

# **MONTEGO RESOURCES INC.**

## **Management Discussion and Analysis**

**For the six months ended December 31, 2017**

The Management Discussion and Analysis (“MD&A”), prepared on March 1, 2018 should be read in conjunction with the unaudited condensed interim financial statements and the notes thereto for the six month period ended December 31, 2017 of Montego Resources Inc. (“Montego” or the “Company”) and the Company’s audited financial statements with accompanying notes and related MD&A for the fiscal year ended June 30, 2017 which have been prepared in accordance with International Financial Reporting Standards. Additional information relating to the Company including the Company’s Annual Information Form is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

### **DESCRIPTION OF BUSINESS**

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

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

### **PREPAID EXPENSES**

As at December 31, 2017 and June 30, 2017, the Company had the following prepaid expenses:

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
	\$	\$
Lease payment	9,020	15,785
Consulting fees	581,049	308,435
Share issuance costs	26,943	-
	<b>617,012</b>	<b>324,220</b>

## EXPLORATION AND EVALUATION ASSET

	Acquisition Costs	Exploration Costs	Total
	\$	\$	\$
Balance, June 30, 2016	33,500	129,078	162,578
Acquisition costs – cash paid	231,131	-	231,131
Acquisition costs – common shares issued	1,421,400	-	1,421,400
Impairment of exploration and evaluation assets	(33,500)	(129,078)	(162,578)
Balance, June 30, 2017	1,652,531	-	1,652,531
Disposal – sale of property	(501,400)	-	(501,400)
Acquisition costs – cash paid	233,068	-	1,384,199
Acquisition costs – common shares issued	55,500	-	55,500
Balance, December 31, 2017	1,439,699	-	1,439,699

### Redtop Sunrise Group

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

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

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

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

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

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

During the year ended June 30, 2017, the Company decided not to continue exploration on the property and as a result it has provided for an impairment charge of \$162,578.

### **Kiyuk Lake 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 with a fair value of \$701,400. 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.

On February 28, 2017, the Company entered into an option agreement with Cache Exploration Inc. ("Cache") whereby Cache can earn 100% interest in Kiyuk. To earn the 100% interest, Cache will pay the Company an aggregate amount of \$500,000, of which \$200,000 (has been received), \$200,000 on or before six months from the closing date and the remaining \$100,000 on or before the date which is twelve months from the closing date. The \$200,000 received has been recorded as a reduction of acquisition costs.

During the six months ended December 31, 2017, the Company received the final payment from Cache Exploration Inc. to acquire 100% of the Kiyuk Lake gold property. The payment of \$300,000 was received through issuance of Cache Exploration shares having a deemed value of \$0.105 per share. The Company incurred a loss of \$201,400 on the disposal of this property.

### **Black Dog Property**

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

In consideration for the acquisition of the Black Dog project, over the course of four years, the company will be required to complete a series of cash payments totaling \$1,900,000 (of which \$50,000 is due upon closing), issue 2,000,000 common shares and incur expenditures of \$1,400,000 on the project. Upon completion of the payments, share issuances and expenditures, the company will hold a 100-per-cent interest in the Black Dog project, subject to a 2% net smelter return royalty in favour of the vendor.

	<b>Number of Common Shares</b>	<b>Cash</b>	<b>Exploration Expenditures</b>
		\$	\$
Upon closing of the agreement (issued and paid)	2,000,000	50,000	-
Within 60 days of the closing of the agreement (paid)	-	50,000	-
On or before the 1 <sup>st</sup> anniversary date of the agreement (paid)	-	100,000	100,000
On or before the 2 <sup>nd</sup> anniversary date of the agreement	-	200,000	200,000
On or before the 3 <sup>rd</sup> anniversary date of the agreement	-	500,000	500,000
On or before the 4 <sup>th</sup> anniversary date of the agreement	-	1,000,000	600,000
<b>Total</b>	<b>2,000,000</b>	<b>1,900,000</b>	<b>1,400,000</b>

As of December 31, 2017, the Company has paid \$241,481 and issued 2,000,000 common shares with a fair value of \$510,000 to the Optionor.

## Taylor Silver Property

On March 28, 2017, the Company reached an agreement with Silver Predator Corp. to acquire a series of mining claims located in White Pine county in the state of Nevada commonly referred to as the Taylor Silver property.

Pursuant to the terms of the agreement reached with the vendor, the Company can acquire the property in consideration for the completion of a series of cash payments totalling \$1,200,000 (U.S.), issuing 2,500,000 common shares and incurring expenditures of at least \$700,000 (U.S.) on the property. Upon completion of the payments, share issuances and expenditures, the Company will hold a 100% interest in the property, subject to a 2% net smelter return royalty and a 1% net profit royalty.

