

# **ELY GOLD ROYALTIES INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2019**

## 1.1 INTRODUCTION

Set out below is a review of the activities, financial performance and financial position of Ely Gold Royalties Inc. (“Ely”, or the “Company”) and its subsidiaries for the three months ended March 31, 2019 and 2018. The discussion below should be read in conjunction with the Company’s March 31, 2019 unaudited condensed interim consolidated financial statements and related notes and the December 31, 2018 audited consolidated financial statements and related notes. All dollar figures included in the following Management Discussion and Analysis (“MD&A”) are quoted in Canadian dollars unless otherwise indicated. This MD&A has been prepared as at May 30, 2019.

The Company is a reporting issuer in the provinces of British Columbia and Alberta in Canada and is listed on the TSX Venture Exchange (“Exchange”) under the symbol “ELY”.

Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company’s website is at <http://www.elygoldinc.com>

## 1.2 FORWARD LOOKING STATEMENTS

This MD&A contains “forward-looking statements” within the meaning of applicable Canadian securities legislation, which include all statements, other than statements of historical fact that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future. These include, without limitation:

- the Company’s anticipated results and developments in the Company’s operations in future periods;
- planned acquisition, exploration, and development of its mineral properties and royalties;
- planned expenditures and budgets;
- evaluation of the potential impact of future accounting changes;
- estimates concerning share-based payment and carrying value of properties; and
- other matters that may occur in the future.

These statements relate to analyses and other information that are based on expectations of future performance and planned work programs.

Statements concerning mineral resource estimates may also be deemed to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if the related property is developed.

With respect to forward-looking statements and information contained herein, the Company has made a number of assumptions with respect to, including among other things, the price of gold and other metals, economic and political conditions, and continuity of operations. Although the Company believes that the assumptions made and the expectations represented by such statements or information are reasonable, there can be no assurance that forward-looking statements or information contained or incorporated by reference herein will prove to be accurate.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ materially from those expressed or implied by the forward-looking statements, including, without limitation:

- fluctuations in mineral prices;
- the Company's dependence on a limited number of mineral projects and royalties;
- the nature of mineral exploration and mining and the uncertain commercial viability of certain mineral deposits;
- the Company's lack of operating revenues;
- the Company's ability to obtain necessary financing to fund the development of its mineral properties or the completion of further exploration programs;
- jurisdiction operating risks which can over time include changes in political, economic, regulatory and taxation regimes;
- governmental regulations and specifically the ability to obtain necessary licenses and permits;
- risks related to the Company's mineral properties being subject to prior unregistered agreements, transfers, or claims and other defects in title;
- fluctuations in the currency markets;
- changes in environmental laws and regulations which may increase costs of doing business and restrict the Company's operations;
- risks related to the Company's dependence on key personnel; and
- estimates used in the Company's consolidated financial statements proving to be incorrect;
- the impact of general business and economic conditions;
- the ongoing operation of the properties in which the Company holds a royalty, stream, or other production-base interest by the owners or operators of such properties in a manner consistent with past practice;
- the accuracy of public statements and disclosures made by the owners or operators of such underlying properties;
- the Company's ongoing income and assets relating to determination of its PFIC status;
- no material changes to existing tax treatment; no adverse development in respect of any significant property in which the Company holds a royalty, stream, or other production-base interest;
- the accuracy of publicly disclosed expectations for the development of underlying properties that are not yet in production;
- integration of acquired assets;
- actual results of mining and current exploration activities;
- conclusions of economic evaluations and changes in project parameters as plans continue to be refined;
- problems inherent to the marketability of precious metals;
- stock market volatility;
- competition;
- and the absence of any other factors that could cause actions, events or results to differ from those anticipated, estimated or intended.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statements. The Company's forward-looking statements are based on beliefs, expectations and opinions of management on the date the statements are made. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

### **1.3 DESCRIPTION OF BUSINESS**

The Company's registered office is Suite 2833 – 595 Burrard St, P.O. Box 49195, Vancouver, British Columbia, Canada, V7X 1J1.

The Company's operations are conducted through Ely and its wholly-owned subsidiaries, Nevada Select Royalty, Inc. ("Nevada Select"), Voyageur Gold Inc. ("Voyageur"), DHI Minerals Ltd. ("DHI") and its subsidiary DHI Minerals (US) Ltd. ("DHI US").

The Company is an exploration and development stage natural resource royalty company engaged in the evaluation, acquisition, exploration and development of mineral projects and royalties. The Company is currently focused on:

- purchasing producing royalties on precious metal properties;
- purchasing development stage royalties on precious metal properties being advanced by third parties;
- acquiring exploration and development stage gold projects, to be sold to third parties while retaining royalties; and
- maintaining a focus on royalties and properties in North America, primarily in Nevada.

The recoverability of costs capitalized to royalties and mineral properties and the Company's future financial success is dependent upon the extent to which economic gold mineralized bodies can develop into producing entities and these producing entities can discover additional economic ore bodies. Such development may take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty. Many of the key factors for advancing the Company's projects to production are dependent on outside factors; such as, obtaining the necessary rights and permitting which need to be granted from certain local and governmental agencies located in the jurisdictions that the Company operates in. Additional risk factors that may affect the financial success of the Company and its consolidated financial statements and the risk factors related to mineral exploration and development are set out under the heading "Risks and Uncertainties" listed below.

The Company knows of no trends, demands, commitments, events or uncertainties outside of the normal course of business that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future. Material increases or decreases in the Company's liquidity are substantially determined by the success or failure of the Company's royalty and option programs. The overall market conditions for smaller resource companies is another significant risk factor. The Company is not aware of any seasonality in the business that may have a material effect upon its financial condition, other than those normally encountered by public reporting junior resource companies. The Company is not aware of any changes in the results of its operations that are other than those normally encountered in its ongoing business.

#### **1.4 HIGHLIGHTS**

- On January 17, 2019 the Company close a private placement for total gross proceeds of \$330,000.
- On February 6, 2019, the Company repaid the remaining loan payable owing to Platoro West for a total cash outlay of \$185,466.
- On January 21, 2019, the Company entered into a definitive agreement with Delamar Mining Company ("Delamar") whereby Delamar can acquire a 100% in the War Eagle property by making US\$200,000 in option payments within four years from the date of closing.
- During the three months ended March 31, 2019, the Company received total net proceeds from option payments and disposition of mineral and royalty interests of \$105,440 (2018 - \$523,480).
- As of March 31, 2019, the Company had cash and cash equivalents of \$2,058,929 and consolidated working capital of \$2,904,850.

