



**SULLIDEN**  
MINING CAPITAL

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

**For the three months ended October 31, 2015 and 2014  
(Expressed in Canadian dollars)**

**SULLIDEN MINING CAPITAL INC.  
(an exploration stage mining company)**

65 Queen Street West, Suite 800  
Toronto, ON M5H 2M5

**Date: December 9, 2015**

## **INTRODUCTION**

The following Management Discussion and Analysis (“MD&A”) of Sulliden Mining Capital Inc. (“we”, “our”, “us”, the “Company” or “SMC”) provides a discussion and analysis of the operations, results, and financial condition of the Company for the period ended October 31, 2015 and should be read in conjunction with the Company’s condensed interim financial statements for the three months ended October 31, 2015, as well as the audited annual financial statements and related notes and MD&A for the year ended July 31, 2015. This discussion covers the period for the three months ended October 31, 2015 and the subsequent period up to the date of the filing of this MD&A. Other pertinent information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) as well as on the Company’s website at [www.sulliden.com](http://www.sulliden.com).

For the purpose of preparing our MD&A, the Company considers the materiality of information. Information is considered material if in the opinion of management: (i) such information results in, or would reasonably be expected to result in, a significant effect in the market price or value of our shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. We evaluate materiality with reference to all relevant circumstances. All dollar amounts are stated in Canadian dollars unless otherwise indicated.

This MD&A contains forward-looking information that also involves numerous risks and uncertainties. Actual results of the Company’s business and operations could differ materially from those discussed in such forward-looking information as a result of the risks and uncertainties faced by the Company, including those set forth in this MD&A under “Forward Looking Information and Cautionary Statements”, “Risk and Uncertainties”, and as discussed in the Company’s annual information form (AIF) which is available at [www.sedar.com](http://www.sedar.com).

References to the first, second, third and fourth quarters of 2016 and 2015 or Q1-, Q2-, Q3- and Q4-2016 and Q1-, Q2-, Q3- and Q4-2015 mean the quarters ending October 31, January 31, April 30, and July 31, 2015 and 2014 respectively.

Stéphane Amireault, P.Eng (B.Eng; MScA), is the Company’s in-house Qualified Person for geology for the purposes of National Instrument 43-101 (“NI 43-101”). Joseph C. Milbourne, FAusIMM, is the Company’s in-house Qualified Person for all technical materials (except geology) for the purposes of NI 43-101. Mr. Amireault and Mr. Milbourne have reviewed and approved the scientific and technical disclosure in this MD&A.

## **UPDATE AND OUTLOOK**

The Company was incorporated on June 10, 2014 as a wholly owned subsidiary of the former Sulliden Gold Corporation Ltd. (“Sulliden”). Pursuant to a statutory plan of arrangement (the “**Arrangement**”) under section 182 of the *Business Corporations Act* (Ontario) among the Company, Sulliden and Rio Alto Mining Limited (“Rio Alto”), all of the issued and outstanding common shares of Sulliden were, effective August 5, 2014, exchanged for 0.525 of a common share of Rio Alto and 0.10 of a common share of the Company.

The Arrangement was approved by the security holders of Sulliden at a special meeting held on July 30, 2014. Final approval for the Arrangement was obtained from the Ontario Superior Court of Justice (Commercial List) on July 31, 2014.

Effective August 11, 2014, the common shares of the Company commenced trading on the Toronto Stock Exchange under the symbol SMC.

Upon completion of the Arrangement, the Company assumed Sulliden’s interests in the East Sullivan Property, valued in the amount of \$133,538 and the Company was capitalized with \$24,760,514 in cash and \$13,000 in amounts receivable, net of transaction costs of \$226,486. The transaction costs of \$226,486 were incurred by the Company as part of the Arrangement and reorganization of the Company. Pursuant to the Arrangement, the Company issued 1,887,640 warrants and 31,590,892 common shares to the shareholders of Sulliden and 2,094,430 options to the employees, directors and consultants of Sulliden.

On April 7, 2015, the Company’s President and CEO, Mr. Justin Reid, joined the board of directors of Aguiá Resources Ltd. (“Aguiá”) as Chairman of their board. The Company, as at October 31, 2015, owned a 17.52% interest in Aguiá. As a result of the board representation, the Company determined that it has significant influence, and is considering this investment as an investment in an associate. The investment is being accounted for using

the equity method rather than fair value through profit and loss. Subsequent to the end of the quarter, the Company holdings in Aguia increased to 18.72%.

