

**CONFEDERATION MINERALS LTD.**  
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Form 51-102F1

***Management's Discussion & Analysis of Financial Condition and Results of Operations for the Financial Period Ended June 30, 2016***

**DATE: October 26, 2016**

**GENERAL**

This Management's Discussion and Analysis ("MD&A") of Confederation Minerals Ltd. ("Confederation" or the "Company") has been prepared by management and should be read in conjunction with the audited financial statements for the year ended June 30, 2016. Additional information relating to the Company, including other regulatory filings, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

All figures are in Canadian dollars unless otherwise noted.

**FORWARD-LOOKING INFORMATION**

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Aside from factors identified in the Company's financial statements, additional important factors, if any, are identified here.

**DESCRIPTION OF BUSINESS**

Confederation Minerals Ltd. was incorporated on November 3, 2005 under the *Business Corporations Act* (British Columbia) as "Medina Ventures Inc.", changed its name to "Sienna Minerals Ltd." on April 26, 2006 and changed its name to Confederation Minerals Ltd. on April 11, 2007. The Company is a junior resource company whose business is to seek out and develop mineral deposits.

Effective June 30, 2016, the Company consolidated its issued and outstanding share capital on the basis of one (1) post consolidation share for each ten (10) pre-consolidation common shares. All references to shares and per share amounts have been retroactively restated to give effect to the consolidation.

**Newman Todd Project**

On November 19, 2010, the Company entered into an option agreement with Redstar Gold Corp ("Redstar") entitling the Company to earn up to 70% of Redstar's Newman Todd gold project (the "Property") in the Red Lake Mining District of Northern Ontario. In November 2013, the Company completed the option to earn a 50% interest in the Property by incurring over a three year period a cumulative of \$5,000,000 of work expenditures on the Property, issuing to Redstar a total of 50,000 shares of the Company and making payments to Redstar totalling \$250,000.

As at June 30, 2016, the Company completed a preliminary economic assessment of the Property and issued 50,000 shares to Redstar in furtherance of the exercise of its option to earn an additional 20% interest in the Newman Todd Project as previously announced. The Property is subject to a 2% net smelter return and a 15% net carried interest. The latter interest does not receive payment until capital expenditures have been recovered with interest.

The Company also owns an effective 35% interest in certain other claims adjacent to the Property. At the end of 2013, the Company staked approximately 64 hectares (158 acres) of suitable ground outside of the "Area of Interest" for the purposes of land mining and infrastructure.

As at June 30, 2016 the Company had incurred \$12,396,090 in exploration and evaluation expenditures on the property. The Company decided to impair the mineral property value to \$1 given that the Company has not significantly advanced the Newman Todd Project. The Company continues to legally hold 70% interest in the property.

On November 21, 2011, the Company and American Potash Corp. ("Potash") (formerly Magna Resources Ltd.) signed a purchase and sale agreement whereby the Company sold to Potash the 50% interest in American Potash LLC then held by the Company. Under the terms of the agreement Potash completed a 2 for 1 subdivision of its outstanding common shares, resulting in the Potash having 22,420,000 common shares being issued and outstanding immediately prior to closing of the transaction.

As consideration for the purchase, Potash issued 22,420,000 common shares and 2,400,000 common share purchase warrants of Potash. Each warrant entitles the Company to purchase a further common share at a price of \$0.10 until February 25, 2016.

On January 19, 2012 the transaction was completed. As a result of the transaction, the Company effectively controlled Potash and Potash holds a 100% interest in American Potash, which holds potash leases and an option in respect of potash lease applications in the State of Utah.

On December 19, 2012, the Company received an order from the Supreme Court of British Columbia approving distribution of 21,186,656 Potash common shares, being an approximate 40.94% interest in Potash, on a pro rata basis to the Company's shareholders. Upon completion of the distribution, the Company's ownership interest in Potash decreased from approximately 56.47% to approximately 16%. At that point the Company determined that it no longer controlled Potash, and as a result, the Company would no longer consolidate the operations of Potash.

At distribution, the Company retained 2,400,000 share purchase warrants that were acquired during the business acquisition. These warrants were valued \$124,000 at June 30, 2015 using the Black-Scholes pricing model using the following assumptions:

|                                  |             |             |
|----------------------------------|-------------|-------------|
|                                  | <u>2016</u> | <u>2015</u> |
| Dividend yield                   | N/A         | 0%          |
| Risk-free interest rate          | N/A         | 0.05%       |
| Estimated volatility             | N/A         | 169.48%     |
| Expected life in years remaining | N/A         | 0.68        |

During the year ended June 30, 2016, the share purchase warrants expired. In addition, the Company reversed a previous deferred income tax recovery of \$17,000 related to marketable securities. The Company recorded a loss of \$141,000 (2015 - \$16,000).

### **Other Properties**

The Company also owns certain mineral claims in northern Ontario known as the Confederation Lake claims (sometimes referred to as the Mitchell-Belanger claims). No work was undertaken on the properties during the last two fiscal years and therefore at June 30, 2011 management decided to write off all costs incurred to date. The Company abandoned its interest in the Matless Lake claim on February 3, 2012.

