# ABACUS MINING & EXPLORATION CORPORATION

(An exploration stage company)

Management's discussion & analysis

For the period ended September 30, 2018

**Contents**

November 28, 2018

The following Management's Discussion and Analysis ("MD&A") of the financial condition of Abacus Mining & Exploration Corporation (an exploration stage company) ("Abacus" or the "Company") and results of operations of the Company, should be read in conjunction with the unaudited condensed consolidated financial statements including the notes thereto for the nine months ended September 30, 2018 and 2017 and the audited consolidated financial statements including the notes thereto for the years ended December 31, 2017 and 2016 (collectively, the "Financial Statements").

The Financial Statements are presented in accordance with International Financial Reporting Standards ("IFRS"). Abacus' accounting policies are described in Note 3 of the Financial Statements. These Financial Statements, together with this MD&A dated November 28, 2018 (the "Report Date"), are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to potential future performance. All dollar amounts are in Canadian dollars unless otherwise noted.

**Special note regarding forward-looking information**

The Company's Financial Statements, and this accompanying MD&A, contain statements that constitute "forward-looking statements" within the meaning of National Instrument 51-102, *Continuous Disclosure Obligations* of the Canadian Securities Administrators. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", "targeting" and "intend" and statements that an event or result "may", "will", "should", "could", or "might" occur or be achieved and other similar expressions. Forward-looking statements in this MD&A include statements regarding the Company's future exploration plans and expenditures, the satisfaction of rights and performance of obligations under agreements to which the Company is a part, the ability of the Company to hire and retain employees and consultants and estimated administrative assessment and other expenses. The forward-looking statements that are contained in this MD&A involve a number of risks and uncertainties. As a consequence, actual results might differ materially from results forecast or suggested in these forward-looking statements. Some of these risks and uncertainties are identified under the heading "Risks and uncertainties" in this MD&A. Additional information regarding these factors and other important factors that could cause results to differ materially may be referred to as part of particular forward-looking statements. The forward-looking statements are qualified in their entirety by reference to the important factors discussed under the heading "Risks and uncertainties" and to those that may be discussed as part of particular forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause the actual results to differ include market prices, exploration success, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing for proposed transactions and programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Additional information relating to the Company and its operations can be obtained from the offices of the Company or on SEDAR at www.sedar.com.

**Qualified Person**

The Company's disclosure of a technical or scientific nature has been reviewed and approved by Paul G. Anderson, M.Sc., P.Geo., a qualified person under the definition of National Instrument 43-101. Mr. Anderson serves as President and COO of the Company.

**Background and Overall Performance**

**Ajax Cu-Au Project, B.C.:**

Abacus acquired holdings in the Ajax area in 2002 from Teck-Cominco (now Teck) and explored the property from 2005 to 2010. The core Ajax property comprises eight Crown grants including the historic Ajax East and West pits. The Ajax project site is located at the southern extremity of the boundaries of the City of Kamloops and southeast along an existing haul road from the Afton mill, and it includes shop facilities, a tailings area, and water rights which Abacus purchased in 2005 from Teck-Cominco. The Ajax East and West pits were in production under Teck from 1989-1991 as part of the Afton mine.

On July 31, 2009 Abacus filed a NI 43-101 compliant positive preliminary economic analysis (PEA) on the Ajax property, after a series of successful drill programs from 2005-2008, and based upon an initial resource estimate released earlier that same year. The preliminary analysis on Ajax underscored the potential for a robust mining operation.

*Synopsis of agreements at Ajax from June 28, 2010:*

On June 28, 2010, KGHM Ajax Mining Inc. ("KGHM Ajax") was incorporated. KGHM Ajax is focused on the exploration and development of the Ajax copper-gold project located near Kamloops, British Columbia (the "Ajax Project"). On June 29, 2010, pursuant to an investment agreement dated May 4, 2010 between Abacus and KGHM Polska Miedz S.A. ("KGHM"), Abacus transferred all of its mineral interests in the Ajax Project, with a fair value of $37,429,581 (US$35,549,020), to KGHM Ajax in exchange for 4,900 common shares of KGHM Ajax. On October 12, 2010, Abacus, KGHM and KGHM Ajax entered into the Definitive Joint Venture Shareholders' Agreement (the "Joint Venture Agreement"). Pursuant to the Joint Venture Agreement, KGHM subscribed for 5,100 common shares of KGHM Ajax, which represented a 51% interest for $37,392,200 (US$37,000,000); these funds were used by KGHM Ajax to fund exploration and evaluation activities during 2010 and 2011 required to produce the bankable feasibility study ("BFS"). Additionally, KGHM had the option to acquire an additional 29% interest in KGHM Ajax (for a total interest of 80%) for a maximum of US$35,000,000. On April 2, 2012, KGHM exercised its option to acquire an additional 29% of KGHM Ajax, thereby increasing its ownership in KGHM Ajax to 80%. The Joint Venture Agreement includes provisions allowing Abacus to fund its share of cash calls from the Ajax project through to production using loans from KGHM. Such loans will be repaid from Abacus's share of future revenues from the joint venture.

