

# **Kootenay Zinc Corp. (formerly Oceanside Capital Corp.)**

## **Management Discussion and Analysis**

**For the year ended February 28, 2017**

The Management Discussion and Analysis (“MD&A”), prepared June 27, 2017 should be read in conjunction with the audited financial statements and notes thereto for the year ended February 28, 2017 of Kootenay Zinc Corp. (formerly Oceanside Capital Corp.) (the “Company”) which were prepared in accordance with International Financial Reporting Standards (“IFRS”). Unless otherwise noted, all currency amounts are in Canadian dollars.

This management discussion and analysis may contain forward-looking statements in respect of various matters including upcoming events and include without limitation, statements regarding discussions of the Company’s business strategy, future plans, projections, objectives, estimates and forecasts and statements as to management’s expectations with respect to, among other things, the development of the Company’s project. These forward-looking statements involve numerous risks and uncertainties and actual results may vary. Important factors that may cause actual results to vary include without limitation, certain transactions, certain approvals, changes in commodity prices, risks inherent in exploration results, timing and success, inaccurate geological and metallurgical assumptions (including with respect to the size, grade and recoverability of mineral reserves and mineral resources), delays in the receipt of government approvals, and changes in general economic conditions or conditions in the financial markets. In making the forward-looking statements in this MD&A, the Company has applied several material assumptions, including without limitation, the assumptions that: (1) any additional financing needed will be available on reasonable terms; and (2) any permits or government approvals needed will be obtained.

Additional factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include, among other factors: (1) weak commodity prices and general metal price volatility; (2) the state of the global economy and economic and political events, including the deterioration of the global capital markets, affecting supply and demand and economic and political events affecting supply and demand; and (3) securing and the nature of regulatory permits and approvals and the costs of complying with environmental, health and safety laws and regulations.

The Company cannot assure you that any of these assumptions will prove to be correct.

The words “expect,” “anticipate,” “estimate,” “may,” “will,” “should,” “intend,” “believe,” “target,” “budget,” “plan,” “projection” and similar expressions are intended to identify forward-looking statements. Information concerning mineral reserve and mineral resource estimates also may be considered forward-looking statements, as such information constitutes a prediction of what mineralization might be found to be present during operations or if and when an undeveloped project is actually developed.

These factors should be considered carefully, and readers should not place undue reliance on the Company’s forward-looking statements. The Company believes that the expectations reflected in the forward-looking statements, including future-oriented financial information, contained in this MD&A and any documents incorporated by reference are reasonable, but no assurance can be given that these expectations will prove to be correct. In addition, although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, including future-oriented financial information, there may be other factors that cause actions, events, or results not to be as anticipated, estimated, or intended. The Company undertakes no obligation to disclose publicly any future revisions to forward-looking statements, including future-oriented financial information, to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events, except as expressly required by law.

Additionally, the forward-looking statements, including future-oriented financial information, contained herein are presented solely for the purpose of conveying our reasonable belief of the direction of the Company and may not be appropriate for other purposes.

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, except as may be required under applicable securities laws.

## DESCRIPTION OF BUSINESS

The Company was incorporated on March 23, 2015 pursuant to the *Business Corporations Act* (British Columbia). The shares of the Company are traded on the Canadian Securities Exchange (“CSE”) under the symbol “ZNK”. The address of its head office is located at Suite 800-1199 West Hastings Street, Vancouver, British Columbia, V6E 3T5 and its registered office is at Suite 2080-777 Hornby Street, Vancouver, BC, V6Z 1S4.

On October 4, 2016, the Company has changed its name to Kootenay Zinc Corp. and completed a share consolidation of its issued and outstanding common shares on a two (2) old to one (1) new basis. No fractional common shares will be issued pursuant to the Consolidation. As a result of the consolidation, the outstanding common shares of the Company were reduced to approximately 4,029,794.

The Company is engaged in the business of mineral exploration and development in British Columbia and specifically in the exploration and advancement of the Sully Property (the “Property”). The Company is required to facilitate separate fundraising, exploration and development strategies to achieve its business objectives and it expects to commence these strategies as soon as practicable.

The Company is an exploration stage company with no producing properties, and consequently has no current operating cash flow or revenues. There is no assurance that a commercially viable mineral deposit exists on any of its properties. The Property is currently in the exploration stage.