	<b>Common Shares</b>	<b>Cash</b>	<b>Exploration Expenditures</b>
	#	\$ (U.S.)	\$ (U.S.)
Upon closing (issued and paid)	500,000	200,000	-
On or before 6 months from closing (issued and paid)	300,000	100,000	-
On or before 12 months from closing	400,000	200,000	100,000
On or before 24 months from closing	500,000	300,000	250,000
On or before 36 months from closing	800,000	400,000	350,000
<b>Total</b>	<b>2,500,000</b>	<b>1,200,000</b>	<b>700,000</b>

As of December 31, 2017, the Company has paid \$394,300 (US\$300,000) and issued 800,000 common shares with a fair value of \$265,500 to the Optionor.

Expenditures related to the Company's exploration and evaluation property interests are as follows:

	<b>Redtop Sunrise Group Property</b>	<b>Kiyuk Lake</b>	<b>Black Dog</b>	<b>Silver Taylor</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Balance as at June 30, 2016</b>	<b>162,578</b>	-	-	-	<b>162,578</b>
Property acquisition and staking costs		701,400	672,731	478,400	1,852,531
Recoveries	-	(200,000)	-	-	(200,000)
Impairment of exploration and evaluation assets	(162,578)	-	-	-	(162,578)
<b>Balance as at June 30, 2017</b>	<b>-</b>	<b>501,400</b>	<b>672,731</b>	<b>478,400</b>	<b>1,652,531</b>
Property acquisition and staking costs	-	-	78,750	209,818	314,151
Disposal – sale of property	-	(501,400)	-	-	(501,400)
<b>Balance as at December 31, 2017</b>	<b>-</b>	<b>-</b>	<b>751,481</b>	<b>688,218</b>	<b>1,439,699</b>

## SELECTED ANNUAL INFORMATION (\$000's except loss per share)

	June 30, <u>2017</u>	June 30, <u>2016</u>	June 30, <u>2015</u>
Revenue	\$ -	\$ -	\$ -
Net Loss	\$ (1,854)	\$ (179)	\$ (336)
Basic and Diluted Loss Per Share	\$ (0.27)	\$ (0.15)	\$ (0.40)
Total Assets	\$ 2,204	\$ 173	\$ 246
Long-term Debt	\$ -	\$ -	\$ -
Dividends	\$ -	\$ -	\$ -

## **OPERATIONS**

### **Six month period ended December 31, 2017**

During the six months ended December 31, 2017 the Company reported a net loss of \$2,009,364 (2016 - \$998,729). Included in the determination of operating loss were \$6,765 (2016 - \$30,670) on automobile, the decrease was due new agreement terms, \$981,008 (2016 - \$490,658) on consulting fees, the increase was due to increased business activity during the period, \$604 (2016 - \$Nil) on depreciation, the increase was due to the acquisition of a depreciable asset during the period, \$221,737 (2016 - \$120,698) on management and administration, the increase was due to increased business activity during the period , \$21,843 (2016 - \$16,818) on office and miscellaneous, the increase was due to increased business activity during the period , \$7,755 (2016 - \$58,900) on professional fees, the decrease was due to lower service fees charged during the period, \$75,000 (2016 - \$9,800), spent on rent, the increase was due to new rental terms, \$25,765 (2016 - \$8,644) on transfer agent and filing fees, the increase was due to increased activity and regulatory periodic filing fees incurred in the current period, \$318,451 (2016 - \$10,465) on travel and promotion, the increase was due to increased business activity during the period, and \$18,219 (2016 - \$Nil) on interest expense, the increase was due to the issuance of convertible debentures during the period. The Company also incurred a stock based compensation charge of \$Nil (2016 - \$252,076), loss on sale of property of \$201,400 (2016 - \$Nil) due to the sale of the Kiyuk Lake Property, and foreign exchange loss of \$2,245 (2016 - \$Nil).

