

## **BALMORAL RESOURCES LTD.**

### **Management Discussion and Analysis**

**For the year ended December 31, 2016**

#### **INTRODUCTION**

This Management Discussion & Analysis (“MD&A”) for Balmoral Resources Ltd. (the “Company” or “Balmoral”) for the year ended December 31, 2016 has been prepared by management in accordance with the requirements of National Instrument 51-102 as of March 29, 2017, and compares its financial results for the year ended December 31 2016 to the previous year. This MD&A provides a detailed analysis of the business of Balmoral and should be read in conjunction with the Company’s audited financial statements and the accompanying notes for the years ended December 31, 2016 and 2015 as filed on the SEDAR website at ([www.sedar.com](http://www.sedar.com)). The Company’s reporting currency is the Canadian dollar and all monetary amounts in this MD&A are expressed in Canadian dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards.

#### **Caution Regarding Forward Looking Statements**

This MD&A contains forward-looking statements and forward-looking information (collectively, “forward-looking statements”) within the meaning of applicable Canadian and US securities legislation. These statements relate to future events or the future activities or performance of the Company. All statements, other than statements of historical fact are forward-looking statements. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. These forward looking statements include, but are not limited to, statements concerning:

- the Company’s strategies and objectives, both generally and in respect of its specific mineral properties;
- the timing of decisions regarding the timing and costs of exploration programs with respect to, and the issuance of the necessary permits and authorizations required for, the Company’s exploration programs;
- the timing and cost of planned exploration programs of the Company and the timing of the receipt of results there from;
- the proposed use of the proceeds from the Company’s equity financings;
- the Company’s future cash requirements;
- general business and economic conditions;
- the Company’s ability to meet its financial obligations as they come due, and to be able to raise the necessary funds to continue operations;
- the Company’s expectation that its joint venture partners will contribute the required expenditures, in accordance with existing joint venture agreements;

Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Inherent in forward looking statements are risks and uncertainties

beyond the Company's ability to predict or control, including, but not limited to, risks related to the Company's inability to identify one or more economic deposits on its properties, variations in the nature, quality and quantity of any mineral deposits that may be located, variations in the market price of any mineral products the Company may produce or plan to produce, the Company's inability to obtain any necessary permits, consents or authorizations required for its activities, to produce minerals from its properties successfully or profitably, to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies, and other risks identified herein under "Risk Factors".

The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results are likely to differ, and may differ materially, from those expressed or implied by forward looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- the timing of the receipt of regulatory and governmental approvals, permits and authorizations necessary to implement and carry on the Company's planned exploration programs and those of its joint venture partners (where applicable);
- conditions in the financial markets generally, and with respect to the prospects for junior exploration and development companies specifically;
- the Company's ability to secure the necessary consulting, drilling and related services and supplies on favorable terms;
- the Company's ability to attract and retain key staff;
- the nature and location of the Company's mineral exploration projects, and the timing of the ability to commence and complete the planned exploration programs;
- the anticipated terms of the consents, permits and authorizations necessary to carry out the planned exploration programs and the Company's ability to comply with such terms on a cost-effective basis;
- the ongoing relations of the Company with the regulators responsible for overseeing the Company's operations in Ontario and Quebec;
- the metallurgy and recovery characteristics of samples from certain of the Company's mineral properties are reflective of the deposit as a whole
- the ability of the Company to convert mineral resources contained on its properties to mineral reserves; and
- the ability of the Company's joint venture partners to raise the funding required for them to advance the properties in which the Company has interests, as applicable.

These forward looking statements are made as of the date hereof and the Company does not intend and does not assume any obligation, to update these forward looking statements, except as required by applicable law. For the reasons set forth above, investors should not attribute undue certainty to or place undue reliance on forward-looking statements.

Historical results of operations and trends that may be inferred from the following discussion and analysis may not necessarily indicate future results from operations. In particular, the current highly volatile state of the global securities markets may cause significant reductions in the price of the Company's securities and render it difficult or impossible for the Company to raise the funds necessary to continue operations. See "Risk Factors – Insufficient Financial Resources/Share Price Volatility".

### **Caution Regarding Adjacent or Similar Mineral Properties**

This MD&A contains information with respect to adjacent or similar mineral properties in respect of which the Company has no interest or rights to explore or mine. The Company advises US investors that the mining guidelines of the US Securities and Exchange Commission (the "SEC") set forth in the SEC's Industry Guide 7 ("SEC Industry Guide 7") strictly prohibit information of this type in documents filed with the SEC. **Readers are cautioned that the Company has no interest in or right to acquire any interest in any such properties, and that mineral deposits on adjacent or similar properties, and any production therefore or economics with respect thereto, are not indicative of mineral deposits on the Company's properties or the potential production from, or cost or economics of, any future mining of any of the Company's mineral properties.**

All of the Company's public disclosure filings, including its most recent material change reports, press releases and other information, may be accessed via [www.sedar.com](http://www.sedar.com) and readers are urged to review these materials, including the technical reports filed with respect to the Company's mineral properties.

### **DATE**

This MD&A reflects information available as at March 29, 2017.

### **OVERALL PERFORMANCE**

#### **Corporate**

On March 9, 2016, the Company appointed Mr. Bryan Disher as a member of the Company's Board of Directors.

On May 1, 2016, the Company re-located its head office to 1750 – 700 West Pender Street in Vancouver, British Columbia in order to accommodate its increasing staff levels and provide a more efficient work space for its staff. The Company incurred certain one-time costs as a consequence of the move.

On June 24, 2016 the Company's shareholders re-elected Darin Wagner, Lawrence Talbot, Graeme Currie, Daniel MacInnis and Bryan Disher as directors of the Company. Balmoral's shareholders also re-appointed the Company's auditors, Smythe LLP, Chartered Professional Accountants, as auditors of the Company for the fiscal year ending December 31, 2016. The shareholders also re-approved the Company's Stock Option Plan and unallocated options, rights and other entitlements.

On June 30, 2016 the Company and the Company's President and CEO received 52 co-jointed statements of offence issued by the Ordre des Geologues du Quebec under Code des Professions pertaining to the use of certain Professional Geoscientists and registered Geologists in Training in preparation of 5 separate reports submitted by the Company and signed by Mr. Wagner to the government of Quebec. The fine sought against the Company is \$156,000 (\$3,000 per offence) plus any court fees if granted by the court. The Company and Mr. Wagner have recorded not guilty pleas and are vigorously defending themselves against the allegations.

On December 22, 2016, the Company appointed Ms. Frances Petryshen as the Company's Corporate Secretary. Ms. Petryshen replaces Ms. Sue Chipperfield who retired after seven years with the Company.

## **Financings**

On June 30, 2016, the Company closed a bought deal private placement by issuing 4,714,163 national flow-through common shares at a price of \$0.90 per flow-through share and 2,405,837 Quebec flow-through common shares at a price of \$1.20 per share for gross proceeds of \$7,129,751. The Company paid finders' cash commissions totaling \$427,785 and an additional \$187,697 in share issuance costs.

## **Other Items**

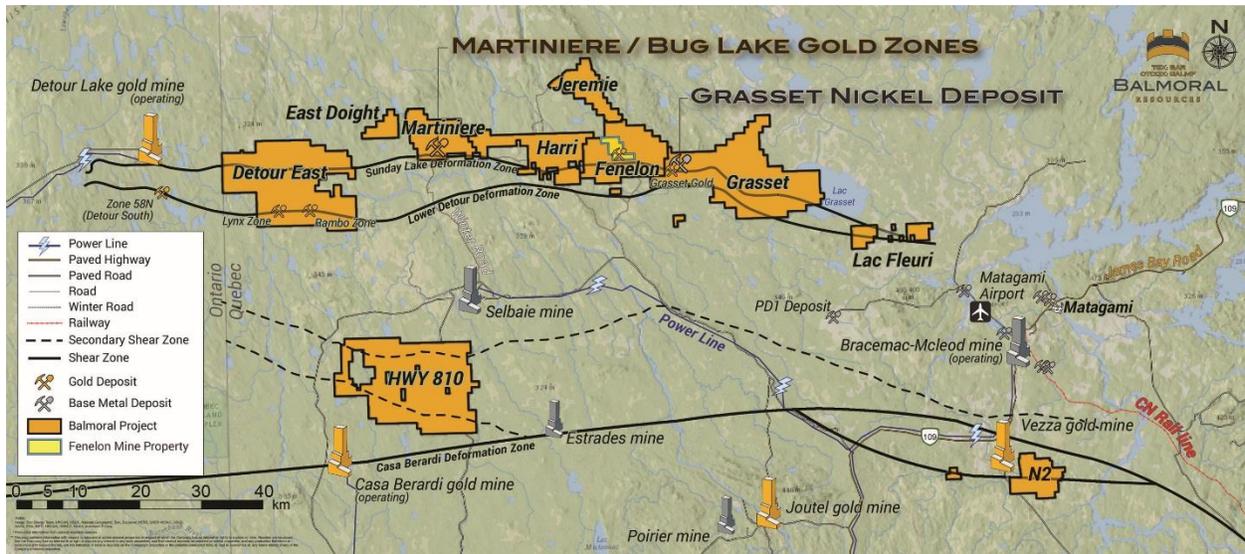
On May 24, 2016, the Company entered a Letter of Intent to sell its Fenelon Mine Property, which comprised approximately 10% of its broader Fenelon Property, to Wallbridge Mining Company Limited ("Wallbridge"). The Company received an immediate payment of 2,381,575 common shares of Wallbridge with a deemed value of \$200,000 and received cash payments totalling \$3,500,000 and retained a 1% net smelter royalty ("NSR") on all future production from the property. The Company received \$1,000,000 of the cash purchase price in two instalments during the third quarter of the fiscal year. On October 18, 2016, the Company received the final cash payment of \$2,500,000 and completed the sale to Wallbridge.

