

# **EVERTON RESOURCES INC.**

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

**For the three month period ended January 31, 2020**

## **Everton Resources Inc.**

### Management's Discussion & Analysis

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This Management's Discussion and Analysis ("MD&A") for Everton Resources Inc. (the "Company" or "Everton") should be read in conjunction with the condensed consolidated interim financial statements for the three month period ended January 31, 2020 and the consolidated financial statements for the years ended October 31, 2019 and 2018 and the notes thereto.

The financial information in this MD&A is derived from the Company's condensed consolidated interim financial statements for the three month period ended January 31, 2020, which were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). The effective date of this MD&A is March 24, 2020.

### **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

This MD&A contains or may refer to certain statements that may be deemed "forward-looking statements". Forward-looking statements include estimates and statements that describe the Company's future development plans, objectives or goals, including words to the effect that the Company expects a stated condition or result to occur. Forward-looking statements may be identified by such terms as "anticipates", "believes", "could", "estimates", "expects", "may", "shall", "will", or "would". Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties. Forward-looking statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices for mineral commodities; exploration successes; new opportunities; continued availability of capital and financing; general economic, market or business conditions; and litigation, legislative, environmental or other judicial, regulatory, political and competitive developments. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. Everton does not undertake to update any forward-looking statement that may be made from time to time by Management or on its behalf, except in accordance with applicable public disclosure rules and regulations. Readers are cautioned not to place undue reliance on forward looking statements.

### **BUSINESS OVERVIEW**

Everton Resources Inc. ("Everton" or the "Company") was incorporated under the Business Corporations Act (Alberta) on November 7, 1996 and commenced operations on December 19, 1996. In November 2002, the Company commenced its current nature of operations which involves the acquisition, exploration, and evaluation of mineral resource properties. Everton and its subsidiaries (the "Company") are in the exploration stage and do not derive any revenue from the exploration and evaluation of their properties. The address of the Company's corporate office is 38 Scott Road, Chelsea, Quebec, J9B 1R5. Everton's common shares are listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "EVR".

#### Arrangement Agreement with Molecule Inc.

On November 27, 2019, the Company entered into a definitive arrangement agreement with Molecule Inc. ("Molecule") pursuant to which Everton will acquire (the "Proposed Transaction") all of the issued and outstanding securities of Molecule, by way of plan of arrangement (the "Plan of Arrangement"), which will result in the shareholders of Molecule holding the majority of outstanding shares of Everton upon closing of the Proposed Transaction (the "Resulting Issuer").

Molecule, a private Ontario corporation, is a beverage formulation, manufacturing and distribution company that holds a Standard Processing Licence under the Cannabis Act and Regulations. Molecule will provide the capacity, knowledge and licensing required to produce and co-package craft cannabis-infused beverages.

Prior to the closing of the Proposed Transaction, it is anticipated that the Company will apply to list its common shares on the Canadian Securities Exchange ("CSE") and voluntarily delist its common shares from the TSX

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Venture Exchange (the "TSXV"). It is expected that the Company will delist from the TSXV concurrently with the listing on the CSE immediately following the completion of the Proposed Transaction.

The Proposed Transaction is considered a "related party transaction" as such term is defined by Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions and Policy 5.9 of the TSXV, since the CEO and director of Everton is also the CEO, director and shareholder of Molecule, and the CFO of Everton, is also the CFO of Molecule. As a result, Everton will need to obtain the approval of the majority of the minority of shareholders in respect of the Proposed Transaction. The Proposed Transaction is exempt from the formal valuation requirements set out in the foregoing regulatory instruments due to the fact that the shares of Everton are listed on the TSXV.

The board of directors of Everton constituted an independent committee of three independent board members (the "Independent Committee") to analyze the Proposed Transaction. The Independent Committee concluded that the Proposed Transaction is in the best interest of Everton and has provided a recommendation to shareholders in the Company's circular, which has been mailed out to Everton shareholders in connection with the approval of the Proposed Transaction.

As a condition of the Proposed Transaction, Everton will effect a consolidation (the "Consolidation") of its issued and outstanding common shares on the basis of one new common share (each a "Everton Share") for every ten (10) common shares of Everton issued and outstanding on the effective date of the Consolidation. In addition, prior to the closing, it is expected that Everton will change its corporate name to "Molecule Holdings Inc" or such other name as may be determined by the board of directors (the "Name Change").