All of the Company's presently held exploration and evaluation assets are situated in the Red Lake mining district of the province of Ontario, Canada. However, the Company may seek to acquire interests in other provinces or countries.

The Company finances its properties by way of equity or debt financing. Additional information is provided in the Company's financial statements. These documents are available on [www.sedar.com](http://www.sedar.com).

## **EXPLORATION UPDATE**

### **Newman Todd Project**

The most recent phase of drilling on the property was completed in September 2013. Since then, the Company has undertaken further geological interpretation, a ground magnetic survey of the Hinge Zone area, plus continuing metallurgical and environmental studies, and the preparation of a Preliminary Economic Analysis (PEA), which was completed in 2015.

Total drilling on the property is now 54,796 meters in 164 holes over approximately 1.8 km of strike length within the highly-altered, gold-bearing Newman Todd "Structure" ("NTS"). Total drilling by Confederation at Newman Todd during 2011, 2012 and 2013 totals 42,644 meters in 110 holes.

As of June 30, 2016, the Company has spent a total of \$12,396,090 in exploration and acquisition at its Newman Todd Project. The specific results of the program are discussed in the Company's news releases all of which are available on [www.sedar.com](http://www.sedar.com), and on the Company's website at [www.confederationmineralsltd.com](http://www.confederationmineralsltd.com).

The 2011-2013 drill programs confirmed the existence of a large scale, open-ended, gold-bearing hydrothermal system. Several zones of high grade gold mineralization occur with veining and silica/sulphide replacement zones within the widespread iron-carbonate structural/alteration system known as the Newman Todd Structure (NTS). The NTS has so far been identified across a strike length of approximately 2.2 kilometers, a width of 200 meters and from surface to depths of almost 1 kilometer. The working interpretation suggests the gold mineralization may be rheologically controlled, occurring several meters peripherally from the hanging wall contact, within the NTS, with zones of concentrated gold which may be associated with "ponding" of ascending gold-bearing fluids beneath the overlapping volcanic "cap". Evidence from the recently concluded summer program suggests this hypothesis whereby an epithermal type deposition, emanating from the footwall, has resulted in lateral gold deposition along strike and a similar deposition of gold concentrated along the hanging wall which, as mentioned above, may have acted as a non-porous litho-cap or fluid trap. This hypothesis remains to be tested but, if it is found accurate, would suggest the region where the hydrothermal fluids entered the footwall is a likely area for gold deposition.

Exploration at Newman Todd during the 2013 summer period also included the stripping and trenching of shallowly-buried sub-crop in the Hinge Zone close to drill hole collars NT-122, NT-123 and NT-124. Mapping and sampling of the newly-exposed bedrock was completed and provided the Company with valuable information regarding the structural controls on mineralization. Outcrops exhibit intense silica-carbonate alteration affecting sulphide-mineralized stromatolitic carbonate beds, hosting intense NW-striking quartz veining.

Also during the summer of 2013, further metallurgical tests were completed by SGS Labs on composite samples of drill core selected to be representative of gold mineralization being delineated within the structure. Tests included gravity concentration (9 tests) followed by rougher flotation (34 tests) and cleaner flotation (21 tests). The metallurgical work is being overseen for Confederation Minerals by metallurgist Daniel Sepulveda of Moose Mountain Technical Services.

Metallurgical results were incorporated into the Preliminary Economic Assessment (PEA) which was completed by Mining Plus Ltd in January 2015. The PEA serves to provide guidance to the Company regarding open pit and underground options, preliminary resource evaluations, capital cost estimates, mining costs and other aspects of project economics.

The PEA is based on results from 138 diamond drill holes totaling 51,328 m with 1,719 down hole surveys and 45,300 assays for gold. Drill holes tested the NTS, which accounts for most of the gold discovered to date on the project. The NTS stretches over the entire length of the property, a distance of about 1.8 km, and is open outside

of project boundaries. Much of the drilling is wide spaced with the highest drilling density in the “Hinge Zone” and the “Heath Bull Zone” where drill centers are spaced approximately 25 m down to a depth of about 300 m.

Primarily as a result of distances between wide spaced drilling within the NTS, geostatistical restraints have limited the region of the NTS that contributes to the PEA to just the Hinge Zone. It is anticipated that, given the large scale of the project, additional drilling in the NTS will add to the resources already identified for the PEA.

While the Company understands that the results of the PEA presented are, by definition, preliminary, the Company sought guidance, through the PEA summarized below, to help determine parameters for future exploration of the much larger NTS system extending well outside the Hinge Zone and to a depth of at least 900m.

