

**GRAYCLIFF EXPLORATION LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE**  
**COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FOR THE YEAR ENDED December 31, 2021**

---

The following Management Discussion & Analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Graycliff Exploration Limited (formerly 1093683 B.C. Ltd. and hereinafter "Graycliff" or the "Company") for the year ended December 31, 2021. The MD&A should be read in conjunction with the audited financial statements for the year ended December 31, 2021. The MD&A has been prepared effective March 8, 2022.

**HIGHLIGHT**

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as 'COVID-19', has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposing quarantine period and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future period.

**SCOPE OF ANALYSIS**

The following is a discussion and analysis of Graycliff. The Company reports its financial results in Canadian dollars. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

**FORWARD LOOKING STATEMENTS**

*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 are based on current expectations that involve numerous risks and uncertainties, including, but not limited to, those identified in the Risks Factors section. 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 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. The Company may not provide updates or revise any forward-looking statements, except those otherwise required under paragraph 5.8(2) of NI 51-102, whether written or oral that may be made by or on the Company's behalf.*

**TRENDS**

Other than as disclosed in this MD&A, the Company is not aware of any trends, uncertainties, demands, commitments or events which are reasonably likely to have a material effect upon its revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

## **GENERAL BUSINESS AND DEVELOPMENT**

The Company is incorporated under the laws of British Columbia, Canada and is engaged in the acquisition, exploration, development and extraction of natural resources, specifically precious metals. Its head office is located at 890-1140 West Pender Street, Vancouver, BC, V6E 4G1, Canada. The Company intends on completing a prospectus for the purposes of going public.

The Company was incorporated on October 19, 2016 as a wholly-owned subsidiary of Monterey Minerals Inc. ("Monterey"). On August 1, 2018, Monterey completed a plan of arrangement whereby it issued 1,010,549 common shares of the Company to Monterey shareholders (the "spinout") for \$NIL consideration.

All public filings for the Company on the SEDAR website [www.sedar.com](http://www.sedar.com).

## **LIQUIDITY AND CAPITAL RESOURCES**

As at December 31, 2021 the Company had a cash balance of \$841,319 and marketable securities of \$752,848 (December 31, 2020 – cash balance of \$1,026,220) and working capital of \$2,113,412 (December 31, 2020 - \$918,776).

On January 20, 2021, Graycliff reported the completion of a non-brokered private placement offering of 400,000 units (each a "Unit") of the Company, issued at a price of \$0.50 per unit for gross proceeds of \$200,000.

On April 8, 2021 and April 21, 2021, a total of 375,000 options were exercised resulting in \$67,750 in proceeds for the Company.

On April 14, 2021, the Company completed of a non-brokered private placement offering of 1,246,333 non flow-through units (the "NFT Unit") at \$0.75 per NFT Unit and 1,875,000 flow through shares ("FT Share") at a price of \$0.80 per FT Share of the Company for gross proceeds of \$2,434,750.

On December 7, 2021, Graycliff completed the first tranche of a private placement offering of 3,589,963 flow-through units ("FT Unit") at a price of \$0.30 per FT Unit of the Company for gross proceeds of \$1,076,989.95.

On December 15, 2021, Graycliff completed the second and final tranche of a private placement offering. The second tranche of the financing consisted of 1,171,993 Units (each, a "Unit") of the Company, issued at a price of \$0.30 per Unit for gross proceeds of \$351,499.

The continuation of the Company as a going-concern is dependent on its ability to raise additional capital or debt financing, including on reasonable terms, in order to meet business objectives towards achieving profitable business operations.

## **SHARE CAPITAL AND OUTSTANDING SHARE DATA**

### Common Shares

Authorized – Unlimited Common shares without par value; and

Issued and Outstanding as at December 31, 2020: 30,003,801 (December 31, 2020: 17,889,882).

On October 15, 2020, the Company acquired additional mining claims at the Company's Shakespeare Gold Project. Under the terms of the acquisition, Graycliff issued 975,000 common shares for the new claims, resulting in a cost of \$828,750, recorded as project acquisition costs in operations.

On December 23, 2020 the Company closed a non-brokered flow-through private placement totaling \$780,000 priced at \$0.50 per common share, resulting in the issuance of 1,560,000 flow-through common shares. In connection with this financing, the Company paid finder's fee commissions of \$61,200 cash and 113,600 broker warrants.

On January 20, 2021, Graycliff completed a non-brokered private placement offering of 400,000 units issued at a price of \$0.50 per unit for gross proceeds of \$200,000. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share for a period of 24 months following the closing at an exercise price of \$0.60 per common share. The Company paid finder's fee commissions of \$9,200 cash and 18,400 finder's warrants on the

financing. Each finder's warrant has a strike price of \$0.50 per share and an expiry two years from the closing.