Molecule is incorporated under the Business Corporations Act (Ontario) and currently has 74,400,100 common shares issued and outstanding. Pursuant to the Proposed Transaction, one Everton share will be issued for each common share of Molecule (the "Molecule Share(s)") issued and outstanding immediately prior to the completion of the Proposed Transaction, at a deemed value of \$0.30 per Everton Share.

As a condition to the closing of the Proposed Transaction, Molecule intends to complete a private placement offering ("Private Placement") of units (the "Molecule Units"), for a minimum of \$2 million, each Molecule Unit consisting of one common share of Molecule and a minimum of one-half of one share purchase warrant, with final terms to be determined by the parties in the context of the market.

Concurrently with, and as a condition of, the closing of the Proposed Transaction, creditors of Everton will convert \$243,100 of indebtedness into an aggregate of 810,333 Everton Shares at a deemed issue price of \$0.30 per share. All the foregoing indebtedness is due to the CEO of Everton, for advances and loans that he has made to Everton in order to satisfy Everton's minimum working capital needs in the absence of any reasonable third-party alternatives.

Post-consolidation and following the completion of the Proposed Transaction, the Resulting Issuer is anticipated to have a total of 84,523,880 common shares issued and outstanding, subject to increase in accordance with the terms of the Arrangement Agreement, including in particular, with respect to the Private Placement. The Resulting Issuer is also anticipated to have 4,457,750 options or warrants (post-Consolidation), exercisable into common shares of the Resulting Issuer, issued and outstanding upon completion of the Proposed Transaction.

The Independent Committee has also negotiated, and Molecule has agreed, that in connection with, and immediately prior to, the closing of the Proposed Transaction, Everton intends to create and issue preferred shares ("Preferred Shares"), on the basis of one Preferred Share for every issued and outstanding Everton Share on the record date to be established by the Board of Directors of Everton, to shareholders of Everton. The record date for the issuance of the Preferred Shares is expected to be the same as the record date for the special meeting to be called in connection with the Proposed Transaction. The purpose of the Preferred Shares is to provide the current Everton shareholders with a right to receive, on a pro rata basis, an economic benefit, subject to an aggregate maximum of up to \$500,000, in the event that any of the Everton mining

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royalties are triggered and generate revenue within a maximum period of five (5) years from the date of the issuance of the Preferred Shares. The Preferred Shares would provide that, if triggered, the Preferred Shares would be redeemable, on a pro rata basis, for cash up to an aggregate maximum of \$500,000. The Preferred Shares would otherwise not have any rights or recourses.

Completion of the Proposed Transaction will be subject to the satisfaction of various conditions, including (i) the completion of the Private Placement in the minimum amount of \$2 million, (ii) the filing of articles of amendment to give effect to the Name Change, the Consolidation and the creation of the Preferred Shares, (iii) the receipt of the approval of the majority of the minority of Everton's shareholders, as well as the approval of a special majority of Molecule's shareholders of the Proposed Transaction, (iv) the satisfaction or waiver of all applicable conditions precedent, and (v) the receipt of conditional approval from the CSE for the proposed listing of the shares of the Resulting Issuer on the CSE.

### **GOING CONCERN**

The condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. The Company is in the exploration stage and has not earned revenue from operations. As at January 31, 2020, the Company has working capital of \$172,337 and a deficit of \$52,836,517. The Company has no income or cash inflow from operations. Continued operation of the Company is dependent on financial support through completion of equity financings, or the achievement of profitable operations in the future. Such material uncertainties cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient. The condensed consolidated interim financial statements do not include any adjustments to the carrying value of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary should the Company be unable to continue as a going concern and these adjustments could be material.

### **EXPLORATION OUTLOOK**

As of March 24, 2020, the date of this MD&A, the only mineral property which Everton continues to hold an interest in is its Opinaca property, in Quebec, Canada.

#### DOMINICAN REPUBLIC PROPERTIES

In January 2019, the Company completed the sale of its three remaining mineral concessions in the Dominican Republic, known as the Cabirma de Cerro, Mermejil and Arroyo Carpintero properties, in accordance with a Mineral Property Purchase and Sale Agreement (the "Sale Agreement") with Precipitate Gold Corp. ("Precipitate"). Upon closing, Everton received \$25,000 and 7,000,000 common shares of Precipitate, with a fair value of \$770,000, based on the quoted market price of Precipitate shares on the TSX Venture Exchange at the time, for total consideration of \$795,000. The Company recognized a gain of \$279,876 on the sale of these mineral exploration properties during the 2019 fiscal year.