*Activity at Ajax from September 1, 2012:*
On September 1, 2012 KGHM exercised its option to appoint KGHM International Ltd. ("KGHMI") as the operator of the Ajax Project and a representative from KGHMI was appointed to KGHM Ajax's board of directors, thereby increasing KGHM's representatives on the board to three members and Abacus' representatives remaining at two.

With the change in operatorship in 2012, the Company took on more of a passive role with the Ajax Project, monitoring the progress and success of KGHMI as operator.

After assuming operatorship, an extensive review was performed by KGHMI staff and outside consultants in late 2012 through to mid-2014 to optimize the Ajax mine plan including validation of the proposed capital and operating expenditures.

In May of 2014, KGHMI announced that it had made modifications to the site plan wherein several of the proposed mine's industrial facilities were moved farther from the City of Kamloops, including relocation of a waste rock storage facility, the mine processing plant, primary crusher and temporary ore stockpiles. These sites, formerly situated inside the City of Kamloops limits, will now be located more than 3.5 kilometers from the nearest city neighborhoods and outside of municipal boundaries. These changes were made to reduce the potential for adverse impacts from industrial activity to the city, nearby residents and other public infrastructure while optimizing the value of the project. The proposed mine site is not visible from the city. In addition, the tailings storage facility was redesigned from the previously proposed dry stack tailings to a more proven wet tailings technology.

A major work program was completed during the balance of 2014 consisting of various permitting activities, detailed engineering work, metallurgical test work, optimization studies and exploration and condemnation drilling.

Work undertaken during 2015 included the completion of basic engineering, completion of various optimization trade-off studies, and continued drilling to confirm and improve the block model and obtain samples for additional metallurgical test work, along with ongoing condemnation and geotechnical drilling. Capital cost estimates and a revised economic model were completed by year end. Abacus elected to have the KGHM Group contribute its portion of the project expenditures starting with the April cash call, pursuant to the Joint Venture Agreement between the parties, the escrowed funds having been exhausted at this time. The funds are being provided by KGHM on behalf of Abacus as a loan, which is only repayable should commercial production commence.

The results of these technical studies were incorporated into an Environmental Assessment Application/ Environmental Impact Statement ("EA Application/EIS") which was filed in September 2015 with the British Columbia Environmental Assessment Office ("BCEAO") for a completeness review. Following the completeness review the EA Application/EIS was submitted on January 18, 2016 for technical review by the regulators. The review process was expected to conclude in late 2016, but due to the large number of requests and questions from the public, First Nations and the working group reviewing the application on behalf of various governments, the review was suspended on May 4, 2016 at the request of KGHM Ajax. The review was restarted on March 30, 2017 at the request of KGHM Ajax.

In addition to completing the EA Application/EIS, KGHMI also completed an updated NI 43-101 compliant Feasibility Study (the "updated FS") for the Ajax deposit on January 13, 2016, which incorporated an updated reserve and significantly updated engineering. Several significant changes were introduced to the scope and layout of the project which yielded positive economic, processing and environmental parameters for the Ajax Project.

<u>Economic Highlights of the 2016 FS (in US$ unless otherwise indicated)</u>

- Total proven and probable mineral reserves of 426 million tones containing 2.7 billion lbs Cu, 2.6 million oz Au, and 5.3 million oz Ag, at an average life of mine (LOM) head grade of 0.29% Cu, 0.19 g/t Au, and 0.39g/t Ag*
- 18-year mine life at an average nominal processing rate of 65,000 tonnes per day (t/d) at an overall stripping ratio of 2.65:1
- Average annual production of copper and gold in concentrate of 58,000 tonnes Cu and 125,000 oz Au
- Average mine operating costs of $1.5/t; average process operating costs of $4.31/t
- Initial capital expenditures of $1.307 billion
- Pre-tax NPV (8%) = $429.4 M   Pre-tax NPV (5%) = $872.5 M
- Pre-Tax IRR 13.4%; payback (years) 6.5

**Based on LOM metal prices of Cu: US$3.21/lb, Au: US$1,200/oz, Ag: US$17/oz*

<u>Key Changes from the January 2012 feasibility study include:</u>

- Project site relocation from the north to the south side of the mine pit
- Change in tailings technology to thickened tailings
- Change in mining plans from 60,000 t/d to 65,000 t/d, and the replacement of the in-pit semi-mobile crushing stations with a single, fixed primary crushing station
- Addition of a fine ore stockpile
- Adjustments to the site water management plan to accommodate facility relocation and tailings storage facility redesign
- Further definition of mineral resource and mineral reserves

With an ongoing strategy of engaging the community and First Nations, KGHM Ajax has provided extensive information to the local community and First Nations groups. Agreements have been signed with the Stk'emlupsemcte Secwepemc ("STS"), represented by the Tk'emlups and Skeetchestn First Nations bands for a Cultural Heritage Study and a Memorandum of Understanding ("MoU"). Consultations continue with the STS towards aligning an Impacts Benefits Project Agreement ("IBA"). The IBA would define the mutual responsibilities between KGHM Ajax and the STS in connection with the benefits, construction, operations, and closure of the Ajax project.

The focus of the 2016 program on the Ajax Project was to continue the required work to support the EA application and prepare responses to comments on the EA application from the regulators and the public and then provide them to the BCEAO and Canadian Environmental Assessment Agency ("CEAA"). In addition, consultation and negotiation with First Nations continued with a view to completing Project Agreements.