In 2015 the Company agreed to option its N1 and N2 Properties to Wealth Minerals Ltd. ("Wealth"). Under the terms of the Option/Joint Venture Agreement, Wealth was given two options to earn up to a 70% interest in the properties. Wealth issued 1,000,000 common shares to the Company on February 26, 2015. Wealth failed to meet its obligations and the Option/Joint Venture Agreement was terminated effective February 25, 2016. Under a Termination Agreement Wealth agreed to pay the Company \$400,000 in cash or shares. The Company received a first instalment of \$133,333 on April 1, 2016 in cash, 148,477 common shares of Wealth, an equivalent of \$133,333, in July 2016, and a final payment of \$133,334 on October 1, 2016 in cash. During 2015 the Company sold 317,000 Wealth shares and in the year ended December 31, 2016, the Company sold a further 789,700 Wealth shares for an average price of \$0.41 per share for gross proceeds of \$323,785 and realized a gain of \$94,092. Subsequent to December 31, 2016, the Company sold the remaining 41,777 Wealth shares for an average price of \$1.23 per share for gross proceeds of \$51,263.

On March 2, 2017, the Company granted 2,434,250 stock options at an exercise price of \$0.78 per share and expiry date of March 2, 2022.

## **Mineral Properties**

During the year ended 2016, the Company incurred \$5,577,878 in total exploration and evaluation expenditures on the Martinere Property, \$868,644 in total exploration and evaluation expenditures on the Grasset Property and \$854,112 in total exploration and evaluation expenditures on the Detour East Property in Quebec. In addition, the company incurred \$275,686 in exploration and evaluation expenditures on the Fenelon Property and received a total of \$3,689,056 in cost recoveries, mainly due to the sale of the Fenelon Mine Property, net of legal expenses. The Company incurred \$16,074 in total exploration and evaluation expenditures on the N2 Property and received \$400,000 in cost recoveries as part of the Termination Agreement for the N1 and N2 Properties. A total of \$39,365 were incurred in exploration and evaluation expenditures on the Other Properties during the year ended December 31, 2016



**Figure 1: Map of the Detour Trend Properties**

### Detour Trend Project, Quebec

The principal focus of the Company's exploration activities remains the properties comprising its Detour Trend Project (see Figure 1, above). The Project encompasses over 700 square kilometres of mineral claims located along and adjacent to the Sunday Lake (Detour) Deformation Zone. The Sunday Lake Deformation Zone hosts the Detour Gold deposit on adjacent ground in Ontario and is the northern most of several regional scale gold-bearing fault systems, or "breaks", in the Abitibi greenstone belt. The Company acquired its initial interest in the properties in late 2010, has from time to time added to, reduced, or adjusted its property holdings and has been systematically exploring them since that time. At present, the Company's principal focus is on the delineation of a number of gold deposits on its Martiniere Property, centrally located within the Detour Trend Project. As well the Company continues to evaluate the potential to expand or otherwise advance the Grasset nickel-copper-cobalt-PGE ("Ni-Cu-Co-PGE") deposit and explore for other similar gold and base metal discoveries within the area of the Detour Trend Project.

### Martiniere Property, Quebec

The Martiniere Property is centered approximately 50 kilometres east of the Detour Gold Mine in Ontario and central to the Detour Trend Project. The Grasset deposit is located 40 kilometres further east. The property consists of 314 mining claims (approximately 8,281.4 hectares) situated in the Townships of La Martiniere, Martigny, and Lanouiller, Quebec. In January of 2013, the Company completed the purchase of a 100% interest in the Martiniere Property from Cyprus Canada Inc. ("Cyprus Canada") and granted a 2% NSR on a portion of the property to Cyprus Canada as required by the acquisition agreement.

The Martiniere Property hosts a number of laterally and vertically extensive occurrences of gold mineralization, including the Martiniere West and Bug North, Bug Lower Steep and Bug South gold deposits, each of which hosts several individual zones of gold mineralization. At the current time the Company is principally focused on the delineation of the deposits and occurrences along the Bug Lake Trend which was discovered in 2013. Gold mineralization along the Bug Lake Trend (Bug North, Bug Lower Steep and Bug South deposits and Bug Southeast Zone) is localized along an early stage fault system which can be traced for approximately 2,000 metres and which commonly features very high gold grades (>10 to > 100 g/t intercepts) (see the Company's public disclosure record). Drilling has now intersected significant gold mineralization for approximately 2,000 metres along strike and to vertical depths of 740 metres along the Bug Lake Trend.

Winter drilling in 2016 focused on further delineating of the mineralized system along the southern segment of the Bug Lake Trend (Bug South and Southeast). Near surface drill intercepts, which were initially 50 to 100 metres apart, were tightened to 30 to 50 metres above the 150 metre level along approximately half of this segment and extended to depth. High grade gold intercepts were highlighted by results of 14.08 g/t gold over 12.56 metres (including 199.0 g/t gold over 0.85 metres); 11.55 g/t gold over 4.47 metres and 6.08 g/t gold over 5.30 metres all from depths of less than 200 vertical metres along the southern segment (see NR 16-8; May 11, 2016).

In June of 2016 the Company announced the commencement of a 20,000 metre summer/fall diamond drill program with the Bug Trend deposits as its primary focus. Initial results from the program indicated a rapid broadening of the Bug South deposit at shallow depths including an intercept of 115.45 metres grading 1.40 g/t gold (see NR 16-19, Sept 7, 2016). Drilling throughout the summer and into the fall continued to expand the Bug South deposit vertically and down plunge and it remains the focus of additional expansion and delineation drilling into the winter 2017 drill program which was underway at the time of preparation. There are no resources currently calculated for the gold deposits and occurrences on the Martiniere Property.

During the year ended December 31, 2016, the Company incurred total exploration expenditures of \$5,577,878 on the Martiniere Property.

### Grasset Property, Quebec

The Grasset Property, whose western margin is located approximately 40 kilometres east of the Martiniere gold discoveries, was initially acquired by staking in November of 2010. Drilling on the Grasset Property in April of 2011 led to the discovery of a zone of gold mineralization which returned 33.00 metres grading 1.66 g/t gold, including two higher grade intervals of 4.04 metres grading 6.15 g/t gold and 5.00 metres grading 4.18 g/t gold. The gold mineralization is located along the Sunday Lake Deformation Zone. Following the drill intercept, the Company expanded the size of the Grasset Property and completed additional testing in 2011 and 2012. Drilling in 2012 led to the discovery of a new zone of nickel-copper-cobalt-platinum-palladium mineralization associated with the Grasset Ultramafic Complex (“GUC”) which, in 2014, led to the discovery of the Grasset Ni-Cu-Co-PGE deposit.

The Company moved into delineation drilling of the discovery in 2015 and in March of 2016 published the initial resource estimate for the Grasset deposit (comprised of the H1 and H3 Zones). The base case resource estimate for the Grasset deposit is:

**Table 1: Base Case Current Resource Estimate**

> 1.00 % NiEq		Tonnes (t)	NiEq (%)	Ni (%)	Cu (%)	Co (%)	Pt (g/t)	Pd (g/t)	Contained NiEq (lbs)	Contained Ni (lbs)	Contained Cu (lbs)	Contained Co (lbs)	Contained Pt (oz)	Contained Pd (oz)
INDICATED	Horizon 1	35,900	1.09	0.98	0.11	0.03	0.16	0.38	865,800	772,600	84,100	22,700	200	400
	Horizon 3	3,416,600	1.80	1.57	0.17	0.03	0.34	0.85	135,413,200	118,316,800	13,148,000	2,317,600	37,700	93,000
	<b>Total Indicated</b>	<b>3,452,500</b>	<b>1.79</b>	<b>1.56</b>	<b>0.17</b>	<b>0.03</b>	<b>0.34</b>	<b>0.84</b>	<b>136,279,000</b>	<b>119,089,400</b>	<b>13,232,100</b>	<b>2,340,300</b>	<b>37,900</b>	<b>93,400</b>
INFERRED	Horizon 1	4,700	1.08	0.96	0.11	0.03	0.17	0.39	111,500	99,400	11,700	3,100	100	100
	Horizon 3	86,400	1.20	1.06	0.11	0.02	0.20	0.48	2,282,400	2,027,600	217,100	45,900	600	1,300
	<b>Total Inferred</b>	<b>91,100</b>	<b>1.19</b>	<b>1.06</b>	<b>0.11</b>	<b>0.02</b>	<b>0.20</b>	<b>0.48</b>	<b>2,393,900</b>	<b>2,126,900</b>	<b>228,700</b>	<b>49,000</b>	<b>600</b>	<b>1,400</b>

The current mineral resource estimate is based on results from 111 diamond drill holes (39,999 metres) completed by the Company between the 2014 discovery and late 2015. As indicated below, the base case current resource is reported above a 1.00% NiEq\* (see Notes 7 and 8 below) cutoff grade after incorporation of estimates for mining recoveries, mining dilution, milling recoveries, smelting and refining charges and certain penalties, as well as estimated operating costs based on those associated with mines currently operating in the local region.