#### CANADIAN PROPERTIES

##### Opinaca

The Opinaca A property is adjacent to the northern boundary of Goldcorp's Eleonore property hosting the Roberto gold deposit containing a significant proven and probable gold reserves estimate. The Opinaca B property is located about 8 km southeast of the Eleonore property.

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On December 9, 2004, the Company signed an option agreement with Azimut Exploration Inc. ("Azimut") to earn a 50% undivided interest in the Opinaca property by incurring a minimum of \$2,800,000 in exploration work and making cash payments totaling \$180,000 over 5 years. The Company made the cash payments and incurred the required exploration expenditures to earn its initial 50% interest in the property.

On November 15, 2011 (amended on November 1, 2013), the Company and Azimut Exploration Inc. ("Azimut") executed an option agreement with Hecla Mining Company, formerly Aurizon Mines Ltd., ("Hecla") whereby Hecla could acquire a 50% ownership interest in the Opinaca property (leaving each of the Company and Azimut with 25%), by making total cash payments of \$580,000, \$290,000 of which was payable to Everton, and incurring exploration expenditures of \$6,000,000, including a minimum of 3,800 metres of drilling prior to November 15, 2013 and 1,200 metres of drilling prior to November 15, 2014.

On November 7, 2013, the Company announced that Hecla had informed them of its intent to renew its option on the Opinaca A & B gold properties, for a third year.

In December 2014, Hecla advised the company that it would drop its option on the Opinaca A property while retaining its option on the Opinaca B property.

As at January 31, 2020, the Company holds a 25% interest in the Opinaca B property, with the remaining interest held by Azimut (25%) and Hecla (50%). Hecla is currently the operator.

As at January 31, 2020, the Company holds a 50% interest in the Opinaca A property, with the remaining 50% interest held by Azimut.

During the year ended October 31, 2019, the Company wrote down the carrying value of the property to \$1 and recorded a write-down of mineral exploration properties and exploration and evaluation assets in the amount of \$3,095,636 (\$260,449 of mineral exploration property costs and \$2,835,187 of exploration and evaluation costs).

### Chapais

On December 5, 2017, the Company entered into an option agreement with Albert Mining Inc. ("Albert Mining") to earn up to a 75% interest in seven mining claims located in the Chapais mining district of Quebec. To earn the 75% interest, the Company was to pay \$30,000 in cash, incur exploration expenditures totaling \$370,000 over a three-year period, and issue to Albert Mining a total of 2,500,000 common shares at two separate dates during the three-year period.

During the year ended October 31, 2019, the Company terminated the option agreement with Albert Mining, wrote down the cost of the Chapais property to \$Nil and recorded a write-down of mineral exploration properties and exploration and evaluation assets in the amount of \$149,882. This was based on the Company's decision that poor exploration results to date did not warrant further exploration on the property.

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As at January 31, 2020 and October 31, 2019, the carrying values of the Company's mineral exploration properties and exploration and evaluation assets were as follows:

|                           | January 31, 2020                     |   | October 31, 2019                     |   |
|---------------------------|--------------------------------------|---|--------------------------------------|---|
|                           | Mineral<br>exploration<br>properties | Exploration and<br>evaluation<br>assets | Mineral<br>exploration<br>properties | Exploration and<br>evaluation<br>assets |
|                           | \$                                   | \$                                      | \$                                   | \$                                      |
| <b>Dominican Republic</b> |                                      |   |                                      |   |
| a) Cabirma del Cerro      | -                                    | -                                       | -                                    | -                                       |
| b) Arroyo Carpintero      | -                                    | -                                       | -                                    | -                                       |
|                           | -                                    | -                                       | -                                    | -                                       |
| <b>Canada (Quebec)</b>    |                                      |   |                                      |   |
| c) Opinaca                | 1                                    | -                                       | 1                                    | -                                       |
| d) Chapais                | -                                    | -                                       | -                                    | -                                       |
|                           | 1                                    | -                                       | 1                                    | -                                       |
| <b>TOTAL</b>              | <b>1</b>                             | <b>-</b>                                | <b>1</b>                             | <b>-</b>                                |

