RACKLA METALS INC

# FINANCIAL REVIEW

## First Quarter Ended March 31, 2017

RACKLA METALS INC

(An Exploration Stage Company)

# CONDENSED INTERIM FINANCIAL STATEMENTS

## For the three months ended March 31, 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

# NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed interim financial statements for the three months ended March 31, 2017. These condensed interim financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

**RACKLA METALS INC.**
(An Exploration Stage Company)
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**
(Expressed in Canadian Dollars)

| | | March 31, 2017 | | December 31, 2016 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | $ | 25,380 | $ | 31,254 |
| Available-for-sale investments (Note 5) | | 6,001 | | 3,751 |
| Taxes receivable | | 1,551 | | 1,532 |
| | | 32,932 | | 36,537 |
| **Non-current assets** | | | | |
| Deposit (Note 11) | | 61,000 | | 61,000 |
| Property and equipment (Note 6) | | 6,444 | | 7,056 |
| Exploration and evaluation assets (Note 7) | | 4 | | 4 |
| | | 67,448 | | 68,060 |
| **TOTAL ASSETS** | **$** | **100,380** | **$** | **104,597** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | $ | 17,326 | $ | 17,484 |
| Due to related parties (Note 11) | | 140,902 | | 115,992 |
| **Total liabilities** | | 158,228 | | 133,476 |
| **Shareholders' equity** | | | | |
| Share capital (Note 9) | | 7,549,555 | | 7,549,555 |
| Other equity reserves | | 128,023 | | 128,023 |
| Accumulated other comprehensive income | | 3,000 | | 750 |
| Deficit | | (7,738,426) | | (7,707,207) |
| **Total shareholders' deficiency** | | (57,848) | | (28,879) |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **$** | **100,380** | **$** | **104,597** |

**APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON MAY 15, 2017:**

*"Simon Ridgway"*
Simon Ridgway, Director

*"William Katzin"*
William Katzin, Director

*The accompanying notes are an integral part of these condensed interim financial statements*

## RACKLA METALS INC.
(An Exploration Stage Company)
**CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)**
(Expressed in Canadian Dollars)

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| **GENERAL AND ADMINISTRATIVE EXPENSES** | | |
| Amortization | $ 612 | $ 612 |
| Legal and audit fees | 361 | 2,648 |
| Management fees (Note 11) | 10,500 | 10,500 |
| Office and administrative (Note 11) | 8,279 | 9,551 |
| Salaries and benefits (Note 11) | 4,425 | 6,736 |
| Shareholder communications | 492 | 450 |
| Transfer agent and regulatory fees (Note 11) | 6,352 | 7,869 |
| Travel and accommodation (Note 11) | 198 | 501 |
| | 31,219 | 38,867 |
| **Net loss for the period** | **$ (31,219)** | **$ (38,867)** |
| **Other comprehensive gain** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Fair value gain on available-for-sale investments (Note 5) | 2,250 | - |
| **Total comprehensive loss** | **$ (28,969)** | **$ (38,867)** |
| Basic and diluted loss per share | $(0.00) | $(0.00) |
| Weighted average number of common shares outstanding | 15,098,858 | 15,098,858 |

*The accompanying notes are an integral part of these condensed interim financial statements*

# RACKLA METALS INC.
(An Exploration Stage Company)
**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY) (UNAUDITED)**
For the three months ended March 31, 2017 and 2016
(Expressed in Canadian Dollars)

| | Number of common shares | Share capital | Share-based payments reserve | Accumulated other comprehensive income | Deficit | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2015 | 15,098,858 | $ 7,549,555 | $ 128,023 | $ - | $ (7,487,919) | $ 189,659 |
| Loss for the period | - | - | - | - | (38,867) | (38,867) |
| Balance, March 31, 2016 | 15,098,858 | 7,549,555 | 128,023 | - | (7,526,786) | 150,792 |
| Loss for the period | - | - | - | - | (180,421) | (180,421) |
| Fair value gain on available-for-sale investments | - | - | - | 750 | - | 750 |
| Balance, December 31, 2016 | 15,098,858 | 7,549,555 | 128,023 | 750 | (7,707,207) | (28,879) |
| Loss for the period | - | - | - | - | (31,219) | (31,219) |
| Fair value gain on available-for-sale investments | - | - | - | 2,250 | - | 2,250 |
| **Balance, March 31, 2017** | **15,098,858** | **$ 7,549,555** | **$ 128,023** | **$ 3,000** | **$ (7,738,426)** | **$ (57,848)** |