The Company is currently reviewing several world class assets in order to deploy its resources to enhance shareholder value.

### **EAST SULLIVAN PROPERTY**

The Company's exploration property is located in the Abitibi region of Québec, about five kilometres southeast from the city of Val-d'Or. The property forms a single claim block which consists of 21 contiguous staked claims registered in 1981 for a total area of 334 ha.

The Company holds a 100% interest in these claims which are all in good standing and not subjected to any royalty agreement. In Québec, staked mining claims require a \$1,000 payment or work equivalent to be renewed on a two year anniversary cycle. Suitable banked assessment credits originally generated by completing and filing eligible exploration work may be distributed on contiguous claims. Effective August 19, 2013, Sulliden Gold Corporation Ltd. had accumulated credits for a total of \$1,083,514. Effective December 10, 2013, accumulated assessment credits have a period of validity of the longer of 12 years or 12 years after filling for eligible assessment work.

The Company's exploration property is on public land, and permits would be obtained from the Ministère des Ressources Naturelles du Québec ("MRN") for machinery access, for drilling, or mechanical trenching activities.

There are no surface rights associated to the land holding, but exploration work would be coordinated with other land users including the MRN, the Québec Environment and Sustainable Development Ministry ("MDDP"), the City of Val-d'Or and Agnico-Eagle's Goldex-Manitou project managers. The tailings pile left by the former East-Sullivan Mines has been rehabilitated by the MRN and a certificate of authorization issued by the MDDP is required before initiating a drill program from the tailings surface or the containment dam.

The exploration property includes the past producing site of the East-Sullivan Mine. This historical exploitation of copper-zinc (gold-silver) massive sulphide lenses left mining infrastructure and a large tailings pile covering the central part of the property. After closure of the mine in 1966, the site was abandoned and declared an orphan site by the government of Québec, and is still listed as such. The site was among the first to be reclaimed by the Québec Government in the early 1980's, because of acid drainage problem caused by the pyrite-rich tailings. Wood waste covering of the tailing pile to reduce oxidation by rain water was initiated in 1984. In addition, the pile was surrounded by a containment dam between 1992 and 1996. In 1998, a recirculation circuit was introduced by pumping the outflow water from the impoundment to the tailing pile, throughout the organic cover.

There is no direct liability for past production on the property for the Company, but future exploration and exploitation activities will have to be carried out in coordination with governmental representatives in order to keep the integrity of the tailings confinement system. Ultimately, the tailings pile can be further secured and used for tailings disposal in the case of any future production by constructing appropriate containment facilities for tailings and waste material.

### ***Mineral Resource Estimate***

There are no current mineral reserves or mineral resources for the exploration property. Further details relating to the exploration property can be found in the technical report (NI-43-101) titled *Technical Report on the East Sullivan Property, Abitibi, Quebec*, which is filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **RESULTS OF OPERATIONS**

### **For the three months ended October 31, 2015**

For the three months ended October 31, 2015, the Company reported a net loss of \$89,668 (or \$0.00 per share), compared to a net loss of \$1,559,253 for the three months ended October 31, 2014 (or \$0.05 per share). Net loss and comprehensive loss was \$321,155 for the three months ended October 31, 2015 (three months ended October 31, 2014: \$1,559,253).

### Share-based compensation expense

Share-based compensation expense was \$123,842 for the three months ended October 31, 2015 compared to \$973,385 for the three months ended October 31, 2014. Share-based compensation expense relates to (a) Restricted Share Units (“RSU”) and Deferred Share Units (“DSU”) and (b) share-based compensation costs from the granting of share purchase options to employees, directors and consultants of the Company. During the three months ended October 31, 2015, no options, RSUs or DSUs were granted. However, the Company did incur share-based payment expense related to accruals or vesting for RSU and DSU expense during the period. During the three months ended October 31, 2014, the Company granted RSUs, DSUs, and stock options. Expense for RSUs in particular is accrued on a front-loaded basis and consequently higher during Q1-2015 compared to the current period Q1-2016. Stock options granted in Q1-2015 vested immediately.

|                        | Q1-2016           | Q1-2015           |
|------------------------|-------------------|-------------------|
| Share purchase options | \$ -              | \$ 384,444        |
| Restricted share units | 96,452            | 318,941           |
| Deferred share units   | 27,390            | 270,000           |
|                        | <u>\$ 123,842</u> | <u>\$ 973,385</u> |

