputs for the asset or liability that are not based on observable market data

Marketable securities are classified as Level 1 financial assets.

### **Financial risk management**

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration and financing activities, including credit risk, liquidity risk and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

### **Credit risk**

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash and due from Eloro. The Company's limits its exposure to credit risk on its cash by holding deposits with high credit quality Canadian chartered bank.



### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due, other than amounts owing to related parties. The continued operation of the Company is dependent upon the Company's ability to secure equity financing to meet its existing obligations and finance the acquisition, exploration and development of oil and properties. Accounts payable and accrued liabilities are subject to normal trade terms and the amount due to Eloro is due on demand.

### **Market risk**

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments.

#### *Equity price risk*

Equity price risk arises from the Company's marketable securities. The Company's approach to managing equity price risk is to optimize the return from its marketable securities within acceptable parameters for equity price risk. The Company estimates that if the fair value of its marketable securities as at June 30, 2019 had changed by 10%, with all other variables held constant, the income would have increased or decreased by \$1,925.

#### *Currency risk*

Currency risk arises from the Company's financial instruments and purchases that are denominated in a currency other than the Canadian dollar, the Company's functional currency. As all of the Company's purchases are in Canadian dollars, the Company limits its exposure to currency risk by maintaining its cash in Canadian dollars.

#### *Interest rate risk*

The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments.

### **Capital management**

Capital of the Company consists of share capital, contributed surplus and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can acquire, explore and develop mineral resource properties for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors has not established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As the Company is an exploration stage company and has no revenues, its principal source of capital is from the issue of common shares or advances from related parties. In order to achieve its objectives, the Company intends to raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

### **Material assumptions and risk factors for forward-looking statements**

The following table outlines certain forward-looking statements contained in this MD&A and provides material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

<b>Page</b>	<b>Forward-looking statement</b>	<b>Assumption</b>	<b>Risk factor</b>
7	Liquidity and Capital Resources "Management is of the opinion that sufficient working capital will be obtained from advances from related parties and equity financings to meet the Company's liabilities and commitments as they become due."	Advances from related parties and equity financings will be obtained.	The Company is unable to obtain future financing to meet its liabilities and commitments as they become due.

## Other Information

### **Additional disclosure for venture companies without significant revenue**

The following table sets forth a breakdown of material components of the general and administration costs, capitalized or expensed exploration and development costs of the Company for the periods indicated.

#### **General and administrative expenses**

	6 months ended June 30,	
	2018	2018
	\$	\$
Office	50,426	81,143
Public company costs	18,201	20,898
	68,627	102,040

The reduction in general and administrative costs reflects efforts to conserve cash.

#### **Exploration and evaluation**

	December 31, 2018	Exploration expenditures	Junior Exploration Assistance grant received	Writedowns	June 30, 2019
	\$	\$	\$	\$	\$
<b>Property</b>					
Gagnon	—	3,294	—	(13,623)	—
Big Easy	939,587	42,245	(58,839)	—	948,826
	939,587	45,539	(58,839)	(13,623)	948,826

#### **Shares outstanding as at August 29, 2019**

##### *Authorized:*

Unlimited number of common shares.

##### *Outstanding:*

65,535,221 common shares.

#### **Stock options**

##### *Authorized:*

6,553,522 stock options, representing 10% of the issued and outstanding common shares.

##### *Outstanding:*

Exercise price	Expiry date	Number of stock options issued and exercisable
\$0.10	July 9, 2020	3,025,000
\$0.15	April 10, 2023	200,000
		3,225,000

#### **Warrants**

##### *Outstanding:*

Exercise price	Expiry date	Number of warrants
\$0.12	March 19, 2020	5,000,000
\$0.15	March 19, 2020	2,000,000
\$0.12	December 7, 2020	2,126,625
\$0.15	December 7, 2020	2,091,000
		11,217,625