*The accompanying notes are an integral part of these condensed interim financial statements*

**RACKLA METALS INC.**
(An Exploration Stage Company)
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)**
(Expressed in Canadian Dollars)

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| **Cash provided by (used in):** | | |
| **OPERATING ACTIVITIES** | | |
| Net loss for the period | $ (31,219) | $ (38,867) |
| Items not involving cash: | | |
| Amortization | 612 | 612 |
| | (30,607) | (38,255) |
| Changes in non-cash working capital items: | | |
| Taxes receivable | (19) | (338) |
| Prepaid expenses | - | 375 |
| Accounts payable and accrued liabilities | (158) | 3,735 |
| Due to related parties | 24,910 | 29,675 |
| | (5,874) | (4,808) |
| **Decrease in cash** | (5,874) | (4,808) |
| Cash, beginning of period | 31,254 | 77,552 |
| **Cash, end of period** | **$ 25,380** | **$ 72,744** |

*The accompanying notes are an integral part of these condensed interim financial statements*

## 1. CORPORATE INFORMATION

Rackla Metals Inc. (the "Company") is pursuing opportunities related to exploration of mineral resource properties. The Company was incorporated in the Province of British Columbia on September 20, 2011, and is listed on the TSX Venture Exchange ("TSX-V"), having the symbol RAK.

The address of the Company's corporate office and principal place of business is 650, 200 Burrard Street, Vancouver, BC, Canada V6C 3L6.

## 2. BASIS OF PREPARATION

These condensed interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These condensed interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements of the Company. These condensed interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these condensed interim financial statements should be read in conjunction with the Company's most recent annual financial statements, which were prepared in accordance with IFRS as issued by the IASB.

### Basis of Measurement

These condensed interim financial statements have been prepared on the historical cost basis, except for certain financial instruments carried at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The presentation and functional currency of the Company is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

### Nature of Operations and Ability to Continue as a Going Concern

These condensed interim financial statements have been presented on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Realization values may be substantially different from the carrying values shown and these condensed interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At March 31, 2017, the Company had not yet achieved profitable operations, has accumulated losses of $7,738,426 since inception, and is expected to incur further losses in the development of its business, all of which raises significant doubt about its ability to continue as a going concern. The Company will periodically have to raise funds to continue operations; although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. If the Company is unable to obtain additional financing, management may be required to curtail certain discretionary expenses.

These condensed interim financial statements do not give effect to adjustments to the recoverability of assets and satisfaction of liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

## 3. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

The Company will be required to adopt the following standards and amendments issued by the IASB as described below. The Company is in the process of evaluating the impact of the new standard and amendments on its financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*
  Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: “amortized cost”, “fair value through other comprehensive income”, or “fair value through profit or loss” (default). Equity instruments are classified and measured as “fair value through profit or loss” unless upon initial recognition elected to be classified as “fair value through other comprehensive income”.
- *Classification and measurement of financial liabilities:*
  When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity’s own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- *Impairment of financial assets:*
  An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at “amortized cost” or “fair value through other comprehensive income”, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- *Hedge accounting:*
  Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

Effective for the Company's annual period beginning January 1, 2018.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

The key areas of judgment applied in the preparation of the condensed interim financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

i) The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company.

   Assets or CGUs are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's exploration and evaluation assets.

   In respect of costs incurred for its investment in exploration and evaluation assets, management has determined the acquisition costs that have been capitalized may not be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit, including access to financing to further exploration and development, geologic and metallurgic information, economics assessment/ studies, accessible facilities and existing permits.

ii) The Company has not recognized a deferred tax asset as management believes that it is not probable that taxable profit will be available against which a deductible temporary difference can be utilized.

iii) The determination of when an investment is impaired required significant judgment. In making this judgment, the Company evaluates, amongst other things, the duration and extent to which the fair value of the investment is less than its original cost at each reporting period.

iv) The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its operating expenditures, meet its liabilities for the current year, and to fund planned contractual exploration programs, involves significant judgement based on historical experiences and other factors including expectation of future events that are believed to be reasonable under the circumstances.