On March 29, 2017, the Ajax Project was notified by the BCEAO that, as a result of the satisfactory completion of information and materials in response to issues raised by multiple stakeholders, and in fulfilment of the requirements related to Aboriginal and public consultation, it had lifted its suspension of the 180-day time limit for the application review. This suspension was originally requested by KGHM Ajax to fulfill the requirements to the BCEAO's satisfaction.

The BCEAO also informed KGHM Ajax that, going forward, the CEAA and the BCEAO had agreed to seek a greater level of coordination and to prepare a joint assessment report. This coordinated approach was expected to streamline the process and provide alignment of timelines, ensuring that both jurisdictions consider the same information and avoid duplication. Throughout the period, the CEAA and the BCEAO have acted in coordination on the Ajax Project, co-chairing a technical working group, participating in consultation with Aboriginal groups and coordinating public comment periods.

To provide the process certainty for the remainder of the EA and to ensure federal- provincial timeline alignment consistent with a coordinated process, the provincial review period was extended by an additional 110 days. Inclusive of the extension was a 30-day public comment period on the joint assessment report and any draft provincial EA Certificate conditions ending on October 10, 2017, as well as a 45-day period for provincial Ministers to make a decision as to whether to issue an EA Certificate for the Ajax Project. Hence the Application review phase concluded in mid-October 2017.

In December 2017, the British Columbia Minister of Environment and Climate Change Strategy and Minister of Energy, Mines and Petroleum Resources announced that they had declined the issuance of an Environmental Assessment Certificate (EA Certificate) for the Ajax project. The Federal Minister of Environment and Climate Change Canada announced at the same time that the Project 'is likely to cause significant adverse environmental effects and cumulative effects to Indigenous heritage and the current use of lands and resources for traditional purposes by Indigenous peoples.' The Federal Minister referred the Project back to the responsible authorities, Fisheries and Oceans Canada and Natural Resources Canada (the "Federal Authorities"), who were tasked with seeking a final decision from Cabinet on whether the Project can proceed. In June of 2018, the Federal Authorities announced that they had rejected the proposed Ajax mine project "because the project is likely to cause significant adverse environmental effects that cannot be justified in the circumstances".

The Provincial and Federal decisions ("Decisions") follow a rigorous and comprehensive six-year environmental assessment review process that was formally initiated in February 2011, involving extensive engagement with provincial and federal government agencies, technical working and community advisory groups, First Nations and a broad array of stakeholder interest groups including thousands of community members who took part.

The Decisions to reject the Ajax Project in view of the highest standards that were consistently met for public consultation and stakeholder engagement was a significant disappointment to the Company; however, in Managements view, the Project is technically sound, viable and economically beneficial for the Kamloops community, First Nations and for the Province of BC and Canada. KGHM Ajax, following a review of the reasons for the Decisions, are considering the next steps to take on the project

Investment in KGHM Ajax project: KGHM Ajax is engaged principally in the exploration and development of the Ajax Project located near Kamloops, British Columbia. The Company owns 20% (KGHM: 80%) of the common and voting shares of KGHM Ajax and adjusts for its share of the profits and/or losses of KGHM Ajax as well as any distributions received from KGHM Ajax (none to date).

As a result of the decisions on the EA certificate, KGHM Ajax recorded an impairment loss, reducing the carrying value of the Ajax project at December 31, 2017, such that at December 31, 2017 the Company's investment in KGHM Ajax was $6,390,810. At September 30, 2018, the Company's investment in KGHM Ajax was $6,185,178.

**Willow Project (includes the Willow Property and the Nev-Lorraine Property):**

Both properties are located just east of Yerington, Nevada. As the Nev-Lorraine Property is contiguous to the larger Willow Property, the two properties have been aggregated, for geological and exploration reporting purposes only, into the Willow Project. (See *Willow Option Agreement* and *Nev-Lorraine Lease Agreement* below.)

At the Willow Project, a work program comprising geological mapping, geochemical sampling, geophysics and relogging of old core was undertaken in 2017 shortly after the option deal was signed with the objective of developing drill targets. Manipulation of the data acquired to date has continued, and a robust target that has the geochemical, geophysical and geological signature of a porphyry copper deposit has been defined on the property.

A short drilling program was initiated in late April of 2018, although two of the three holes drilled were lost before reaching their target depths. Despite this, the program was successful in validating the Company's model of the property, by discovering the Luhr Hill Granite. This granite is the source rock for all copper porphyry deposits in the Yerington camp, and this granite is not known to occur in the camp without a copper porphyry associated with it. As such, this represents a significant new discovery, as this rock unit was not previously known to exist on the Willow property. Further drilling will be required, but the Company is optimistic that a new porphyry copper deposit is about to be discovered on the Willow project.

*Willow Option Agreement:*

On February 14, 2017, the Company entered into an option agreement ("Option Agreement") with Almadex Minerals Limited and its wholly-owned Nevada subsidiary Almadex America Inc. (collectively, "Almadex"), to acquire the exclusive right and option to earn, in the aggregate, up to a 75% undivided ownership interest in the Willow Property (the "Willow Property") near Yerington, Nevada.