As a result of the Company adopting an RSU plan and a DSU plan on September 17, 2014, the Company allocated an aggregate of 3,000,000 RSUs to employees of the Company and an aggregate of 750,000 DSUs to the Company’s independent directors. An additional 250,000 DSUs were granted on March 30, 2015. Each RSU entitles an employee of the Company to receive one common share of the Company to be purchased in the secondary market by an independent trustee upon the vesting of such RSU, subject to acceleration upon a change of control of the Company. The 3,000,000 RSUs vest in three equal tranches, on each of January 1, 2015, January 1, 2016 and January 1, 2017. A trustee, appointed by the Company, purchased 2,834,000 common shares of the Company at an average cost of \$0.62 per common share during Q1-2015.

The DSUs vest based on the pro-rata number of days each independent director remains a director of the Company until the end of their term as specified by the DSU contract, except in the event of an earlier change of control, in which case, the DSUs will vest fully upon such change of control. As at October 31, 2015, 293,366 DSUs for current directors vested, which will entitle the holders to receive a cash payment of \$68,941 equal to an average market price of \$0.235 for each DSU.

### Professional, consulting and management fees

Professional, consulting and management fees of \$1,195,414 were incurred for the three months ended October 31, 2015 compared to \$385,222 for the three months ended October 31, 2014 as follows:

|                       | Q1-2016             | Q1-2015           |
|-----------------------|---------------------|-------------------|
| Salaries and benefits | \$ 937,231          | \$ 265,389        |
| Directors fees        | 18,750              | -                 |
| Consulting fees       | 210,183             | 72,116            |
| Legal and audit fees  | 29,250              | 47,717            |
|                       | <u>\$ 1,195,414</u> | <u>\$ 385,222</u> |

Salaries and consulting fees increased this quarter compared to Q1-2015 primarily as a result of bonuses granted to management and consultants during Q1-2016.

The Company shares office space, resources and certain services with other corporations that may have common directors and/or officers. The costs associated with these services are administered by 2227929 Ontario Inc. For the three months ended October 31, 2015, the Company was charged \$13,020 for these services relating to professional, consulting and management fees (three months ended October 31, 2014: \$7,900).

### General and administrative expenses

General and administrative expenses for the three month periods are reflected in the table below:

|                            | Q1-2016    | Q1-2015    |
|----------------------------|------------|------------|
| General and office         | \$ 41,103  | \$ 36,959  |
| Shareholder communication  | 40,299     | 12,044     |
| Travel and accommodation   | 105,986    | 61,912     |
| Regulatory and filing fees | -          | 56,210     |
|                            | \$ 187,388 | \$ 167,125 |

For the three months ended October 31, 2015, the Company was charged \$30,031 for services charged by 2227929 Ontario Inc. relating to general and administrative expenses (three months ended October 31, 2014: \$11,006).

Shareholder communication costs are higher during Q1-2016 compared to Q1-2015 as a result of the increased growth of the Company. Travel costs also increased with the increase in travel related to the Company's equity interest in Agua in Australia as well as other due diligence activities.

The regulatory and filing costs incurred during the comparative quarter were primarily a result of the completion of the Arrangement and the listing of the common shares of the Company on the Toronto Stock Exchange on August 11, 2014 under the ticker symbol "SMC".

### Other

Interest income of \$23,322 for the three months ended October 31, 2015 was earned from the Company's cash and cash equivalents and fixed-income investments primarily invested in guaranteed investment certificates and high interest savings accounts in Schedule 1 Canadian chartered banks (three months ended October 31, 2014: \$41,343). This decrease is a result of cash being diverted to securities investments and loans. The Company also earned interest income of \$36,751 during Q1-2016 from loan agreements entered into during the period (Q1-2015: \$nil).

The Company recorded income from a loan arrangement fee of \$25,123 during the three months ended October 31, 2015 (three months ended October 31, 2014: \$35,000).

The Company recorded an unrealized gain of \$1,464,945 for the three months ended October 31, 2015 on securities that are classified as fair value through profit or loss ("FVTPL"). During the comparative period ended October 31, 2014, the Company recorded an unrealized loss of \$109,864. As well, the Company sold securities during the period, recognizing a gain of \$9,535 for the three months ended October 31, 2015 (October 31, 2014: \$nil). See Related Party Disclosure section of this report.