The following table reflects the changes to mineral exploration properties and exploration and evaluation assets for the period from October 31, 2018 to January 31, 2020:

|   | Three months<br>ended<br>January 31, 2020 | Year<br>ended<br>October 31, 2019 |
|---|---|-----------------------------------|
|   | \$  | \$                                |
| Balance, beginning of the year  | 1   | 3,730,643                         |
| Additions to mineral exploration properties   | -   | 30,000                            |
| Sale of mineral exploration properties and<br>exploration and evaluation assets       | -   | (515,124)                         |
| Write-down of mineral exploration properties and<br>exploration and evaluation assets | -   | (3,245,518)                       |
| Balance, end of the year  | 1   | 1                                 |
| Mineral exploration properties  | 1   | 1                                 |
| Exploration and evaluation assets   | -   | -                                 |
|   | 1   | 1                                 |

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**SELECTED FINANCIAL INFORMATION**

The following selected financial information is derived from the Company's condensed consolidated interim financial statements for the three month period ended January 31, 2020, which were prepared in accordance with IFRS:

| For the three month period ended January 31        | 2020      | 2019   |
|--|-----------|--------|
|  | \$        | \$     |
| Net (loss) earnings                                | (332,329) | 42,794 |
| Comprehensive (loss) income                        | (332,329) | 42,794 |
| Basic and diluted (loss) earnings per common share | (0.0036)  | 0.0005 |

|                                | January 31, | October 31, |
|--------------------------------|-------------|-------------|
| As at                          | 2020        | 2019        |
|                                | \$          | \$          |
| Cash                           | 207,738     | 4,775       |
| Marketable securities          | 460,260     | -           |
| Long-term investment           | -           | 964,250     |
| Mineral exploration properties | 1           | 1           |
| Total assets                   | 704,506     | 978,134     |
| Total liabilities              | 532,168     | 473,467     |

**PAYMENT OF DIVIDENDS**

Since its incorporation, the Company has not paid any cash dividends on its outstanding common shares. Any future dividend payment will depend on the Company's financial needs to fund its exploration and development programs, future growth, and any other factors the board may deem necessary to consider. It is highly unlikely that any dividends will be paid in the near future.

**RESULTS OF OPERATIONS**

During the three month period ended January 31, 2020, the Company recorded a net loss and total comprehensive loss of \$332,329, as compared to net earnings and total comprehensive income of \$42,794 during the three month period ended January 31, 2019, a variance of \$375,123. The variance was primarily attributable to the following items: (i) gain on sale of mineral exploration properties, (ii) writedown of mineral exploration properties and exploration and evaluation assets and (iii) change in fair value of financial assets at fair value through profit or loss, as further described below:

- (i) During the three month period ended January 31, 2020, the Company recognized a gain on sale of mineral exploration properties of \$Nil, as compared to \$279,876 during the three month period ended January 31, 2019. The gain was recognized in connection with the sale of the Company's three remaining concessions in the Dominican Republic.
- (ii) During the three month period ended January 31, 2020, the Company recorded a writedown of mineral exploration properties and exploration and evaluation assets of \$Nil, as compared to \$149,882 during the three month period ended January 31, 2019. The writedown was recorded in connection with the Company's decision to discontinue exploration work on its Chapais property, as poor exploration results to date did not warrant further exploration on the property.
- (iii) During the three month period ended January 31, 2020, the Company recorded a decrease in fair value of financial assets at fair value through profit or loss of \$263,159, as compared to an increase

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of \$1,250 during the three month period ended January 31, 2019, a variance of \$264,409. The variance is a result of fluctuations in the market price of the Company's financial assets measured at fair value through profit or loss.

**SUMMARY OF QUARTERLY RESULTS**

The following information has been derived from the eight most recently completed quarters, all presented in accordance with IFRS:

|                            | <b>January 31,</b> | <b>October 31,</b> | <b>July 31,</b> | <b>April 30,</b> |
|----------------------------|--------------------|--------------------|-----------------|------------------|
| For the three months ended | <b>2020</b>        | <b>2019</b>        | <b>2019</b>     | <b>2019</b>      |
|                            | <b>\$</b>          | <b>\$</b>          | <b>\$</b>       | <b>\$</b>        |
| Net loss                   | (332,329)          | (2,854,338)        | (39,443)        | (69,366)         |
| Comprehensive loss         | (332,329)          | (2,854,338)        | (39,443)        | (69,366)         |
| Basic and diluted loss     |                    |                    |                 |                  |
| per common share           | (0.0036)           | (0.0306)           | (0.0004)        | (0.0007)         |