(Expressed in Canadian Dollars)

## 5. AVAILABLE-FOR-SALE INVESTMENTS

As of March 31, 2017, available-for-sale investments consisted of 75,000 common shares of Damara Gold Corp. ("Damara"), a public company, and 200,000 common shares of Voyager Gold Corp. ("Voyager"), a private company with a common director. The private company shares were initially measured at fair value and subsequently written down to $1.

As at March 31, 2017, the carrying amount for the available-for-sale investments was $6,001 (December 31, 2016: $3,751).

During the period ended March 31, 2017, there was an increase in value of the Damara shares by $2,250. This amount was recorded as a fair value gain in other comprehensive income.

| | Damara | Voyager | Total |
|---|---|---|---|
| Balance, December 31, 2015 | $ 3,750 | $ 1 | $ 3,751 |
| Impairment of investments | (750) | - | (750) |
| Change in fair value | 750 | - | 750 |
| Balance, December 31, 2016 | 3,750 | 1 | 3,751 |
| Change in fair value | 2,250 | - | 2,250 |
| **Balance, March 31, 2017** | **$ 6,000** | **$ 1** | **$ 6,001** |

## 6. PROPERTY AND EQUIPMENT

| | Leasehold improvements |
|---|---|
| **Cost** | |
| Balance, December 31, 2015 | $ 19,060 |
| Additions | - |
| Balance, December 31, 2016 | 19,060 |
| Additions | - |
| **Balance, March 31, 2017** | **$ 19,060** |
| | |
| **Accumulated amortization** | |
| Balance, December 31, 2015 | $ 9,556 |
| Charge for the period | 2,448 |
| Balance, December 31, 2016 | 12,004 |
| Charge for the period | 612 |
| **Balance, March 31, 2017** | **$ 12,616** |
| **Carrying amounts** | |
| At December 31, 2016 | $ 7,056 |
| **At March 31, 2017** | **$ 6,444** |

(Expressed in Canadian Dollars)

## 7. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition costs of its mineral property interests as at March 31, 2017:

| | Rivier | Scarlet | Sixty Mile | Face | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2015 | $ 77,025 | $ 1 | $ 1 | $ 1 | $ 77,028 |
| Write-off acquisition costs | (77,024) | - | - | - | (77,024) |
| Balance, December 31, 2016 | 1 | 1 | 1 | 1 | 4 |
| **Balance, March 31, 2017** | **$ 1** | **$ 1** | **$ 1** | **$ 1** | **$ 4** |

Details of the Company's mineral property interests are disclosed in full in the financial statements for the year ended December 31, 2016. Significant changes to exploration and evaluation assets since "December 31, 2016 are as follows:

*Scarlet Property – Yukon Territory*

The Scarlet Property consists of 100% owned claims located in the Mayo Mining District and is divided into two claim blocks, Scarlet East and Scarlet West. During the period ended March 31, 2017, a total 193 Scarlet West claims were allowed to lapse. As at March 31, 2017, the Scarlet Property consists of 550 total claims of which 230 claims are in Scarlet East and 320 claims are in Scarlet West.

## 8. EXPLORATION EXPENDITURES

There were no exploration expenditures incurred during the three month periods ended March 31, 2017 and 2016.

(Expressed in Canadian Dollars)

## 9. SHARE CAPITAL AND RESERVES

### (a) Common Shares

The Company is authorized to issue an unlimited number of common shares without par value.

There was no share capital activity during three month period ended March 31, 2017.

### (b) Share Purchase Warrants

There was no share capital activity during three month period ended March 31, 2017.