To acquire the initial 60% Option Interest in the Willow Property, the Company is required to issue common shares and incur exploration expenditures as follows:

| Date | Common shares in the capital of Abacus (the "Shares") (1) (#) | Minimum Annual Exploration Expenditures on the Exploration Program ("Expenditures") (US$) |
|---|---|---|
| TSX-V approval (received February 22, 2017) | 41,667 (2) | Nil |
| On or before the February 22, 2018 | 41,667 (3) | 100,000 (4) |
| On or before the February 22, 2019 | 41,667 | 300,000 |
| On or before the February 22, 2020 | 41,667 | 600,000 |
| On or before the February 22, 2021 | 83,333 | 800,000 |
| On or before the February 22, 2022 | 166,666 | 1,200,000 |
| Total | 416,667 | 3,000,000 |

(1) After taking into effect the consolidation of the common shares in the capital of the Company, as to one post-consolidation share for every six pre-consolidation shares, which post-consolidated shares commenced trading on the TSX-V on May 1, 2017.
(2) Issued on March 16, 2017; valued at $18,750.
(3) Issued on February 7, 2018; valued at $9,167.
(4) Incurred

Upon having earned the 60% Option Interest in the Willow Property and until the 10th anniversary date of the date of regulatory approval, the Company will be required to incur minimum exploration expenditures on an exploration program on the Willow Property of US$500,000 per year. The Company will act as the Willow Property's operator during the initial five-year term and following the earning of the 60% Option Interest, until such time as a joint venture is established, as described below. Under the terms of the Option Agreement, should either Abacus or Almadex acquire the rights to additional property ("AP") within the Area of Interest ("AOI"), the other party may elect to make the AP part of the Willow Project. Alamdex elected to include the Nev-Lorraine claims (see *Nev-Lorraine Lease Agreement* below) as part of the Willow Project.

In order to earn the 15% Additional Interest, such that the Company would have an aggregate interest of 75% in the Willow Property, the Company will be required to deliver a Feasibility Study on the Willow Property to Almadex on or before the 10th anniversary date of the date of regulatory approval. Upon having earned the Additional Interest, the Company will continue to act as the Willow Property's operator until such time as a 75:25 joint venture is established for the further management, exploration and development of the Willow Property.

*Nev-Lorraine Lease Agreement:*

The Company entered into an Exploration and Option to Purchase Agreement (the "NL Agreement") dated effective January 1, 2018, with three individuals (collectively, the "Optionors"), to lease the Nev-Lorraine unpatented mining claims located in Douglas County, Nevada, USA (the "Nev-Lorraine Property"). The Agreement is a ten-year lease agreement allowing the Company to explore the Nev-Lorraine claims pursuant to the following payments and expenditures:

| Date | Annual Minimum Payments (US$) | | Date | Cumulative Minimum Annual Exploration Expenditures (US$) |
|---|---|---|---|---|
| Initial minimum payment | 3,000 | (1) | - | - |
| On execution of the Agreement | 60,000 | (2) | On or before December 31, 2018 | 20,000 |
| On or before January 1, 2019 | 70,000 | | On or before December 31, 2019 | 40,000 |
| On or before January 1, 2020 | 80,000 | | On or before December 31, 2020 | 60,000 |
| On or before January 1, 2021 | 90,000 | | On or before December 31, 2021 | 80,000 |
| On or before January 1, 2022 | 100,000 | | On or before December 31, 2022 | 100,000 |
| On or before January 1, 2023 | 110,000 | | On or before December 31, 2023 | 120,000 |
| On or before January 1, 2024 | 120,000 | | On or before December 31, 2024 | 140,000 |
| On or before January 1, 2025 | 130,000 | | On or before December 31, 2025 | 160,000 |
| On or before January 1, 2026 | 140,000 | | On or before December 31, 2026 | 180,000 |
| On or before January 1, 2027 | 150,000 | | On or before December 31, 2027 | 200,000 |
| **Total** | **1,053,000** | | | |

(1) Paid August 15, 2017
(2) Paid February 6, 2018

At any time during the life of the NL Agreement, the Company can elect to purchase the claim group outright from the Optionors, for sums ranging from US$1,500,000 to US$1,950,000. The Optionors do not retain an NSR, and the yearly expenditures are cumulative, meaning that any excess expenditure can be carried through to subsequent years. The Nev-Lorraine Property is in the AOI, and is included in the Willow Project as AP, under the terms of the Willow Option Agreement.

**Tomichi Property:**

During the year ended December 31, 2017, the Company acquired, by staking, claims comprising the Tomichi Property, in Nevada, US. No work has been undertaken on this property to date. The claims were not renewed, and as such, all associated costs were written off during September 2018.

**Exploration Expenditures:**

The following table shows the exploration expenditures for all projects, during the nine months ended September 30, 2018 and 2017:

| Exploration and Evaluation Expenditures | September 30, 2018 ($) | December 31, 2017 ($) |
|---|---|---|
| Drilling | 442,000 | - |
| Consulting and project supervision | 112,746 | 138,216 |
| Other | 38,746 | 9,258 |
| Permitting, fees | 61,020 | - |
| Surveying | 20,144 | 230,915 |
| Planning | 5,350 | 103,948 |
| **Total** | **680,006** | **482,337** |

**KGHM JV operations funding at Ajax project:**

Under the terms of the JV Agreement, and without dilution to its 20% ownership of KGHM Ajax, the Company requested, beginning in 2015, that KGHM provide the Company's funding of the operations at Ajax as a loan (the "KGHM Ajax Project Loan"). At September 30, 2018, the Company had principal and interest on funds provided by KGHM in the total amount of $15,425,999.