#### ***Subsequent to March 31, 2019:***

- On April 18, 2019, the Company acquired from an arm's length third party (the "Seller") 100% of all rights and interests in an additional 2% net smelter royalty on the Fenelon Mine Property, operated by Wallbridge Mining Company Ltd, and located in west-central, Quebec for cash consideration of \$600,000.
- On April 24, 2019, the Company entered into a binding letter agreement with a private individual whereby the Company will acquire 100% of all rights and interests to a 1% net smelter return royalty on the Lincoln Hill Property, operated by Coeur Mining Inc., for cash consideration of \$755,000 and by issuing 500,000 common share purchase warrants. The transaction is expected to close in the third quarter 2019.
- On April 27, 2019, the Company acquired from a private estate a 0.75% gross receipts royalty on the Isabella Pearl Mine, operated by Gold Resource Corporation, and located in Mineral County, Nevada. Under the

terms of the agreement, the Company acquired the 0.75% gross receipts royalty for cash consideration of US\$300,000 (paid).

- On May 23, 2019, the Company signed a binding letter of intent with a private individual whereby the Company will acquire 100% of rights and interests to a Per Ton Royalty Interest on the Jerritt Canyon Processing Facilities by paying the owner a total cash consideration of US\$650,000 and issue 500,000 common share purchase warrants. The transaction is subject to certain closing conditions including approval by the TSX Venture Exchange.

## **1.5 PROJECT UPDATES AND ACQUISITION**

### **Green Springs, Nevada**

On January 16, 2013, the Company acquired a mining lease and a 100% purchase option on two mining claims contiguous to the Green Springs property, known as the Cox Claims. The lease on the Cox claims has a term of 10 years with escalating advance royalty payments and a 100% purchase option. The minimum advance royalty payments total US\$222,500. The purchase option for the Cox claims is 100% owned by DHI US.

On February 4, 2013, DHI US acquired the Green Springs property in White Pine County, Nevada for US\$300,000 (paid) and \$50,000 (paid) cash. The Green Springs property is subject to a 2% NSR. Green Springs is 100% owned by DHI US. At the Green Springs property, the Company owns 76 unpatented lode mining claims.

In July 2014, the Company signed an Exploration and Option Agreement with Eurasian Minerals (the “EMX Agreement”) through its wholly-owned subsidiary Bronco Creek Exploration, Inc., for EMX’s Cathedral Well gold project. The Cathedral Well property consists of 79 unpatented mining claims (the “Cathedral Well Claims”) and bounds the Company’s Green Springs Project area to the east and the west.

In November 2016, the Company and EMX amended the EMX Agreement whereby the Company traded certain mining claims, owned by Nevada Select, (the “Gutsy Claims”) in lieu of the final payment of US\$25,000. The Company now owns 100% of the Cathedral Well Claims.

On December 7, 2016, the Company entered into an option agreement with Colorado Resources Ltd (“Colorado”) whereby Colorado can acquire a 100% interest in the Company’s Green Springs project, Cox Claims and Cathedral Well. Colorado can acquire their 100% interest by making cash payments of US\$3,000,000 and issuing 2,250,000 Colorado common shares to the Company over a period of four years from the date of closing.

In January 2017, the Company received TSX Venture Exchange approval and Colorado advanced US\$50,000 cash and issued 300,000 Colorado common shares to the Company.

On May 10, 2018, Colorado terminated the option agreement with the Company.

On October 26, 2018, the Company entered into a non-binding term sheet with a private third party (“Third Party”) whereby the Third Party would be granted the right, upon entering into an option agreement, to acquire a 100% interest in the Company’s Green Springs and Cox Claims projects for a total purchase price of US\$1,200,000.

During the three months ended March 31, 2019, the Third Party provided notice to the Company and terminated the term sheet with no further payments due to the Company.

### **Nevada Select Properties**

Nevada Select is the Company’s 100% owned U.S. subsidiary that owns title to over 76 mineral properties with 27 deeded royalties and 24 properties under option agreements with third parties.

Transactions during the year ended December 31, 2018:

### *Frost Property*

On November 13, 2018, the Company, through its wholly-owned subsidiary Nevada Select, entered into a definitive option agreement with Calico Resources USA Corp, a wholly owned subsidiary of Paramount Gold Nevada Corp. (collectively “Paramount”), whereby Paramount has the option to acquire a 100% interest in the Frost property (the “Frost Property”) by making cash payments totaling US\$250,000 over a four-year period after the closing date.

Upon completion of the cash payments and the transfer of the Frost claims, Paramount will grant the Company a 2% NSR on the Frost Property. Paramount has the right to reduce the NSR to 1%, at any time, by paying the Company US\$1,000,000.

### *Rodeo Creek Claims*

On November 12, 2018, the Company, through its wholly-owned subsidiary Nevada Select, entered into a definitive option agreement with Au-Reka Gold Corporation, a wholly owned subsidiary of Premier Gold Mines Ltd. (collectively “Premier”), whereby Premier has the option to acquire a 100% interest in the Rodeo Creek claims (the “Rodeo Creek Claims”) by making US\$506,572 in option payments to the Company over a five year period after the closing date.

Upon completion of the cash payments and the transfer of the Rodeo Creek Claims, Premier will grant the Company a 2% NSR on the Rodeo Creek Claims.

### *Isabelle Pearl Royalty*

On October 19, 2018, the Company entered into a binding letter agreement with a private owner whereby the Company, through its wholly-owned subsidiary Nevada Select, will acquire 100% of all rights and interests in the 0.75% Gross Receipts Royalty of the Isabella Pearl Property, operated by Gold Resource, by paying cash consideration of US\$300,000. The closing of the transaction is subject to the completion of a definitive purchase and assignment agreement, among other necessary closing documentation. As at December 31, 2018, the closing of the royalty transaction remains subject to the completion of a definitive agreement.

### *Stateline Property*

On August 8, 2018, the Company entered into a definitive option agreement with Pyramid Gold whereby Pyramid Gold can acquire a 100% interest in the Stateline project by making US\$100,000 in combined option payments to the Company over a four-year period after the effective closing date.

