

**MAG ONE PRODUCTS INC.**

**Management's Discussion & Analysis**

**Year Ended September 30, 2016**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
YEAR ENDED SEPTEMBER 30, 2016  
FORM 51-102F1**

***DATE AND SUBJECT OF REPORT***

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The following Management's Discussion & Analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of the operations of Mag One Products Inc., ("Mag One", the "Corporation", or the "Company") for the year ended September 30, 2016.

This MD&A should be read in conjunction with the Company's consolidated financial statements for the same period. The Company's financial statements and other important information of the Company such as press releases and informational circular are available at [www.sedar.com](http://www.sedar.com). This MD&A has been prepared effective as of January 28, 2016.

***FORWARD LOOKING STATEMENTS***

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*The information set forth in this MD&A contains statements concerning future results, future performance, intentions, objectives, plans and expectations that are, or may be deemed to be, forward-looking statements. These statements concerning possible or assumed future results of operations of the Company are preceded by, followed by or include the words 'believes,' 'expects,' 'anticipates,' 'estimates,' 'intends,' 'plans,' 'forecasts,' or similar expressions. Forward-looking statements are not guarantees of future performance. These forward looking statements involve a number of risks and uncertainties, including the impact of general economic conditions, industry conditions, and changes in Canadian and foreign laws and regulations, increased competition, fluctuations in real estate properties market, foreign exchange, and interest rates and stock market volatility. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and while many of which underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. Mag One is not obligated to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.*

*The following table outlines certain significant forward-looking statements contained in this MD&A and provides the 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><i>Forwarding looking statements</i></b>	<b><i>Assumptions</i></b>	<b><i>Risk factors</i></b>
<i>The Company intends to finance the Company's operations by additional related party financing, sale of shares, joint ventures or other forms of partnership financing.</i>	<i>Based on the Company's understanding of current capital market</i>	<i>The Company may lose support from related parties and the capital market may not be available to provide financing.</i>

## OVERALL PERFORMANCE

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Mag One was incorporated on June 18, 2007 in British Columbia, Canada. The Company's head office is located at Suite 145 – 925 Georgia Street West, Vancouver, V6C3L2. The Company's shares are currently traded on the Canadian Securities Exchange (“CSE”) under the symbol “MDD and are also listed on the Börse Frankfurt stock exchange (“Frankfurt”) with the ticker symbol “304” and on the OTCQB, symbol, “MGPRF”.

The Company's principal business is the development and commercialization of technologies for the processing and production of magnesium (Mg) metal and Mg-related compounds and by-products.

Following is a summary of other significant operating events of the Company:

### Research and Development

During fiscal 2016 Mag One amended its contract with Jeffrey Mines to secure an additional 20 Million tonnes of Serpentine Tailings for a total of 50 million tonnes. Mag One's serpentinite (magnesium silicate-rich) feed stock contains not only ~22% magnesium, but also ~18% silicon and ~0.23% nickel.

Mag One retained a team of consultants to conduct an independent confirmation (“proof of process”) investigation of the Company's innovative technologies for producing high-purity MgO (magnesium oxide or “magnesia”), which can either be sold directly via offtake agreements or converted to other valuable magnesium products such as magnesium hydroxide, Mg(OH)<sub>2</sub>, and magnesium metal, Mg. Ms. Gillian Holcroft, President of Mag One Operations Inc., the Company's wholly-owned subsidiary in Quebec, is responsible for coordinating the work of this team. The team is headed by Professor Gervais Soucy Department of Chemical and Biotechnological Engineering at the Université de Sherbrooke (UdS) in Quebec, with important assistance provided by Dr. Jean-Marc Lalancette and Mr. Denys Pinard, M.Sc. and most recently Mrs. Yu-Mei Han (senior metallurgist). This team was chosen considering not only their extensive experience with serpentinite processing, but also their ability to identify opportunities for producing commercially viable, value-added byproducts. It was agreed that any new intellectual property developed by this team during the course of their work will be the property of Mag One.

