

# **RAIN CITY RESOURCES INC.**

## **Management Discussion and Analysis**

**For the three month period ended December 31, 2018**

The Management Discussion and Analysis (“MD&A”), prepared March 12, 2019 should be read in conjunction with the audited financial statements and notes thereto for the year ended September 30, 2018 and the notes thereto of Rain City Resources Inc. (“Cayenne”) which were prepared in accordance with International Financial Reporting Standards.

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**

Rain City Resources Inc. (“the Company”) was incorporated on June 13, 2015 under the laws of British Columbia. The address of the Company’s corporate office and its principal place of business is 200-551 Howe Street, Vancouver, British Columbia, Canada.

The Company’s principal business activities include the acquisition and exploration of mineral property assets. As at December 31, 2018, the Company had not yet determined whether the Company’s mineral property asset contains ore reserves that are economically recoverable. The recoverability of amount shown for exploration and evaluation asset is 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 the necessary financing to complete the development of and the future profitable production from the property or realizing proceeds from its disposition. The outcome of these matters cannot be predicted at this time and the uncertainties cast significant doubt upon the Company’s ability to continue as a going concern.

### **EXPLORATION PROJECT**

	<b>Acquisition Costs</b>	<b>Exploration Costs</b>	<b>Total</b>
	\$	\$	\$
Balance, September 30, 2015 and 2016	-	-	-
Acquisition and exploration costs	5,000	78,413	83,413
Balance, September 30, 2017 and 2018	5,000	78,413	83,413

### **Northern Champion Project**

Pursuant to an option agreement (the “Agreement”) dated October 25, 2016, the Company was granted an option to acquire a 100% undivided interest in the Northern Champion Project (the “Property”) located near Champion Creek, south-west of Tulameen, Princeton area British Columbia.

In accordance with the Agreement, the Company has the option to acquire a 100% undivided interest in the Property by issuing a total of 700,000 common shares of the Company to the Optionors, making cash payments totaling \$130,000, and incurring a total of \$650,000 in exploration expenditures as follows:

	<b>Number of Common Shares</b>	<b>Cash</b>	<b>Exploration Expenditures</b>
		\$	\$
Upon execution of the Agreement (paid and incurred)	-	5,000	75,000**
Upon listing of the Company's common shares on a Canadian Stock Exchange (the "Listing")	100,000	5,000	-
On or before the first anniversary of the Listing	100,000	10,000	75,000
On or before the second anniversary of the Listing	100,000	20,000	100,000
On or before the third anniversary of the Listing	200,000	40,000	200,000
On or before the fourth anniversary of the Listing	200,000	50,000	200,000
<b>Total</b>	<b>700,000</b>	<b>130,000</b>	<b>650,000</b>

\*\* the \$75,000 is for the first year from the execution date.

The Optionors will retain a 3% Net Smelter Returns royalty on the Property. The Company has the right to purchase the first 1% of the royalty for \$750,000 and the remaining 2% for \$1,000,000 at any time prior to the commencement of commercial production.

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

	October 31, <u>2018</u>	October 31, <u>2017</u>	October 31, <u>2016</u>
Revenue	\$ 0	\$ 0	\$ 0
Net Income (Loss)	\$ (57)	\$ (15)	\$ (37)
Basic and Diluted Income (Loss) Per Share	\$ 0.01	\$ (0.00)	\$ (0.01)
Total Assets	\$ 114	\$ 116	\$ 0
Long-Term Debt	\$ 0	\$ 0	\$ 0
Dividends	\$ 0	\$ 0	\$ 0

#### **OPERATIONS**

##### **The three month period ended December 31, 2018**

For the three month period ended December 31, 2018 the Company reported a net loss of \$39,055 (2017 - loss of \$18). Included in the determination of operating loss was \$5,829 (2017 - \$Nil) on rent, \$11,200 (2017 - \$Nil) on professional fees, \$13,500 (2017 - \$Nil) on management, \$8,070 (2017 - \$Nil) on transfer agent and filing fees, and \$1,456 (2017 - \$18) on office and miscellaneous.