If the total combined option payments are made the Company will retain a 2% NSR on the Stateline claims. There is a one-mile area of interest associated with the NSR.

Pyramid is also required to pay the Company AMR payments as follows:

- US\$15,000 on the first through third anniversary dates of the Stateline Final Option Payment;
- US\$25,000 on the fourth anniversary date of the Stateline Final Option Payment and on each anniversary thereafter.

Pyramid Gold may terminate the option agreement at any time without further liability for future option payments.

### *Kraut Claims*

On April 27, 2018, the Company closed the sale of the Kraut claim with VR Resources whereby VR Resources acquired 100% of the Kraut claims by making the following payments:

- At closing – US\$10,000 (received - \$12,957), 50,000 shares valued at \$20,000 (received) of VR Resources and the deed of royalty in Nye County Nevada for the Danbo Royalty, consisting of 30 unpatented mining claims
- An additional US\$50,000 and 50,000 shares of VR Resources once an initial drill program commences on the Kraut claims.

The Company will retain a 2% NSR on the Kraut claims. VR Resources will have the right to buy down 1% of the royalty for US\$500,000 per 0.5% for a maximum of US\$1,000,000. As a result of the Company selling the Kraut claims, the Company removed the carrying cost of \$nil and recognized a gain on disposition of \$33,224, which is included in the statement of loss and comprehensive loss.

#### *Monitor Claims*

On March 22, 2018, the Company entered into a definitive option agreement with Monitor Gold Corporation (“Monitor”), a wholly owned subsidiary of Orla Mining Ltd. whereby Monitor has the option to acquire a 100% interest in four unpatented mining claims (the “Monitor Claims”) by making US\$527,000 in combined option payments to the Company over a nine-year period after the closing date.

If the total combined option payments are made the Company will retain a 2.5% NSR on the Monitor Claims. There is no area of interest associated with the Monitor Claims and Monitor will have the right to buy-down 1% of the NSR for an aggregate purchase price of US\$1,000,000.

#### *County Line Project*

On March 9, 2018, the Company entered into a definitive purchase agreement with Gold Resource whereby Gold Resource has acquired a 100% interest in the County Line project for total consideration to the Company of US\$300,000 (received \$379,410). The Company will retain a 3% NSR on the County line claims. There is a one-mile area of interest associated with the NSR. Gold Resource will have the right to buy-down 1% of the NSR for an aggregate purchase price of US\$1,000,000.

#### *North Carlin Project*

On February 21, 2018, the Company entered into a definitive option agreement with Intermont Exploration, LLC (“Intermont”), a wholly owned subsidiary of Fremont whereby Fremont can acquire a 100% interest in the North Carlin project by making US\$267,500 in combined option payments to the Company over a five year period after the closing date.

If the total combined option payments are made the Company will retain a 2% NSR on the North Carlin claims. There is no area of interest associated with the North Carlin claims and Fremont will have the right to buy-down 1% of the NSR for US\$3,000,000.

Intermont is also required to pay the Company AMR payments as follows:

- US\$25,000 on the first through third anniversary dates of the North Carlin Final Option Payment;
- US\$35,000 on the fourth anniversary date of the North Carlin Final Option Payment and on each anniversary thereafter.

During the three months ended March 31, 2019, Intermont terminated the option agreement. Upon termination, the Company granted Intermont a mineral deed for twelve unpatented mining claims and Intermont granted the Company a 2% net smelters royalty on the deeded claims.

#### *Gold Canyon Project*

On January 16, 2018, the Company entered into a definitive option agreement with Intermont Exploration, LLC, a wholly owned subsidiary of Fremont whereby Fremont can acquire 100% interest in the Gold Canyon project by making US\$802,500 in combined option payments to the Company over a five-year period from the closing date.

If the total combined option payments are made the Company will retain a 2% NSR on the Gold Canyon claims and a 1% NSR on any acquired or staked additional claims located within a one-mile area of interest. Fremont will have the right to buy-down 1% of the underlying royalties on all the claims for US\$3,000,000.

Fremont is also required to pay the Company AMR payments as follows:

- US\$25,000 on the first through third anniversary dates of the Gold Canyon Final Option Payment;
- US\$35,000 on the fourth anniversary date of the Gold Canyon Final Option Payment and on each anniversary thereafter.

Transactions during the year ended December 31, 2017:

During the year ended December 31, 2017, the Company completed the acquisition of 6 patented mining claims and the related historical data for US\$50,000.

*Gold Bar Project*

On September 13, 2017, the Company closed the option of the Gold Bar project with Fremont Gold Ltd. (“Fremont”) whereby Fremont can acquire 100% of the Gold Bar project by making US\$1,000,000 in combined option payments to the Company over a four-year period from the date of closing.

If the total combined options payments are made the Company will retain a 2% NSR. Fremont will have the right to buy-down 1% of the underlying royalty on these key claims for US\$5,000,000.

Fremont is also required to pay the Company AMR payments as follows:

- US\$25,000 on the first through third anniversary dates of the Gold Bar Final Option Payment;
- US\$25,000 on each anniversary date of the Final Option Payment thereafter.

*New Boston Project*

On September 10, 2017, the Company closed the sale of the New Boston project with VR Resources whereby VR Resources can acquire 100% of the New Boston project by making the following payments:

- At closing – US\$10,000 (received - \$12,986) and 50,000 shares of VR Resources valued at \$16,250;
- An additional 50,000 shares of VR Resources if VR Resources completes a diamond drill program valued at \$20,000 (received).

If a drill program is not completed by VR Resources within 18 months of closing, the property and any new exploration data will be returned to the Company. The Company was granted a 2% NSR on closing, subject to VR Resources’ right to buy down one half of the royalty for US\$500,000 per 0.5%.

*Wolfpack Property and Royalties Acquisition*

On September 8, 2017, the Company acquired four deeded royalties and one leased property for US\$40,000 from Wolfpack Gold (Nevada) Corp.

*Weepah Project*

On July 10, 2017, the Company closed the option of the Weepah project with Valterra Resource Corp (“Valterra”) whereby Valterra can acquire 100% of the Weepah project by making the following option payments to the Company:

- At closing – US\$100,000 cash or through the issuance of Valterra common shares (received 2,598,680 Valterra common shares valued at \$128,880);
- Year 1 – US\$100,000 cash or through the issuance of Valterra common shares (received 2,655,740 Valterra common shares valued at \$92,951);
- Year 2 – US\$200,000 cash;
- Year 3 – US\$200,000 cash; and
- Year 4 – US\$400,000 cash (the (“Final Option Payment”))



If the Final Option Payment is made the Company will retain a 3% NSR on ten unpatented claims and one patented claim. Valterra will have the right to buy-down 1% of the underlying royalty on these claims for US\$1,000,000. Sixty-six unpatented claims are subject to a 2% NSR to a third party and Ely Gold will retain a 1% NSR on those claims.