The KGHM Ajax Project Loan is non-revolving, bears interest of 10% per annum, is secured by the investment in KGHM Ajax, and has a maturity date of December 31, 2020. Under the terms of the JV Agreement, if, at the time of maturity of the loan, the commencement of commercial production and the distribution of dividends by the JV to the Company are not sufficient to repay the KGHM Loan, the parties must, in good faith, negotiate an extension. Additionally, should the Company incur debt outside of the KGHM Ajax Project Loan or dispose of assets, in each case in excess of $100,000, any prepayment of the debt is only in the amount of the funds borrowed or sale proceeds received.

## Results of operations

Activities of the Company for the nine months ended September 30, 2018 focused on advancing the Willow Project and continuing to monitor the activities of KGHMI at the Ajax Project.

**Analysis of the results of operations for the three months ended September 30, 2018 (the "Quarter")**

Net general and administrative expenses during the Quarter were $646,533, as compared with $774,077 for the three months ended September 30, 2017 (the "2017 Quarter"). Significant differences in the general and administrative expenses for the Quarter include:

- $90,567 (Quarter 2017: $55,109) for salaries and contract wages, as a result of changes in positions for certain individuals
- $359,177 (Quarter 2017: $318,703) for accrued interest in respect of the KGHM Ajax Project Loan
- $107,820 (Quarter 2017: $186,397) on exploration and evaluation expenditures at the Company's Willow property
- $2,661 (Quarter 2017: $6,208) on share-based payments on vesting of stock option; share-based payments is a non-cash item, resulting from the application of the Black-Scholes Option Pricing Model using assumptions in respect of expected dividend yield average risk-free interest rates, expected life of the options and expected volatility, is intended to represent the fair value determined under the Black-Scholes model of the vested portion of existing options during the period.
- The Company did not renew the claims comprising the Tomichi property, and as such, property costs in the amount of $8,484 were written off.

**Analysis of the results of operations for the nine months ended September 30, 2018 (the "Period")**

Net general and administrative expenses during the Period were $2,494,275, as compared with $2,331,708 for the nine months ended September 30, 2017 ("2017 Period"). Significant differences in the general and administrative expenses for the Quarter include:

- Consulting and directors' fees decreased to $67,500 (2017 Period: $100,690) primarily as a result of change in positions of certain individuals.
- Exploration and evaluation expenditures increased to $680,006 (2017 Period: $350,844), expended primarily at the Willow Project (see "*Background and overall performance"*).
- Share-based payments of $93,005 was recognized during the Period (2017 Period: $302,345).
- During the Period, Abacus recorded its share of the losses incurred by KGHM Ajax in its equity investment in KGHM Ajax, as to $286,305 (2017 Period: gain of $69,680).
- Interest expense increased to $1,064,518 (2017: $932,198), as a result of interest accruing on the KGHM Ajax Project Loan.
- The Company did not renew the claims comprising the Tomichi property, and as such, property costs in the amount of $8,484 were written off.

**Summary of quarterly results**

The selected information set out below has been gathered from the previous eight quarterly financial statements for each respective three-month financial period and are presented in accordance with IFRS.

| | Revenue | Income (Loss) | Income (Loss) per share |
|---|---|---|---|
| | $ | $ | $ |
| September 30, 2018 | Nil | 735,281 | 0.02 |
| June 30, 2018 | Nil | 1,157,818 | 0.03 |
| March 31, 2018 | Nil | 893,720 | 0.02 |
| December 31, 2017 | Nil | 17,294,659 | 0.51 |
| September 30, 2017 | Nil | 807,911 | 0.12 |
| June 30, 2017 | Nil | 476,996 | 0.06 |
| March 31, 2017 | Nil | 981,296 | 0.00 |
| December 31, 2016 | Nil | 28,254,289 | 0.84 |

**Liquidity**

The Company's cash and cash equivalents are comprised of bank deposits and a savings account. Accounts payable and accrued liabilities of $205,040 are due in the fourth quarter of 2018. At September 30, 2018, the Company had cash and cash equivalents, and accounts receivable of $66,964 and $3,418, respectively. Cash used in operating activities for the period ended September 30, 2018 was $1,118,754 (see *Subsequent events*).

The Company currently does not generate any revenue, has limited financial resources, no source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will be available to conduct further exploration and development of its mineral properties. The Company's ability to continue as a going concern is dependent upon its ability to obtain the financing necessary to fund its mineral properties through the issuance of equity, debt, disposition of assets or mineral interests, or some combination thereof. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern. Management plans to continue to secure the necessary financing through the issuance of equity, debt, disposition of assets or mineral interests, or some combination thereof; however, there is no assurance that the Company will be successful in these actions. The Financial Statements do not give effect to adjustments to the carrying values and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

**Capital resources**

The Company's primary capital asset is its 20% interest in KGHM Ajax: KGHM Ajax holds 100% of the mineral interests of the Ajax Project. The Company is earning an interest in the Willow Project and has staked claims at the Tomichi property. (See *Background and Overall Performance* in this Report.)