As at March 31, 2017, the following share purchase warrants were outstanding:

| Expiry date | Number of warrants | Exercise price |
|---|---|---|
| October 18, 2017 | 5,000,000 | $0.05 |

## 10. SHARE-BASED PAYMENTS

### Option Plan Details

The Company has in place a stock option plan (the "Plan"), which allows the Board of Directors to grant incentive stock options to the Company's officers, directors, employees and consultants. The exercise price of stock options granted is determined by the Board of Directors at the time of the grant in accordance with the terms of the Plan and the policies of the TSX-V. Options vest on the date of granting unless stated otherwise. Options granted to investor relations consultants vest in accordance with TSX-V regulation. The options are for a maximum term of ten years.

### Share Purchase Options

There was no stock option activity during the three month period ended March 31, 2017.

As at March 31, 2017, the following stock options were outstanding:

| Expiry date | Number of options | Exercise price |
|---|---|---|
| July 19, 2022 | 245,000 | $0.75 |

The weighted average remaining contractual life of the options outstanding at March 31, 2017 is 5.30 years (December 31, 2016: 5.55).

(Expressed in Canadian Dollars)

## 11. RELATED PARTY TRANSACTIONS

The Company had transactions during the periods ended March 31, 2017 and 2016 with related parties consisting of directors, officers and the following companies with common directors:

| Related party | Nature of transactions |
|---|---|
| Gold Group Management Inc. ("Gold Group") | Shared office and administrative related charges |
| Mill Street Services Ltd. ("Mill Street") | Management services |

Balances and transactions with related parties not disclosed elsewhere in these condensed interim financial statements are as follows:

(a) During the periods ended March 31, 2017 and 2016, the Company reimbursed Gold Group for the following costs:

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| General and administrative expenses: | | |
| Office and administration | $ 8,089 | $ 9,224 |
| Salaries and benefits | 4,425 | 6,736 |
| Transfer agent and regulatory fees | 500 | 1,753 |
| Travel and accommodation | 198 | 501 |
| | **$ 13,212** | **$ 18,214** |

Gold Group is reimbursed by the Company for certain shared costs and other business related expenses paid by Gold Group on behalf of the Company. Salaries and benefits costs paid to Gold Group include those for the Chief Financial Officer and Corporate Secretary.

(b) Deposits as of March 31, 2017 consist of $61,000 (December 31, 2016: $61,000) paid to Gold Group and are related to the shared office and administrative services agreement with Gold Group. Upon termination of the agreement, the deposits, less any outstanding amounts owing to Gold Group, are to be refunded to the Company.

(c) Amounts due to related parties as of March 31, 2017 consist of $78,427 (December 31, 2016: $64,542) due to Gold Group and $62,475 (December 31, 2016: $51,450) owed to Mill Street. The balance due to Gold Group is collateralized by a deposit and the balance due to Mill Street is unsecured and due on demand. The amounts due do not bear interest.

### Key management compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include certain directors and officers. Key management compensation comprises:

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| Management fees | $ 10,500 | $ 10,500 |
| Salaries and benefits | 982 | 1,833 |
| | **$ 11,482** | **$ 12,333** |

## 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these condensed interim financial statements.

**General Objectives, Policies and Processes**

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's management. The Board of Directors receives periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

(a) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market prices affecting the Company are comprised of the following types of risk: interest rate risk and equity price risk. The Company is not exposed to the risk related to the fluctuation of foreign currency rates.

*Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The Company considers this risk to not be significant.

*Equity Price Risk*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company's available-for-sale investments are exposed to equity price risk due to the potentially volatile and speculative nature of the businesses in which the available-for-sale investments are held. The common shares held in Damara and Voyager are monitored by management with decisions on sale taken at Board level. A 10% decrease in fair value of the shares would result in a $600 increase or decrease in net loss and comprehensive loss.

(b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and available-for-sale investments. The Company limits exposure to credit risk by maintaining its cash with chartered Canadian financial institutions. The Company does not have cash or available-for-sale investments that are invested in asset-based commercial paper.

## 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(cont'd)*

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At March 31, 2017, the Company had cash of $25,380 (December 31, 2016: $31,254) available to apply against short-term business requirements and current liabilities of $158,225 (December 31, 2016: $133,476). All of the Company's financial liabilities have contractual maturities of less than 45 days and are subject to normal trade terms.