Valterra will pay the Company AMR payments as follows:

- US\$25,000 on the first through third anniversary dates of the Final Option Payment;
- US\$25,000 on each anniversary date of the Final Option Payment thereafter.

#### *Eastfield Claim Acquisition*

On June 29, 2017, the Company closed a transaction with Eastfield Resources Ltd (“Eastfield”) whereby the Company will acquire an interest in 18 patented claims located in Nevada for \$50,000 cash (paid) and by issuing 300,000 common shares (issued with a fair value of \$34,500) of the Company to Eastfield.

#### *Redlich, Moho and Olympic Projects*

On May 26, 2017, the Company entered into definitive option agreements with Pyramid Gold (US) Corp (“Pyramid Gold”) whereby Pyramid Gold can acquire a 100% interest in the Redlich, Moho and Olympic projects (“RMO”) by making US\$600,000 in combined option payments over a four year period from the date of closing.

If the total combined option payments are made the Company will retain a 2.5% NSR on the Redlich, Moho and Olympic claims. On the first three anniversaries of the option exercise, Pyramid Gold will pay combined AMR payments of US\$30,000 per year on the Redlich and Moho projects. On the fourth anniversary and every year after, Pyramid Gold will pay combined AMR payments of US\$50,000 per year. On the Redlich and Moho projects. Pyramid Gold will have the right to buy-down 1% of the NSR on each of the Redlich and Moho projects for an aggregate purchase price of US\$1,000,000 per project. On February 7, 2018 Pyramid assigned the option agreements for Moho and Redlich to Hochschild Mining PLC, with the agreement terms remaining the same.

On April 26, 2019 Pyramid Gold notified the Company that it was terminating the option agreement for the Olympic Project.

#### *Cimarron Project*

On May 26, 2017, the Company entered into a definitive option agreement with 1082223 BC Ltd (“1082 BC”) whereby 1082 BC can acquire a 100% interest in the Cimarron project by making US\$250,000 in combined option payments to the Company over a four year period from the date of closing.

If the total combined option payments are made the Company will retain a 2.5% NSR on the Cimarron claims. On the first three anniversaries of the option exercise, 1082 BC will pay AMR payments of US\$15,000 per year. On the fourth anniversary and every year after, 1082 BC will pay AMR payments of US\$25,000 per year. On May 17, 2017, 1082 BC assigned its interest in the Cimarron project to Ridgestone Mining Inc.

### *Platoro West Corp.*

On May 4, 2017, the Company entered into a definitive purchase agreement with Platoro West Corp. (“Platoro”) whereby the Company will acquire Platoro West’s portfolio of 14 mineral properties in Nevada, a portfolio of 8 deeded royalties, and legal and beneficial rights to geological information covering precious metals properties throughout the western United States. Under the terms of the agreement, the company will pay Platoro West US\$500,000 and issue 1,000,000 shares purchase warrants to Platoro West. On February 6, 2019, the Company paid the remaining balance of the purchase price to Platoro thereby satisfying its obligations under the definitive purchase agreement.

### *Bald Peak Project*

On February 17, 2017, the Company sold its 100% interest in the Bald Peak Project to Radius Gold Inc. (“Radius”) for total proceeds of US\$35,115 (received – \$46,710). The Company recorded a gain on the disposition of \$46,710 in relation to the sale of its interest in Radius as it had a \$nil carrying value at the date of sale. The Company issued, to Radius, a Deed with Reservation of Royalty to Radius that provides for:

- a 3% NSR on certain claims of the Bald Peak Project;
- a 1% NSR on certain claims of the Bald Peak Project;
- an area of interest of two miles;
- an annual AMR payment of US\$25,000 beginning on the date an exploration permit is issued;
- Radius may buy-down 1% of the 3% NSR for US\$1,000,000.

### *Hackberry North Project*

On January 20, 2017, the Company closed the transaction with Bitterroot whereby Bitterroot can acquire a 100% interest in the Company’s Hackberry North Project by making cash payments of US\$150,000 and issuing 600,000 Bitterroot common shares to the Company, as follows:

- At closing – US\$20,000 cash (received - \$25,972) and 200,000 Bitterroot common shares valued at \$30,000 (received);
- Year 1 – US\$30,000 cash and 100,000 Bitterroot common shares;
- Year 2 – US\$50,000 cash and 100,000 Bitterroot common shares;
- Year 3 – US\$50,000 cash and 200,000 Bitterroot common shares.

The Company will retain a 3% NSR on precious metals, a 2% NSR on all other products sold and a 0.5% NSR on unpatented lands which Bitterroot acquires within a 2.66-mile radius of the property. On the first three anniversaries of the option exercise, Bitterroot will pay AMR payments of US\$10,000 per year. On each of the fourth through 10th anniversaries, Bitterroot will pay AMR payments of US\$15,000 per year.

On July 31, 2018, Bitterroot terminated the option agreement. Upon termination, the Company granted Bitterroot a mineral deed for three unpatented mining claims and Bitterroot granted the Company a 3% net smelters royalty on the deeded claims.

### *Isabella Project*

On January 6, 2017, the Company executed an agreement for the sale of its 100% owned Isabella property to Walker Lane Minerals Corporation, a wholly subsidiary of Gold Resource, for US\$460,000 (received – \$611,892).. The Company will retain a NSR (the “Isabella NSR”) of 2.5%. Gold Resource has the option to buy-down 0.5% of the Isabella NSR for US\$500,000. The Isabella NSR includes an area of interest (the “Isabella AOI”) on claims not already held by Gold Resource in their Isabella Pearl property package. The Isabella AOI royalty will be 2%, of which Gold Resource can buy-down 1% for US\$1,000,000.

### *War Eagle Project*

On January 21, 2019, the Company entered into a definitive option agreement with Delamar Mining Company (“Delamar”), a wholly owned subsidiary of Integra Resources Corp., whereby Delamar can acquire a 100% interest in the War Eagle property by making US\$200,000 in combined option payments to the Company over a period of four years from the date of closing.