**Off balance sheet arrangements**

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

**Compensation of key management personnel**

Key management personnel consist of Paul G. Anderson (President and COO, effective November 6, 2017), Michael McInnis (CEO and President until November 5, 2017, a Director of the Company, and, effective November 5, 2017, Executive Chairman), Jeannine Webb (CFO and Corporate Secretary), and Thomas McKeever, Kerry Spong, John McConnell and Sean Harvey (independent, non-executive Directors of the Company).

The remuneration of key management personnel during the period ended September 30, 2018 and 2017 is summarized as follows:

| **Management's and director's compensation** | September 30, 2018 | September 30, 2017 |
|---|---|---|
| | **($)** | **($)** |
| Accounting | 24,906 | 31,750 |
| Consulting and contract wages | 274,472 | 116,813 |
| Directors' fees | 67,500 | 67,500 |
| | 366,878 | 216,063 |

Key management personnel are also eligible to receive incentive stock options. Share-based payments is a non-cash item, resulting from the application of the Black-Scholes Option Pricing Model using assumptions in respect of expected dividend yield average risk-free interest rates, expected life of the options and expected volatility, and is intended to represent the fair value determined under the Black-Scholes model of the vested portion of existing options during the period. During the period ended September 30, 2018, the Company expensed $79,200 in share-based payments (2017: $291,226) pursuant to incentive stock option grants to key management personnel.

During the period ended September 30, 2018, the Company was charged, by a company with directors in common, $23,800 in respect of rent. Director's fees of $22,500 remain accrued at September 30, 2018.

**Securities data**

*Share consolidation:*

At the Special General Meeting held on April 25, 2017, the Company received shareholder approval to consolidate its issued and outstanding common shares on the basis of one post-consolidation common share for every six pre-consolidation common shares. Regulatory approval having been received, the common shares of the Company commenced trading on the TSX-V on a post-consolidated basis on May 1, 2017. There was no change to the Company's trading symbol on the TSX-V. All securities discussed below are on a post-consolidation basis.

*Securities issuances:*
On April 3, 2018, the company closed a non-brokered private placement for gross proceeds of $828,500 through the issuance of 4,142,500 units of the Company ("Units") at a price of $0.20 per Unit. Each Unit consists of one common share of the Company and one non-transferable common share purchase warrant, with each warrant exercisable to purchase one common share of the Company at a price of $0.30 per common share until April 3, 2021.

On February 7, 2018, in connection with the Willow Option Agreement, the Company issued 41,667 common shares of the Company. The shares were valued at $9,167.

*Stock options:*
On April 19, 2018, the Company granted options allowing for the purchase of up to, in the aggregate, 447,500 common shares of the Company at $0.22 per share until April 19, 2023, to employees, consultants, directors and officers of the Company. The grant date fair value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 2.12%, expected life of five years, expected volatility of 178.01% and dividend yield of 0%. The total amount of share-based payments expense is calculated at $89,726, of which $87,375 was recognized during the period ended September 30, 2018.

Pursuant to the vesting of options granted in prior years, the Company recognized $5,630 in share-based payments during the nine months ended September 30, 2018.

*Warrants:*
On April 3, 2018, the Company issued 4,142,500 warrants, with each warrant entitling the holder to purchase one common share of the Company at a price of $0.30 until on April 3, 2021. As the fair value of the shares exceeded the consideration received, no residual amount existed, and the warrants were valued at $Nil.

*At Report Date:*
As at the Report Date, the Company had the following securities outstanding:

| | |
|---|---|
| Common shares | 48,249,109 |
| Stock options | 3,167,495 |
| Warrants | 10,701,457 |

**Proposed transactions**

There are no proposed transactions to be reported.

**Subsequent events**

- On October 8, 2018, incentive stock options allowing for the acquisition of up to, in the aggregate, 366,665 shares of the Company at $0.72 per share expired.

- On November 23, 2018, the Company closed a non-brokered private placement for gross proceeds of $487,200 through the issuance of 4,872,000 units of the Company ("Units") at a price of $0.10 per Unit. Each Unit consists of one common share of the Company and one non-transferable common share purchase warrant ("Warrant"), with each warrant exercisable to purchase one common share of the Company at a price of $0.20 per common share for a period of three years from the date of closing of the financing. In connection with the private placement, the Company paid a total of $4,529 in cash commissions and issued a total of 45,290 Warrants to finders. All securities issued will be subject to a statutory four month hold period expiring on March 23, 2019, and the financing received final TSX Venture Exchange approval on November 26, 2018.