Tables 2a and 2b (below) provide an analysis of the volumetric resources at a range of cut-off grades for the combined H3 and H1 zones as calculated by the Qualified Persons. The Base Case Current Resource (>1.00% NiEq\* cut-off) is highlighted for comparison.

**Table 2a: Indicated Resource at Range of Cut-Off Values**

Resource Class	Cut-off (NiEq %)	Tonnes	Ni Equivalent (%)	Ni %	Cu %	Co %	Pt g/t	Pd g/t	Contained Ni EQ (lbs)
INDICATED	> 2.00	777,500	3.17	2.73	0.28	0.05	0.60	1.46	54,258,700
	> 1.50	1,687,100	2.39	2.07	0.23	0.04	0.47	1.15	88,953,700
	> 1.40	1,974,400	2.25	1.96	0.22	0.04	0.44	1.08	98,121,800
	> 1.30	2,297,400	2.13	1.85	0.21	0.03	0.41	1.02	107,743,200
	> 1.20	2,552,800	2.04	1.78	0.20	0.03	0.40	0.97	114,784,300
	> 1.10	2,865,400	1.94	1.69	0.19	0.03	0.37	0.92	122,685,900
	> 1.00	3,452,500	1.79	1.56	0.17	0.03	0.34	0.84	136,279,000
	> 0.90	4,038,600	1.67	1.46	0.16	0.03	0.32	0.78	148,552,200
	> 0.80	4,767,200	1.54	1.35	0.15	0.03	0.29	0.72	162,149,200
	> 0.70	5,880,300	1.39	1.22	0.13	0.03	0.26	0.64	180,435,200
	> 0.60	7,300,800	1.25	1.10	0.12	0.02	0.23	0.57	200,708,100
	> 0.50	9,434,000	1.09	0.96	0.10	0.02	0.20	0.49	226,557,400
	> 0.40	12,521,700	0.93	0.82	0.09	0.02	0.16	0.40	256,760,200
> 0.30	15,564,000	0.82	0.72	0.07	0.02	0.14	0.34	280,494,000	

**Table 2b: Inferred Resource at Range of Cut-Off Values**

Resource Class	Cut-off (NiEq %)	Tonnes	Ni Equivalent (%)	Ni %	Cu %	Co %	Pt g/t	Pd g/t	Contained Ni EQ (lbs)
INFERRED	> 2.00	200	2.27	1.98	0.32	0.04	0.43	0.79	7,700
	> 1.50	200	2.03	1.78	0.30	0.03	0.37	0.65	10,200
	> 1.40	6,800	1.45	1.28	0.15	0.03	0.24	0.57	218,000
	> 1.30	22,500	1.38	1.23	0.14	0.03	0.23	0.56	685,600
	> 1.20	43,600	1.32	1.17	0.13	0.03	0.22	0.52	1,268,500
	> 1.10	55,500	1.28	1.14	0.12	0.03	0.21	0.51	1,568,500
	> 1.00	91,100	1.19	1.06	0.11	0.02	0.20	0.48	2,393,900
	> 0.90	122,900	1.13	1.00	0.11	0.02	0.18	0.43	3,052,300
	> 0.80	178,200	1.04	0.93	0.11	0.02	0.17	0.39	4,084,300
	> 0.70	259,300	0.95	0.84	0.09	0.02	0.16	0.36	5,411,200
	> 0.60	414,600	0.83	0.74	0.08	0.02	0.14	0.32	7,589,600
	> 0.50	788,700	0.69	0.62	0.07	0.02	0.11	0.26	12,029,700
	> 0.40	1,912,200	0.54	0.48	0.05	0.01	0.08	0.18	22,622,300
> 0.30	2,999,400	0.47	0.43	0.04	0.01	0.06	0.15	31,316,700	

### Resource Estimate Assumptions and Notes:

- The Independent and Qualified Persons (QPs) for the Mineral Resource Estimate, as defined by National Instrument 43-101, are Pierre-Luc Richard, P.Geo., M.Sc., and Carl Pelletier, P.Geo., B.Sc., both of InnovExplo Inc. The effective date of the estimate is January 12, 2016
- These mineral resources are not mineral reserves as they do not have demonstrated economic viability.
- While the results are presented undiluted and in situ, the reported mineral resources are considered to have reasonable prospects for eventual economic extraction.
- The estimate includes two mineralized zones (Horizon 1 and Horizon 3).
- Resources were compiled at NiEq cut-off grades of 0.30%, 0.40%, 0.50%, 0.60%, 0.70%, 0.80%, 0.90%, 1.00%, 1.10%, 1.20%, 1.30%, 1.40%, 1.50% and 2.00%. The official resource potential is reported at a 1.00% NiEq cut-off grade.
- Cut-off calculations used (Canadian dollars): Mining= \$48.00; Maintenance= \$6.00; G&A= \$10.00, Processing= \$22.00. Total operating costs amount to \$86.00. A dilution factor of 7.5% was also applied to the cut-off grade calculation.
- $$\text{NiEq} = \left[ \left( \text{Ni}_{\text{Grade}(\%)} \times \text{Ni}_{\text{CR}(\%)} \times \text{Ni}_{\text{Payable}(\%)} \times \text{Ni}_{\text{Price}(\$)} \right) + \left( \text{Cu}_{\text{Grade}(\%)} \times \text{Cu}_{\text{CR}(\%)} \times \text{Cu}_{\text{Payable}(\%)} \times \text{Cu}_{\text{Price}(\$)} \right) + \left( \text{Co}_{\text{Grade}(\%)} \times \text{Co}_{\text{CR}(\%)} \times \text{Co}_{\text{Payable}(\%)} \times \text{Co}_{\text{Price}(\$)} \right) \right] \times 2205 + \left[ \left( \text{Pt}_{\text{Grade}(\text{g/t})} \times \text{Pt}_{\text{CR}(\%)} \times \text{Pt}_{\text{Payable}(\%)} \times \text{Pt}_{\text{Price}(\$)} \right) + \left( \text{Pd}_{\text{Grade}(\text{g/t})} \times \text{Pd}_{\text{CR}(\%)} \times \text{Pd}_{\text{Payable}(\%)} \times \text{Pd}_{\text{Price}(\$)} \right) \right] / 31.1035 - \text{Cr}_{\text{Penalty}(\$)} / \left( \text{Ni}_{\text{Payable}(\%)} \times \text{Ni}_{\text{CR}(\%)} \times \text{Ni}_{\text{Price}(\$)} \times 2205 \right)$$
; where CR(%) is a variable concentrate recovery ratio derived from metallurgical balance study, and Payable(%) is applied on concentrates. Note that a minimum deduction of 0.20% Co was applied on concentrate.
- NiEq calculations used: USD/CAD exchange rate of 1.14, Nickel price of US\$6.56/lb, Copper price of US\$2.97/lb, Cobalt price of US\$13.00/lb, Platinum price of US\$1,302.30/oz, and Palladium price of US\$737.20/oz (These are 3-year trailing averages calculated at the effective date); Payable of 70% for Nickel, 75% for Copper, 75% for Cobalt (minimum deduction of 0.20%), 45% for Platinum, and 45% for Palladium applied on expected concentrate based on analysis of available smelting and refining cost parameters

9. Cut-off and NiEq calculations would have to be re-evaluated in light of future prevailing market conditions (metal prices, exchange rate, smelting terms, and mining costs).
10. Density values were estimated for all lithological units from measured samples. Density values for the Horizon 1 and Horizon 3 (H1 and H3) mineralized zones were interpolated from measured and calculated density databases. The calculated database is derived for a selection of metals (Ni, Fe, Co) yielding the best correlation with the measured database.
11. The resource was estimated using GEMS v.6.7. The estimate is based on 111 diamond drill holes (39,999.43 m). A minimum true thickness of 3.0 m was applied, using the grade of the adjacent material when assayed, or a value of zero when not assayed.
12. High grade capping was done on raw assay data and established on a per zone basis for Nickel (15.00%), Copper (5.00%), Platinum (5.00g/t) and Palladium (8.00g/t). Capping grade selection is supported by statistical analysis.
13. Compositing was done on drill hole sections falling within the mineralized zones (composite = 1.0 m).
14. Resources were evaluated from drill holes using a 3-pass ID2 interpolation method in a block model (block size = 5 x 5 x 5 m).
15. The mineral resources presented herein are categorized as Indicated and Inferred based on drill spacing, geological and grade continuity. Based on the nature of the mineralization, a maximum distance to the closest composite of 50 m was used for Indicated resources. The average distance to the nearest composite is 22.9 m for the Indicated resources and 53.6 m for the Inferred resources.
16. Ounce (troy) = metric tonnes x grade / 31.10348. Calculations used metric units (metres, tonnes and g/t). Metal contents are presented in ounces and pounds.
17. The number of metric tons was rounded to the nearest hundred. Any discrepancies in the totals are due to rounding effects
18. The quantity and grade of reported Inferred resources in this Mineral Resource Estimate are uncertain in nature, and there has been insufficient exploration to define these Inferred resources as Indicated or Measured, and it is uncertain if further exploration will result in upgrading them to these categories.
19. CIM definitions and guidelines for mineral resources have been followed.
20. The QPs are not aware of any known environmental, permitting, legal, title-related, taxation, socio-political or marketing issues, or any other relevant issue that could materially affect the Mineral Resource Estimate.