If the total combined option payments are made the Company will retain a 1% NSR on the War Eagle property. Delamar has the right to accelerate the payments and exercise of the option at any time prior to the fourth-anniversary. The War Eagle property is subject to an underlying 5.0% gross royalty payable to the State of Idaho.

### *Nevada Eagle LLC Acquisition:*

On May 4, 2016, the Company, through the Company’s wholly owned subsidiary, Nevada Select, completed the acquisition of thirty-one mineral properties in Nevada and the western United States from Nevada Eagle LLC (“Nevada Eagle”). Under the terms of the agreement, the Company will pay Nevada Eagle a total purchase price of US\$895,600. During the year ended December 31, 2018, the Company made the final instalment of the purchase price thereby satisfying its obligations under the terms of the agreement.

### *Fenelon Royalties*

On October 17, 2018, the Company acquired from Balmoral Resources Ltd. (“Balmoral”) 100% of all rights and interests in the 1% net smelter royalty on the Fenelon Mine Property, operated by Wallbridge Mining Company Ltd. Under the agreement, the Company is to pay Balmoral cash consideration of \$500,000 (paid) issue 1,000,000 common shares valued at \$130,000 (issued) and grant Balmoral 1,000,000 share purchase warrants entitling Balmoral to acquire 1,000,000 common shares of the Company for a period of 18 months at an exercise price of \$0.10 valued at \$52,700 (issued). In connection with the transaction with Balmoral, the Company paid success fees of \$25,000 in cash (paid), 50,000 common shares of the Company valued at \$6,500 (issued) and issued 50,000 full share purchase warrants entitling the holder to acquire 50,000 common shares of the Company for a period of 18 months at an exercise price of \$0.10 valued at \$2,636 (issued).

On April 18, 2019, the Company acquired from an arm’s length third party (the “Seller”) 100% of all rights and interests in a 2% net smelter royalty on the Fenelon Mine Property, operated by Wallbridge Mining Company Ltd, and located in west-central, Quebec. This 2% net smelter return royalty is in addition to the 1% net smelter return royalty acquired on October 17, 2018. Under the agreement, the Company acquired the additional 2% Fenelon royalty for cash consideration of \$600,000 (paid).

### *Lincoln Hill Royalty*

On April 24, 2019, the Company entered into a binding letter agreement with a private individual whereby the Company will acquire 100% of all rights and interests to a 1% net smelter return royalty on the Lincoln Hill Property, operated by Coeur Mining Inc., for cash consideration of \$755,000 and by issuing 500,000 common share purchase warrants entitling the holder to purchase one common share of the Company for a period of two years from the closing date at an exercise price of \$0.18. The transaction is expected to close in the second quarter 2019.

### *Jerritt Canyon Per Ton Royalty*

On May 23, 2019, the Company signed a binding letter of intent with a private individual whereby the Company will acquire 100% of rights and interests to a Per Ton Royalty Interest on the Jerritt Canyon Processing Facilities by paying the owner a total cash consideration of US\$650,000 and issue 500,000 common share purchase warrants. The transaction is subject to certain closing conditions including approval by the TSX Venture Exchange.

## 1.6 RESULTS OF OPERATIONS

### Three months ended March 31, 2019, compared to the three months ended March 31, 2018.

The Company recorded net loss of \$293,073 (\$0.00 profit per common share) for the three months ended March 31, 2019 (the “current quarter”) compared to a net income of \$63,707 (\$0.00 profit per common share) during the three months ended March 31, 2018 (the “prior quarter”), a decrease of \$356,780, as explained in the following paragraphs.

- Option proceeds was \$7,011 lower in the current quarter (\$105,440) when compared to the prior quarter (\$112,451). During the prior quarter, the Company received additional cash and shares payments relating to its mineral properties that have been optioned to third parties.
- Gain on disposal of mineral interests was \$351,324 lower in the current quarter (\$nil) when compared to the prior quarter (\$351,324). During the prior quarter, the Company sold one of its mineral interests and realized a gain on the sale. No mineral interests were sold during the current quarter.
- Professional fees were \$25,996 higher in the current quarter (\$52,675) when compared to the prior quarter (\$26,679). During the current quarter, the Company incurred additional legal fees relating due diligence of potential mineral property and royalty acquisitions.
- Share-based payments, a non-cash expense, was \$19,558 lower in the current quarter (\$196) when compared to the prior quarter (\$19,754). During the current quarter, the final vesting of 250,000 options was recorded.
- Travel and promotion was \$5,849 lower in the current quarter (\$125,931) when compared to the prior quarter (\$131,780). The Company has been under-taking promotional activities to promote the Company’s common stock to investors and its mineral properties available for sale/option to third party mining companies.
- The change in fair value of marketable securities was \$103,907 higher in the current quarter (gain - \$37,086) when compared to the prior quarter (loss - \$66,821), which is related to market fluctuations of the marketable securities held by the Company at each quarter end date.

## 1.7 ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The material components of exploration and evaluation expense are:

| <b>For the year ended</b>        | <b>March 31, 2019</b> | <b>March 31, 2018</b> |
|----------------------------------|-----------------------|-----------------------|
| Exploration and evaluation costs |                       |                       |
| Geological consulting            | \$ 30,040             | \$ 22,601             |
| Claim maintenance                | 867                   | 27,511                |
|                                  | <u>\$ 30,907</u>      | <u>\$ 51,112</u>      |

## 1.8 SUMMARY OF QUARTERLY RESULTS (unaudited)

The following table summarizes selected information from the Company's unaudited condensed interim consolidated financial statements, prepared in accordance with IFRS, for the last eight quarters.