## **Summary of PEA**

The PEA is based on the resource model (with effective date December 17th, 2013), extraction of the deposit by open pit mining methods, and additional metallurgical and environmental studies. A pit optimization process (using Whittle software) was undertaken to identify the ultimate pit shell using the base case economic and geometric parameters. Project highlights and key potential economic outcomes from the mine plan considered in this PEA are detailed below in Table 1.

| <b>TABLE 1</b>                                       |           |
|--|-----------|
| <b>Mining</b>  |           |
| Mining Inventory tonnes, t                           | 1,157,727 |
| Mining production rate, tpa                          | 375,000   |
| Total open pit material mined, t                     | 7,487,665 |
| Stripping ratio                                      | 5.47      |
| <b>Production</b>                                    |           |
| Average feed grade Au, g/t                           | 2.5       |
| Payable Au, oz                                       | 82,699    |
| <b>Capital Costs</b>                                 |           |
| Initial Capital Costs, CA\$M                         | 48.8      |
| Sustaining Capital Costs, CA\$M                      | 23.2      |
| Mine Closure Capital Costs, CA\$M                    | 5.1       |
| Contingency (Initial Capital Costs), CA\$M           | 9.8       |
| Contingency (Sustaining Capital Costs), CA\$M        | 2.1       |
| Total Capital Costs, CA\$M                           | 89.1      |
| <b>Operating Costs</b>                               |           |
| Total Operating Costs, CA\$M                         | 90.6      |
| Unit Operating Costs, CA\$/t milled                  | 78.3      |
| <b>Metal Price and Exchange Rate Assumptions</b>     |           |
| Au price, US\$/oz                                    | 1,400     |
| USD/CAD exchange rate                                | 1.01      |
| <b>Economic Outcomes</b>                             |           |
| Net income (pre-tax, undiscounted), CA\$M            | (66.9)    |
| Net Present Value (pre-tax, 5% discount rate), CA\$M | (62.4)    |

*Note: All designs and costs in the Preliminary Economic Assessment are preliminary in nature and include both Indicated and Inferred Mineral Resources. Inferred Mineral Resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves.*

## **Resources**

The mineral resource estimate for the Newman Todd Project was prepared using higher grade, quartz carbonate breccia mineralized shells outlined and provided by Confederation Minerals, and a geologic solid model provided by Doug Blanchflower, B.Sc., P.Geo of Minorex Consulting Ltd. The higher grade shells were

used to create 3D wireframes for ten mineralized zones that were subsequently used to constrain the mineralized breccia zones. Resources are classified according to NI 43-101 and CIM Definition Standards based on the geologic continuity established through surface mapping and drill hole interpretation.

Mineral Resources have been stated constrained to a conceptual pit shell at a cut-off grade of 0.85g/t Au (assuming a gold price of USD 1,400/oz), with support provided for the suitability of such a cut-off for an open pit resource model on this type of gold deposit. The Mineral Resources for Newman Todd that would be contained within a conceptual open pit and at a cut-off grade of 0.85g/t Au are summarized below in Table 2.

Table 2: Newman Todd Mineral Resource Estimate within Conceptual Open Pit

| <b>Resource Class</b>     | <b>Tonnage</b> | <b>Au Grade (g/t)</b> | <b>Au Ounces</b> |
|---------------------------|----------------|-----------------------|------------------|
| Total Indicated Resources | 350,000        | 2.76                  | 31,000           |
| Total Inferred Resources  | 574,000        | 2.78                  | 51,000           |

Note:

- Totals in above tables may differ due to rounding
- Mineral Resources are reported at a 0.85g/t Au cut-off
- Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability
- Inferred Mineral Resources have been estimated on the basis of limited geological evidence and sampling, there has been insufficient drilling and sampling to classify these Inferred Resources as Indicated or Measured Resources. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration.

Mineral Resources have also been stated for use as an underground mining resource model, exclusive of the Mineral Resources constrained by the conceptual pit shell. This underground resource model includes only material that is outside of the conceptual pit shell and at a cut-off grade of 2.2g/t Au (assuming a gold price of USD 1,400/oz), with support provided for the suitability of such a cut-off for an underground resource model on this type of gold deposit. The Mineral Resources for Newman Todd that are outside of the conceptual open pit shell for reporting of open pit resources and at a cut-off grade of 2.2g/t Au are as summarized below in Table 3.

Table 3: Newman Todd Potential Underground Mineral Resource Estimate

| <b>Resource Class</b>    | <b>Tonnage</b> | <b>Au Grade (g/t)</b> | <b>Au Ounces</b> |
|--------------------------|----------------|-----------------------|------------------|
| Total Indicated Resource | 630,000        | 3.36                  | 68,000           |
| Total Inferred Resource  | 490,000        | 4.54                  | 72,000           |

Note:

- Totals in above tables may differ due to rounding
- Mineral Resources are reported exclusive of the Mineral Resources in Table 2, and at a 2.2 g/t Au cut-off
- Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability
- Inferred Mineral Resources have been estimated on the basis of limited geological evidence and sampling, there has been insufficient drilling and sampling to classify these Inferred Resources as Indicated or Measured Resources. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration.

Mineral Resource estimates have not been disclosed within the PEA report at grades lower than the respective open pit and underground cut-off grades assumed for this PEA.

### ***Description of Proposed Mining Operations***

The PEA contemplates open pit mining of the Newman Todd deposit that would be undertaken by a contractor owing to the relatively small size of the mineral resource. Mining would commence with a 21 month pre-production period involving the following activities:

- **Construction of a dike at the inflow end of Abate Lake and a water diversion channel, prior to dewatering of the lake**
- **Lake bed sediments and overburden removal**

Mining of potentially mineralized material intended for direct feed to the processing plant would occur over 36 months following this pre-production period.