**Determination of Fair value**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. All financial instruments at March 31, 2017 are carried at amortized cost, apart from the available-for-sale investment in a public company with shares in an active market of $6,000 (December 31, 2016: $3,750), which is carried at fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The statement of financial position carrying amounts for cash, accounts payables and accrued liabilities, and due to related parties approximates fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

The Company has made the following designations of its financial instruments: cash as fair-value-through-profit-or-loss, available-for-sale investments as available-for-sale financial assets, and accounts payable and accrued liabilities and due to related parties as other financial liabilities.

**Fair Value Hierarchy**

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The available-for-sale investment for Damara is based on a quoted price and is therefore considered to be Level 1.

The available-for-sale investment in Voyager was recorded at fair value when it was received and assessed for impairment as at March 31, 2017 and December 31, 2016. This investment is considered to be Level 3.

## 13. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to advance its mineral properties. The Company defines its capital as all components of equity. In order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and makes adjustments to it to effectively support the acquisition and exploration of mineral properties. The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for general administrative costs, the Company will spend its existing capital resources and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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 have been no changes in the Company's approach to capital management during the year. As at March 31, 2017, the Company is not subject to any externally imposed capital requirements. The Company does not expect its capital resources to be sufficient to cover its corporate operating costs and future exploration expenditures through the next twelve months. As such, the Company will seek to raise additional capital and believes it will be able to do so, but recognizes the uncertainty attached thereto.

## 14. SEGMENTED REPORTING

The Company is organized into business units based on mineral properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities. All of the Company's long-term assets and operations are in Canada.

(the “Company”)

# INTERIM MANAGEMENT’S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS

## For the Three Months Ended March 31, 2017

## General

This interim Management’s Discussion and Analysis (“Interim MD&A”) supplements, but does not form part of, the unaudited condensed interim financial statements of the Company for the three months ended March 31, 2017. The following information, prepared as of May 15, 2017, should be read in conjunction with the Company’s unaudited condensed interim financial statements for three months ended March 31, 2017 and the related notes contained therein. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards (“IFRS”). In addition, the following should be read in conjunction with the Financial Statements of the Company for the year ended December 31, 2016 and the related MD&A. All amounts are expressed in Canadian dollars unless otherwise indicated. The March 31, 2017 financial statements have not been reviewed by the Company’s auditors.

Additional information relevant to the Company’s activities can be found on SEDAR at (www.sedar.com).

## Forward-looking Information

This Interim MD&A contains certain statements which constitute forward-looking information within the meaning of applicable Canadian securities legislation (“Forward-looking Statements”). All statements included herein, other than statements of historical fact, are Forward-looking Statements and are subject to a variety of known and unknown risks and uncertainties which could cause actual events or results to differ materially from those reflected in the Forward-looking Statements. The Forward-looking Statements in this Interim MD&A include, without limitation, statements relating to the Company’s plans for exploration of its properties; the sufficiency of the Company’s cash position; and its ability to raise equity capital or access debt facilities. Often, but not always, these Forward-looking Statements can be identified by the use of words such as “anticipates”, “believes”, “plans”, “estimates”, “expects”, “forecasts”, “scheduled”, “targets”, “possible”, “strategy”, “potential”, “intends”, “advance”, “goal”, “objective”, “projects”, “budget”, “calculates” or statements that events, “will”, “may”, “could” or “should” occur or be achieved and similar expressions, including negative variations.

Forward-looking Statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any results, performance or achievements expressed or implied by the Forward-looking Statements. Such uncertainties and factors include, among others:

- risks associated with mineral exploration;
- fluctuations in commodity prices, foreign exchange rates, and interest rates;
- credit and liquidity risks;
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in countries in which the Company does or may carry on business;
- reliance on key personnel;
- property title matters and local community relationships;
- risks associated with potential legal claims generally or with respect to environmental matters;

- dilution from further equity financing;
- competition; and
- uncertainties relating to general economic conditions;

as well as those factors referred to in the "Risks and Uncertainties" section in this Interim MD&A.