The Independent and Qualified Persons for the Mineral Resource Estimate, as defined by NI 43-101, are Mr. Pierre-Luc Richard, P.Geo., M.Sc. and Mr. Carl Pelletier, P.Geo., M.Sc. of InnovExplo Inc.

The Company released the results from metallurgical work on the Grasset deposit in 2015. The metallurgical studies show the sulphide mineralization comprising the H3 Zone exhibits excellent recovery characteristics (86.5% for nickel, 94% for copper and 89% for palladium) and that a very simple mill flow-sheet is capable of producing a good quality bulk nickel concentrate with each of nickel, copper, cobalt, platinum and palladium reporting to the concentrate in potentially payable quantities.

Given the very depressed state of the nickel market the Company suspended work on the Grasset deposit and on nickel related exploration in the surrounding area following a small winter 2016 drill program. The Company will continue to monitor the recent improvement in the nickel price and look to return to more active exploration in the greater Grasset area in the future once the nickel market has stabilized.

During the year ended December 31, 2016, the Company incurred total exploration expenditures of \$868,644 on the Grasset Property.

#### Fenelon Property, Quebec

The Fenelon Property is located 73 kilometres WNW (292°) from the town of Matagami, 155 kilometres north of the town of Amos (Québec). It is located east of the Martiniere Property and adjoins the Grasset Property. A sub-section of the broader Fenelon Property, the Fenelon Mine Property, hosts the high grade Discovery Gold Zone, the sale of which was completed during the 2016 fiscal year (see below). Gold mineralization on the Fenelon Property is associated with a series of silicified shear veins and silica-albite shear zones commonly within or immediately adjacent to mafic to ultramafic intrusions which form part of the GUC, host to the Grasset Ni-Cu-Co-PGE deposit on the adjacent Grasset Property.

In January 2013, the Company completed the acquisition of a 100% interest in the Fenelon Property from Cyprus Canada and granted a 1% NSR on the property in favour of Cyprus Canada as required by the acquisition agreement.

In April of 2016 the Company was successful in renewing the Fenelon Mining Lease for the Fenelon Mine Property for an additional 5 year term.

On May 25, 2016 the Company announced that it had entered into a Letter of Intent with Wallbridge to sell to Wallbridge the claims hosting the Discovery Gold Zone (the “Fenelon Mine Property”) which comprises

roughly 10% of the broader Fenelon Property. In accordance with the terms of the subsequent Purchase Agreement; Wallbridge completed the purchase of the Fenelon Mine Property on October 18, 2016 by:

1. Issuing to the Company 2,381,575 common shares of Wallbridge on March 25, 2016, having a fair value of \$200,000 at the time of issue;
2. Making cash payments totaling \$3.5 million to the Company;
  - a. \$200,000 on July 28, 2016
  - b. \$300,000 on August 22, 2016
  - c. \$500,000 on September 23, 2016
  - d. \$2,500,000 on October 18, 2016; and
3. Reserving in favour of the Company a 1% NSR on all future mineral production from the property.

During the year ended December 31, 2016, the Company incurred total exploration expenditures of \$275,686 on the Fenelon Property and received net recoveries of \$3,689,056 from the sale of the Fenelon Mine Project net of legal expenses.

#### Detour East (Massicotte) Property, Quebec

The Detour East Property covers over 20 kilometres of the Sunday/Detour Lake and Lower Detour Lake Deformation Zones stretching east from the Quebec-Ontario border. The property consists of 539 mining claims (approximately 21,172.71 hectares) held 100% by the Company and an additional 18 mining claims (approximately 997.54 hectares) in which the Company holds a 63% joint venture interest and is the project operator. The Detour East Property is located immediately east of the Detour Gold Mine.

There is a NSR of 2%, which relates to the entirety of the property, payable to a former property owner, which may be repurchased by the Company at any time for \$1,000,000 for the first 50% of the NSR interest and \$2,000,000 for the remainder.

The Company located drill core from a number of historic drill holes completed on the Detour East Property, has taken control of them and transported them to the Fenelon camp. Detailed re-logging of these holes was partially completed during the spring of 2016. The Company completed a six hole diamond drill program on the Property during the third quarter and announced that it had extended the historic Lynx gold zone on the property with an intercept of 14.25 metres grading 0.91 g/t gold including a higher grade interval of 1.58 metres grading 5.53 g/t gold. It also completed an extensive geophysical program (induced polarization survey) within the northeast quadrant of the property which will assist with drill target selection in 2017. No work is planned on the Detour East Property during the current winter 2017 program but it is anticipated that additional drill testing will occur in the summer of 2017.

During the year ended December 31, 2016, the Company incurred a total of \$854,112 in exploration and evaluation expenditures on the Detour East Property.

#### Northshore Property, Ontario

The Northshore Property is located 4 kilometres south of the town of Schreiber in Ontario and approximately 70 kilometres west along the Trans-Canada Highway from the Hemlo gold deposit in the Schreiber-Hemlo greenstone belt. The property consists of two unpatented and 5 patented mineral claims (approximately 322.26 hectares) situated in the Township of Priske, Thunder Bay Mining Division, Ontario. Certain of the mineral claims on the Northshore Property have attached patented surface rights which form part of the Northshore Property.

Gold mineralization at Northshore is located in a highly fractured series of felsic intrusive rocks. High grade gold mineralization has been identified along several vein systems on the property, which include the Audney, Caly, Gino and former producing Northshore vein systems. The Audney and Caly veins are part

of a broader zone of gold mineralization referred to as the Afric Zone which encompasses several high-grade veins and broad zones of strongly anomalous gold values located between them. The Afric Zone is the current focus of exploration on the Northshore Property with expansion of the high-grade vein systems a secondary priority.

On July 24, 2011, the Company entered into an Option Agreement with GTA Resources and Mining Inc. ("GTA"), pursuant to which GTA had the exclusive right to acquire up to a 70% interest in the Northshore Property. On July 14, 2014, GTA delivered a First Option vesting notice to the Company and subsequently advised the Company that it would not be proceeding with a Second Option which had been granted under the terms of the Option Agreement. Consequently, a 51%/49% participatory joint venture was formed between GTA and the Company, with GTA as the majority holder and project operator.

During the quarter ended December 31, 2016 GTA, as operator, resumed drill testing on the Northshore Property under a \$300,000 budget. Balmoral declined to participate in this phase of exploration. Initial drill results from the summer 2016 program included high-grade intercepts of 23.73 g/t gold over 9.00 metres and 4.06 g/t gold over 23.00 metres from testing of the Audney and Caly vein systems. The Company also reported results of initial metallurgical testing of material from the Afric Zone and Audney Vein with results from standard bottle roll tests showing peak gold recoveries of 96.3% and 99.5% respectively.

A phase two 2016 drill program (15 holes, 930 metres) was also completed to try to expand the Afric Zone in the near surface with results released after the end of the quarter ended December 31, 2016 including narrow high-grade gold intercepts of 27.90 and 25.80 g/t gold over 1.0 metre each.

The Company currently holds 2,601,555 common shares of GTA for investment purposes. Balmoral will review its holdings in GTA from time to time, and may increase or decrease its position as future circumstances dictate. The Company has not received a 2017 work proposal from GTA at the time of preparation nor has it received formal accounting from the 2016 program.

### N1 and N2 Properties

The N1 and N2 Properties are located approximately 100 kilometres south of the Company's Detour Trend Project, and approximately 25 kilometres south of Mattagami, Quebec. Both the N1 and N2 Properties occur along the regional scale Casa-Berardi fault corridor which is known to host significant gold mineralization on a number of nearby properties, including the Vezza gold mine which the N1 and N2 Properties flank to the west and east respectively.

On February 2, 2015, the Company agreed to option its N1 and N2 Properties to a Vancouver based and TSXV-listed company, Wealth. Under the terms of the Option/Joint Venture Agreement, Wealth was given two options to earn up to a 70% interest in the properties. Wealth issued 1,000,000 common shares to the Company on February 26, 2015.

Wealth failed to meet its Year 1 obligations under the Option/Joint Venture Agreement and the Agreement was terminated effective February 25, 2016. The Company and Wealth entered into a Termination Agreement dated February 25, 2016 under which Wealth would pay to the Company a sum of \$400,000 in cash or common shares of Wealth, at Wealth's option, in three payments. The Company received \$133,333 in cash on April 1, an equivalent of \$133,333 in Wealth shares on July 13, and the final payment of \$133,334 on October 1, 2016. Wealth retains no interest in the Properties. During 2016 the Company sold its remaining 683,000 shares of the original one million Wealth shares for gross proceeds of \$198,591.

In the 2<sup>nd</sup> half of 2016 the Company sold 106,700 of the 148,477 Wealth shares it received on July 13, 2016 for gross proceeds of \$125,194. Subsequent to December 31, 2016, the Company sold the remaining 41,777 Wealth shares for gross proceeds of \$51,263.

The Company is currently seeking a joint venture partner to advance the N1 and N2 Properties.

## Qualified Person and QA/QC

Mr. Darin Wagner, M.Sc., P.Ge. (Ontario, B.C., Restricted Permit - Quebec), a qualified person as defined by NI 43-101, has reviewed the scientific and technical information that forms the basis for the disclosure regarding the Company's Detour Trend and Northshore Properties in this MD&A and has approved the disclosure herein. Mr. Wagner is not independent of the Company, as he is the CEO and President and holds common shares and incentive stock options.