The Company’s continuing operations, as intended, are dependent upon its ability to complete the exploration of its mineral properties, including obtaining the necessary financing. There can be no assurance that the Company will be able to complete such activities or obtain financing to continue; therefore, a material uncertainty exists, that casts significant doubt over the Company’s ability to continue as a going concern. The adjustments could be material.

## SELECTED ANNUAL INFORMATION

The following table sets forth selected audited financial information of the Company for the year ended February 28, 2017 and period from March 23, 2015 to February 29, 2016.

	<b>February 28, 2017</b>	<b>March 23, 2015 (date of incorporation) to February 29, 2016</b>
Revenue	\$ -	\$ -
Net loss	(2,180,165)	(72,256)
Total assets	2,834,549	280,154
Total liabilities	151,351	52,410
Basic and diluted loss per share	\$ (0.17)	\$ (0.02)

## OPERATIONS

### Year Ended February 28, 2017

During the year ended February 28, 2017, the Company reported a net loss of \$2,180,165 (2016 - \$72,256), an increase of \$2,107,909 as compared to the prior year. The increase in net loss was significantly attributable to the increases of the following expenses: \$523,947 (2016 - \$nil) in advertising and promotion, \$2,773 (2016 - \$638) in bank charges, \$603 (2016 - \$3,704) in meals and entertainment, \$60,074 (2016 - \$24,084) in transfer agent fees, \$14,769 (2016 - \$588) in office expense, \$616,253 (2016 - \$nil) in consulting fees, \$30,500 (2016 - \$nil) in management fees, \$167,938 (2016 - \$nil) in investor relations, \$16,020 (2016 - \$nil) in rent, \$101,448 (2016 - \$42,849) in professional fees, \$622,639 (2016 - \$nil) in share-based compensation, \$16,040 (2016 - \$nil)

in loss on sale of investment and \$7,161 (2016 - \$393) in insurance. The increase in the Company's loss was due to increased corporate activity during the year as compared to the prior year.

### Three Months Ended February 28, 2017

During the three months ended February 28, 2017, the Company reported a net loss of \$1,487,594 (2016 - \$44,002), an increase of \$1,443,592 as compared to the prior year. The increase in net loss was significantly attributable to the increases of the following expenses: \$345,347 (2016 - \$nil) in advertising and promotion, \$1,378 (2016 - \$405) in bank charges, \$46,146 (2016 - \$16,261) in transfer agent fees, \$13,625 (2016 - \$(262)) in office expense, \$421,393 (2016 - \$nil) in consulting fees, \$30,500 (2016 - \$nil) in management fees, \$167,938 (2016 - \$nil) in investor relations, \$7,120 (2016 - \$nil) in rent, \$51,519 (2016 - \$30,233) in professional fees, \$400,646 (2016 - \$nil) in share-based compensation, and \$7,161 (2016 - \$nil) in insurance. The increase in the Company's loss was due to increased corporate activity during the three months ended February 28, 2017 as compared to the same period last year.

### SUMMARY OF QUARTERLY RESULTS

	Three months ended February 28, 2017	Three months ended November 30, 2016	Three months ended August 31, 2016	Three months ended May 31, 2016	Three months ended February 29, 2016	Three months ended November 30, 2015	Three months ended August 31, 2015	March 23, 2015 (date of incorporation) to May 31, 2015
Net loss	\$ 1,487,594	\$ 592,801	\$ 97,398	\$ 2,372	\$ 44,002	\$ 23,005	\$ 3,691	\$ 1,558
Total assets	2,834,549	677,232	173,103	276,199	280,154	291,408	297,581	300,072
Total liabilities	151,351	55,066	45,129	50,747	52,410	19,661	2,829	301,629
Basic and diluted loss per share	\$ (0.04)	\$ (0.06)	\$ (0.02)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.00)

### LIQUIDITY AND CAPITAL RESOURCES

As at February 28, 2017, the Company had cash of \$2,053,352 compared to \$273,921 in 2016.

On October 4, 2016, the Company consolidated the issued and outstanding common shares on the basis of a one post-consolidated common share for each two pre-consolidation common shares (the "Consolidation"). Post-consolidation, the Company has 4,029,794 common shares issued and outstanding.