Forward-looking Statements contained in this Interim MD&A are based on the assumptions, beliefs, expectations and opinions of management, including but not limited to:

- all required third party contractual, regulatory and governmental approvals will be obtained for the exploration and development of the Company's properties;
- there being no significant disruptions affecting operations, whether relating to labor, supply, power, damage to equipment or other matters;
- exploration activities proceeding on a basis consistent with the Company's current expectations;
- expected trends and specific assumptions regarding commodity prices and currency exchange rates; and
- prices for and availability of fuel, electricity, equipment and other key supplies remaining consistent with current levels.

These Forward-looking Statements are made as of the date hereof and the Company disclaims any obligation to update any Forward-looking Statements, whether as a result of new information, future events or results or otherwise, except as required by law. There can be no assurance that Forward-looking Statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, investors should not place undue reliance on Forward-looking Statements.

## Business of the Company

The Company is a Vancouver-based mineral exploration company engaged in the acquisition and exploration of precious and base metals properties. Management is actively seeking prospective projects for possible acquisition, to add to the Company's Yukon property portfolio described below.

### Rivier Property

The Company holds a 100% interest in the Rivier Property partly by staking and partly under an option agreement. Voyager Gold Corp. ("Voyager"), a private BC company, has the option to acquire from the Company a 60% interest in the property, and Voyager has to date issued to the Company 200,000 common shares in its capital stock in order to keep its option agreement in good standing. The Company's option agreements with the property owner and with Voyager were amended in October 2016 to extend the earn-in deadlines by one year.

The Rivier claims are located 90 kilometres southeast of Ross River, Yukon and cover an ultramafic body shedding anomalous gold values from its margin into stream sediments and soil. In 2011, Voyager completed a program of geological mapping and geochemical sampling followed by an airborne geophysical (magnetic and radiometrics) survey. Two zones of anomalous gold in soil, ranging from background to over 2,000 ppb Au, were identified. In 2012 Voyager intended to explore with an initial program of trenching and 500 metres of diamond drilling exploration but poor market conditions precluded financing arrangements.

In 2013, Voyager carried out a short program of geological mapping and geochemical soil, stream sediment and rock sampling (139, 8 and 37 samples respectively). Geochemical results included a number of anomalous values for gold in soil (>27 ppb gold) extending the known anomalies but not closing them off. The report recommended detailed geological mapping, additional soil geochemistry to close off the gold anomalies, geophysics (HLEM and or IP) and, instead of trenching the flanks of the listwanitized ultramafic, to use a 'geoprobe' bedrock sampling tool to test for gold in bedrock.

The Rivier claims are in good standing until 2022, and the Company and Voyager are reassessing their plans for this property on a regular basis, with a view to recommencing exploration activities if the mining investment climate improves.

Other Properties

*Scarlet Property, Rackla Belt Area*

The Company currently owns 550 claims in the Rackla Belt area, Yukon, of which 230 claims comprise the Scarlet East property and 320 claims comprise the Scarlet West property.

Scarlet East

The Scarlet East property covers what is believed to be the eastern extension of the belt of rocks that host ATAC Resources' Osiris and Conrad discoveries located northeast of Keno City, Yukon.

Mineralization in the Rackla belt shares many of the characteristics of Carlin-type gold deposits, including similar alteration assemblages and association with the low-temperature arsenic sulphides, realgar and orpiment. In the eastern part of the belt, host rocks are two 150-to-250-metre-thick limestone debris flow and turbidite units, referred to by ATAC Resources as the Osiris and Isis horizons. Regional and detailed mapping over the Scarlet East property has identified similar carbonate stratigraphy and fold patterns.

From 2012 to 2014, Strategic Metals Ltd. ("Strategic") had an option to acquire an interest in the Scarlet East claim block. Strategic conducted a detailed prospecting and geological mapping program along with geochemical soil sampling. Geochemical results identified an irregularly shaped, approximately north-north-westerly trending gold-arsenic-mercury-antimony in soil anomaly over an area of about 2,000 by 700 metres in the eastern part of the property. Additional work was recommended; however in late 2014, Strategic terminated its option.

The Scarlet East claims are in good standing until 2023 but no work is planned on the property by the Company at the present time.