## RISK FACTORS

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties, in the Provinces of Ontario and Quebec, Canada. Due to the nature of the Company's proposed business and the present stage of exploration of its mineral properties (which are all early stage exploration properties), the following risk factors, among others, will apply:

***Resource Exploration and Development is Generally a Speculative Business:*** Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in size or grade to return a profit from production. The marketability of natural resources that may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. **Other than the mineral resource estimate discussed above for the Grasset Property, there are no other resource estimates which the Company recognizes as current on any of the Company's other properties, and there are no known mineral reserves, on any of the Company's properties. The vast majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.** Substantial expenditures are required to establish ore reserves through drilling and metallurgical and other testing techniques, determine metal content and metallurgical recovery processes to extract metal from the ore, and construct, renovate or expand mining and processing facilities. No assurance can be given that any level of recovery of ore reserves will be realized or that any identified mineral deposit, even if it is established to contain an estimated resource, will ever qualify as a commercial mineable ore body which can be legally and economically exploited.

***Fluctuation of Metal Prices:*** Even if commercial quantities of mineral deposits are discovered by the Company, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of and demand for metals are affected by various factors, including political events, economic conditions and production costs in major producing regions. There can be no assurance that the price of any commodities will be such that any of the properties in which the Company has, or has the right to acquire, an interest may be mined at a profit.

***Permits and Licenses:*** The operations of the Company will require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects, on reasonable terms or at all. Delays or a failure to obtain such licenses and permits or a failure

to comply with the terms of any such licenses and permits that the Company does obtain, could have a material adverse effect on the Company.

***Surface Rights and Access:*** Although the Company acquires the rights to some or all of the minerals in the ground subject to the mineral tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities, however, the enforcement of such rights through the courts can be costly and time consuming. It is necessary to negotiate surface access or to purchase the surface rights if long-term access is required. There can be no guarantee that, despite having the right at law to access the surface and carry on mining activities, the Company will be able to negotiate satisfactory agreements with any such existing landowners/occupiers for such access or purchase of such surface rights, and therefore it may be unable to carry out planned mining activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdiction the outcomes of which cannot be predicted with any certainty. The inability of the Company to secure surface access or purchase required surface rights could materially and adversely affect the timing, cost or overall ability of the Company to develop any mineral deposits it may locate.

***No Assurance of Profitability:*** The Company has no history of production or earnings and due to the nature of its business there can be no assurance that the Company will be profitable. The Company has not paid dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. All of the Company's properties are in the exploration stage and the Company has not defined or delineated any proven or probable reserves on any of its properties. None of the Company's properties are currently under development. Continued exploration of its existing properties and the future development of any properties found to be economically feasible, will require significant funds. The only present source of funds available to the Company is through the sale of its equity shares, short-term, high-cost borrowing or the sale or optioning of a portion of its interest in its mineral properties. Even if the results of exploration are encouraging, the Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists. While the Company may generate additional working capital through further equity offerings, short-term borrowing or through the sale or possible syndication of its properties, there is no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Company at risk.

***Uninsured or Uninsurable Risks:*** Exploration, development and mining operations involve various hazards, including environmental hazards, industrial accidents, metallurgical and other processing problems, unusual or unexpected rock formations, structural cave-ins or slides, flooding, fires, metal losses and periodic interruptions due to inclement or hazardous weather conditions. These risks could result in damage to or destruction of mineral properties, facilities or other property, personal injury, environmental damage, delays in operations, increased cost of operations, monetary losses and possible legal liability. The Company may not be able to obtain insurance to cover these risks at economically feasible premiums or at all. The Company may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities.

***Government Regulation:*** Any exploration, development or mining operations carried on by the Company will be subject to government legislation, policies and controls relating to prospecting, development, production, environmental and wildlife protection, mining taxes and labour standards. The Company cannot predict whether or not such legislation, policies or controls, as presently in effect, will remain so, and any changes therein (for example, significant new royalties or taxes), which are completely outside the control of the Company, may materially adversely affect the ability of the Company to continue its planned business within any such jurisdictions.

**Global Financial Conditions:** Market events and conditions, including disruptions in the Canadian, United States and international credit markets and other financial systems and the continued volatility of the Canadian, United States and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. Notwithstanding various actions by the U.S. and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions continue to be volatile and unpredictable. In addition, general economic indicators have deteriorated, including low levels of consumer sentiment and limited economic growth on a global basis. These disruptions in the current credit and financial markets have had, and could continue to have a material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies, particularly junior resource enterprises such as the Company. These disruptions could, among other things, make it more difficult for the Company to obtain, or increase its cost of obtaining, capital and financing for its operations. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

**Insufficient Financial Resources:** The Company does not presently have sufficient financial resources to undertake by itself the exploration and development of all of its assets. Future property acquisitions and the future exploration/development of the Company's properties will therefore depend upon the Company's ability to obtain financing through the joint venturing of projects, private placement financing, public/private financing, short or long term borrowings or other means. There is no assurance that the Company will be successful in obtaining the required financing. Failure to raise the required funds could result in the Company losing, or being required to dispose of, its interest in its properties.

**Financing Risks:** The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects or to fulfil its obligations under any applicable agreements. There can be no assurance that it 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 delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties.

**Dilution to the Company's Existing Shareholders:** The Company will require additional financing in the future. The Company may issue securities on less than favourable terms to raise sufficient capital to fund its business plan. Any transaction involving the issuance of equity securities or securities convertible into common shares would result in dilution, possibly substantial, to present and prospective holders of common shares.

**Increased Costs:** Management anticipates that costs at the Company's projects will frequently be subject to variation from one year to the next due to a number of factors, such as the results of ongoing exploration activities (positive or negative), changes in the nature of mineralization encountered, and revisions to exploration programs, if any, in response to the foregoing. In addition, exploration program costs are affected by the price of commodities such as fuel, rubber and electricity and the availability (or otherwise) of consultants and drilling contractors. Increases in the prices of such commodities or a scarcity of consultants or drilling contractors could cause the costs of exploration programs to increase significantly over those budgeted. A material increase in costs for any significant exploration program could have a significant effect on the Company's operating funds and ability to continue its planned exploration programs.

**Dependence Upon Others and Key Personnel:** The success of the Company's operations will depend upon numerous factors, many of which are beyond the Company's control, including (i) the ability of the Company to enter into strategic alliances through a combination of one or more joint ventures, mergers or acquisition transactions; and (ii) the ability to attract and retain current or additional key personnel in exploration, mine development, sales, marketing, technical support and finance. These and other factors will require the use of outside suppliers as well as the talents and efforts of the Company. There can be no

assurance of success with any or all of these factors on which the Company's operations will depend. The Company has relied and may continue to rely, upon consultants and others for operating expertise.

***Share Price Volatility:*** In recent years, the securities markets in the United States and Canada have experienced an increasingly high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration or development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that significant fluctuations in the trading price of the Company's common shares will not occur, or that such fluctuations will not materially adversely impact on the Company's ability to raise equity funding without significant dilution to its existing shareholders, or at all.

***Exploration and Mining Risks:*** Fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. The economics of developing mineral properties is affected by many factors including the cost of operations, variations of the grade of ore mined, fluctuations in the price of gold or other minerals produced, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Short term factors, such as the need for orderly development of ore bodies or the processing of new or different grades, may have an adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in geological resources, grades, stripping ratios or recovery rates may affect the economic viability of projects.

***Environmental Restrictions:*** The activities of the Company are subject to environmental regulations promulgated by government agencies in different countries from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

***Regulatory Requirements:*** The activities of the Company are subject to extensive regulations governing various matters, including environmental protection, management and use of toxic substances and explosives, management of natural resources, exploration, development of mines, production and post-closure reclamation, exports, price controls, taxation, regulations concerning business dealings with indigenous peoples, labour standards on occupational health and safety, including mine safety, and historic and cultural preservation and regulations governing the practice of geology and engineering. Failure to comply with applicable laws and regulations may result in civil or criminal fines or penalties, enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions, any of which could result in the Company incurring significant expenditures. The Company may also be required to compensate those suffering loss or damage by reason of a breach of such laws, regulations or permitting requirements. It is also possible that future laws and

regulations, or more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspension of the Company's operations and delays in the exploration and development of the Company's properties.

***Limited Experience with Development-Stage Mining Operations:*** The Company has limited experience in placing resource properties into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if it places its resource properties into production.

**Mineral resources are not mineral reserves and there is no assurance that any mineral resources will ultimately be reclassified as proven or probable reserves. Mineral resources which are not mineral reserves have not demonstrated economic viability.**

***Mining Industry is Intensely Competitive:*** The Company's business of the acquisition, exploration and development of mineral properties is intensely competitive. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. The Company may also encounter increasing competition from other mining companies in efforts to hire experienced mining professionals. Increased competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

***Title Matters:*** The Company cannot guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples. The process of acquiring exploration concessions involves an application process and, until title to an exploration concession is actually granted, there can be no assurance that an exploration concession which has been applied for will be granted (especially as it is not always possible to determine if there are prior applications over the same ground).

***The Company may be a "passive foreign investment company" under the U.S. Internal Revenue Code, which may result in material adverse U.S. federal income tax consequences to investors in the Company's common shares that are U.S. taxpayers:*** Investors in the Company's common shares that are U.S. taxpayers should be aware that the Company believes that it has been in prior years, and expects it will be in the current year a "passive foreign investment company" under Section 1297(a) of the U.S. Internal Revenue Code (a "PFIC"). If the Company is or becomes a PFIC, generally any gain recognized on the sale of the Common Shares and any "excess distributions" (as specifically defined) paid on the Common Shares must be ratably allocated to each day in a U.S. taxpayer's holding period for the Common Shares. The amount of any such gain or excess distribution allocated to prior years of such U.S. taxpayer's holding period for the Common Shares generally will be subject to U.S. federal income tax at the highest tax applicable to ordinary income in each such prior year, and the U.S. taxpayer will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year.