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On November 4, 2016, the Company closed the previously announced private placement. Pursuant to the private placement, the Company issued an oversubscribed amount of 16,500,000 common shares of the Company at a price of \$0.05 per share for gross proceeds of \$825,000. Pursuant to a finder's fee agreement between the Company and Canaccord Genuity Corp., in connection with the private placement, Canaccord was issued 1,035,000 common shares of the Company which were valued at \$206,700 and recorded as share issuance costs.

On December 28, 2016, the Company closed a private placement of 16,500,000 units (the "Unit") at a price of \$0.20 per Unit for aggregate gross proceeds of \$3,300,000.

Each Unit consists of one common share of the Company and one-half of one transferrable common share purchase warrant (a "Warrant"). Each full Warrant entitles the holder to purchase one additional common share at a price of \$0.30 per share for a period of twelve (12) months from the date of issuance. The Warrants are subject to an acceleration clause whereby if the common shares trade equal to or greater than \$0.50 for a period of twenty (20) consecutive trading days, then the Company may, at its discretion, give notice to the holders of the Warrants that the expiry time of the Warrants has been accelerated and the Warrants will expire on a date that is not less than fifteen (15) days after notice is given.

In connection with the Unit offering, the Company has paid broker's fees to certain brokers in the amount of 8% of gross proceeds raised and common share purchase warrants entitling the brokers to purchase common shares of the Company up to 8% of the number of Units sold, having the same terms as the Warrants. The Company paid \$209,200 cash and 1,059,600 warrants as finders' fees in connection with the financing. The fair value of the 1,059,600 warrants was \$259,942 and was recorded as share issuance costs and an offset to contributed

surplus. The fair value of each finders' fee warrant has been estimated as of the date of the issuance using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 0.78%, dividend yield of 0%, volatility of 120% and expected life of one year.

The Company's current cash will be used to advance the exploration efforts on the Sully property, and for general corporate and working capital purposes.

## **EXPLORATION AND EVALUATION ASSETS**

### **Murray Ridge Property**

The Company has a 100% interest in the Property in the Omineca Mining Division in central British Columbia. Upon commencement of any commercial production on the Property, 0860208 B.C. Ltd., the original owner of the Property, will have a 1% net smelter royalty on the Property.

During the year ended February 28, 2017, the Company let the Murray Ridge claims lapse and no longer owns the Murray Ridge Property.

### **Sully Property**

On September 30, 2016, the Company has entered into an option agreement with Gravitas Metals Corp. and the shareholders of Gravitas, pursuant to which the Company has the option to acquire all of the issued and outstanding shares of Gravitas, a private corporation, incorporated under the laws of British Columbia, which, pursuant to an option agreement between Gravitas and the holders of the Sully property dated October 21, 2011, as amended, holds an exclusive option and right to acquire an 80-per-cent interest in mining claims located in the Fort Steele mining division in the southeast portion of the province of British Columbia.

Pursuant to the terms of the agreement, the option is exercisable by the Company by (a) issuing to the Gravitas vendors, on a pro rata basis, such number of common shares of the Company equal to 35 per cent (post-issuance) of the issued and outstanding common shares of the Company, and (b) satisfying all of the outstanding obligations of Gravitas under the underlying Sully property agreement as follows:

- Incurring expenditures on or in respect of the Sully property, including:
  - \$1.5-million on or before October 21, 2017 (approximately \$1.34-million completed by Gravitas as of the date of the agreement);
  - An additional \$1.5-million on or before October 21, 2018;
- Making payments in the form of cash, common shares of the company, certified cheque or wire transfer to the Sully vendors, including:
  - \$200,000 on or before October 21, 2017;
  - \$400,000 on or before October 21, 2018;
  - \$800,000 on or before October 21, 2019.

In addition, upon exercising the Sully property option, Gravitas will become a wholly-owned subsidiary of the Company, and the Company and the Sully vendors will form an 80/20 joint venture. A 2% net smelter returns royalty will be held in favour of the Sully vendors, half of which may be purchased back by Gravitas for \$5-million. Pursuant to a right of first refusal purchase agreement dated August 9, 2016, the Sully vendors also granted to Gravitas a right of first refusal to purchase the remaining collective 20- per-cent interest in the Sully property or the individual 5% interest of the Sully property from the Sully vendors after the exercise of the Sully property option.