In the PEA, mining is planned using conventional truck and shovel operations. The ramp is constrained to the south-western side of the proposed open pit to maximize pit slope angles for the majority of the mine life and to access pockets of potentially mineralized material at deeper elevations on the northeastern side of the pit. The slope angles used in the mine design were adjusted according to this ramp position.

It is expected that a 98% mining recovery and a dilution factor of 5% will be achieved for the open pit operation. Mining recovery accounts for the ore loss events during mucking due to unclear ore/waste contacts or areas where selectivity cannot be reached. The dilution factor is applied to ore blocks due to the undesired waste tonnes added to the ore in the mining process.

Waste rock removed from the operation would be stored on the waste storage facility which is to be sited to the southeast of the open pit. It is expected that waste rock would be categorized as either potentially acid-generating or non acid-generating, although no specific test-work and classification has been undertaken for this level of study. Owing to the known presence of significant carbonate zones constrained to the waste portions within the NTS, these are expected to provide a substantial neutralization effect. On this basis, there is expected to be sufficient non acid-generating waste rock available for construction of the walls for the tailings storage facility and for capping of potential acid-generating waste rock within the waste storage facility.

### ***Metallurgical Testing and Ore Processing***

Metallurgical test work was undertaken during 2013 on 11 diamond drill hole intersections (totaling 221.9 kg of material) that characterized the various types of mineralization/alteration and waste rock found within the NTS. Gold mineralization within the NTS is predominantly associated with the presence of sulphides and magnetite as well as pervasive silica alteration, and occasionally associated with the presence of minor sulphides and/or magnetite. Combining results of flotation and cyanidation tests, the overall Au recovery, with regrinding, was approximately 91% for the sulphide/magnetite-rich composite approximately 92% for the sulphide/magnetite-poor composite, and approximately 82% for an arsenopyrite-rich composite. The presence of arsenopyrite and galena, while not particularly abundant, is often a good indicator for the presence of gold.

Processing would involve crushing, gravity separation, flotation and carbon-in-pulp leaching to produce gold doré bars. Tailings would be disposed of in a tailings storage facility that is constructed as an initial starter dam and progressively expanded as production from the operation progresses to minimize early capital expenditure. The processing plant would be operated by the owners of the project.

### **Capital and operating costs**

Capital and operating costs are summarized in Tables 4 and 5.

Table 4: Capital Cost Summary

| <b>Cost Area</b>  | <b>Initial Capital (CA\$M)</b> | <b>Expansion and Sustaining Capital (CA\$M)</b> | <b>Total Capital (CA\$M)</b> |
|---|--------------------------------|---|------------------------------|
| Roads   | 1.5                            |   |                              |
| Buildings and Electrical  | 1.3                            |   |                              |
| Power line extension and Admin.   | 8.4                            |   |                              |
| Processing Plant & Tailings Management Facility                                   | 37.0                           |   |                              |
| Infill and Sterilization Drilling   | 0.6                            |   |                              |
| Contingency (Initial Capital)   | 9.8                            |   |                              |
| Sustaining Capital (Tailings Storage Facility and Process Plant Water Management) |                                | 23.2  |                              |
| Mine Closure  |                                | 5.1   |                              |
| Contingency (Sustaining Capital)  |                                | 2.1   |                              |
| <b>TOTAL</b>  | <b>58.6</b>                    | <b>30.5</b>                                     | <b>89.1</b>                  |

Table 5: Operating Cost Summary

| <b>Cost Area</b> | <b>Operating Cost (CA\$/t milled)</b> |
|------------------|---------------------------------------|
| Mine             | 39.0                                  |
| Processing Plant | 28.7                                  |
| G&A              | 5.9                                   |
| Royalties        | 4.7                                   |
| <b>TOTAL</b>     | <b>78.3</b>                           |

### **Economic and Sensitivity Analysis**

The Newman Todd Project is subject to several royalties based either on Net Smelter Return (NSR) or Net Carried Interest (NCI). Those royalties for the project that are based on NSR have been applied to the revenue from payable gold, less the selling costs. However, the royalty based on NCI was not applied in the optimization phase of the project because, under its terms, it will only result in a payable amount after the recovery of all operating costs, capital expenditures, a carrying charge calculated at prime plus 1% and a reserve for working capital. In this calculation, capital expenditures also include all moneys expended prospecting, exploring and developing the property prior to commercial production. The NCI based royalty has been applied later in the cash flow model. Economic analysis on Newman Todd Project shows a cash flow after capital depreciation of CA\$66.9M and a NPV (5% discount rate) of CA\$62.4M.