To date, results of their efforts have shown that Mag One's MgO manufacturing processes have the potential to produce greater than 98 weight percent pure MgO, as well as a saleable byproduct with a per-tonne commercial value that *could* be equal to greater than the MgO product. More specifically it has been shown that the silicon contained within the serpentinite can be transformed into high-value amorphous silica (SiO<sub>2</sub>), which has commercial applications in the construction industry as a replacement for silica fume in concrete and in the rubber tire industry as a replacement for carbon black. Furthermore, the iron residue from the magnesium recovery process has been projected to contain 2.4% nickel, which has potential value for existing nickel recovery operations. Therefore, Mag One's MgO + SiO<sub>2</sub> manufacturing will be essentially a near zero discharge operation, as the mass of solid waste generated will be very small and non-hazardous.

Mag One has also been in discussions with North American and European companies that are showing great interest in offtake agreements for its high purity magnesium compounds and silica co-product(s). In order to secure these agreements and to ensure that the manufactured products meet the purity and morphology characteristics needed to garner the highest price per tonne, Mag One decided to move forward with the construction and operation of a small pilot plant to generate MgO and SiO<sub>2</sub> for testing and certification by third parties. It was decided to work with the newly formed Centre d'Innovation Minière de la MRC des Sources. Mag One will become the first client of this non-profit organization and applied for QC government support for this effort. It is anticipated that the pilot plant will be up and running by Q1/Q2 2017 and will operate for 4 months to produce MgO and SiO<sub>2</sub>.

In conjunction with Mag One's efforts to produce high purity MgO and silica, work, lead by the COO Dr. James Blencoe and Dr. Jagmohan Singh, is ongoing at Mag One's US based operations, MagOne Operations Inc. (TN), to advance the method for transforming the high purity MgO into magnesium metal.

In addition to working with experts at UdS, Mag One engaged SNC Lavalin in Australia to carry out an independent review of the economics of its novel process for producing MgO and amorphous silica. SNC was chosen for this mandate as their lead engineer has over 30 years of experience with complex hydrometallurgical flowsheets. A draft version of SNC's report was received in August. The company decided to carry additional test work to firm up specific equipment and design parameters. Once this information is in hand, Mag One expects the final version of this report to be completed by Q1 2017 which will provide an independent CAPEX/OPEX estimate for one of Mag One's methods of producing high-purity MgO and amorphous silica.

During fiscal 2016, Mag One collected 50 samples of serpentinite. Internal results demonstrated that the material contained approximately 22% Mg and 18% Si. Mag One also engaged a surveyor to map the tailings area. Mag One entered a revised agreement to secure 50 million tonnes of this material from Mine Jeffrey Inc. at a cost per tonne of the rock that was reduced from \$1.50 to \$1.00/tonne; paid only as it is used.

In May 2016, the Company announced that it had engaged Dr. Jagmohan Singh, a former post-doc at the renowned Oak Ridge National Laboratory (ORNL) in Tennessee, to provide key technical assistance to COO Dr. Jim Blencoe not only to advance Mag One's innovative MgO and Mg production concepts, but also to develop similar modular production technologies for manufacturing lithium hydroxide, LiOH, and lithium carbonate, Li<sub>2</sub>CO<sub>3</sub>, from spodumene, LiAlSi<sub>2</sub>O<sub>6</sub>.