### **Three month period ended December 31, 2017**

During the three months ended December 31, 2017 the Company reported a net loss of \$1,178,212 (2016 - \$210,922). Included in the determination of operating loss were \$6,765 (2016 - \$30,670) on automobile, the increase was due to new agreement terms, \$715,046 (2016 - \$87,736) on consulting fees, the increase was due to increased business activity during the period, \$604 (2016 - \$Nil) on depreciation, the increase was due to the acquisition of a depreciable asset during the period, \$175,427 (2016 - \$43,748) on management and administration, the increase was due to increased business activity during the period, \$15,490 (2016 - \$1,002) on office and miscellaneous, the increase was due to increased business activity during the period, \$7,149 (2016 - \$25,653) on professional fees, the decrease was due to lower service fees charged during the period, \$71,800 (2016 - \$9,800), spent on rent, the increase was due to new rental terms, \$22,000 (2016 - \$6,623) on transfer agent and filing fees, the increase was due to increased activity and regulatory periodic filing fees incurred in the current period, \$2,359 (2016 - \$5,690) on travel and promotion, and \$18,219 (2016 - \$Nil) on interest expense the increase was due to the issuance of convertible debentures during the period. The Company also incurred a foreign exchange loss of \$498 (2016 - \$Nil).

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

	December 31, <u>2017</u>		September 30, <u>2017</u>		June 30, <u>2017</u>		March 31, <u>2017</u>	
Revenue	\$	-	\$	-	\$	-	\$	-
NET LOSS	\$	(1,178)	\$	(845)	\$	(693)	\$	(163)
Basic and diluted Loss Per Share	\$	(0.04)	\$	(0.05)	\$	(0.04)	\$	(0.01)
	December 31, <u>2016</u>		September 30, <u>2016</u>		June 30, <u>2016</u>		June 30, <u>2016</u>	
Revenue	\$	-	\$	-	\$	-	\$	-
NET LOSS	\$	(211)	\$	(788)	\$	(40)	\$	(40)
Basic and diluted Loss Per Share	\$	(0.04)	\$	(0.40)	\$	(0.30)	\$	(0.30)

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash at December 31, 2017 was \$1,234,582 compared to \$163,778 at June 30, 2017.

**OFF-BALANCE SHEET ARRANGEMENTS**

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

**TRANSACTIONS WITH RELATED PARTIES**

**RELATED PARTY TRANSACTIONS**

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

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

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
	\$	\$
Accounts payable and accrued liabilities	68,158	32,550

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

The Company had the following related party transactions:

	<b>2017</b>	<b>2016</b>
	\$	\$
Management fees	221,737	120,698
Total	221,737	120,698

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

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

	<b>2017</b>	<b>2016</b>
	\$	\$
Management fees	221,737	120,698
Share-based payments	-	252,076
	221,737	372,774

Management services were provided by companies owned by the officers and 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 October 30, 2017, the Company closed its previously announced non-brokered private placement of 12,907,772 units at a price of \$0.25 per unit for gross proceeds of \$3,226,943. Each unit comprises one common share and one common share purchase warrant of the issuer. Each full common share purchase warrant will be exercisable into a common share of the Company at a price of \$0.50 expiring 12 months from the date of close of the private placement. In connection with the private placement, the Company paid finders' fees in the amount of 7% of gross proceeds raised and common share purchase warrants entitling the finders to purchase common shares of the Company up to 7% of the number of units sold in the private placement, having the same terms as the warrants.

Subsequent to the period ended December 31, 2017, the Company contracted JCN Capital Corp. to develop and execute a comprehensive public relations and investor communications plan to help raise awareness of the company over a 12-month renewable term.

Subsequent to the period ended December 31, 2017, the Company arranges a non-brokered private placement for up to 1,724,137 units at a price of 29 cents per unit to raise total proceeds of \$500,000. 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 50 cents with a one-year expiry.

The company will also have an overallotment option to place up to an additional 50 per cent of the financing.

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

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

The mandatory adoption of the following new and revised accounting standards and interpretations on July 1, 2016 had no significant impact on the Company's financial statements for the years presented.

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

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

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

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

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

In November 2009, as part of the IASB project the ASB 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 July 2014, the final version of IFRS 9 was issued and adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flows characteristics. The standard is effective for annual periods beginning on or after January 1, 2018.

#### ***IFRS 2 – Share based Payment***

In November 2016, the IASB has revised IFRS 2 to incorporate amendments issued by the IASB in June 2016. The amendment provide guidance on the accounting for i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; ii) share-based payment transactions with a net settlement feature for withholding tax obligations and iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

#### ***IFRS 16 – Leases***

In June 2016, the IASB issued IFRS 16 - Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.



## 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 31,843,798 common shares issued and outstanding as at December 31, 2017 and 44,751,570 at March 1, 2018.

### Share Purchase Options

The Company has Nil stock options outstanding at December 31, 2017 and March 1, 2018.

### Share Purchase Warrants

The Company has 26,963,963 share purchase warrants outstanding at December 31, 2017 and 39,871,735 at March 1, 2018.

### Escrow Shares

The Company has 128,250 shares held in escrow as at December 31, 2017 and March 1, 2018.