|                                   | <b>January 31,</b> | <b>October 31,</b> | <b>July 31,</b> | <b>April 30,</b> |
|-----------------------------------|--------------------|--------------------|-----------------|------------------|
| For the three months ended        | <b>2019</b>        | <b>2018</b>        | <b>2018</b>     | <b>2018</b>      |
|                                   | <b>\$</b>          | <b>\$</b>          | <b>\$</b>       | <b>\$</b>        |
| Net earnings (loss)               | 42,794             | (163,164)          | (38,358)        | (98,818)         |
| Comprehensive income (loss)       | 42,794             | (163,164)          | (38,358)        | (98,818)         |
| Basic and diluted earnings (loss) |                    |                    |                 |                  |
| common share                      | 0.0005             | (0.0017)           | (0.0004)        | (0.001)          |

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's liquidity depends on existing cash reserves and its ability to dispose of its marketable securities, supplemented as necessary by equity and/or debt financings. As at January 31, 2020, the Company had working capital of \$172,337, including cash of \$207,738, marketable securities of \$460,260 and current liabilities of \$532,168.

During the three month period ended January 31, 2020, the Company used cash of \$37,868 to fund operating activities.

The Company does not have any exploration obligations on its properties. Any exploration projects undertaken by the Company are at the sole discretion of the Company.

**OFF-BALANCE SHEET ARRANGEMENTS**

As at January 31, 2020 and as of the date of this MD&A, the Company does not have any off-balance sheet arrangements.

**PROPOSED TRANSACTIONS**

As outlined in the Business Overview section of this MD&A, the Company has entered into a definitive arrangement agreement pursuant to which Everton will acquire all of the issued and outstanding securities of Molecule, which will result in the shareholders of Molecule holding the majority of outstanding shares of Everton upon closing of the proposed transaction.



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As at the date of this MD&A, other than the arrangement agreement with Molecule, there are no proposed asset or business acquisitions or dispositions.

**RELATED PARTY TRANSACTIONS**Transactions with key management personnel

Related parties include the Board of Directors and key management personnel, as well as close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. Unless otherwise stated, none of these transactions incorporated special terms and conditions and no guarantees were given or received.

Remuneration of directors and key management personnel of the Company was as follows:

|                 | Three months ended January 31, |        |
|-----------------|--------------------------------|--------|
|                 | 2020                           | 2019   |
|                 | \$                             | \$     |
| Consulting fees | 30,000                         | 43,500 |
| Benefits        | -                              | 1,008  |
|                 | 30,000                         | 44,508 |

During the three month period ended January 31, 2020, consulting fees of \$15,000 were paid/payable to a Corporation owned by Andre Audet, the Company's CEO, for services rendered as CEO of the Company (2019 - \$30,000). In addition, short-term benefits in the amount of \$Nil were paid on his behalf (2019 - \$1,008). As at January 31, 2020, unpaid consulting fees in the amount of \$150,400 remain outstanding and payable to Andre Audet and have been included in accounts payable and accrued liabilities (\$135,400 as at October 31, 2019).

During the three month period ended January 31, 2020, consulting fees of \$15,000 were paid/payable to Brendan Stutt, the Company's CFO, for services rendered as CFO of the Company (2019 - \$Nil).

During the three month period ended January 31, 2020, consulting fees of \$Nil were paid/payable to a Corporation owned by Lucie Letellier, the Company's former CFO, for services rendered as CFO of the Company (2019 - \$13,500).

Loan Payable

As at January 31, 2020, the Company has a loan payable to the CEO of the Company in the amount of \$192,700 (\$192,700 as at October 31, 2019). The loan is non-interest bearing and has no specific terms of repayment.

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**FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT**Financial instruments

The Company's financial instruments consist of cash, marketable securities, long-term investment, accounts payable and accrued liabilities and loan payable. Marketable securities and long-term investment are carried at fair value. The fair value of the Company's other financial instruments approximates their carrying value due to their short-term nature.