In late spring a process flow diagram for manufacturing 99.9 wt. % pure Mg ingots from the Company's Mg silicate ore was prepared by Jim Blencoe and consultant Andy Felker, President, PROCESS Engineering International, LLC. Comments on the technical and economic feasibility of the manufacturing method were received from several of the Company's advisors and consultants

In 2016 Mag One executed a revised JV Agreement with MagBoard LLC, via its wholly-owned subsidiary, Mag One Operations Inc. and formed a new joint venture company called Magboard Products Inc., ("MPI"). The intent is to develop an assembly plant in Quebec (adjacent to the site of Mag One's huge stockpile of serpentinite tailings) to assemble the ROK-ON™ Structural Insulated Sheathing. MPI's sheathing panels are magnesium-based structural insulated wall systems that are fire, rot, termite, mold and impact resistant. ROK-ON™ systems substantially reduce the number of layers commonly used in construction to meet new code mandates. This performance allows builders to meet new codes at a lower installed cost, in less time than conventional plywood, gyproc/drywall, or other options. Since finishes can be directly applied to ROK-ON™, these products are ideally suited to prefabrication, a trend gaining substantial momentum on construction. It is important to note that when Mag One has a surplus of MgO in the future, this can be used by MPI for the production of the core section of these boards in Quebec.

During fiscal 2016 the Company engaged patent agents to assist with the filing of additional patents related to its proprietary innovative technology. This effort is ongoing.

### Investor Relations

In August 2016, the Company initiated major market awareness campaigns in both North America and Europe and engaged various investor relations consultant on a short-term basis, and the in-house consultant, Mr. Hussein Jiwani.

### Government Assistance

Transaction within fiscal 2016:

In November 2015, the Company's application for a grant from the Canadian Government's Industrial Research Assistance Program was approved for its novel Mg technology. As at June 30, 2016, the Company has received IRAP funding of \$36,285.

Transactions after September 30, 2016:

In December 2016, Investissement Quebec has been authorized to grant the Company's wholly owned subsidiary, Mag One Operations Inc. non-refundable contribution of up to \$495,000 under the Economic Diversification Fund (MRS des Sources Program). The contribution is for the construction of the first phase of the Company's planned HydroMetallurgical Pilot Plant for the production of high purity MgO.

#### Business Acquisition and Combination

Transaction within fiscal 2016:

On July 21, 2016, the Company executed a JV agreement with Magboard LLC ("MagBoard"), a private US company, to form a new company Magboard Products Inc., ("MPI") in Quebec for magnesium based wallboard at a new assembly plant adjoining Mag One's processing plant. Once Mag One's operations produce surplus MgO, MPI aims to manufacture magnesium based wallboard entirely at the Quebec site. The specific site location near Danville, QC was identified in June, and negotiations are ongoing for a lease-to-buy arrangement.

The has certain financial and logistical obligations to fulfill to own 50% of MPI

Transactions after September 30, 2016:

MagPower is a private Magnesium Air Battery technology company with which the Company has an accepted offer to purchase the shares of MagPower for \$100 plus a certain royalty on sales of any products produced. Closing has not occurred as both companies' Boards need to review the agreement and Mag One has hired Blue Coast/J. Swider to undertake a commercial feasibility study.

#### Financing Summary

Transaction within fiscal 2016:

- 1,111,111 security units were issued in May 2016 at \$0.90 per unit. Each unit consisted of one common share and one share purchase warrant. Each full warrant is exercisable to one common share at \$1.10 per share within one year after issuance. The exercise is subject to an acceleration clause of thirty days in the event the Company's share traded at \$2.00 per share over ten consecutive trading days. In accordance with the residual method adopted by the Company, no value has been attributed to these warrants.
- 550,000 security units were issued at \$1.00 per unit. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable into one common share at \$1.10 per share for two years after issuance. In accordance with the residual method adopted by the Company, \$99,000 has been allocated from the share capital to warrant reserve to account for the issuance of these 550,000 warrants in connection with these security units.
- 365,000 warrants exercised into 365,000 common shares for \$219,000.

The Company intends to secure more equity financing and secure offtake agreements to defray capital and operating expenditures while increasing working capital for its various projects and plants so that it will be able to give its customers with an economical consistent supply of ultrapure products.