### For the quarters ended

|                             | <b>Mar 31<br/>2019</b> | <b>Dec 31<br/>2018</b> | <b>Sept 30<br/>2018</b> | <b>Jun 30<br/>2018</b> |
|-----------------------------|------------------------|------------------------|-------------------------|------------------------|
| Total revenues              | \$105,440              | \$325,261              | \$130,158               | \$242,200              |
| Gain (loss) for the quarter | \$(293,073)            | \$(555,422)            | \$(622,897)             | \$63,790               |
| Gain (loss) per share       | (\$0.00)               | (\$0.00)               | (\$0.01)                | \$0.00                 |

### For the quarters ended

|                             | <b>Mar 31<br/>2018</b> | <b>Dec 31<br/>2017</b> | <b>Sept 30<br/>2017</b> | <b>Jun 30<br/>2017</b> |
|-----------------------------|------------------------|------------------------|-------------------------|------------------------|
| Total revenues              | \$112,451              | \$206,615              | \$89,135                | \$15,144               |
| Gain (loss) for the quarter | \$63,707               | \$(577,965)            | \$(947,076)             | \$(542,127)            |
| Gain (loss) per share       | \$0.00                 | (\$0.01)               | (\$0.01)                | (\$0.01)               |

The Company earns interest income from its cash and cash equivalents, which will vary from period to period depending on the prevailing cash and cash equivalents balance in the period.

## 1.9 LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2019, the Company had cash of \$2,058,929 and a consolidated working capital of \$2,904,850. The Company has sufficient cash and cash equivalents to fund its operations for the next twelve months.

The Company's cash and cash equivalents are highly liquid and held at a major Canadian financial institution.

|  | <b>Increase (Decrease) in Cash &amp; Cash<br/>Equivalents for the Three Months<br/>Ended March 31,</b> |              |
|--|--|--------------|
|  | <b>2019</b>  | <b>2018</b>  |
| Operating activities                               | \$ (416,207)   | \$ (423,229) |
| Investing activities                               | (60,032)   | 925,500      |
| Financing activities                               | 97,432   | (160,629)    |
| Total Change in Cash                               | (378,807)  | 341,642      |
| Cash and Cash Equivalents, Beginning of the Period | 2,437,736  | 2,393,322    |
| Cash and Cash Equivalents, End of the Period       | \$ 2,058,929   | \$ 2,734,964 |

### *Operating Activities*

The nature of the Company's operating activities has not significantly changed when compared to the prior period. In the current period, the Company received \$105,440 in option proceeds.

### *Investing Activities*

The Company expended net cash of \$60,032 making annual payments related to its Green Springs project and Cox Claims.

*Financing Activities*

The Company completed a private placement and received cash proceeds, net of issuance costs, of \$281,366 and repaid loans payable of \$183,934.

**1.10 TRANSACTIONS WITH RELATED PARTIES**

Key management comprises directors and executive officers. The Company did not pay post-employment benefits and long-term benefits to key management. The following compensation was paid to key management:

|                                | March 31,<br>2019 | March 31,<br>2018 |
|--------------------------------|-------------------|-------------------|
| Short-term employment benefits | \$ 142,749        | \$ 79,469         |
| Total                          | \$ 142,749        | \$ 79,469         |

As at March 31, 2019, \$16,549 (December 31, 2018 - \$924) is owing to directors and officers of the Company, which is included in accounts payable and accrued liabilities. A prepaid advance of \$7,000 (December 31, 2018 - \$23,795) was made to an officer of the Company.

All other amounts due to related parties are payable on demand. Interest is not charged on outstanding balances.

The Company has in place termination clause agreements with three of the Company’s officers and directors, whereby the officers and directors are entitled to a cumulative amount of \$319,296 in the event they are terminated without cause, or \$837,888 in the event there is a change of control.

**1.11 SHARE CAPITAL AND DISCLOSURE OF OUTSTANDING SHARE DATA**

At March 31, 2019, the authorized share capital was an unlimited number of common shares and there were 93,105,475 common shares issued and outstanding. As at the date of this MD&A the Company had 93,105,475 common shares issued and outstanding.

**Stock Options**

At March 31, 2019, the Company had total stock options issued and exercisable of 6,875,000. As at the date of this MD&A the Company had total stock options issued and exercisable of 6,875,000.

**Warrants**

At March 31, 2019, the Company had total warrants outstanding of 15,050,000. As at the date of this MD&A the Company had total warrants outstanding of 15,050,000.

**Outstanding share data**

As at the date of this report, the Company’s fully diluted shares outstanding is as follows:

|                                  |             |
|----------------------------------|-------------|
| Common shares                    | 93,105,475  |
| Options                          | 6,625,000   |
| Warrants                         | 15,050,000  |
| Fully diluted shares outstanding | 114,780,475 |

### **1.13 OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

### **1.14 PROPOSED TRANSACTIONS**

Other than previously disclosed, the Company has no proposed transactions.

### **1.15 CONTRACTUAL OBLIGATIONS**

The Company has no commitments, material capital lease agreements and no material long term obligations other than what has been previously stated in this MD&A.

### **1.16 RISKS AND UNCERTAINTIES**

The Company is in the mineral exploration and development business and has not commenced commercial operations and has no assets other than cash and mineral property agreements under option. It has no history of earnings, and it is not expected to generate earnings or pay dividends in the foreseeable future.

#### **Precious and Base Metal Price Fluctuations**

The profitability of the precious and base metal operations in which the Company has an interest will be significantly affected by changes in the market prices of precious and base metals. Prices for precious and base metals fluctuate on a daily basis, have historically been subject to wide fluctuations and are affected by numerous factors beyond the control of the Company such as the level of interest rates, the rate of inflation, central bank transactions, world supply of the precious and base metals, foreign currency exchange rates, international investments, monetary systems, speculative activities, international economic conditions and political developments. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving adequate returns on invested capital or the investments retaining their respective values. Declining market prices for these metals could materially adversely affect the Company's operations and profitability.

#### **Fluctuations in the Price of Consumed Commodities**

Prices and availability of commodities consumed or used in connection with exploration, development and mining, such as natural gas, diesel, oil, electricity, cyanide and other reagents fluctuate affecting the costs of exploration in our operational areas. These fluctuations can be unpredictable, can occur over short periods of time and may have a materially adverse impact on our operating costs or the timing and costs of various projects.

#### **Foreign Exchange Rate Fluctuations**

Operations may be subject to foreign currency exchange fluctuations. The Company to-date has raised its funds through equity issuances which are priced in Canadian dollars. DHI US operates in the United States and incurs exploration and administration expenditures denominated in United States dollars. As a result, the Company may suffer losses due to adverse foreign currency fluctuations.

#### **Competitive Conditions**

Significant competition exists for natural resource acquisition opportunities. As a result of this competition, some of which is with large, well established mining companies with substantial capabilities and significant financial and technical resources, the Company may be unable to either compete for or acquire rights to exploit additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Company will be able to acquire any interest in additional projects that would yield reserves or results for commercial mining operations.