The Company recorded a foreign exchange loss of \$21,588 for the three months ended October 31, 2015 (three months ended October 31, 2014: \$nil). This resulted from the revaluation of foreign investments recorded at fair value through profit and loss at period end.

As the Company is considered to have significant influence in Agua effective April 7, 2015, the investment has been accounted for using the equity method rather than fair value through profit and loss. Consequently, the Company recorded a proportionate share of loss of \$121,112 for the three months ended October 31, 2015 (three months ended October 31, 2014: \$nil).

## SUMMARY OF QUARTERLY RESULTS

|                                      | October 31,<br>2015<br>Q1-2016 | July 31,<br>2015<br>Q4-2015 | April 30,<br>2015<br>Q3-2015 | January 31,<br>2015<br>Q2-2015 |
|--------------------------------------|--------------------------------|-----------------------------|------------------------------|--------------------------------|
| Interest (income)                    | \$ (60,073)                    | \$ (44,338)                 | \$ (57,109)                  | \$ (98,621)                    |
| Net loss                             | 89,668                         | 2,662,761                   | 291,867                      | 658,520                        |
| Net loss and comprehensive loss      | 321,155                        | 2,759,517                   | 291,867                      | 658,520                        |
| Basic and diluted net loss per share | (0.00)                         | (0.07)                      | (0.01)                       | (0.02)                         |

|                                      | October 31,<br>2014<br>Q1-2015 | July 31,<br>2014<br>Q4-2014 | April 30,<br>2014<br>Q3-2014 | January 31,<br>2014<br>Q2-2014 |
|--------------------------------------|--------------------------------|-----------------------------|------------------------------|--------------------------------|
| Interest (income)                    | \$ (41,343)                    | \$ (94)                     | \$ (116)                     | \$ (214)                       |
| Net loss                             | 1,559,253                      | 8,187                       | 1,236                        | 1,361                          |
| Net loss and comprehensive loss      | 1,559,253                      | 8,187                       | 1,236                        | 1,361                          |
| Basic and diluted net loss per share | (0.05)                         | -                           | -                            | -                              |

The granting of stock options, RSUs and DSUs in a particular quarter gives rise to stock-based compensation expense. This can generate fluctuations in expense and then net loss quarter over quarter. As well, fluctuations in market prices of securities causes volatility in net loss. During Q1-2016, the Company recognized unrealized gains on mark-to-market securities which reduced the loss for the quarter compared to other quarters. In Q4-2015, the Company recognized unrealized losses on mark-to-market securities which contributed to this increase in loss. Comprehensive loss accounts for foreign exchange translation changes related to the Company's equity investment.

Net loss and comprehensive loss for the comparable periods January 31, 2014, April 30, 2014 and July 31, 2014 reflect an allocation of Sulliden's share-based compensation costs, general and administrative expenses and investment income earned/incurred in each of these periods. The allocation of these expenses and investment income was calculated on the basis of the estimated ratio of exploration activity attributable to the East Sullivan property relative to the exploration and development activity attributable to all of Sulliden's mineral properties for each of the periods presented. Applicable expenses and investment income directly attributable to East Sullivan have been allocated as such.

## FINANCIAL POSITION

As at October 31, 2015, the Company held cash and cash equivalents of \$619,158 (July 31, 2015: \$505,452), fixed-income investment of \$9,076,249 (July 31, 2015: \$12,800,211), and investments at fair market value through profit and loss of \$7,410,569 (July 31, 2015: \$5,974,079). The cash equivalent and fixed-income investment amount as at October 31, and July 31, 2015 related to funds invested in various guaranteed investment certificates and interest savings accounts with Schedule 1 Canadian chartered banks.

Upon completion of the Arrangement with Rio Alto and Sulliden on August 5, 2014, the Company assumed Sulliden's interests in the East Sullivan property valued in the amount of \$133,538 and the Company was capitalized with \$24,760,514 in cash and \$13,000 in accounts receivable, net of transaction costs of \$226,486. The transaction costs of \$226,486 were incurred by the Company as part of the Arrangement and reorganization of the Company. As well, the Company issued 1,887,640 warrants and 31,590,892 common shares to the shareholders of Sulliden and 2,094,430 options to the employees, directors and consultants of Sulliden.