Transactions and proposed transactions after September 30, 2016:

- Company initiated a private placement for the issuance of 5,000,000 security units (\$1.00/unit) for gross proceeds of \$5,000,000. Each unit will consist of one common share and one share purchase warrant, which can be exercised into one common share at \$1.10 for a period of one year after issuance. This private placement is not closed as of the date of this report
- The Company has received \$620,000 short term financing from various related parties and arm's length parties. The Company intends to repay these short term financing with the proceeds from the proposed private placement
- 45,000 warrants were exercised into common shares

## OUTLOOK

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### Business outlook

Mag One's goal is to become a low-cost and environmentally friendly manufacturer of high-purity Mg compounds and Mg metal, and to expand its operations in a modular fashion. The idea is that an initial small modular system will generate sufficient revenues to enable expansion of manufacturing as offtake agreements are secured, market demand warrants and financing arranged. Production of magnesium wallboard, high-purity Mg compounds, high purity amorphous silica, and Mg metal in one or more locations near its source of Mg silicate ore will allow the same management infrastructure to manage/operate all of the Company's modular operations, which will help reduce labour costs.

Because Mag One's manufacturing operations are largely decoupled, the Company can execute these efforts as distinct projects. Thus, in the case of producing high-purity MgO and Mg metal, Mag One can start the permitting, engineering and construction efforts for the MgO production facility while important optimization test work is carried out in parallel on the Company's Mg metal production technology. This strategy allows for a standalone MgO facility to begin operations and generate revenues as quickly as possible. In addition, the ability to begin construction and operation of the standalone Magboard facility (refer to the discussion regarding MBE in the previous section) will help to reduce the overall fixed costs of Mag One's management infrastructure, making overall operations more cost effective.

Mag One is encouraged by the support it has received to date from both the Quebec and Federal Governments. On December 5<sup>th</sup> Mag One was invited to a press conference by the Member of Parliament for Richmond and the Parliamentary Assistant to the Prime Minister. It was announced at the press conference that Investissement Québec has been authorized to grant Mag One Operations Inc., ("Mag One Ops") (the Company's wholly-owned operating subsidiary) financial assistance, in the form of a non-refundable contribution of up to four hundred ninety-five thousand dollars (\$495,000.) under the Economic Diversification Fund – MRC des Sources Program. This significant contribution towards the first Phase of Mag One's HydroMetallurgical Pilot Plant to produce high-purity magnesium oxide ("MgO") and SiO<sub>2</sub> will go towards the purchase of essential pilot equipment, onsite Project Manager, labour and engineering costs. As previously mentioned, this pilot plant is essential to verify to potential customers and companies interested in offtake agreements, the grain size and quality of the products produced prior to pricing and quantities. The production of excellent quality and high-purity MgO is the precursor to the Company's ultimate goal of producing Mg metal.

Mag One intends to seek additional government support for its Magboard Joint Venture. The intent is to procure the necessary assembly equipment and to work with MRC des Sources who have shown a willingness to finance the construction of a new facility in the region using MPI's ROK-ON products to help showcase the product. In turn Mag One would rent to own this facility.

Mag One has also made efforts to commercialize the MagPower technology with the consulting provided by the Blue Coast Systems, LLC, ("Blue Coast") headed by Joseph A. Swider, B.Sc. Mech. Eng., of Richmond, Virginia and former U.S. Naval Officer. Swider has 25 years of experience in international, domestic and federal markets ranging from advanced cyber technology, sensor systems, industrial operations including Mining and Metals, Oil and Gas, Energy sectors as well as various U.S. Federal Departments. Swider's mandate as a strategic advisor is to investigate commercialization of MagPower System Inc.'s magnesium-air battery technology for commercial, retail, humanitarian and industrial applications. Mag One is confident that Mr. Swider will be instrumental in helping to quickly the market pull for this technology with the ultimate goal of rapid commercialization.