#### **Operating Hazards and Risks**

Exploration activities may generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include, but are not limited to, the following: environmental hazards, industrial accidents, third party accidents, unusual or unexpected geological structures or formations, fires, power outages, labor disruptions, floods, explosions, cave-ins, land-slides, acts of

God, periodic interruptions due to inclement or hazardous weather conditions, earthquakes, war, rebellion, revolution, delays in transportation, inaccessibility to property, restrictions of courts and/or government authorities, other restrictive matters beyond the reasonable control of the Company, and the inability to obtain suitable or adequate machinery, equipment or labor and other risks involved in the normal course of exploration activities.

Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious and base metals, any of which could result in work stoppages, delayed production and resultant losses, increased production costs, asset write downs, damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damages. The Company may become subject to liability for pollution, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. Any compensation for such liabilities may have a material, adverse effect on the Company's financial position.

### **Infrastructure**

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. The lack of availability of acceptable terms or the delay in the availability of any one or more of these items could prevent or delay exploitation or development of the Company's projects. If adequate infrastructure is not available in a timely manner, there can be no assurance that the exploitation or development of the Company's projects will be commenced or completed on a timely basis, if at all.

### **Exploration and Development**

There is no assurance given by the Company that its exploration and development programs and properties will result in the discovery, development or production of a commercially viable ore body resulting in a royalty that provides future income.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines.

The economics of developing silver, gold and other mineral properties are affected by many factors including capital and operating costs, variations of the tonnage and grade of ore mined, fluctuating mineral markets, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Depending on the prices of silver, gold or other minerals produced, the Company may determine that it is impractical to commence or continue commercial production. Substantial expenditures are required to discover an ore-body, to establish reserves, to identify the appropriate metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately foreseen or predicted, such as market fluctuations, conditions for precious and base metals, the proximity and capacity of milling and smelting facilities, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection. In order to commence exploitation of certain properties presently held under exploration concessions, it is necessary for the Company to apply for an exploitation concession. There can be no guarantee that such a concession will be granted. Unsuccessful exploration or development programs could have a material adverse impact on the Company's operations and profitability.

### **Business Strategy**

As part of the Company's business strategy, it has sought and will continue to seek new royalty opportunities as well as properties with exploration and development opportunities with the potential to generate royalties. In pursuit of such opportunities, it may fail to select appropriate acquisition candidates, negotiate appropriate acquisition terms, conduct sufficient due diligence to determine all related liabilities or to negotiate favorable financing terms. The Company may encounter difficulties in transitioning the business, including issues with the integration of the acquired businesses or its personnel into the Company. The Company cannot assure that it can complete any acquisition or business arrangement that it pursues, or is pursuing, on favorable terms, or that any acquisitions or business arrangements completed will ultimately benefit its business.



**Environmental Factors**

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, 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 is no assurance that any future changes in environmental regulation, will not adversely affect the Company's operations. The costs of compliance with changes in government regulations have the potential to reduce the profitability of future operations. Environmental hazards that may have been caused by previous or existing owners or operators may exist on the Company's mineral properties, but are unknown to the Company at the present.

**Title to Assets**

Although the Company has or will receive title opinions for any properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company has not conducted surveys of the claims in which it holds direct or indirect interests and, therefore, the precise area and location of such claims may be in doubt. The Company's claims may be subject to prior unregistered agreements or transfers, or native land claims, and title may be affected by unidentified or unknown defects. The Company has conducted as thorough an investigation as possible on the title of properties that it has acquired or will be acquiring to be certain that there are no other claims or agreements that could affect its title to the concessions or claims. If title to the Company's properties is disputed, it may result in the Company paying substantial costs to settle the dispute or clear title and could result in the loss of the property, which events may affect the economic viability of the Company.

**Uncertainty of Funding**

The Company has limited financial resources, and the mineral claims in which the Company has an interest or an option to acquire an interest require financial expenditures to be made by the Company. There can be no assurance that adequate funding will be available to the Company so as to exercise its option or to maintain its interests once those options have been exercised. Further exploration work and development of the properties in which the Company has an interest or option to acquire depend upon the Company's ability to obtain financing through joint venturing of projects, debt financing or equity financing or other means. Failure to obtain financing on a timely basis could cause the Company to forfeit all or parts of its interests in mineral properties or reduce or terminate its operations.

**Agreements with Other Parties**

The Company has entered into agreements with other parties relating to the exploration, development and production of its properties. The Company may in the future, be unable to meet its share of costs incurred under agreements to which it is a party, and the Company may have its interest in the properties subject to such agreements reduced as a result. Furthermore, if other parties to such agreements do not meet their share of such costs, the Company may be unable to finance the costs required to complete recommended programs.

**Potential Conflicts of Interest**

The directors and officers of the Company may serve as directors and/or officers of other public and private companies, and may devote a portion of their time to manage other business interests. This may result in certain conflicts of interest. To the extent that such other companies may participate in ventures in which the Company is also participating, such directors and officers of the Company may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. The laws of British Columbia, Canada, require the directors and officers to act honestly, in good faith, and in the best interests of the Company and its shareholders. However, in conflict of interest situations, directors and officers of the Company may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions.

There is no assurance that the needs of the Company will receive priority in all cases. From time to time, several companies may participate together in the acquisition, exploration and development of natural resource properties, thereby allowing these companies to: (i) participate in larger properties and programs; (ii) acquire an interest in a greater number of properties and programs; and (iii) reduce their financial exposure to any one property or program. A particular company may assign, at its cost, all or a portion of its interests in a particular program to another affiliated company due to the financial position of the company making the assignment. In determining whether or

not the Company will participate in a particular program and the interest therein to be acquired by it, it is expected that the directors and officers of the Company will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

### **Third Party Reliance**

The Company's rights to acquire interests in certain mineral properties may have been granted by third parties who themselves may hold only an option to acquire such properties. As a result, the Company may have no direct contractual relationship with the underlying property holder.

### **Assurance on Financial Statements**

We prepare our financial reports in accordance with accounting policies and methods prescribed by IFRS. In the preparation of financial reports, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Company. Significant accounting policies and practices are described in more detail in the notes to our consolidated financial statements for the years ended December 31, 2018 and 2017. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use and transactions are properly recorded and reported, we have implemented and continue to analyze our internal control systems for financial reporting. Although we believe our financial reporting and consolidated financial statements are prepared with reasonable safeguards to ensure reliability, we cannot provide absolute assurance in that regard.