On March 30, 2021, the Company issued 250,000 common shares, to acquire key mining leases and claims which consolidate the ground surrounding the past producing Shakespeare Gold Mine located within Graycliff's Shakespeare Gold Project. These shares were valued at \$225,000.

On April 8, 2021 and April 21, 2021, a total of 375,000 options were exercised resulting in \$67,750 in proceeds for the Company.

On April 14, 2021, the Company completed of a non-brokered private placement offering of 1,246,333 non flow-through units (the "NFT Unit") at \$0.75 per NFT Unit and 1,875,000 flow through shares ("FT Share") at a price of \$0.80 per FT Share of the Company for gross proceeds of \$2,434,750. Each NFT Unit consists of one common share which is not a "flow-through" share and one-half purchase warrant ("NFT Warrant"). Each whole NFT Warrant will entitle the holder to purchase one additional common share which is not a "flow-through" share at a price of \$1.00 for two years from the closing. The Company paid finder's fee commissions of \$167,808 cash and issued 214,993 finder's warrants on the Financing. Each finder's warrant has an exercise price of \$0.75 per share and an expiry two years from the closing.

On May 12, 2021, the Company acquired additional mining claims adjacent to the Company's Shakespeare Gold Project. Under the terms of the acquisition, Graycliff issued 1,800,000 common shares, valued at \$936,000, for a 100% interest in the Baldwin Project, subject only to a 2% net smelter return royalty.

On August 23, 2021, pursuant to its Shakespeare Property option agreement (see Note 9), Graycliff issued 500,000 common shares, resulting in a cost of \$237,500 recorded as project acquisition costs in operations.

On December 7, 2021, Graycliff completed the first tranche of a private placement offering of 3,589,963 flow-through units ("FT Unit") at a price of \$0.30 per FT Unit of the Company for gross proceeds of \$1,076,989.95. Each FT Unit consists of one common share and one-half (1/2) purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of \$0.45 for a period of two years from the closing date. The Company paid finders fees of \$73,499 in connection with this financing.

On December 15, 2021, Graycliff completed the second and final tranche of a private placement offering. The second tranche of the financing consisted of 1,171,663 Units (each, a "Unit") of the Company, issued at a price of \$0.30 per Unit for gross proceeds of \$351,499. Each Unit consists of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one common share at a price of \$0.45 for a period of two years from the closing date.

## **RESULTS OF OPERATIONS**

### **SELECTED QUARTERLY INFORMATION**

During the year ended December 31, 2021, the Company incurred a net loss of \$4,813,467 (year ended December 31, 2020 – loss of \$1,890,911).

In 2020, with the Company starting the process of being active and seeking to get its shares listed on the Canadian Securities Exchange, the Company incurred professional fees of \$118,557 for the year ended December 31, 2020, with that number decreasing to a more normative \$13,984 for the year ended December 31, 2021. Management agreed to take lower pay until the Company was publicly listed and adequately financed. Management fees were \$210,000 for the year ended December 31, 2021 compared to \$115,250 for the year ended December 31, 2020.

The Company began its exploration program in late 2020 but didn't begin with great vigor until 2021, incurring \$1,855,406 for the year ended December 31, 2021 compared to \$235,395 in the year ended December 31, 2020. With its shares now trading on the Canadian Securities Exchange, the Company incurred promotion and shareholder communication expenses of \$407,236 for the year ended December 31, 2021 compared to \$NIL in 2020.

The Company engaged with third parties to provide corporate advisory services, with \$60,000 in fees paid in 2021 (\$10,250 was paid for corporate advisory services in the year ended December 31, 2020).

Project acquisition costs are non-cash in nature, representing the value of shares issued to acquire mining projects

Stock-based compensation is non-cash in nature, with the expense recognized when the options vest. The \$755,521 value of these options was calculated using the Black-Scholes option pricing model.

### SUMMARY OF FINANCIAL RESULTS FOR EIGHT MOST RECENTLY COMPLETED QUARTERS

The following table summarizes the financial results of operations for the eight most recent fiscal quarters:

	<b>Dec. 31, 2021</b>	<b>Sep. 30, 2021</b>	<b>Jun. 30, 2021</b>	<b>Mar. 31, 2021</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Expenses	(1,485,149)	(788,004)	(2,004,607)	(587,135)
Net loss	(1,483,333)	(774,273)	(1,999,718)	(556,143)
Loss per share - basic & diluted	(0.07)	(0.03)	(0.08)	(0.03)
	<b>Dec. 31, 2020</b>	<b>Sep. 30, 2020</b>	<b>Jun. 30, 2020</b>	<b>Mar. 31, 2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Expenses	(1,453,724)	(322,498)	(27,618)	(93,519)
Net loss	(1,449,050)	(322,336)	(26,686)	(92,839)
Loss per share - basic & diluted	(0.09)	(0.02)	(0.00)	(0.01)

### RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members, other key management individuals and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the fair value and approved by the Board of Directors in strict adherence to conflict of interest law and regulations.