## SELECTED ANNUAL INFORMATION

The following table includes selected annual information of the last three recent years:

	2016	2015	2014
	\$	\$	\$
Revenue	-	-	-
Loss from continued operations	(5,544,256)	(600,841)	(154,512)
Loss from continued operations per share, basic and diluted	(0.17)	(0.02)	(0.01)
Net income (loss)	(5,544,256)	306,790	(646,680)
Earnings (loss) per share, basic and diluted	(0.17)	0.01	(0.02)
Non-current liabilities	-	-	184,936
Total assets	504,196	440,377	12,437,980
Cash dividend	-	-	-

During the second half of fiscal 2015, the Company has spun out all of the subsidiaries that were making investment in real estate and farming projects, and changed its principal business into development and commercialization of technologies for the processing and production of magnesium (Mg) metal and Mg-related compounds and by-products. As a result, the amount of total assets reduced significantly in 2015 comparing to 2014. Also the Company incurred a higher losses in 2016 as the Company has increased its business activities in fiscal 2016 significantly. The Company expects to incur more expenditures in fiscal 2017 to develop its magnesium businesses.

## SUMMARY OF QUARTERLY RESULTS

The Company's operations in these past eight quarters are not subject to seasonality.

The Company expects the operating losses to increase in the next few years as funds will be required to engineer and commercialize the acquired technology for the manufacturing of the pure Mg metal and Mg compounds. The Company does not expect to earn revenue from these activities before Q3 or Q4 2017, unless it is successful in procuring an offtake agreement, or securing major financing.

The table below sets out the recent eight quarterly information of the Company.

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue (a)	-	-	-	-	-	-	-	-
Net income (loss) from continued operations	(1,289,545)	(343,527)	(407,855)	(3,503,329)	(388,515)	(82,796)	(92,400)	(37,130)
Income (loss) per share, basic and diluted	(0.05)	(0.01)	(0.01)	(0.11)	(0.01)	(0.00)	(0.00)	(0.00)
<i>(a) Revenue that was reported in previous MD&amp;A from 2015Q1 to 2015Q3 have been reclassified to income/loss from discontinued operations</i>								

## RESULTS OF OPERATIONS

### Year ended September 30, 2016 (“Fiscal 2016”)

The Comparison of the Company’s results of Fiscal 2016 to the Fiscal 2015 is as follows:

	Year ended September 30,		ref	2016-2015
	2016	2015		
	\$	\$		\$
<b>Expenses</b>				
Access fee	–	100,990	1	(100,990)
Amortization	26,180	–		26,180
Business development	–	125,000	1	(125,000)
Consulting	552,873	95,108	2	457,765
Office and administration	41,865	90,434		(48,569)
Promotion and investor communication	438,313	–	2	438,313
Research	530,833	71,720	2	459,113
Professional	32,002	35,643		(3,641)
Share-based compensation	3,741,520	–	3	3,741,520
Travel	74,580	–	2	74,580
Trust and filing fees	98,648	42,434	2	56,214
<b>Total operating expenses</b>	<b>5,536,814</b>	<b>561,329</b>		<b>4,975,485</b>
Lose before other items	(5,536,814)	(561,329)		(4,975,485)
Interest	(7,442)	–		(7,442)
Loss on arrangement	–	(39,512)	4	39,512
<b>Loss from continued operations</b>	<b>(5,544,256)</b>	<b>(600,841)</b>		<b>(4,943,415)</b>
<b>Income (loss) from discontinued operations</b>	<b>–</b>	<b>907,631</b>	4	<b>(907,631)</b>
<b>Net Income (loss)</b>	<b>(5,544,256)</b>	<b>306,790</b>		<b>(5,851,046)</b>

1	<i>These are one-time fees incurred when the Company started to get into magnesium business in Fiscal 2015.</i>
2	<i>During Fiscal 2016, the Company engaged additional consultants, advisors to conduct research work as well as business combination and acquisition in connection with the business of magnesium. The Company also engaged several consultants in connection with marketing awareness campaigns in updating investors and potential investors about the development of the Company.</i>
3	<i>The Company granted 3,870,000 options (300,000 of them were cancelled) to its directors/consultants/management during Fiscal 2016. All of the options granted vested immediately. There were no options granted or vested during Fiscal 2015. As a result, share-based compensation increased.</i>
4	<i>These are the charges related to the corporate restructuring conducted in Fiscal 2015. No similar transactions in Fiscal 2016.</i>