Alternatively, a U.S. taxpayer that makes a "qualified electing fund" (a "QEF") election with respect to the Company generally will be subject to U.S. federal income tax on such U.S. taxpayer's pro rata share of the Company's "net capital gain" and "ordinary earnings" (as specifically defined and calculated under U.S. federal income tax rules), regardless of whether such amounts are actually distributed by the Company. U.S. taxpayers should be aware, however, that there can be no assurance that the Company will satisfy record keeping requirements under the QEF rules or that the Company will supply U.S. taxpayers with required information under the QEF rules, in event that the Company is a PFIC and a U.S. taxpayer wishes to make a QEF election. As a second alternative, a U.S. taxpayer may make a "mark-to-market election" if the Company is a PFIC and its common shares are "marketable stock" (as specifically defined). A U.S.

taxpayer that makes a mark-to-market election generally will include in gross income, for each taxable year in which the Company is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the common shares as of the close of such taxable year over (b) such U.S. taxpayer's adjusted tax basis in the common shares.

Due to the extreme complexity of the PFIC rules and the potentially materially adverse consequence to a shareholder that is a U.S. taxpayer of the Company being a PFIC, it is critical that each shareholder that is a U.S. taxpayer consult with that shareholder's U.S. tax adviser before undertaking any transactions in the Company's common shares.

## SELECTED ANNUAL INFORMATION

The Company's financial statements for the years ended December 31, 2016 and 2015 (the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The following table provides a brief summary of the Company's financial operations for the years ended December 31, 2016, 2015 and 2014. For more detailed information, refer to the Financial Statements.

	Years Ended December 31,		
	2016	2015	2014
Total revenues (interest)	\$ 91,354	\$ 124,408	\$ 111,605
Loss before other items	\$ (2,834,941)	\$ (2,124,217)	\$ (3,995,287)
Net loss	\$ (1,052,653)	\$ (122,832)	\$ (4,320,529)
Basic and diluted loss per share	\$ (0.01)	\$ 0.00	\$ (0.04)
Total assets	\$ 65,007,614	\$ 59,799,893	\$ 57,004,317
Total non-current liability	\$ 6,300,080	\$ 6,019,543	\$ 4,261,117
Weighted average common shares outstanding – Basic and diluted	121,556,653	111,603,157	101,828,149

The Company raised gross proceeds of \$10,030,000 on November 6, 2014 and 300,000 stock options were exercised at a price of \$0.60 per share in December 2014. The Company raised gross proceeds of \$900,000 on November 18, 2015 and gross proceeds of \$4,535,735 on October 28, 2015. The Company further raised gross proceeds of \$7,129,751 on June 30, 2016. As at December 31, 2016, \$5,121,154 remained to be incurred on qualifying flow-through expenditures during 2017 in respect of this 2016 financing. In addition, 750,000 stock options were exercised at a price of \$0.60 per share during the year ended December 31, 2016. Fluctuations in the balance of the Company's term deposits, reflecting the timing and quantum of financings and amounts and timing of expenditures on exploration lead to a decrease in interest revenue to \$91,354 in 2016 compared to 2015 and in increase in interest revenue to \$124,408 in 2015 compared to 2014.

The fluctuations in the Company's loss before other items over the three years were mainly due to changes in share-based payments (2016 - \$838,977, 2015 - \$104,238, 2014 - \$1,880,693). In 2016, 2,560,000 stock options were granted at a weighted average exercise price of \$0.63. In addition, 50% of the 360,000 stock options granted in 2015 vested during the year ended December 31, 2016. In 2015, 360,000 stock options were granted at a weighted average exercise price of \$0.77, of which only 90,000 vested during the year ended December 31, 2015. 4,850,000 stock options were granted at a weighted average exercise price of \$0.61 in 2014. Salaries and benefits were higher in 2016 - \$659,226 and 2014 - \$694,545 compared to 2015 - \$555,813 as a result of year-end bonuses paid in those years for as well as hiring of new staff. Professional fees varied between the three years (2016 - \$265,077, 2015 - \$149,294, 2014 - \$200,858) with the higher expenditure in 2016 mainly related to legal costs associated with the *Ordre des Geologues du Quebec* matter and legal fees incurred in 2014 for the review of materials related to trading and disclosure policies in 2014. There were no such items in 2015.

Deferred income tax recovery/expense is another key factor affecting the net loss over the three years (2016 – recovery of \$1,650,892, 2015 – recovery of \$1,913,256, 2014 – recovery of \$372,903). There was also impairment losses on marketable securities in 2014 of \$814,390 compared to \$Nil in 2016 and \$61,111 in 2015.

Total assets increased from 2014 through 2016 mainly due to the Company's active exploration activities resulting in a balance of \$53,583,755 in exploration and evaluation assets in 2016 compared to \$50,067,859 in 2015 and \$40,712,432 in 2014.

## SUMMARY OF QUARTERLY RESULTS

The following selected financial information is a summary of quarterly results taken from the Company's unaudited quarterly financial statements.

Description	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Total assets	\$ 65,007,614	\$ 66,746,067	\$ 66,326,738	\$ 59,785,877
Working capital	\$ 10,601,748	\$ 10,330,262	\$ 11,741,608	\$ 6,952,069
Adjusted working capital*	\$ 11,195,030	\$ 11,177,611	\$ 13,673,498	\$ 8,427,235
Net income (loss) for the period	\$ (294,365)	\$ (30,664)	\$ 87,621	\$ (815,245)
Income (Loss) per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.01)

Description	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Total assets	\$ 59,799,893	\$ 55,884,905	\$ 56,303,843	\$ 57,495,860
Working capital	\$ 7,663,759	\$ 5,506,439	\$ 8,420,245	\$ 9,510,840
Adjusted working capital*	\$ 9,484,344	\$ 5,848,699	\$ 10,312,782	\$ 12,150,286
Net income (loss) for the period	\$ (2,071,405)	\$ 1,062,076	\$ 267,129	\$ 619,368
Income (Loss) per share	\$ (0.03)	\$ 0.01	\$ 0.01	\$ 0.01

\* Includes short term tax recoveries and available-for-sale publicly traded shares but excludes flow-through share premium liability.

Total assets decreased by \$1,738,453 in Q4 2016 compared to Q3 2016 mainly due to a decrease in current assets of \$1,182,738. Cash and cash equivalents decreased \$746,576 due to general and administrative expenses offset by \$111,000 received from the exercise of stock options. Marketable securities decreased by \$217,001 due to the sale of some of the Wealth common shares and the decline in share prices of the common shares in Wealth, GTA and Wallbridge the Company held as at December 31, 2016.

Total assets increased by \$419,329 in Q3 2016 compared to Q2 2016 mainly due to an increase in cash and cash equivalents from net proceeds of \$121,048 from the exercise of stock options, a positive effect on cash and cash equivalents as a result of general and administrative expenditures of \$490,329 offset by an increase in accounts payable and accrued liabilities of \$677,864. Total assets increased by \$6,540,861 in Q2 2016 compared to Q1 2016 mainly from the net proceeds of \$6,543,222 from a flow-through financing and \$189,000 from the exercise of stock options, offset by a decrease in cash and cash equivalents as a result of general and administrative expenditures of \$437,203 and an increase in accounts payable and accrued liabilities of \$138,913. Total assets decreased slightly by \$14,016 in Q1 2016 compared to Q4 2015.

Total assets increased by \$3,914,988 in Q4 2015 compared to Q3 2015 mainly from the net proceeds of \$4,959,169 raised through two tranches of a non-brokered flow-through financing during the quarter, offset

by a decrease in cash and cash equivalents from general and administrative expenditures of \$507,897 combined with a decrease in accounts payable and accrued liabilities of \$506,802. Total assets decreased by \$418,938 in Q3 2015 compared to Q2 2015 mainly as a result of decrease in cash and cash equivalents from general and administrative expenditures of \$458,987 offset by an increase in accounts payable and accrued liabilities of \$138,095, and the fair value adjustment of marketable securities associated with the sale of 201,000 Wealth shares amounting to a decrease of \$100,500. Total assets decreased by \$1,192,017 in Q2 2015 compared to Q1 2015 mainly due to decrease in cash and cash equivalents balance as a result of general and administrative expenditures of \$495,215 combined with a decrease of accounts payable and accrued liabilities of \$752,981, and a fair value adjustment of 1,000,000 Wealth shares amounting to an increase in marketable securities of \$60,000.

Working capital increased by \$271,486 in Q4 2016 compared to Q3 2016 mainly due to a decrease of accounts payable and accrued liabilities of \$1,200,157 and in decrease of flow-through share premium liability of \$254,067, offset by decreases in current assets totaling \$1,182,738 in Q4 2016. Although the Company received \$2,500,000 of the total \$3,500,000 cash payments from the sale of the Fenelon Mine Property in Q4 2016, due to expenditures of cash and cash equivalents on exploration and evaluation activities and general administrative expenses, overall cash and cash equivalents decreased in Q4 2016 compared to Q3 2016. There was also a decrease in the value of marketable securities from the sale of additional Wealth shares during Q4 2016 and the decrease in the fair value of all three marketable securities at December 31, 2016. Working capital decreased by \$1,411,346 in Q3 2016 compared to Q2 2016 and working capital decreased by \$711,690 in Q1 2016 compared to Q4 2015 principally due to expenditures of cash and cash equivalents on exploration and evaluation activities and general administrative expenses. Working capital increased by \$4,789,539 in Q2 2016 compared to Q1 2016 due to the flow-through financing and the exercise of stock options during the quarter, offset by expenditures on exploration and evaluation activities and general administrative expenses.