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

	December 31, <u>2018</u>	September 30, <u>2018</u>	June 30, <u>2018</u>	March 31, <u>2018</u>
Revenue	\$ 0	\$ 0	\$ 0	\$ 0
Net income (loss)	\$ (39)	\$ (42)	\$ (6)	\$ (9)
Basic and diluted				
Income (Loss) per share	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.00)

	December 31, <u>2017</u>	September 30, <u>2017</u>	June 30, <u>2017</u>	March 31, <u>2017</u>
Revenue	\$ 0	\$ 0	\$ 0	\$ 0
Net loss	\$ 0	\$ 0	\$ 0	\$ (15)
Basic and diluted				
Loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash and cash equivalents at December 31, 2018 were \$636 compared to \$5,143 at September 30, 2018.

**OFF-BALANCE SHEET ARRANGEMENTS**

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

**TRANSACTIONS WITH RELATED PARTIES**

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, 2018</b>	<b>September 30, 2018</b>
	\$	\$
Accounts payable and accrued liabilities	30,000	21,000

The amounts are due to a company controlled by the Chief Executive Officer ("CEO") of the Company. The amounts are non-interest bearing, unsecured and are due upon demand.

The Company had the following related party transactions for the three month period ended:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Management fees	\$ 9,000	\$ —

Key management includes directors and key officers of the Company, including the President, CEO and Chief Financial Officer. Management fees were provided by a company owned or controlled by the CEO.

## **COMMITMENTS**

The Company is committed to certain cash payments, share issuance and exploration expenditures in connection with the acquisition of its mineral property claims.

## **SUBSEQUENT EVENTS**

The Company entered into an agency agreement whereby the Agent (the “Agent”) has agreed to raise on commercially reasonable efforts \$400,000 in the initial public offering (“IPO”) by the issuance of 4,000,000 common shares of the Company at a price of \$0.10 per common share.

Pursuant to the terms of the agency agreement, the Company has agreed to pay to the Agent a commission of 8% of the gross proceeds of the IPO. The Company has also agreed to grant to the Agent options (the “Agent’s Options”) which will entitle the Agent to purchase up to 8% of the common shares sold under the IPO, at a purchase price that is equal to the price per share offered in the IPO. The Agent’s options are exercisable until 24 months from the Listing Date. In addition, the Company has agreed to pay a corporate finance fee and has also agreed to pay the Agent’s legal fees incurred pursuant to the IPO, and any other reasonable expenses of the Agent. As at September 30, 2018, the Company has paid \$20,000 to the Agent as a retainer. The amount has been recorded on the Statements of Financial Position as deferred financing costs. The Company has received regulatory approval however has not yet completed the financing.

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

The company has adopted the new and revised standard and interpretation issued by the IASB effective November 1, 2017. The adoption of the standards did not have any material impact on the financial statements of the Company.

## **NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued, but not yet effective, up to the date of issuance of the Company’s financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

New accounting standards effective for annual periods on or after January 1, 2018:

## IFRS 9 – *Financial Instruments*

In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. In November 2013 the standard was revised to add the new general hedge accounting requirements. The standard was finalized in July 2014 and was revised to add 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 (FVOTCI) category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test.

## 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 Programs, 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.

*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.

The Company does not expect the adoption of these standards to have significant impact on the consolidated financial statements.

The standard is effective for annual periods beginning on or after January 1, 2019:

## 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.

The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

## **CRITICAL ACCOUNTING POLICIES**

### Stock-based Compensation

The Company has a stock option plan, which is described in to the financial statements. Share-based payments to employees and others providing similar services are measured at the estimated fair value of the instruments issued on the grant date and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to equity settled share-based payments reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related equity settled share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from equity settled share-based payment reserve.

Share-based compensation expense relating to deferred share units is accrued over the vesting period of the units based on the quoted market price. As these awards can be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

### 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’s cash and investment are classified as FVTPL assets.

#### *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 as 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. The Company does not have any assets classified as available for sale.

#### *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 plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less and impairment losses. The Company does not have any assets classified as loans and receivables.

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 occurred 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. 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 7,850,001 shares issued and outstanding as at December 31, 2018 and March 12, 2019.

### Share Purchase Options

The Company has no stock options outstanding at December 31, 2018 and March 12, 2019.

### Warrants

The Company has no share purchase warrants outstanding at December 31, 2018 and March 12, 2019.

### Escrow Shares

The Company has 4,000,000 shares held in escrow as at December 31, 2018 and March 12, 2019.