Loans receivable total \$1,090,657 as at October 31, 2015 (July 31, 2015: \$nil). Of this amount, \$1,040,657 is a secured loan with a maturity date of December 11, 2015. The balance of the loans receivable represents an unsecured loan with a maturity of November 20, 2015. As at the date of this report, this loan is unpaid.

Mineral and exploration assets consist of the Company's interest in the East Sullivan property discussed above. As at October 31, 2015, the balance accumulated with respect to this property is \$134,756 (July 31, 2015:

\$134,126).

The Company's equity interest in Agua was \$3,593,566 as at October 31, 2015 (July 31, 2015: \$2,245,687).

Accounts payable and accrued liabilities totaling \$693,493 at October 31, 2015 (July 31, 2015 - \$184,954) are comprised primarily of amounts payable of \$21,033 and accrued liabilities of \$672,459. Included in accrued liabilities is a DSU liability of \$68,941 which is comprised of 293,366 vested DSUs at an average share price of \$0.235.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at October 31, 2015, the Company had net working capital (see Non-IFRS measures) of \$17,606,242. The Company expects to rely on its existing net working capital to finance its ongoing activities.

As at October 31, 2015, the Company had 36,862,851 common shares issued and outstanding, 2,499,979 share purchase warrants outstanding and 2,630,430 share purchase options outstanding which would generate \$1,249,999 and \$1,330,332, respectively, if exercised in full. The Company does not know when or how much will be collected from the exercise of these options and warrants as this is dependent on both the determination of the holder and the market trading price of the Company's common shares. The Company does not have any long-term debt as of the date of this MD&A and its interest rate risk is minimal. Accounts payable and accrued liabilities are short-term and non-interest bearing.

## **CASH FLOWS**

### **Operating**

Cash used in operating activities was \$906,457 for the three months ended October 31, 2015 compared to \$507,307 for the three months ended October 31, 2014. Cash use related to operating expenses for the three months ended October 31, 2015 was \$1,369,169 as generally discussed in the Results of Operations section of this report (three months ended October 31, 2014: \$476,003). Changes in working capital items provided \$462,712 during the three months ended October 31, 2015 (three months ended October 31, 2014: use of \$31,304)

### **Financing**

Cash provided by financing activities was \$nil for the three months ended October 31, 2015, compared with \$23,052,943 for the comparable period ended October 31, 2014. The cash generated from financing for the three months ended October 31, 2014 results primarily from the gross proceeds of \$24,773,514 from the Arrangement with Rio Alto and Sulliden in Q1-2015. In addition, the Company received \$36,058 from the exercise of 121,000 share purchase options. Cash used to re-acquire common shares related to the RSUs was \$1,756,629 for the three months ended October 31, 2014.

### **Investing**

Cash provided in investing activities for the three months ended October 31, 2015 was \$1,020,163 compared to a use of \$16,428,991 for the three months ended October 31, 2014. The Company sold fixed-income investments during the three months ended October 31, 2015 generating \$3,723,962 in cash. During the comparative three months ended October 31, 2014, the Company used cash of \$14,735,340 to invest in fixed-income investments. Investments at fair market value through profit and loss used \$2,035,552 for the three months ended October 31, 2015 with the Company investing in securities during the period (three months ended October 31, 2014: \$1,063,651). The Company acquired shares of certain public resource and other sector companies (see Related Party Disclosure section of this report) including its equity investment in Agua. The Company sold some of these investments generating cash of \$361,165 for the three months ended October 31, 2015 (three months ended October 31, 2014: \$nil). In addition, the Company entered into loan agreements using cash of \$1,161,375 during the three months ended October 31, 2015 (three months ended October 31, 2014: \$630,000). Interest and loan arrangement fees generated cash of \$132,593 during the three months ended October 31, 2015 (three months ended October 31, 2014: \$nil).