Scarlet West

The Scarlet West property covers lead - zinc carbonate hosted mineralization exposed at several outcropping showings. The claims are in good standing until 2018 or later but no additional work is planned for the Scarlet West property at the present time.

*Sixty Mile Property*

The 100% owned Sixty Mile Property consists of 508 claims (approximately 10,600 hectares / 26,190 acres) which cover portions of the headwaters and drainage areas of the prolific Sixty Mile Gold Camp of the Yukon Territory which reportedly produced over 500,000 ounces of gold from the creeks that drain the Company's holdings. The claims are in good standing until 2018 or later. No exploration work is currently planned for this property.

*Face Property*

The Face property consists of 49 claims located in western Yukon, 45 kilometres due east of Eagle, Alaska.

Work by the Company in 2013 consisted of soil and rock sampling, prospecting and reconnaissance geological mapping over previously identified gold and silver anomalies. Although the sampling was hindered by overburden and permafrost, geochemical soil sample results identified an irregular shaped area anomalous in silver (>10 ppm Ag and up to 88 ppm Ag) located over an area of approximately one square kilometre. The silver anomaly is accompanied by anomalous zinc values (>500 ppm to 6,000 ppm Zn) and is underlain by black shale, likely belonging to the Road River Group. Rock samples of the black shale contained similar values for silver and zinc. No significant gold values from the soil or rock samples were obtained

No exploration work is currently planned for this property. The claims covering the silver anomaly are in good standing until April 2019.

*Qualified Person: Roger Hulstein, B.Sc., P.Geo., a member of the Association of Professional Engineers and Geoscientists of British Columbia, is the Company's Qualified Person as defined by National Instrument 43-101, and is responsible for the accuracy of the technical information in this Interim MD&A.*

**Quarterly Information**

The following table provides quarterly information for the eight fiscal quarters ended March 31, 2017:

| Quarter Ended | Mar. 31, 2017 ($) | Dec. 31, 2016 ($) | Sep. 30, 2016 ($) | Jun. 30, 2016 ($) | Mar. 31, 2016 ($) | Dec. 31, 2015 ($) | Sep. 30, 2015 ($) | Jun. 30, 2015 ($) |
|---|---|---|---|---|---|---|---|---|
| Exploration expenditures | - | 260 | - | - | - | - | 450 | 960 |
| General and administrative expenses | 31,219 | 46,734 | 26,442 | 29,211 | 38,867 | 66,557 | 25,443 | 26,016 |
| Net loss | 31,219 | 124,018 | 26,442 | 29,961 | 38,867 | 67,307 | 28,143 | 27,726 |
| Basic and diluted loss per share | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 |

The net loss for the quarter ended December 31, 2016 is higher than most other quarters due to a write-down of $77,024 on exploration and evaluation assets whereas there was no such expense recorded in the other quarters presented. Exploration expenditures for the past eight quarters have consisted of care and maintenance activities.

**Results of Operations**

*Quarter ended March 31, 2017*

The quarter ended March 31, 2017 had a net loss of $31,219, compared to a net loss of $38,867 for the quarter ended March 31, 2016, a decrease of $7,648. The net losses for both the current and comparative quarters consisted of general and administrative expenses. There were no exploration expenditures in either the current or comparative quarters.

All general and administrative expenses were either similar or lower in the current quarter, resulting in a total decrease of $7,648 compared to the comparative quarter. Most notable decreases were $2,311 in salaries and benefits, $2,287 in legal and audit fees, and $1,517 in transfer agent and regulatory fees. These costs were higher in the comparative quarter due to the timing of audit and regulatory fees and cost cutting efforts made during the current quarter.

**Liquidity and Capital Resources**

The Company is in the exploration stage and therefore has no cash flow from operations. While the Company does not have any commitments, it does have an option agreement on the Rivier property whereby the next scheduled payment due to keep the option in good standing is a payment of 50,000 common shares due on or before October 31, 2017.

As at March 31, 2017, current assets were $32,932 of which $25,380 was cash and $6,001 was the fair value of available-for-sale investments. Current liabilities were $158,228, resulting in a working capital deficiency of $125,296. The Company last raised funds in 2015 by way of a private placement for $250,000. Associated with this private placement is a total of 5,000,000 share purchase warrants with an exercise price of $0.05 per share that remain outstanding and have an expiry date of October 18, 2017. Current funds continue to be used for care and maintenance activities on the Company's properties and for general working capital purposes.