A sensitivity analysis was conducted on key economic inputs: gold price / feed grade / processing recovery, processing cost, mining cost, capital expenditure and mining recovery. This analysis indicates that the project is most sensitive to gold price, processing recovery, feed grade and capital expenditure, followed by mining cost, mining recovery and processing cost

The foremost purpose of this PEA is to provide the Company with early economic guidance to optimize future exploration efforts along the extensive gold-bearing Newman Todd Structure (NTS). Optimization scenarios contemplated in the report that could provide significant upside to the Newman Todd Project include:

- Reduction of capital expenditure (processing plant, tailings storage facility and associated infrastructure) through toll treatment options
- Expansion of land holding sufficient to construct processing plant, tailings storage facility and associated infrastructure adjacent to the Newman Todd operation instead of on claims 18km NE of the deposit
- The NTS is open to extension to the northeast and southwest with several discrete known and untested targets and is also open at depth
- Additional drilling may discover further high grade portions of the deposit along strike or down dip within the NTS
- Potential increase in resource quantity, particularly through further drilling of the near-surface mineralized zones within the NTS
- Further constraining the high grade mineralization model within the deposit
- Renegotiation and decrease of royalties

As part of the PEA, Mining Plus requested that additional ground be acquired to ensure sufficient land for mining and processing related infrastructure. Confederation therefore acquired a further 64 hectares (158 acres) of suitable ground for this purpose. It lies outside of the "Area of Interest" determined in the Option Agreement with Redstar Gold and thus does not affect the agreement.

Stantec Consulting Ltd. are continuing with their environmental baseline studies and building a road map towards permitting the project for all eventualities including open pit and/or underground mining and processing.

Pursuant to the November 19, 2010 Option Agreement with Redstar Gold, whereby Redstar granted Confederation a First Option to earn a 50% undivided legal and beneficial interest in the property, Confederation duly exercised the terms of this First Option on October 31, 2013 and was granted the 50% interest.

The completion by Confederation of the PEA, along with the issuance to Redstar of an additional 500,000 shares of Confederation, will exercise the second option in the Company's option agreement with Redstar Gold Corp. thereby increasing Confederation's ownership in the Newman Todd project from 50% to 70% interest.



## OTHER CORPORATE INFORMATION

The board of directors consists of Lawrence Dick, Denise Lok and David Velisek. Lawrence Dick is the Chief Executive Officer, and President and Savio Chiu is the Chief Financial Officer.

For personal and health reasons, Dr. Lawrence Dick has indicated a desire to implement a succession plan. At Dr. Dick's request, if day to day management activities are impeded by his illness he will remain a board member, however, his executive contract will transition to that of Consulting Geologist with a fixed term of 12 months at his current remuneration. His management duties will be assumed by the remaining members of the management team, whom collectively have decades of geological, financial, legal and business experience with both private and public companies and whom have been actively involved in the operations of the Company during the life of its current projects.

The Company is a reporting issuer in the provinces of British Columbia and Alberta.

The Company's head office is located at Suite 1980, 1075 West Georgia Street, Vancouver, BC, V6E 3C9.

The Company's common shares were approved for listing on the TSX Venture Exchange and trading commenced on July 15, 2008 under the symbol CFM.

## OVERALL PERFORMANCE

The following discussion of the Company's financial performance is based on the audited financial statements for the year ending June 30, 2016 and June 30, 2015.

The statement of financial position as at June 30, 2016 indicates a cash balance of \$52,934 (June 30, 2015: \$7,382), marketable securities \$33,000 (June 30, 2015: \$554,000), GST/HST receivable of \$12,222 (June 30, 2015: \$1,932), and prepaid expense of \$3,460 (June 30, 2015: \$5,533). Total current assets amount to \$101,616 (June 30, 2015: \$568,847). The decrease in total current assets is mainly due to payments of various operating expenses during the period including consulting and management fees, professional fees, and exploration expenditures associated with the Newman Todd project. The Company closed a convertible debenture placement for \$50,000 and also sold 1,000,000 shares of American Potash Corp for gross proceeds of \$50,000.

The total current liabilities at June 30, 2016 are \$615,651 (June 30, 2015: \$371,695). Shareholders' equity (deficiency) is comprised of share capital of \$20,256,196 (June 30, 2015: \$20,206,196), share option and warrant reserves of \$2,535,967 (June 30, 2015: \$2,535,967), accumulated other comprehensive (loss) income of \$(142,854) (June 30, 2015: \$183,857), and deficit of \$23,207,561 (June 30, 2015: \$10,339,616). The decrease in shareholders' equity (deficiency) is due to the increased deficit as a result of writing the down the mineral property down to \$1 during the year.

Working capital, which is current assets less current liabilities, is a deficit of \$514,035 at June 30, 2016 compared to a surplus \$197,152 at June 30, 2015. The Company's working capital decreased over the period due to the increases in operating expenses and exploration expenditures and a decrease in the fair market value of the Company's marketable securities.

As at June 30, 2016, the Company has no earnings and therefore finances exploration activities by the issuance of its common shares. The key determinants of the Company's operating results are the following:

- (a) the state of capital markets, which affects the ability of the Company to finance its exploration activities; and
- (b) the write-down and abandonment of exploration and evaluation assets should exploration results provide further information that does not support the underlying value of such properties.