Working capital increased by \$2,157,320 in Q4 2015 compared to Q3 2015 because of a non-brokered flow-through financing during the last quarter of 2015, offset by exploration and evaluation activities and general administrative expenses. Working capital decreased by \$2,913,806 in Q3 2015, by \$1,090,595 in Q2 2015, and by \$2,554,940 in Q1 2015 compared to each of the respective quarters mainly due to expenditures of cash and cash equivalents on exploration and evaluation activities and general administration.

The increased net loss in Q4 2016 compared to Q3 2016 was due to share-based payments expense of \$238,721 from grants of 525,000 stock options during Q4 2016. The increased net loss in Q3 2016 compared to Q2 2016 was mainly due to an increase in professional fees (Q3 2016 - \$98,285, Q2 2016 \$34,306) related to legal advice on the Ordre des Geologues du Quebec matter. The Company also incurred losses on marketable securities of \$47,690 compared to losses of \$34,265 in Q2.

Net income in Q2 2016 was \$87,621 compared to a Q1 2016 loss of \$815,245. The change was principally due to changes in: deferred income tax recovery (Q2 2016 - \$488,113, Q1 2016 - \$197,926), share-based payments expense (Q2 2016 - \$14,616, Q1 2016 - \$574,451) and \$66,440 in filing fees in Q1 2016 due to Part XII.6 tax of \$44,289 relating to flow-through expenditures.

Net loss in Q1 2016 was \$1,256,160 less than the \$2,071,405 loss reported for Q4 2015. This fluctuation was due to a combination of changes in share-based payments expense (Q1 2015 - \$574,451 on granting of 2,035,000 stock options, Q4 - \$23,425), gain on sale of marketable securities (Q1 2016 - \$32,076, Q4 2015 - \$783), impairment losses on marketable securities (Q1 2016 - \$nil, Q4 2015 - \$45,833), and deferred income tax (Q1 2016 - recovery of \$197,926, Q4 2015 - expense of \$1,512,746).

Quarterly fluctuations in net income (loss) in 2015 were mainly due to the changes in deferred income tax recovery or expense in the quarters: (Q4 2015 - expense of \$1,512,746, Q3 2015 - recovery of \$1,550,277, Q2 2015 - recovery of \$746,909, and Q1 2015 - recovery of \$1,128,816).

## RESULTS OF OPERATIONS

### Year ended December 31, 2016 compared to year ended December 31, 2015

During the year ended December 31, 2016, the Company had a net loss of \$1,052,653 (2015 – \$122,832). The net loss is comprised of general administrative expenses of \$2,834,941 (2015 - \$2,124,217) and foreign exchange losses of \$6,362 (2015 – gain of \$21,304) net of interest income of \$91,354 (2015 - \$124,408), gain on sale of marketable securities of \$46,404 (2015 - \$3,528), and deferred income tax recovery of \$1,650,892 (2015 – \$1,913,256).

Share-based payments increased to \$838,977 from \$104,238 in the last fiscal year as 2,560,000 stock options were granted at a weighted average fair value of \$0.63 resulting in a share-based payment charge of \$783,656. In addition 50% of 360,000 stock options granted in June 2015 vested during 2016 resulting in a further share-based payment charge of \$55,321.

Consulting fees increased from \$57,910 to \$68,340 reflecting additional fees paid to the CFO for additional services provided in 2016, partially offset by a fee to consultants for compensation evaluation and corporate development services in 2015.

Filing and transfer agent's fees increased from \$110,875 to \$151,168 mainly due to \$44,289 (2015 - \$Nil) Part XII.6 tax paid relating to flow-through expenditures fulfilled in the second year after the funds were raised. This was partially offset by lower listing and filing fees as a result of a decrease in the Company's market capitalization.

Office and miscellaneous increased to \$194,257 from \$179,966 as a result of moving to the new office during the current fiscal year.

Professional fees increased from \$149,294 to \$265,077 in the current fiscal year mainly due to legal fees incurred related to the Ordre des Geologues du Quebec matter.

Rent increased from \$112,653 to \$139,115 because the Company moved to its new office location on May 1, 2016 but continued to pay rent for the months of May and June at the old office location as well as part of the lease termination for the old office. No further payments are required in connection with the old office.

Salaries and benefits increased from \$555,813 to \$659,226 mainly due higher year-end bonuses paid in 2016 for recognition of its employees' contributions to the Company's strong performance totaling \$111,125 (2015 - \$5,914), an increase of \$19,904 in salaries and benefits paid for Vice-President, Corporate Development hired in February 2015 and \$18,141 paid to an additional corporate director appointed in March 2016. This was offset by a decrease of \$39,843 in salaries and benefits and other employment expenses due to changes in staffing during 2016.

Shareholder communication decreased from \$751,525 to \$481,761 and travel and related costs decreased from \$100,602 to \$32,145 as the Company more efficiently focused its efforts on investor awareness and market penetration and the Company's continued efforts to better target its marketing and related travel.

The Company received \$91,354 (2015 - \$124,408) interest income from its GICs in the current fiscal year, and had a net gain of \$46,404 (2015 - \$3,528) from selling 789,700 Wealth common shares for a gain of \$94,093 and 454,000 GTA common shares for a loss of \$47,689 in the current fiscal year. In 2015 the Company sold 317,000 Wealth common shares for a gain of \$3,528.

During the year ended December 31, 2016 the Company incurred \$7,362,351 of qualified flow-through funded exploration expenditures, which fulfilled its commitments pursuant to the flow-through share financing which closed on October 28 and November 18, 2015 and partially fulfilled its commitment to the

flow-through financing closed on June 30, 2016. As at December 31, 2016, \$5,121,154 of qualifying expenditures remains to be incurred by December 2017. The Company expects to fully meet this obligation.

### **Three months ended December 31, 2016 compared to three months ended December 31, 2015**

During the three months ended December 31, 2016, the Company had a net loss of \$294,365 (2015 - \$2,071,405). Net loss is comprised of general administrative expenses of \$817,833 (2015 - \$538,040) and a foreign exchange loss of \$315 (2015 - a gain of \$5,750) offset by a gain on sale of marketable securities of \$27,753 (2015 - \$783) and an interest income of \$24,359 (2015 - \$18,681) and deferred income tax recovery of \$472,681 (2015 - a deferred income tax expenses of \$1,512,746).

Share-based payments increased to \$238,721 from \$29,785 in the current fiscal period as 525,000 stock options were granted at a weighted average price of \$0.77 resulting in share based payment charge of \$232,630 and 50% of 360,000 stock options granted in June 2015 vested in the quarter resulting in a further share-based payment charge of \$6,091.

Consulting fees increased from \$12,830 to \$31,260 because of increased fees paid to the CFO for additional services provided in 2016.

Professional fees increased from \$27,491 to \$95,070 in the current period mainly due to legal fees related to the Ordre des Geologues du Quebec matter.

Salaries and benefits increased from \$133,044 to \$251,365 mainly due to \$105,211 in higher year-end bonuses paid in the current period in recognition of employees' contributions to the Company's strong performance and \$5,563 paid to an additional corporate director appointed in March 2016. This was offset by a decrease of \$7,547 in salaries and benefits and other employment expenses due to changes in staffing during 2016.

Shareholder communication decreased from \$210,541 to 108,306 and travel and related costs decreased from \$38,670 to \$6,606 as the Company focused its efforts on investor awareness and market penetration combined with the Company's continued efforts to better target its marketing and related travel.

The Company received \$24,359 (2015 - \$18,681) interest income from its GICs in the current fiscal period, and had an income of \$27,753 on marketable securities (2015 - \$783) from selling 106,700 Wealth common shares in the current period. In the comparative period in 2015 the Company sold 116,000 Wealth common shares for a realized gain of \$783.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company has no revenue generating operations from which it can internally generate funds. To date, the Company's operations have been predominantly financed by the sale of its equity securities by way of private placements and the exercise of incentive stock options and share purchase warrants. In addition, the Company can and has raised funds through the sale of interests in its mineral properties. This situation is unlikely to change until such time as the Company can develop a bankable feasibility study on one of its projects. When acquiring an interest in mineral properties through purchase or option the Company will sometimes issue common shares to the vendor or optionee of the property as partial or full consideration in order to conserve its cash.

The Company had working capital of \$10,601,748 at December 31, 2016, which includes cash and cash equivalents of \$10,559,915, short term tax recoveries and available-for-sale publicly traded shares in other companies. This compares to working capital of \$7,663,759, including cash and cash equivalents of \$9,173,010, at December 31, 2015.

The Company expects that it will operate at a loss for the foreseeable future but believes that its cash and cash equivalents as at the date of this MD&A are sufficient for the Company's currently planned operating needs of approximately \$10.0 million until December 31, 2017, including budgeted exploration and development activities of approximately \$7.7 million. While the Company does not believe it requires additional financing in 2017 to fund its general and administrative costs and planned exploration activities for 2017, should financing be available in that time-frame at favourable terms the Company could potentially increase its activities. Additional financing will be required to fund the Company's 2018 activities.