The Company has primarily funded its operations through the issuance of equity financing. The Company does not expect its current capital resources to be sufficient to cover its corporate operating costs and future exploration expenditures through the next twelve months. As such, the Company will seek to raise additional capital and believes it will be able to do so, but recognizes the uncertainty attached thereto. If the Company is unable to obtain additional financing, management may be required to further curtail certain discretionary expenses. Actual funding requirements may vary from those planned due to a number of factors, including the progress of property acquisition and exploration activity.

**Related Party Transactions**

There were no significant related party transactions during the period. See Note 11 of the condensed interim financial statements for the three months ended March 31, 2017 for details of related party transactions which occurred in the normal course of business.

## Other Data

Additional information related to the Company is available for viewing at www.sedar.com.

## Share Position and Outstanding Warrants and Options

As at May 15, 2017, the Company had 15,098,858 common shares issued and outstanding and the following share purchase warrants and incentive stock options are currently outstanding:

**SHARE PURCHASE WARRANTS**

| No. of warrants | Exercise price | Expiry date |
|---|---|---|
| 5,000,000 | $0.05 | October 18, 2017 |

**STOCK OPTIONS**

| No. of options | Exercise price | Expiry date |
|---|---|---|
| 245,000 | $0.75 | July 19, 2022 |

## Risks and Uncertainties

*Mineral Property Exploration and Mining Risks*

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. The main operating risks include: securing adequate funding to maintain and advance exploration properties; ensuring ownership of and access to mineral properties by confirmation that option agreements, claims and leases are in good standing; and obtaining permits for drilling and other exploration activities.

*Joint Venture Funding Risk*

The Company's strategy includes seeking partners through joint ventures to fund exploration and project development. The main risk of this strategy is that funding partners may not be able to raise sufficient capital in order to satisfy exploration and other expenditure terms in a particular joint venture agreement. As a result, exploration and development of one or more of the Company's property interests may be delayed depending on whether the Company can find another partner or has enough capital resources to fund the exploration and development on its own.

*Commodity Price Risk*

The Company is exposed to commodity price risk. Declines in the market price of gold, base metals and other minerals may adversely affect the Company's ability to raise capital or attract joint venture partners in order to fund its ongoing operations. Commodity price declines could also reduce the amount the Company would receive on the disposition of one of its mineral properties to a third party.

*Financing and Share Price Fluctuation 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. Further exploration and development of one or more of the Company's projects may be dependent upon the Company's ability to obtain financing through equity or debt financing or other means. Failure to obtain this financing could result in delay or indefinite postponement of further exploration and development of its projects which could result in the loss of one or more of its properties.

Securities markets have at times in the past experienced a high degree of price and volume volatility, and the market price of securities of many companies, particularly those considered to be exploration stage companies such as the Company, have experienced wide fluctuations in share prices which have not necessarily been related to their operating performance, underlying asset values or prospects. There can be no assurance that these kinds of share price fluctuations will not occur in the future, and if they do occur, how severe the impact may be on the Company's ability to raise additional funds through equity issues.

*Political and Regulatory Risks*

The Company is currently operating in Canada which has a stable political and regulatory environment. However, changing political aspects may affect the regulatory environment in which the Company operates.

*Insured and Uninsured Risks*

In the course of exploration, development and production of mineral properties, the Company is subject to a number of hazards and risks in general, including adverse environmental conditions, operational accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in damage to the Company's properties or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums or for other reasons. Should such liabilities arise, they could reduce or eliminate future profitability and result in increased costs, have a material adverse effect on the Company's results and a decline in the value of the securities of the Company.

*Environmental and Social Risks*

The activities of the Company are subject to environmental regulations issued and enforced by government agencies. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present. Social risks are considered low in Canada, the principal country of operation of the Company, but a change in social expectations could add new layers of risk to the viability of exploration and development properties.

*Competition*

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition and development of its projects as well as for the recruitment and retention of qualified employees.