The Company incurred the following charges with directors and/or officers of the Company and/or companies controlled by them for the years ended December 31, 2021 and 2020:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
	<b>(\$)</b>	<b>(\$)</b>
Consulting – President and CEO	<b>78,000</b>	42,500
Consulting - CFO	<b>66,000</b>	29,750
Consulting – Venex Capital (controlled by a past director)	---	10,250
Stock-based compensation – Directors	<b>465,600</b>	118,435
Consulting – Directors	<b>24,000</b>	---
	<b>633,600</b>	200,935

In the December 2020 financing, the Company's President and CEO purchased 20,000 common shares for \$10,000.

On March 31, 2021, the Company issued 10,256 common shares to the Company's President and CEO in connection to the conversion of the debentures.

As part of the December 2021 financing \$48,000 in directors fees was settled by way of shares, with directors receiving a total of 160,000 common shares.

## **CRITICAL JUDGMENTS AND ACCOUNTING ESTIMATES**

### **Measurement Uncertainty**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of the accounting policies to financial information presented. Actual results may differ from the estimates, assumptions and judgments made. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes made to estimates are reflected in the period the changes are made.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

### **Taxes**

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

### **Significant accounting judgments**

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations that have the most significant effect on the amounts recognized in the Company's financial statements, are related to the functional currency assessment, measure of shares issued for non-cash consideration, related parties, the provision for reclamation and obligation, when and if deferred taxes are recoverable and the assumption that the Company will continue as a going concern.

The Company made a determination that its functional currency and that of its subsidiaries is the Canadian dollar. Management considered all of the relevant factors in making this determination.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements and how the fair value of financial instruments is measured.

### **Fair values**

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2021 and December 31, 2020, the Company did not have any financial instruments measured at fair value.

<b>Categories of Financial Instruments</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Financial Assets—amortized cost		
Cash	\$ 841,319	\$ 1,026,220
Marketable securities	752,848	---
Amounts receivable	236,501	61,363
Financial Liabilities—amortized cost		
Accounts payable and accrued liabilities	\$ 63,447	\$ 185,461
Convertible debenture	---	432,396

The fair values of all the Company's financial instruments approximate the carrying value due to the short-term nature of the financial instruments. The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (currency fluctuations, interest rates and commodity prices). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

#### **Credit Risk**

Credit risk is the risk of a financial loss to the Company if a customer is unable to meet its contractual obligations and arises principally from the Company's accounts receivable. The Company's cash is held with Canadian chartered banks.

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company has established a standard of ensuring that it has enough resources available to withstand any downturn in the industry. As the Company's industry is very capital intensive, the majority of its spending is related to its capital programs. The Company prepares periodic capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers.

#### **Market Risk**

Market risk is the risk that changes in interest rates, foreign exchange rates and commodity and equity prices will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

#### **Interest rate risk**

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in certificates of deposit issued by a Canadian chartered bank with which it keeps its bank accounts. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of the Canadian chartered bank.

#### **Commodity and equity risk**

The Company is exposed to price risk with respect to commodity and equity prices. Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Equity price risk is the potential adverse impact on the Company's comprehensive earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depend upon the world market price of certain precious and base metals. Precious and base metals have fluctuated widely in recent years. There is no assurance

that, even if commercial quantities of precious and base metals are produced in the future, a profitable market will exist for them.

## **CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying natural resource properties. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Company considers its capital structure to include cash and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. To assess capital and operating efficiency and financial strength, the Company continually monitors its net cash and working capital.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **MANAGEMENT'S RESPONSIBILITY**

Management is responsible for all information contained in this report. The December 31, 2021 financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates.

## **RISKS AND UNCERTAINTIES**

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Only investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment should undertake such investment. Prospective investors should carefully consider the risk and uncertainties that have affected, and which in the future are reasonably expected to affect, the Company and its financial position.

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this discussion, including information as to future activities, events and financial or operating performance of the Company and its projects, constitute forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties that could cause actual events or results to, differ materially from estimated or anticipated activities, events or results implied or expressed in such forward-looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies.

Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", "believes", or variations of such words and phrases. Forward-looking information may also be identified in statements where certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made.

Many factors could cause actual activities and events and the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. These include metal prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions.

These forward-looking statements are made as of the date hereof and the Company disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise. Investors are cautioned that forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein.

**OTHER INFORMATION**

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