

MONTEGO RESOURCES INC.

Management Discussion and Analysis

For the six months ended December 31, 2016

The Management Discussion and Analysis (“MD&A”), prepared on February 28, 2017 should be read in conjunction with the unaudited condensed interim financial statements and the notes thereto for the six month period ended December 31, 2016 of Montego Resources Inc. (“Montego” or the “Company”) and the Company’s audited financial statements with accompanying notes and related MD&A for the fiscal year ended June 30, 2016 which have been prepared in accordance with International Financial Reporting Standards. Additional information relating to the Company including the Company’s Annual Information Form is available on SEDAR at www.sedar.com.

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

DESCRIPTION OF BUSINESS

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

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

EXPLORATION AND EVALUATION ASSET

	Acquisition Costs	Exploration Costs	Total
	\$	\$	\$
Balance, June 30, 2014	10,000	109,535	119,535
Acquisition costs paid in cash	15,000	-	15,000
Acquisition costs paid in shares issued	8,500	-	8,500
Other exploration costs	-	44,927	44,927
Balance, June 30, 2015	33,500	154,462	187,962
Exploration recovery	-	(25,384)	(25,384)
Balance, June 30, 2016	33,500	129,078	162,578
Acquisition costs paid in shares issued	501,000	-	501,000
Balance, December 31, 2016	534,500	129,078	663,578

Redtop Sunrise Group

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

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

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

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

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

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

Kiyuk Late Property

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

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

SELECTED ANNUAL INFORMATION

(\$000's except loss per share)

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

OPERATIONS

Six months period ended December 31, 2016

During the six months ended December 31, 2016 the Company reported a net loss of \$998,729 (2015 - \$94,488). Included in the determination of operating loss was \$9,800 (2015 - \$7,045) spent on rent, \$120,698 (2015 - \$40,250) on management and administration, \$58,900 (2015 - \$25,147) on professional, \$8,644 (2015 - \$7,996) on transfer agent and filing fees, \$490,658 (2015 - \$Nil) on consulting fees, \$10,465 (2015 - \$4,218) on travel and promotion, \$16,818 (2015 - \$9,582) on office and miscellaneous , \$30,670 (2015 - \$Nil) on automobile. The Company also incurred a stock based compensation charge of \$252,076 (2015 - \$Nil).

Three months period ended December 31, 2016

During the three months ended December 31, 2016 the Company reported a net loss of \$210,922 (2015 - \$54,757). Included in the determination of operating loss was \$9,800 (2015 - \$3,521) spent on rent, \$43,748 (2015 - \$20,250) on management and administration, \$25,653 (2015 - \$20,347) on professional, \$6,623 (2015 - \$5,360) on transfer agent and filing fees, \$87,736 (2015 - \$Nil) on consulting fees, \$5,690 (2015 - \$Nil) on travel and promotion, \$1,002 (2015 - \$5,279) on office and miscellaneous , \$30,670 (2015 - \$Nil) on automobile.

SUMMARY OF QUARTERLY RESULTS
(\$000's except earnings per share)

	December 31, <u>2016</u>	September 30, <u>2016</u>	June 30, <u>2016</u>	March 31, <u>2016</u>
Revenue	\$ 0	\$ 0	\$ 0	\$ 0
NET LOSS	\$ (211)	\$ (788)	\$ (40)	\$ (44)
Basic and diluted Loss per share	\$ (0.04)	\$ (0.39)	\$ (0.03)	\$ (0.04)

	December 31, <u>2015</u>	September 30, <u>2015</u>	June 30, <u>2015</u>	March 31, <u>2015</u>
Revenue	\$ 0	\$ 0	\$ 0	\$ 0
NET LOSS	\$ (55)	\$ (40)	\$ (57)	\$ (177)
Basic and diluted Loss per share	\$ (0.05)	\$ (0.03)	\$ (0.08)	\$ (0.24)

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash at December 31, 2016 were \$274,278 compared to \$3,111 at June 30, 2016.

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

RELATED PARTY TRANSACTIONS

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

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

	December 31, 2016	June 30, 2016
	\$	\$
Accounts payable and accrued liabilities	60,585	117,792

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

The Company had the following related party transactions:

	2016	2015
	\$	\$
Professional fees	34,600	12,000
Rent	-	4,500
Total	34,600	16,500

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

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

	2016	2015
	\$	\$
Management fees	120,698	40,500
	120,698	40,500

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

COMMITMENTS

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

SUBSEQUENT EVENTS

On January 17, 2017, the Company enters into a letter of intent (LOI) with Cache Exploration Inc. whereby the company will acquire all of Montego's right, title, interest and obligations in and to the Kiyuk Lake property in Nunavut, Canada. The company and Cache have agreed to work in good faith to execute a definitive agreement. The LOI is contingent on the company completing satisfactory due diligence, and both parties obtaining all necessary corporate and regulatory approvals. Cache shall have the right to earn a 100-per-cent interest in and to the property in consideration for cash payments of \$500,000, as follows: (a) \$200,000, on or before the date which is 45 calendar days from the date of execution of the LOI, (b) an additional \$200,000 cash, on or before the date which is six months from the date of execution of the definitive agreement, and (c) an additional \$100,000 cash, on or before the date which is 12 months from the date of execution of the definitive agreement. Kiyuk Lake property is a 491-square-kilometre property located in southern Nunavut, 400 kilometres north of Lynn Lake. Montego holds a 100-per-cent interest in the property, subject to a 2-per-cent net smelter return royalty to the original property vendor.

On January 31, 2017, the Company announces a consolidation on its issued and outstanding share capital on the basis of one post-consolidation share for each 10 pre-consolidation common shares. No fractional shares will be issued. Any fraction of a share will be rounded down to the nearest whole number. As a result, the outstanding shares of the company will be reduced to approximately 3,357,883.

On February 3, 2017, the Company announced a non-brokered private placement for up to 10 million units at a price of 12 cents per unit to raise total proceeds of \$1.2-million. Each unit will be composed of one common share of the issuer and one common share purchase warrant of the issuer. Each warrant will be exercisable into a common share of the company at an exercise price of 16 cents with a two-year expiry. In

relation to the private placement, finder's fees or commissions may be payable by the company in connection.

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New Accounting Standards Adopted by the Company

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

Accounting Standards and Amendments Issued But Not yet Effective

The following accounting standards were issued but not yet effective as of December 31, 2016:

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 9 – Financial Instruments

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

IFRS 7 – Financial Instruments: Disclosure

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

IFRS 16 – Leases

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

CRITICAL ACCOUNTING POLICIES

Share-based Compensation

The Company has a stock option plan, which is described in to the financial statements. The Company

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

Financial Instruments

Financial assets are classified into one of four categories:

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

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

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

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

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

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

Held-to-maturity (“HTM”)

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

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

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

Loans and receivables

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

Derecognition of financial assets

A financial asset is derecognized when:

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

Impairment of financial assets

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

Objective evidence of impairment could include the following:

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

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

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

SHARE CAPITAL

Issued

The Company has 3,357,883 common shares issued and outstanding as at December 31, 2016 and February 28, 2017.

Share Purchase Options

The Company has 310,000 stock options outstanding at December 31, 2016 and February 28, 2017.

Share Purchase Warrants

The Company has 861,425 share purchase warrants outstanding at December 31, 2016 and 810,425 at February 28, 2017.

Escrow Shares

The Company has 256,500 shares held in escrow as at December 31, 2016 and February 28, 2017.