### ***Three Months ended September 30, 2016 (“2016 Q4”)***

The Comparison of the Company’s results of 2016 Q4 to 2015 Q4 is as follows:

	<b>2016 Q4</b>	<b>2015 Q4</b>	<b>Ref</b>	<b>2016-2015 Q4</b>
	\$	\$		\$
<b>Expenses</b>				
Access fee	–	100,990	iv	(100,990)
Amortization	26,180	–		26,180
Business development	–			–
Consulting	235,288	176,275	i	59,013
Office and administration	(274)			(274)
Promotion and investor communication	251,515	–	i	251,515
Research	191,999	71,720	i	120,279
Professional	32,002			32,002
Share-based compensation	474,320		ii	474,320
Travel	17,568		i	17,568
Trust and filing fees	56,475		i	56,475
<b>Total operating expenses</b>	<b>1,285,073</b>	<b>348,985</b>		<b>936,088</b>
Lose before other items	(1,285,073)	(348,985)		(936,088)
Interest	(4,472)	–		(4,472)
Loss on arrangement	–	(39,512)		39,512
<b>Loss from continued operations</b>	<b>(1,289,545)</b>	<b>(388,497)</b>		<b>(901,048)</b>
<b>Income (loss) from discontinued operations</b>	<b>–</b>	<b>1,270,673</b>		<b>(1,270,673)</b>
<b>Net Income (loss)</b>	<b>(1,289,545)</b>	<b>882,176</b>		<b>(2,171,721)</b>
i	<i>During 2016 Q4, the Company engaged additional consultants, advisors to conduct research work as well as business combination and acquisition in connection with the business of magnesium. The Company also engaged consultants in connection with a marketing awareness campaign in updating investors and potential investors about the development of the Company.</i>			
ii	<i>The Company granted 470,000 options to its consultants during 2016 Q4. All of the options granted vested immediately. There were no options granted or vested during 2016 Q4. As a result, share-based compensation increased.</i>			
iii	<i>These are the charges related to the corporate restructuring conducted in Fiscal 2015. No similar transactions in 2016 Q4</i>			

### ***LIQUIDITY & CAPITAL RESOURCES***

Financing of operations has been achieved primarily by equity and debt financing. On September 30, 2016, the Company had a cash balance of \$217,299 and working capital of \$33,450. The Company is not subject to external working capital requirements.

Management realizes that the capital and liquidity on hand is not adequate for the Company to achieve its long-term business objectives. In December 2016, the Company proposed a new round of private placement to raise \$5,000,000 for the issuance of 5 million of security units at \$1.00/unit. The Company has also issued various

short-term promissory notes for \$620,000. The Company will use the proceeds from the new private placement to fully repay these short-term promissory notes and for its working capital.

While the Company was able to raise financing when needed in the past, there is no guarantee that the Company can do so in the future.

During Fiscal 2016 the Company used \$168,467 in construction of a laboratory and purchase of equipment. The Company also received \$1,869,000 from its financing activities (\$1,451,000 from security units' issuance, \$219,000 from warrants exercised, and \$100,000 from a promissory note borrowing)

### ***TRANSACTIONS WITH RELATED PARTIES***

#### Compensation paid to key management and directors

The following are the remuneration of the Company's key management personnel and directors:

Year ended September 30,		<b>2016</b>	<b>2015</b>
Chairman of the board	Consulting	\$ 96,000	\$ 24,000
Chairman of the board	Business development	-	125,000
Chief executive officer ("CEO").	Consulting	96,000	24,000
President and CEO of a subsidiary	Consulting	96,000	24,000
A director of the Company	Consulting	3,000	-
Companies with common directors	Consulting	6,000	-
Chairman of the board and a company controlled by the Chairman	Shared-based compensation	973,997	-
A company controlled by the CEO	Shared-based compensation	512,630	-
President and CEO of a subsidiary	Shared-based compensation	307,578	-
Chief Financial Officer	Shared-based compensation	102,526	-
Other directors	Shared-based compensation	\$ 512,630	\$ -

#### Amounts due to related parties

September 30,	<b>2016</b>	<b>2015</b>
Chairman of the board of directors	\$ -	\$ 24,000
CEO and a Company related to the CEO	6,000	24,000
Note payable due to the CEO	103,750	-
Companies with common directors and management	6,300	3,586
Family member of director of NAMP LLC	-	2,142
	<b>\$ 116,050</b>	<b>\$ 53,728</b>

#### Note payable

As at September 30, 2016 the Company had a promissory note payable of \$100,000 owing to the CEO and the CEO's affiliate. This note payable is unsecured, bears interest of 5% per annum, and payable on demand. An amount of \$3,750 interest payable is included as at September 30, 2016.

Except the note payable discussed in the above, amounts owing to related parties do not bear any interest, are unsecured and are due on demand.

## *OUTSTANDING SHARE DATA*

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As of the date of this MD&A, the Company has 34,380,283 common shares outstanding. The Company also has 2,908,611 share-purchase warrants and 3,570,000 stock options that can be converted to common shares of the Company on a one-to-one basis.

## *OFF BALANCE SHEET ARRANGEMENTS*

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The Company does not have off-balance sheet arrangements.

## *PROPOSED TRANSACTIONS*

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Other than the proposed private placement that have been disclosed in the section “Liquidity”, the Company does not have proposed transactions that have material effects to the Company.

## *SIGNIFICANT ACCOUNTING POLICIES*

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The Company has not adopted new accounting policies since its recent year ended September 30, 2015. Details of the Company’s significant accounting policies is available at the Note 3 of the Company’s audited financial statements for the year ended September 30, 2016.

## *FINANCIAL INSTRUMENTS AND RISKS*

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The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company’s primary exposure to credit risk is on its cash which is held in bank accounts. As most of the Company’s cash is held by two banks, there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

### Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company’s is not exposed to foreign exchange risk.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company’s exposure to interest rate risk is minimal.

### Liquidity Risk

Liquidity risk is the risk that the Company may be unable to meet its financial obligations as they fall due. The Company reviews its working capital position regularly to ensure there is sufficient capital in order to meet short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

## Fair value

Financial instruments that are not measured at their fair values are cash, other receivable, accounts payable and accrued liabilities, due to related party, and note payable. The fair values of these financial instruments approximate their carrying amounts either due to their short-term nature or because the interest rates applied to measure their carrying amount approximate current market rates.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company does not have financial instruments measured at fair value

## Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	September 30, 2016	September 30, 2015
Loans and receivables:	\$	\$
Cash	207,239	367,396

Financial liabilities included in the statement of financial position are as follows:

	September 30, 2016	September 30, 2015
Non-derivative financial liabilities:	\$	\$
Trade payables	168,362	93,701
Due to related party	103,750	53,728
	272,112	147,429

## RISK FACTORS

Risks of the Company's business include the following:

### *Competition*

Magnesium Metal is a competitive market and the ability to secure offtake agreements with magnesium metal clients and customers is critical. The key to success is to ensure that the Corporation is consistently a low cost ultrapure magnesium metal (and Mg-related byproducts and compounds) producer compared to its competitors. The Corporation's second largest asset is its innovative, proprietary and patented technologies and processes which in themselves could lead to the production of other products and licensing of its technologies.

### *New Business*

The Company currently does not have any contractual customers. To mitigate this risk, the Corporation is actively in discussion with several large companies who have shown great interest in purchasing the Corporation's magnesium based products. However, there is a risk that the Company may not be able to find sufficient customers at the early stages.