## **SELECTED ANNUAL INFORMATION**

The following table provides a brief summary of the Company's financial operations for the three most recently completed financial years:

| Year ended June 30,                           | 2016         | 2015       | 2014        |
|---|--------------|------------|-------------|
|   | \$           | \$         | \$          |
| Total Revenues                                | Nil          | Nil        | Nil         |
| Net Loss                                      | (12,867,945) | (690,253)  | (1,498,538) |
| Net Comprehensive Loss                        | (13,182,156) | (708,083)  | (1,846,538) |
| Basic Loss per Share                          | (1.89)       | (0.10)     | (0.23)      |
| <br>  |              |            |             |
| Total assets                                  | 101,617      | 12,958,099 | 13,308,795  |
| Weighted average number of shares outstanding | 6,795,066    | 6,664,018  | 6,604,661   |
| Total long-term liabilities                   | nil          | nil        | nil         |
| Shareholders' equity                          | (545,752)    | 12,586,404 | 13,209,487  |

## **RESULTS OF OPERATIONS**

During the year ended June 30, 2016, the Company incurred a net loss from operations of \$12,867,945 (June 30, 2015: \$690,253). The variance is mainly attributable to the write-down of mineral properties of \$12,396,089 during the twelve month period with some of the more significant changes relating to consulting fees of \$229,033 (June 30, 2015: \$534,018), increased professional fees of \$46,076 (June 30, 2015: \$19,777) and reduced wages of \$Nil (June 30, 2015: \$46,057).

### Summary of Quarterly Results

The following table sets forth selected quarterly financial information for each of the last eight most recently completed quarters:

| For the Quarter Periods Ending on: | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 |
|------------------------------------|---------------|----------------|-------------------|--------------------|
| Total Revenues                     | Nil           | Nil            | Nil               | Nil                |
| Net Loss                           | (12,666,095)  | (71,829)       | (83,241)          | (46,780)           |
| Net Comprehensive Income (loss)    | (12,525,095)  | (71,829)       | (302,368)         | (295,364)          |
| Basic Loss per Share               | (1.86)        | (0.01)         | (0.01)            | (0.01)             |
| <br>                               |               |                |                   |                    |
| For the Quarter Periods Ending on: | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 |
| Total Revenues                     | Nil           | Nil            | Nil               | Nil                |
| Net Loss                           | (22,405)      | (284,323)      | (142,309)         | (241,216)          |
| Net Comprehensive Income (loss)    | 464,595       | (629,153)      | (142,309)         | (401,216)          |
| Basic Loss per Share               | (0.00)        | (0.04)         | (0.02)            | (0.04)             |

### Current Quarter

The Company recorded a net loss from operations of \$12,666,095 (June 30, 2015: \$22,405) during the quarter ended June 30, 2016. The net loss for the quarter ended June 30, 2016 relates to the general and administrative expense as well as writing down exploration and evaluation assets.

## **LIQUIDITY**

At June 30, 2016, the Company had a cash balance of \$52,934 (June 30, 2015: \$7,382). The decrease in total cash is mainly due to the expenditures incurred for the exploration projects and general and administrative expenses. The Company has working capital deficit of \$514,035 as at June 30, 2016 compared to a surplus of \$197,152 as at June 30, 2015.

Net cash used in operating activities for the year ended June 30, 2016 was \$73,436 compared to \$218,654 for the year ended June 30, 2015.

Net cash derived from investing activities for the year ended June 30, 2016 was \$18,988 compared to \$137,795 for the year ended June 30, 2015.

Net cash derived from financing activities for the year ended June 30, 2016 was \$100,000 compared to \$55,000 for the year ended June 30, 2015.

The Company has no history of profitable operations and its exploration and evaluation projects are at an early stage. Therefore, the Company is subject to many risks common to comparable junior venture resource companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

## **CAPITAL RESOURCES**

The Company's sources of funds are derived from financings. The Company has a capitalization of an unlimited number of common shares without par value of which 6,877,853 common shares are issued and outstanding as at October 26, 2016.

In April 2016, the Company issued 100,000 shares pursuant to warrants being exercised for proceeds of \$50,000.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements.

## **RELATED PARTY TRANSACTIONS**

The aggregate value of transactions recorded as consulting fees relating to key management personnel and entities which they have control or significant influence were as follows:

| Services provided by:              | Notes | Year Ended June 30, |         |
|------------------------------------|-------|---------------------|---------|
|                                    |       | 2016                | 2015    |
|                                    |       | \$                  | \$      |
| Lawrence Dick                      | (a)   | 12                  | 60,006  |
| David Velisek                      | (b)   | 15,000              | -       |
| Baron Global Financial Canada Ltd. | (c)   | 120,000             | 120,000 |
| Brian Bapty                        | (d)   | -                   | 12,500  |
| Primarius Capital Corp.            | (e)   | -                   | 60,006  |

- (a) Lawrence Dick, the CEO of the Company provided management services.
- (b) David Velisek, the Director of the Company provided business development consulting fees.
- (c) Pursuant to a management and advisory agreement with Baron Global Financial Canada Ltd. ("Baron"), Baron agreed to act as corporate advisor and Chief Financial Officer of the Company in return for a monthly fee.
- (d) Brian Bapty, the former President of the Company received management salaries.
- (e) Primarius Capital Corp. is a privately held corporation controlled by a former director, which provided consulting services to the Company.