## CAPITAL STRUCTURE

| Number of:    | As at October 31,<br>2015 | As at December 10,<br>2015 |
|---------------|---------------------------|----------------------------|
| Common Shares | 36,862,851                | 36,862,851                 |
| Options       | 2,630,430                 | 2,308,430                  |
| Warrants      | 2,499,979                 | 2,499,979                  |

## FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as October 31, 2015 were as follows:

|  | Assets at fair<br>value through<br>profit or loss | Loans and<br>receivables | Other financial<br>liabilities | Total      |
|--|---|--------------------------|--------------------------------|------------|
| <b>As at October 31, 2015</b>            |   |                          |                                |            |
| Cash and cash equivalents                | \$ 619,158  | \$ -                     | \$ -                           | \$ 619,158 |
| Fixed-income investment                  | 9,076,249   | -                        | -                              | 9,076,249  |
| Investments                              | 7,410,569   | -                        | -                              | 7,410,569  |
| Loans receivable                         | -   | 1,090,657                | -                              | 1,090,657  |
| Amounts receivable and other             | -   | 67,323                   | -                              | 67,323     |
| Accounts payable and accrued liabilities | -   | -                        | 693,493                        | 693,493    |

### *Fair value hierarchy*

The three levels of the fair value hierarchy with respect to required disclosures about the inputs to fair value measurements are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and,
- Level 3 – Inputs that are not based on observable market data.

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy as at October 31, 2015.

|                               | Level 1   | Level 2    | Level 3 | TOTAL      |
|-------------------------------|-----------|------------|---------|------------|
| <b>As at October 31, 2015</b> |           |            |         |            |
| Cash and cash equivalents     | \$ -      | \$ 619,158 | \$ -    | \$ 619,158 |
| Fixed-income investment       | -         | 9,076,249  | -       | 9,076,249  |
| Investments                   | 6,822,203 | 588,366    | -       | 7,410,569  |

The carrying value of cash and cash equivalents, amounts receivable and other, loans receivable and accounts payable and accrued liabilities approximate fair value because of the relatively short-term maturities.

### *Interest rate risk*

As at October 31, 2015, the Company held guaranteed investment certificates of \$9,076,249 subject to early redemption rights and earning income at interest rates ranging from 0.90% to 1.35%. These investments bear interest at fixed rates subject to change for earlier maturities. Loans receivable bear interest at fixed rates. All other financial assets are non-interest bearing. A 1% increase in interest rates, based on the balance of cash, cash equivalents and fixed income investments at October 31, 2015, would result in an increase in annual interest income of approximately \$97,000. All liabilities as at October 31, 2015 are non-interest bearing.

### *Foreign currency risk*

The Company operates in Canada and its functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company has acquired some investments, including its investment in an associate, which are denominated in foreign currency. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

### *Credit risk*

The Company's credit risk is primarily attributable to cash and cash equivalents, fixed-income investments and amounts receivable. The Company has no significant concentration of credit risk arising from operations.

Cash and cash equivalents and fixed income investment consist of cash and GICs held in financial institutions from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable consist primarily of goods and services tax and harmonized sales tax due from the Federal Government of Canada and advances.

### *Liquidity risk*

As at October 31, 2015, the Company had net working capital of \$17,606,242, which included cash and cash equivalents of \$619,158, fixed income investments of \$9,076,249, investments of \$7,410,569, loans receivable of \$1,090,657 and amounts receivable and prepaid expenses of \$103,102, offset by current liabilities of \$693,493. The Company expects to rely on its existing net working capital to finance its ongoing planned activities. See Non-IFRS Measures.

### *Price risk*

The Company is exposed to price risk with respect to commodity prices. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodities prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

### *Securities price risk*

The Company carries investments in certain public securities for which price fluctuations can affect the Company's earnings. The Company classifies these investments as held-for-trading where price volatility is reflected in earnings.

## **RELATED PARTY DISCLOSURES**

The Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

### Related party balances

The Company shares office space, resources and certain services with other corporations that may have common directors and/or officers. The costs associated with these services, including the provision of office equipment and supplies, and certain other services, are administered by 2227929 Ontario Inc. to whom the Company pays a monthly flat fee. For the three months ended October 31, 2015, the Company was charged \$43,546 for these services.

### Compensation of key management personnel of the Company

The remuneration of directors and other members of key management personnel were as follows:

|                              | Three months ended<br>October 31, |                   |
|------------------------------|-----------------------------------|-------------------|
|                              | 2015                              | 2014              |
| Management salaries and fees | \$ 957,500                        | \$ 190,611        |
| Directors fees               | 93,750                            | \$ -              |
| Share-based payments         | 166,099                           | 581,372           |
|                              | <u>\$ 1,217,349</u>               | <u>\$ 771,983</u> |

The increase in remuneration is primarily a result of bonuses granted to directors and officers during the current period.