### Market

The profitability of the Corporation's operations is significantly affected by changes in the market prices of the products. The level of interest rates, the rate of inflation, and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

### Project Execution Risk

The business is based on a novel, low-cost modular method for producing magnesium metal and magnesium oxide. Although the majority of the unit operations are commercially proven, several key processing steps need to undergo a technical and economic review and possible testing prior to engineering and construction. To mitigate this risk, this capital and operating cost review will be carried out by an independent engineering firm prior to detailed engineering design and construction of the facility.

Once the detailed engineering design is complete, there are no guarantee that the processing facility will be built on time and on budget. Any delays in receiving the appropriate environmental and construction permits, construction delays, as well as ramp up to full capacity may materially impact the Corporation's financial performance and cash flow. This risk, however is being mitigated through the design and construction of a modular facility. This approach limits the financial exposure and helps to ensure adequate cash flow prior to expanding production through additional modular units.

### Key Personnel

The loss or departure of the Corporation's key management personnel, (if not immediately replaced) would have a material impact on delivering the novel magnesium processing facility. This risk is mitigated through the engagement of technology experts who can intervene in such an instance. Once the design basis is complete this risk is further mitigated

The facility will be located in an industrial community and as such the ability to engage qualified personnel to operate the facility is deemed to be a low risk.

### Product Quality

The unique Magnesium process is designed to produce 99.9% wt. magnesium metal ingots. If the processing steps result in inconsistent product quality, then the Corporation may not be able to fulfill its contractual agreements to its customers which could adversely impact its financial performance, if the Company's other products sales are not high enough to compensate.

In addition to producing Magnesium ingots, the process is also designed to produce significant quantities of secondary Mg-related products for sale to customers. If the quality of these secondary products does not meet market specifications, then these compounds and related byproducts could also be sold to customers.

### Consumable and Raw Material costs

The process is based on processing on-grade, already-mined, serpentine tailings to produce magnesium metal and other related Mg byproducts. The Corporation has secured a long-term agreement for the raw material supply at a fixed price. This contract ensures a long-term raw material supply and as such this risk has been mitigated. In addition, there may be an option to acquire more tailings at a very discounted price.

Because the process is based on game-changing technologies and unique modular plant design, the risk of higher consumable pricing from third parties has also been mitigated. In addition, the location of the production facility in Canada, specifically the province of Quebec is in a mining, industrial-friendly, abundance of skilled labor and extremely low-cost electrical power jurisdiction.

### Property Damage

The facility will be insured against loss of property as well as other insurances to protect against certain risks. The Corporation, however cannot insure against operator error, improper maintenance, and general equipment failure. As such these events may increase the overall operational costs of the facility and thus impact the profitability of the Corporation.

### Environmental and Safety Compliance

The processing facility will be designed and constructed to meet all required environmental, health and safety standards. Although best practices will be used to design, construct and operate the facility, there is always a risk that operator error or equipment failure will result in environmental and/or safety non-compliance.

### Intellectual Property

The Corporation has significant know-how which will be protected through the filing of patents as well as the issuance of non-disclosure agreements for specific know-how and business confidential information. Although every effort will be made to ensure that the Corporation's IP and know-how are protected, there is a risk that the Competition and/or employees will not respect their legal obligations and the Corporation may be forced to take legal action.

## **FINANCIAL AND DISCLOSURE CONTROLS AND PROCEDURES**

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Venture issuers are not required to include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109"). In particular, the Company's certifying officers are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's generally accepted accounting principles.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they make. Investors should be aware that inherent limitations on the ability of the Company's certifying officers to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## *OFFICERS AND DIRECTORS*

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Lucky Janda, CEO, Director

Nelson Skalbania, Co-Chairman & Director

Dr. James Blencoe, Co-Chairman, Chief Operating Officer & Director

Jared Scharf, CFO

Sonny Janda, Director

Charn Deol, Director