The Company issued 500,000 common shares for finder fees in relation to the option agreement which were valued at \$100,000 and were capitalized to exploration and evaluation assets.

## RELATED PARTY TRANSACTIONS

### Key management compensation

Key management personnel at the Company are the directors and officers of the Company. The remuneration of key management personnel during the years ended February 28, 2017 and February 29, 2016 was as follows:

	February 28, 2017		February 29, 2016	
Share-based compensation	\$	370,981	\$	-
Accounting fees		24,000		-
Management fees		45,500		-
Geological consulting fees	\$	29,250	\$	-

Accounting fees were paid to a company controlled by the CFO of the Company, management fees were paid to companies controlled by CEO and CFO, and geological consulting fees were paid to a project manager. At February 28, 2017, \$26,344 (February 29, 2016 - \$nil) was included in accounts payable as owing to related party. Amounts due to related parties are unsecured, non-interest-bearing and have no fixed terms of repayment.

### OFF-BALANCE SHEET ARRANGEMENTS

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

### COMMITMENTS

The Company entered into a lease agreement for its premise for a term of three years from September 2016 to August 2019 for a monthly lease payment of \$1,780. The total lease commitment as at February 28, 2017 is as follows:

	\$
0-1 years	21,360
2-3 years	32,040
	<b>53,400</b>

### CRITICAL ACCOUNTING POLICIES

#### Financial Assets

The Company classifies its financial assets as fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

#### *Fair value through profit or loss*

Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is designated as FVTPL. A financial asset is classified as FVTPL when 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 if it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost, less any impairment.

### *Held-to-maturity investments*

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs.

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of available-for-sale financial assets are recognized as other comprehensive income (loss) and classified as a component of equity.

Management assesses the carrying value of available-for-sale financial assets at least annually and any impairment charges are also recognized in profit or loss. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit or loss.

### Financial Liabilities

The Company classifies its financial liabilities as other financial liabilities.

### *Other financial liabilities*

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of comprehensive loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date.

### Fair Value Hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

### **Risks and Uncertainties**

The Company is engaged in the acquisition and exploration of natural resource properties, an inherently risky business, and there is no assurance that economically recoverable resources will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of economically recoverable resources. Exploration activities require large amounts of capital. There is a risk that during the current difficult economic situation the Company will not be able to raise sufficient funds to finance its projects to a successful development and production stage.

While the Company's management and technical team carefully evaluate all potential projects prior to committing the Company's participation and funds, there is a high degree of risk that the Company's exploration efforts will not result in discovering economically recoverable resources. The Company depends on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term.

## **RISK MANAGEMENT**

The Company classifies its financial instrument as follows:

- Cash is classified as a financial asset at FVTPL
- Accounts payable, as other financial liabilities

The carrying value of this financial asset approximates its fair value.

The Company's risk exposure and the impact on the Company's financial instrument is summarized below:

### *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash. The Company limits exposure to credit risk through maintaining its cash with high-credit quality Canadian financial institutions. The Company is not exposed to significant credit risk on receivables, as these amounts are due from government agencies. The carrying amount of financial assets represents the maximum credit exposure.

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company is not exposed to significant liquidity risk.

### *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will significantly fluctuate due to changes in market prices. The value of financial instruments can be affected by changes in interest rates, foreign currency rates and other price risk. The Company is not exposed to significant market risk.

### *Interest rate risk*

The Company is not subject to significant interest rate risk with respect to its financial instruments.

### *Currency risk*

The Company is not exposed to significant currency risk, as the majority of financial instruments and expenditures incurred by the Company are denominated in Canadian dollars.

## **SHARE CAPITAL**

### Issued

The Company has 38,563,294 issued and outstanding as at February 28, 2017 and June 27, 2017.

### Share Purchase Options

The Company has 2,650,000 stock options outstanding as at February 28, 2017 and June 27, 2017.

### Share Purchase Warrants

The Company has 8,250,000 purchase warrants outstanding as at February 28, 2017 and June 27, 2017.

### Broker's fee Warrants

The Company has 1,059,600 broker's fee warrants outstanding as at February 28, 2017 and June 27, 2017.