## Financial risk management

In accordance with the adoption of IFRS 9 on January 1, 2018, the Company measures its cash and cash equivalents, restricted cash, amounts receivable, accounts payable, and KGHM Ajax project loan at amortized cost. The Company's investment in KGHM Ajax is carried at fair value through profit or loss. The carrying values of cash and cash equivalents, amounts receivable, restricted cash, and accounts payable approximate their fair values due to the short-term maturity of these financial instruments. The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

### Credit risk

The Company manages credit risk, in respect of its cash and cash equivalents, by purchasing highly liquid, short-term investment-grade securities held at major Canadian financial institutions. Concentration of credit risk exists with respect to the Company's cash and cash equivalents (Note 4) and restricted cash (Note 5), as all amounts are held through a single major Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

| Concentration of credit risk and maximum exposure | | September 30, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Bank accounts | $ | 66,964 | $ | 105,597 |
| Savings account | | - | | 375,000 |
| Restricted cash | | 25,875 | | 26,000 |
| | $ | 92,839 | $ | 506,597 |

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty meeting obligations associated with financial liabilities. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated financing and investing activities. Accounts payable and accrued liabilities of $205,040 are due in the fourth quarter of 2018. At September 30, 2018, the Company had cash and cash equivalents, and accounts receivable of $66,964 and $3,418, respectively, which is sufficient to satisfy the expected requirements for the fourth quarter of 2018. (See *Subsequent events* in this document.)

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) *Interest rate risk*

a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company is not susceptible to interest rate risk since the KGHM loan is fixed at 10%.

(ii) *Foreign currency risk*

The Company incurs certain expenses in currencies other than the Canadian dollar. The Company is subject to foreign currency risk as a result of fluctuations in exchange rates. The Company manages this risk by maintaining bank accounts in US dollars to pay these foreign currency expenses as they arise. Receipts in foreign currencies are maintained in those currencies. The Company does not undertake currency hedging activities. The Company also does not attempt to hedge the net investment and equity of integrated foreign operations.

(iii) *Other price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is exposed to changes in fair value of its investment in KGHM Ajax, which is based on the underlying fair value of KGHM Ajax's assets.

**Changes in accounting policies**

Other than the adoption of new accounting policies as described below, the same accounting policies have been used in the preparation of these financial statements as those used in the most recent audited annual financial statements and reflect all the adjustments necessary for the fair presentation in accordance with IFRS of the result of the interim periods presented.

**New accounting standards**

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions and did not impact the Company's condensed interim consolidated financial statements.

- IFRS 2, "Share-based payment" (amended standard) is effective for annual periods beginning on or after January 1, 2018.
- IFRS 9, "Financial Instruments: Classification and Measurement" is effective for annual periods beginning on or after January 1, 2018. The Company adopted IFRS 9 retrospectively, without restatement of prior year financial statements. IFRS 9 replaces the provisions of IAS 39, Financial

Instruments: Recognition and Measurement ("IAS 39") that relate to the recognition, classification, and measurements of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The approach in IFRS 9 is based on how the Company manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. The application of IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities, and there was also no impact to the carrying value of any of the Company's financial assets or liabilities on the date of transition.

- IFRS 15, "Revenue from Contracts and Customers": is effective for annual periods beginning on or after January 1, 2018.

Accounting Standards issued but not yet in effect

- IFRS 16, "Leases": is effective for annual periods beginning on or after January 1, 2019.

The Company is currently evaluating the impact of this new standard on its financial statements. The impact is not expected to have a material impact on the statements of financial position or results of operations of the Company.

**Risks and uncertainties**

The Company's principal activity is mineral exploration and development, which is speculative and involves a high degree of risk. There is a significant probability that the expenditures made by the Company in the exploring of its properties will not result in discoveries of commercial quantities of minerals. A high level of ongoing expenditures is required to locate and estimate ore reserves, which are the basis for further development of a property. Capital expenditures to attain commercial production stage are also very substantial. The Company has a history of incurring losses and deficits, and is subject to a number of risks and uncertainties due to the nature of its business and present stage of explorations, such as, but not limited to, exploration, market, commodity prices, Aboriginal land claims, title, limited financial resources, share price volatility, key personnel, competition, environmental and regulatory requirements, uninsurable risks and critical accounting estimates.

The following sets out the principal risks faced by the Company:

Title: Although the Company has taken steps to verify the title to mineral properties in which it or KGHM Ajax have an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Aboriginal Land Claims: Aboriginal rights may be claimed on properties or other types of tenure with respect to which mining rights have been conferred. The Company is aware of the mutual benefits afforded by cooperative relationships with indigenous people in conducting exploration activity and is supportive of measures established to achieve such cooperation. The outcome of any aboriginal land claims cannot be predicted, and if successful, would have a significant adverse effect on the Company.

Foreign Countries and Regulatory Requirements: Currently, the Company hold claims, has entered into an exploration and option agreement to lease unpatented mining claims, and has entered into a right and option agreement to earn an interest in certain claims, in the United States. Consequently, the Company is subject to certain risks associated with foreign ownership, including currency fluctuations, inflation, and political risk. Mineral exploration and mining activities and production activities in foreign countries may be affected in varying degrees by political stability and government regulations relating to the mining industry. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to disputes and/or conflicts between State and Federal legislations and regulations, community rights, restrictions on production, price controls, export controls, restriction of earnings, taxation laws, expropriation of property, environmental legislation, water use, labour standards and workplace safety.