During the year ended June 30, 2015, Kent Ausburn and Scott Parsons, former directors of the Company, each received 100,000 shares of American Potash as compensation for director's fees. The Company recorded a value of \$6,000 for each 100,000 shares disbursed from the Company.

In March 2012 the Company entered into agreements with three different related parties to provide business consulting services. Each of the three consultants will be paid a monthly fee of \$10,000 for an indefinite term. If any of the consulting agreements are terminated, the party will receive \$240,000.

During the year ended June 30, 2015, these consulting agreements were amended to a monthly fee of \$1 per month and no termination amount payable. In return each party received 1,000,000 shares of American Potash at a fair value of \$70,000. As part of the amended agreements the amount owing to each consultant was capped at \$50,000 which resulted in a forgiveness of debt in the amount of \$7,143.

The following table outlines the Company's related party payables:

| At June 30,                        | 2016    | 2015   |
|------------------------------------|---------|--------|
|                                    | \$      | \$     |
| Lawrence Dick                      | 50,019  | 50,006 |
| David Velisek                      | 16,469  | -      |
| Baron Global Financial Canada Ltd. | 220,602 | 94,602 |
| Primarius Capital Corp.            | -       | 50,006 |

## **COMMITMENTS**

In March 2012 the Company entered into agreements with three different related parties to provide business consulting services. Each of the three consultants will be paid a monthly fee of \$10,000 for an indefinite term. If any of the consulting agreements are terminated, the party will receive \$240,000. During the year ended June 30, 2015, these consulting agreements were amended to a monthly fee of \$1 per month and no termination amount payable.

In April 2016 the Company entered into agreements with two different arms-length parties to provide business consulting services. Each of the two consultants will be paid a monthly fee of \$7,000 for an indefinite term. If any of the consulting agreements are terminated without cause, the parties will each receive \$168,000.

### **CRITICAL ACCOUNTING ESTIMATES**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss/income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

#### Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

#### Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. The Company believes it has adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

#### Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 12 of the financial statements.

## **FINANCIAL INSTRUMENTS**

### Classification of financial instruments

#### (a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statements of financial position as follows:

|                           | Fair Value Measurements Using                                       |   |   |
|---------------------------|---|---|---|
|                           | Quoted prices in active markets for identical instruments (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs Level 3 |
| As at June 30, 2016       | \$  | \$  | \$                                      |
| Cash and cash equivalents | 52,934  | -   | -                                       |
| Marketable securities     | 33,000  | -   | -                                       |
| Total                     | 85,934  | -   | -                                       |

|                           | Fair Value Measurements Using                                       |   |   |
|---------------------------|---|---|---|
|                           | Quoted prices in active markets for identical instruments (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs Level 3 |
| As at June 30, 2015       | \$  | \$  | \$                                      |
| Cash and cash equivalents | 7,382   | -   | -                                       |
| Marketable securities     | 430,000   | 124,000                                       | -                                       |
| Total                     | 437,382   | 124,000                                       | -                                       |

The fair values of other financial instruments, which include loan receivable, current assets held for sale, accounts payable and accruals, current liabilities held for sale, and premium on flow-through shares, approximate their carrying values due to the relatively short-term maturity of these instruments.

#### (b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and amounts receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

#### (c) Foreign Exchange Rate Risk

The Company is not subject to significant foreign exchange rate risk as all of the Company's operations are located in Canada.

#### (d) Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash balances. If necessary, the Company may raise funds through the issuance of debt, equity or sale of non-core assets. The Company ensures that there is sufficient capital to meet its obligations by continuously monitoring and reviewing actual and forecasted cash flows, and match the maturity profile of financial assets to development, capital and operating needs.

## **SUMMARY OF OUTSTANDING SHARE DATA**

The Company's issued and outstanding share capital as at the date of this report is as follows:

- (1) Authorized: Unlimited common shares without par value.
- (2) The Company has 6,877,853 common shares, and 215,000 stock options issued and outstanding.
- (3) The Company has no warrants issued and outstanding

## **ADDITIONAL DISCLOSURE FOR JUNIOR ISSUERS**

The Company has incurred the following material cost components during the year ended June 30, 2016:

| Year ended June 30,                            |     | 2016         | 2015     |
|--|-----|--------------|----------|
|  |     | \$           | \$       |
| Consulting and management fees                 | (a) | 229,033      | 534,018  |
| Insurance                                      | (b) | 17,781       | 52,212   |
| Office expenses                                | (c) | 14,324       | 25,796   |
| Professional fees                              | (d) | 46,076       | 19,777   |
| Wages  | (e) | -            | 46,057   |
| Loss on marketable securities                  | (f) | (141,000)    | (16,000) |
| Write down of exploration and evaluation asset | (g) | (12,396,089) | -        |

- (a) Consulting fees were paid to directors, officers and consultants of the Company to provide geological, corporate communication, administrative, investor relations and management services. The transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the related parties, and were recorded at the exchange amount.
- (b) Insurance fees of \$17,781 were recognized for the Company's property liability insurance and directors and officers insurance. The decrease was primarily due to decreased activity and decreasing the insurance coverage.
- (c) Office expense of \$14,324 were incurred for general office and software expenses
- (d) Professional fees relate to general legal and audit accrual fees.
- (e) There were no wages paid in 2016 as there were no employees at the Company.
- (f) The Company reported loss of \$141,000 relating to the company's warrants of American Potash.
- (g) The Company decided to impair the mineral property value to \$1 given that the Company has not significantly advanced the Newman Todd Project. The Company continues to legally hold 70% interest in the property.