The classification of financial instruments is as follows:

|  | January 31,<br>2020 | October 31,<br>2019 |
|--|---------------------|---------------------|
|  | \$                  | \$                  |
| <b>Financial assets</b>                  |                     |                     |
| Amortized cost                           |                     |                     |
| Cash                                     | 207,738             | 4,775               |
| Fair value through profit or loss        |                     |                     |
| Marketable securities                    | 460,260             | -                   |
| Long-term investment                     | -                   | 964,250             |
| <b>Total financial assets</b>            | <b>667,998</b>      | <b>969,025</b>      |
| <b>Financial liabilities</b>             |                     |                     |
| Amortized cost                           |                     |                     |
| Accounts payable and accrued liabilities | (339,468)           | (280,767)           |
| Loan payable                             | (192,700)           | (192,700)           |
| <b>Total financial liabilities</b>       | <b>(532,168)</b>    | <b>(473,467)</b>    |

Risk management

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include credit risk, liquidity risk and market risk. Where material, these risks are reviewed and monitored by the Board of Directors.

*(i) Credit risk*

Credit risk is the risk of an unexpected loss if a party to its financial instruments fails to meet its contractual obligations. The Company's financial assets exposed to credit risk are primarily composed of cash. The Company's cash is held at reputable financial institutions with high external credit ratings. It is Management's opinion that the Company is not exposed to significant credit risk.

None of the Company's financial assets are secured by collateral or other credit enhancements.

Management considers that all the above financial assets that are not impaired or past due for each of the reporting dates are of good credit quality. There are no financial assets that are past due but not impaired for the periods presented.

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#### *(ii) Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity.

#### *(iii) Market risk*

The Company holds shares in a publicly listed company in the mineral exploration industry. The Company is exposed to market risk regarding these shares as unfavorable market conditions could result in the disposal at less than their value at January 31, 2020. As at January 31, 2020, the value of these listed shares was \$460,260. At January 31, 2020, had the price for these publicly listed shares been 10% lower, the comprehensive loss for the period would have been \$46,026 greater. Conversely, had the price been 10% higher, the comprehensive loss would have been \$46,026 less.

#### Capital management

The Company manages its capital to ensure its ability to continue as a going concern in order to maintain its properties in good standing, support normal operating requirements, continue the exploration and evaluation of its mineral properties and support any expansionary plans, and to provide an adequate return to its shareholders. In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or acquire or dispose of assets. In order to facilitate the management of its capital requirements, management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company prepares annual budgets that are updated as necessary depending on various factors including successful capital deployment and general industry conditions.

There were no significant changes to capital management policies of the Company during the three month period ended January 31, 2020.

## **CHANGE IN ACCOUNTING POLICIES**

The Company has not had any changes in accounting policies, other than the adoption of new mandatory standards under IFRS as well as amendments to existing standards, for the three month period ended January 31, 2020.

## **RISK AND UNCERTAINTIES**

Mineral exploration and development of mineral properties involves significant risks, many of which are outside of the Company's control. In addition to the normal and usual risks of exploration and mining, the Company often works in remote locations that lack the benefit of infrastructure and easy access.

#### *Financial Risk*

The Company is considered to be in the exploration stage, and it is dependent on obtaining regular financing in order to continue exploration. Despite previous success in acquiring such financing, there is no guarantee of obtaining any future financing, or that it will be available on acceptable terms.

The prices of metals fluctuate widely and are affected by many factors outside of the Company's control. The

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relative prices of metals and future expectations for such prices have a significant impact on the market sentiment for investment in mining and mining exploration companies.

*Risk on the Uncertainty of Title*

Although the Company has taken steps to verify title to mining properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title.

*Environmental Risk*

The Company is subject to various environmental incidents that can occur during exploration work. The Company maintains an environmental management system including operational plans and practices.

**CRITICAL ACCOUNTING ESTIMATES**

See Note 2 to the Company's consolidated financial statements for the years ended October 31, 2019 and 2018.

**NEW ACCOUNTING POLICIES ISSUED BUT NOT YET EFFECTIVE**

See Note 2 to the Company's consolidated financial statements for the years ended October 31, 2019 and 2018.

**OUTSTANDING SHARE DATA**

Common shares and convertible securities outstanding at March 24, 2020, consist of:

| <b>Security</b> | <b>Expiry date</b>      | <b>Range of<br/>exercise price</b> | <b>Securities<br/>outstanding</b> |
|-----------------|-------------------------|------------------------------------|-----------------------------------|
|                 |                         | <b>\$</b>                          | <b>#</b>                          |
| Common shares   | -                       | -                                  | 93,134,470                        |
| Warrants        | Up to February 21, 2021 | 0.07                               | 16,267,500                        |
| Stock options   | Up to February 24, 2022 | 0.05 - 0.13                        | 3,300,000                         |

**ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

Additional information on the Company is available on SEDAR ([www.sedar.com](http://www.sedar.com)).