### **General Economic Conditions**

The unprecedented events in global financial markets during the last few years have had a profound effect on the global economy. Many industries, including the gold and silver mining industry, are affected by these market conditions. Some of the key effects of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company's growth and profitability.

### **Substantial Volatility of Share Price**

In recent years, the securities markets have experienced a high level of price and volume volatility, and the securities of many mineral exploration 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. The price of the Company's common shares is also likely to be significantly affected by short-term changes in mineral prices or in the Company's financial condition or results of operations as reflected in its quarterly financial reports.

### **Potential dilution of present and prospective shareholdings**

In order to finance future operations and development efforts, the Company may raise funds through the issue of common shares or the issue of securities convertible into common shares. The Company cannot predict the size of future issues of common shares or the issue of securities convertible into common shares or the effect, if any, that future issues and sales of the Company's common shares will have on the market price of its common shares. Any transaction involving the issue of shares, or securities convertible into shares, could result in dilution, possibly substantial, to present and prospective holders of shares.

## **1.17 CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING STANDARDS**

### **Adoption of new accounting policies**

The following accounting standard has been adopted as at January 1, 2019 in accordance with the transitional provisions outlined in the respective standards.

#### *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*.

Applicable to the Company's annual period beginning on January 1, 2019. The adoption of this accounting standard is not expected to have a material impact on the Company's consolidated financial statements.

#### **New accounting standards issued but not yet effective**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early-adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

### **1.18 FINANCIAL INSTRUMENTS**

The Company categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and liabilities in Level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

The carrying values of cash and cash equivalents, and marketable securities have been based on quoted market prices, a Level 1 measurement according to the fair value hierarchy. The carrying value of accounts payable and accrued liabilities approximates fair value, due to the short term to maturity of these financial instruments. The carrying value of notes payable approximates fair value as the notes bear market interest rates.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

#### (a) Credit risk

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations. The Company manages credit risk, in respect of cash and cash equivalents, by placing its cash balances at major Canadian and American financial institutions.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents, as all amounts are held at major Canadian and American financial institutions. The Company's concentration of credit risk and maximum exposure thereto is as follows:

|                           | March 31,<br>2019 | December 31,<br>2018 |
|---------------------------|-------------------|----------------------|
| Cash and cash equivalents | \$ 2,058,929      | \$ 2,437,736         |

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At March 31, 2019, the Company has cash and cash equivalents of \$2,058,929 (December 31, 2018 - \$2,437,736), current liabilities of \$208,947 (December 31, 2018 - \$411,416).

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company:

| As at            | March 31,<br>2019 | December 31,<br>2018 |
|------------------|-------------------|----------------------|
| Due Date         |                   |                      |
| 0 – 90 days      | \$ 208,947        | \$ 411,416           |
| 90 – 365 days    | -                 | -                    |
| More than 1 year | -                 | -                    |
|                  | \$ 208,947        | \$ 411,416           |

(c) Market risk

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

(i) Interest rate risk

Interest rate risk consists of three components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.
- (c) Fluctuations in the interest rates impact the value of cash equivalents. As at March 31, 2019, the impact of interest rates on the Company is not deemed significant. The Company's other liabilities are not exposed to interest rate risk, as they are carried at amortized cost.

(ii) Foreign currency risk

The Company incurs expenditures in Canada and the US. Foreign currency risk arises because the amount of the US dollar cash, intercompany balances and payables will vary in Canadian dollar terms due to changes in exchange rates.

As at March 31, 2019 and December 31, 2018, the Company has not hedged its exposure to currency fluctuations.

At March 31, 2019 and December 31, 2018, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

|  |      | March 31,<br>2019 |      | December 31,<br>2018 |
|--|------|-------------------|------|----------------------|
| Cash and cash equivalents                | US\$ | 744,489           | US\$ | 872,445              |
| Accounts payable and accrued liabilities |      | (47,857)          |      | (51,583)             |
| Note payable                             |      | (125,000)         |      | (125,000)            |
| Interest payable                         |      | -                 |      | (9,829)              |
| Net                                      | US\$ | 571,632           | US\$ | 686,033              |
| Canadian dollar equivalent               |      | \$ 779,820        |      | \$ 935,886           |

Based on the above net exposures as at March 31, 2019, a 5% (2018 - 5%) change in the Canadian/US exchange rate would impact the Company's income (loss) and comprehensive income (loss) by approximately \$38,000 (2018 - \$55,000).

(ii) Equity price risk

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company's marketable securities consisting of common shares are exposed to significant equity price risk due to the potentially volatile and speculative nature of the businesses in which the investments are held.

Based on the marketable securities held as at March 31, 2019, a 10% (2018 - 10%) change in the market price of these securities would impact the Company's income (loss) and comprehensive income (loss) by approximately \$85,000 (2018 - \$150,000).

(iii) Fair value hierarchy

The following tables summarize the Company's financial instruments under the fair value hierarchy, as at March 31, 2019 and December 31, 2018:

| March 31, 2019                           | Level 1      | Level 2    | Level 3 | Total        |
|--|--------------|------------|---------|--------------|
| Cash and cash equivalents                | \$ 2,058,929 | \$ -       | \$ -    | \$ 2,058,929 |
| Receivables                              | \$ 27        | \$ -       | \$ -    | \$ 27        |
| Accounts payable and accrued liabilities | \$ 208,947   | \$ -       | \$ -    | \$ 208,947   |
| Marketable securities                    | \$ 855,348   | \$ -       | \$ -    | \$ 855,348   |
| December 31, 2018                        | Level 1      | Level 2    | Level 3 | Total        |
| Cash and cash equivalents                | \$ 2,437,736 | \$ -       | \$ -    | \$ 2,437,736 |
| Receivables                              | \$ 6,883     | \$ -       | \$ -    | \$ 6,883     |
| Accounts payable and accrued liabilities | \$ 227,482   | \$ -       | \$ -    | \$ 227,482   |
| Note payable                             | \$ -         | \$ 183,934 | \$ -    | \$ 183,934   |
| Marketable securities                    | \$ 830,961   | \$ -       | \$ -    | \$ 830,961   |

Additional information related to the Company is found on SEDAR at [www.sedar.com](http://www.sedar.com).