Lack of Revenue and Limited Financial Resources: The Company has no significant source of operating cash flow and no revenues from operations. The Company has limited financial resources, and its ability to continue operating as a going concern is dependent upon management's success in raising additional monies to sustain the Company until cash flow from operations is adequate to sustain the Company's viability. Substantial expenditures are required to be made by the Company and/or its development partners to establish ore reserves and develop a mining operation. Exploration and development of mineral deposits is an expensive process, and frequently the greater the level of interim stage success the more expensive it can become. At present, the Company has no producing properties and generates no operating revenues; therefore, for the foreseeable future, it will be dependent upon selling equity in the capital markets to provide financing for its continuing exploration budgets. While the Company has been successful in obtaining financing from the capital markets for its projects in recent years, there can be no assurance that the capital markets will remain favourable in the future, and/or that the Company will be able to raise the financing needed to continue its exploration programs on favourable terms, or at all. Restrictions on the Company's ability to finance could have a materially adverse outcome on the Company and its securities.

Exploration and Development of Properties: The property interests owned by the Company or KGHM Ajax, or in which it may have an interest, are currently in the exploration and evaluation stages and have no ongoing mining operations. Mineral exploration and development involves a high degree of risk and few properties are ultimately developed into producing mines. The Ajax Project is located on the southwest side of Kamloops, BC and is progressing through the preliminary steps of the environmental assessment process administered jointly by the provincial Environmental Assessment Office and the federal Canadian Environmental Assessment Agency. The proposed infrastructure will be located primarily on private land owned by KGHM Ajax, with some utilization of crown land. The Ajax Project has been designated as a Major Resource Project and constitutes a reviewable project under the Canadian Environmental Assessment Act, in addition to requiring a number of provincial permits before construction can begin. While KGHM Ajax has engaged environmental experts and consultants and is committed to working in consultation with the community, First Nations and government agencies to identify areas of environmental concern, and to developing local policies and procedures that minimize the impact of mining on surrounding areas, there can be no assurance that environmental approval will be granted in a timely manner.

Share Price Volatility, Price Fluctuations and Commodity price: The price of the common shares, financial results and exploration, development and mining activities of the Company or KGHM Ajax may in the future be significantly adversely affected by declines in the prices of base and precious metals. Metal prices fluctuate widely and are affected by numerous factors beyond the Company's control. There can be no assurance that such price fluctuations will continue, or that investors' evaluations, perceptions, beliefs and sentiments will continue to impact these target commodities. An adverse change in these commodities' prices, or in investors' beliefs about trends in those prices, could have a material adverse outcome on the Company and its securities. There can be no assurance that these price fluctuations and volatility will not continue to occur.

Key personnel: Other than in respect of the Joint Venture, the Company's operations are dependent to a large degree on the skills and experience of certain key personnel. The Company does not maintain "key man" insurance policies on these individuals. Should the availability of these persons' skills and experience be in any way reduced or curtailed, this could have a materially adverse outcome on the Company and its securities.

Competition: Significant and increasing competition exists for the opportunity to acquire or acquire an interest in the limited number of mineral properties available. As a result of this competition, some of which is with large established mining companies with substantial capabilities and greater financial and technical resources than the Company, the Company may be unable to acquire additional interests in attractive mineral properties on terms it considers acceptable.

Environmental and Other Regulatory Requirements: The mining, processing, development and mineral exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards, mine safety, land use, toxic substances, land claims of local people and other matters. These laws and other governmental policies may affect investments of the Company and/or its shareholders.

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 material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Market: The Company's securities trade on public markets and the trading value thereof is determined by the evaluations, perceptions and sentiments of both individual investors and the investment community taken as a whole. Such evaluations, perceptions and sentiments are subject to change, both in short term time horizons and longer term time horizons. An adverse change in investor evaluations, perceptions and sentiments could have a material adverse outcome on the Company and its securities.

Uninsurable: The Company and its subsidiaries may become subject to liability for pollution, fire, explosion and other risks against which it cannot insure or against which it may elect not to insure. Such events could result in substantial damage to property and personal injury. The payment of any such liabilities may have a material, adverse effect on the Company's financial position.

Critical Accounting Estimates: In the preparation of financial information, management makes judgments, estimates and assumptions that affect, amongst other things, the carrying value of its mineral property assets. All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, a provision is made for the impairment in value. Management's estimates of exploration, operating, capital and reclamation costs, if any, are subject to certain risks and uncertainties which may affect the recoverability of mineral property costs. Although management has made its best estimate of these factors, it is possible that changes could occur in the near term that could adversely affect management's estimate of the net cash flow to be generated from its properties. The Company also uses the Black-Scholes Option Pricing Model in relation to share based payments. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the period.

Legal proceedings: On September 21, 2015, Chief Ignace and Chief Gottfriedson, on behalf of the Stk'emlùpsemcteSecwepemc of the Secwepemc Nation, (the "SSN") filed a Notice of Civil Claim in the BC Supreme Court, naming the Provincial and Federal governments and KGHM as defendants. SSN seeks declarations of Aboriginal rights and title over a portion of their traditional territory, focused on the Ajax Project area, damages for infringements of those Aboriginal rights and title, and interim and permanent injunctions preventing activities in relation to the Ajax Project.The Company is not a defendant, and has been advised that KGHM is receiving legal advice in respect of this matter.

On behalf of the Board,

*"Paul G. Anderson"*

Paul G. Anderson, President & COO