The Company has no exposure to any asset-backed commercial paper. All of the Company's cash reserves are on deposit with a major Canadian chartered bank. The Company does not believe that the credit, liquidity or market risks with respect thereto have increased as a result of current market conditions. However, to achieve greater security for the preservation of its capital, the Company has, of necessity, been required to accept lower rates of interest which has also lowered its potential interest income.

## RELATED PARTY TRANSACTIONS

During the year ended December 31, 2016 the Company had the following transactions with related parties and paid or accrued the following amounts, excluding share-based payment expenses, in connection therewith:

Name	Relationship	Purpose of Transaction	Year Ended December 31, 2016	Three Months Ended December 31, 2016
Darin Wagner	President and CEO	Salaries and benefits	\$ 196,875	\$ 95,625
68B Resource Consultants Ltd.	Company controlled by the President and CEO	Technical Services	\$ 223,125	\$ 133,125
Blue Pegasus Consulting Inc.	Company controlled by the CFO	Financial Consulting Services (included in Consulting Fees)	\$ 68,340	\$ 31,260
Richard Mann	Vice President, Exploration	Salaries and benefits	\$ 225,000	\$ 75,000
John Foulkes	Vice President, Corporate Development	Salaries and benefits	\$ 168,750	\$ 67,500
Lawrence W. Talbot	Director	Directors Fees (included in Salaries and benefits)	\$ 22,248	\$ 5,562
Graeme Currie	Director	Directors Fees (included in Salaries and benefits)	\$ 22,248	\$ 5,562
Daniel MacInnis	Director	Directors Fees (included in Salaries and benefits)	\$ 22,248	\$ 5,562
Bryan Disher	Director	Directors Fees (included in Salaries and benefits)	\$ 18,141	\$ 5,562

During the year ended December 31, 2016 the following stock options were granted to reporting insiders.

<b>Name</b>	<b>Relationship</b>	<b>Grant Date</b>	<b>Number Granted</b>	<b>Exercise Price</b>
Darin Wagner	President and CEO	March 14, 2016	350,000	\$ 0.60
Peggy Wu	CFO	March 14, 2016	70,000	\$ 0.60
Richard Man	Vice President, Exploration	March 14, 2016	270,000	\$ 0.60
John Foulkes	Vice President, Corporate Development	March 14, 2016	160,000	\$ 0.60
Lawrence W Talbot	Director	March 14, 2016	50,000	\$ 0.60
Graeme Currie	Director	March 14, 2016	50,000	\$ 0.60
Daniel MacInnis	Director	March 14, 2016	50,000	\$ 0.60
Bryan Disher	Director	March 14, 2016	400,000	\$ 0.60

The foregoing incentive stock options have a term of 5 years and are not subject to vesting provisions.

During the three months ended December 31, 2016, no stock options were granted to insiders.

#### **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off -Balance Sheet arrangements.

#### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are controls and other procedures that are designed to provide reasonable assurance that all relevant information required to be disclosed in the Company's reports filed or submitted as part of the Company's continuous disclosure requirements is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure and such information can be recorded, processed, summarized and reported within the time periods specified by applicable regulatory authorities.

Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2016 as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of December 31, 2016. However, Management and the Board recognize that no matter how well designed the Company's control systems are, such controls can only provide reasonable assurance, not absolute assurance, of detecting, preventing and deterring errors.

#### **EVALUATION OF INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Internal controls over financial reporting means a process designed by, or under the supervision of, the Company's certifying officers, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and include those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of assets of the Company;
- are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts

- and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and
- are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the annual financial statements or interim financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Company's internal controls over financial reporting as of December 31, 2016. This evaluation was based on the framework in Internal Control – Integrated Framework issued by the Committee of the Sponsoring Organizations of the Treadway Commission.

Based on the assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2016.

## **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in the Company's internal control over financial reporting during the period beginning on January 1, 2016 and ended on December 31, 2016.

## **PROPOSED TRANSACTION**

As at the date of this MD&A there are no proposed transactions, not otherwise reported herein, where the Board of Directors or senior management believes that confirmation of the decision by the board is probable or with which the board and senior management have decided to proceed.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future years if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### **Critical accounting estimates**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

#### *Assumptions used in the calculation of the fair value assigned to share-based payments*

The Black-Scholes option pricing models require the input of subjective assumptions, including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's equity reserves.

*Income taxes*

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

*Provisions for environmental rehabilitation*

The Company assesses its provisions for environmental rehabilitation on an annual basis or when new material information becomes available. Provisions for environmental rehabilitation require management to make estimates of the future costs of the work required to comply with legal or constructive obligations. Actual costs incurred may differ from the amounts estimated. Future changes to environmental laws and regulations could change the extent of work required to be performed, which could materially impact the amounts provided for environmental rehabilitation.

**Critical accounting judgments**

Critical accounting judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

*Refundable tax credits and flow-through expenditures*

The Company is entitled to refundable input tax credits and tax credits on qualified resource expenditures incurred in Canada. Management's judgment is applied in determining whether expenditures are eligible for claiming such credits.

The Company is also required to spend proceeds received from the issuance of flow-through shares on qualifying resource expenditures. Management's judgment is applied in determining whether qualified expenditures have been incurred. Differences in judgment between management and regulatory authorities could materially increase the flow-through premium liability and flow-through expenditure commitment.

*Evaluation of the nature of interests in undivided assets*

Management has determined that the contractual arrangement with GTA Resources and Mining Inc. ("GTA") discussed in Note 6(iii)(a) does not meet the definition of a joint operation under IFRS 11 Joint Arrangements, as the Company and GTA do not share joint control. However, as the Company retains a 48% undivided interest on the Northshore Property the Company has accounted for this interest by recognizing its share of the assets, liabilities and expenditures under the arrangement.

*Valuation of exploration and evaluation assets*

The application of the Company's accounting policy for exploration and evaluation assets and expenditures requires judgment to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. Resource exploration is a speculative business and involves a high degree of risk. There is no certainty that the expenditures made by the Company in the exploration of its property interests will result in discoveries of commercial quantities of minerals. Exploration for mineral deposits involves risks which even a combination of professional evaluation and management experience may not eliminate. Significant expenditures are required to locate and estimate ore reserves, and further the development of a property. Capital expenditures to bring a property to a commercial production stage are also significant. There is no assurance the Company has, or will have, commercially viable ore bodies and there is no assurance that the Company will be able to arrange sufficient financing to bring ore bodies into production. For the fiscal

years ended December 31, 2016 and 2015 there were no indicators of impairment on the Company's exploration and evaluation assets, or the Company's other assets.

- i. assumptions used in the calculation of the fair value assigned to share-based payments;
- ii. income taxes; and
- iii. valuation of marketable securities
- iv. provisions for environmental rehabilitation

## **NEW ACCOUNTING PRONOUNCEMENTS**

The IASB has issued pronouncements effective for accounting periods beginning on or after January 1, 2017. Only those which may significantly impact the Company are discussed below:

### ***IFRS 9 Financial Instruments***

IFRS 9 will 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. Financial liabilities are classified in a similar manner to under IAS 39, however, there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 also introduces a "fair value through other comprehensive income" category for certain debt instruments. The finalized version of IFRS 9 is applicable to the Company's annual periods beginning January 1, 2018.

### ***IFRS 16 Leases***

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases.

IFRS 16 is applicable to the Company's annual periods beginning on January 1, 2019.

### ***Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)***

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendment to IAS 7 is applicable to the Company's annual periods beginning on January 1, 2017.

### ***Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12 Income Taxes)***

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The Amendments to IAS 12 is applicable to the Company's annual periods beginning on January 1, 2017.

## **RISK MANAGEMENT, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for

management, but rather relies on the expertise of the Company's management to manage its capital to be able to sustain the future development of the Company's business.

The Company currently has no regular source of revenues, and therefore is dependent upon external financings to fund activities. In order to pursue exploration activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2016. The Company is not subject to externally imposed capital requirements.

The Company classified its cash and cash equivalents as financial assets at fair value through profit or loss; accounts receivable as loans and receivables; marketable securities as available for sale; share purchase warrants as held-for-trading; and accounts payable and accrued liabilities as other financial liabilities. The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short term to maturity of these financial instruments.

## DISCLOSURE OF OUTSTANDING SHARE DATA

- (a) Authorized and Issued capital stock:

As at December 31, 2016 and March 29, 2017

Authorized	Issued	Amount
An unlimited number of common shares without par value	125,499,167	\$ 74,017,786

- (b) Options Outstanding:

As at December 31, 2016 and March 29, 2017

Number	Exercise Price	Expiry Date
1,807,700	\$ 1.05	February 6, 2018
2,855,000	\$ 0.60	January 23, 2019
300,000	\$ 0.61	February 5, 2019
150,000	\$ 0.90	December 23, 2019
360,000	\$ 0.77	June 18, 2020
1,900,000	\$ 0.60	March 14, 2021
175,000	\$ 0.90	November 7, 2021
350,000	\$ 0.70	December 23, 2021
7,897,700		

## ADDITIONAL SOURCES OF INFORMATION

Additional disclosures pertaining to the Company, including its most recent interim unaudited and audited financial statements, management information circular, material change reports, press releases and other information, are available on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.balmoralresources.com](http://www.balmoralresources.com).