The Company has capitalized the following exploration and development costs during the year ended June 30, 2016:

|   | June 30,<br>2014 | Change  | June 30,<br>2015 | Change  | June 30,<br>2016 |
|---|------------------|---------|------------------|---------|------------------|
|   | \$               | \$      | \$               | \$      | \$               |
| <b>Acquisition</b>                      |                  |         |                  |         |                  |
| Cash payments                           | 368,750          | -       | 368,750          | -       | 368,750          |
| Share issuance                          | 326,000          | 35,000  | 361,000          | -       | 361,000          |
|   | 694,750          | 35,000  | 729,750          | -       | 729,750          |
| <b>Deferred exploration expenditure</b> |                  |         |                  |         |                  |
| Advance payment                         | -                | -       | -                | -       | -                |
| Assays and reports                      | 1,328,098        | 35,768  | 1,363,866        | -       | 1,363,866        |
| Camp construction                       | 115,276          | -       | 115,276          | -       | 115,276          |
| Drilling                                | 4,856,038        | 4,000   | 4,860,038        | -       | 4,860,038        |
| Environmental                           | 284,697          | 6,639   | 291,336          | -       | 291,336          |
| Equipment installation                  | 101,950          | -       | 101,950          | -       | 101,950          |
| Field expenses                          | 1,197,673        | 9,296   | 1,206,969        | -       | 1,206,969        |
| General administration                  | 60,857           | 736     | 61,593           | 8,614   | 70,207           |
| Metallurgy studies                      | 117,497          | 15,985  | 133,482          | -       | 133,482          |
| Geological consulting                   | 2,926,595        | 55,707  | 2,982,302        | (1,844) | 2,980,458        |
| Permitting                              | 3,489            | 783     | 4,272            | 68      | 4,340            |
| Reclamation                             | 10,000           | -       | 10,000           | -       | 10,000           |
| Resource estimation                     | 33,100           | -       | 33,100           | -       | 33,100           |
| Surveys and geophysics                  | 15,068           | -       | 15,068           | -       | 15,068           |
| Travel and accommodation                | 480,250          | -       | 480,250          | -       | 480,250          |
|   | 11,530,588       | 128,914 | 11,659,502       | 6,838   | 11,666,340       |
| Write down                              | -                | -       | -                | -       | (12,396,089)     |
|   | 12,225,338       | 163,914 | 12,389,252       | 6,838   | 1                |

## **RISK AND UNCERTAINTIES**

The Company's principal activity is mineral exploration and development. These activities involve a high degree of risk which, even with a combination of experience, knowledge and careful evaluation, may not be overcome. Consequently no assurance can be given that commercial quantities of minerals will be successfully found or produced.

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many common risks applicable to new and developing enterprises, including undercapitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a positive return on shareholders' investment.

The Company has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects when required. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties.



The mineral industry is intensely competitive in all its phases. The Company competes with many other mineral exploration companies who have greater financial resources and technical capacity.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous materials and other matters.

### **Future Accounting Standards and Interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the Company's fiscal years beginning on or after July 1, 2015. The following standards and interpretations are relevant to the Company's financial statements but are not yet effective:

#### **(a) IFRS 9, Financial Instruments**

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is tentatively effective for annual periods beginning on or after July 1, 2018.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

### **CORPORATE GOVERNANCE**

Management of the Company is responsible for the preparation and presentation of the financial statements and notes thereto, MD&A and other information contained in this annual report. Additionally, it is Management's responsibility to ensure the Company complies with the laws and regulations applicable to its activities.

The Company's management is held accountable to the Board of Directors ("Directors"). The Directors are responsible for reviewing and approving the annual audited financial statements and MD&A. Responsibility for the review and approval of the Company's quarterly unaudited interim financial statements and MD&A is delegated by the Directors to the Audit Committee, which is comprised of three directors, two of whom are independent of management. Additionally, the Audit Committee pre-approves audit and non-audit services provided by the Company's auditors.

The auditors are appointed annually by the shareholders to conduct an audit of the financial statements in accordance with generally accepted auditing standards. The external auditors have complete access to the Audit Committee to discuss the audit, financial reporting and related matters resulting from the annual audit as well as assist the members of the Audit Committee in discharging their corporate governance responsibilities.

### **APPROVAL**

The Board of Directors of the Company has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

Additional information relating to the Company's operations and activities can be found by visiting the SEDAR website at [www.sedar.com](http://www.sedar.com).