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the Board of Directors of the Company having regard to the performance of individuals and market trends.

During the three months ended October 31, 2015, the Company made investments in certain public resource and other sector companies by purchasing shares of related party entities, related by virtue of the relationship with common directors.

| Public Issuer               | Note | Security Description                 | Cost               | Estimated<br>Fair value |
|-----------------------------|------|--------------------------------------|--------------------|-------------------------|
| Belo Sun Mining Corporation | *    | 13,960,222 common shares             | \$3,098,061        | \$3,769,260             |
| Aberdeen International Inc. | **   | 4,790,000 common shares and warrants | \$958,000          | \$893,741               |
| Kombat Copper               | ***  | 4,000,000 common shares and warrants | \$200,000          | \$266,656               |
|                             |      |                                      | <u>\$4,256,061</u> | <u>\$4,929,657</u>      |

\* The Company's executive director and senior vice president, Peter Tagliamonte, serves as director and president and CEO of this company; the Company's executive chairman, Stan Bharti, serves as director of this company.

\*\* The Company's executive chairman, Stan Bharti, serves as director of this company.

\*\*\* The Company's President and CEO, Justin Reid, serves as chairman of the board of this company.

| Public Issuer       | Security Description     | Cost         | Carrying Value |
|---------------------|--------------------------|--------------|----------------|
| Agua Resources Ltd. | 64,262,993 common shares | \$ 4,440,837 | \$ 3,593,566   |

The Company's investment in associate, Agua, is a related party by virtue of a common director, Mr. Justin Reid.

### COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain minimum commitments of approximately \$899,000 (as at July 31, 2015 - \$899,000) and additional contingent payments of approximately \$4,061,000 (as at July 31, 2015 - \$4,008,000) upon the occurrence of a change of control. As the likelihood of a change of control is not determinable, the contingent payments have not been reflected in these condensed interim financial statements.

## **SUBSEQUENT EVENTS**

On November 30, 2015, the Company entered into an unsecured debenture whereby the Company loaned \$500,000 to an unrelated public company. This debenture matures in May 2016. Fees of \$70,000 and interest in the amount of \$30,000 (representing a rate of 12% per annum) was paid upfront to the Company.

Subsequent to the end of the quarter, the Company sold its holdings in various securities for net proceeds of \$194,027 recognizing a realized gain of \$28,743. As well, the Company acquired investments since the end of the quarter for a cost of \$100,450.

The Company increased its holdings in Aguia to 18.72% with the purchase of 4,400,200 shares of Aguia at a cost of \$751,276.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION AND CRITICAL ACCOUNTING ESTIMATES and CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

The Company's financial statements are the responsibility of the Company's management. The condensed interim financial statements were prepared by the Company's management in accordance with IFRS. A description of the Company's significant accounting policies can be found in the notes of the Company's audited annual financial statements for the twelve months ended July 31, 2015.

The preparation of condensed interim financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the annual financial statements and related notes. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Valuation of Exploration and evaluation assets - The Company carries its mineral properties at cost less any impairment losses. The Company capitalizes exploration and evaluation costs, which are related to specific projects, until the commercial feasibility of the project is determinable or the project is determined to be impaired. Costs are charged to operations when a property is abandoned or when impairment in value that is other than temporary has been determined. The Company reviews the carrying values of mining properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may not be recoverable. In undertaking this review, management is required to make significant estimates which are subject to various risks and uncertainties. Estimates may include, but are not limited to estimates of future metal prices, capital and operating costs, the quantities of mineral reserves to be mined and expected recoveries of minerals contained in ore, the ability to convert resources into economically mineable reserves, discount rates and; in the case of fair value less costs to sell, the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and development assets.
- Income taxes and recoverability of potential deferred tax assets - In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Examination by applicable tax authorities is supported

based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- Share-Based Payments - Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based non-vested share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.
- Investment in Aguia Resources Ltd. ("Aguia") – On April 7, 2015, the Company's President and CEO, Mr. Justin Reid, was appointed to the Board of Directors of Aguia. As a result, management re-assessed the level of influence that the Company has with respect to Aguia and determined that the Company has significant influence despite owning 17.52% of the outstanding common shares of Aguia at October 31, 2015. On this basis, the investment is now considered an associate and is accounted for using the equity method. In addition, management determined the value of its 1% net smelter return royalty ("NSR") on the Rio Grande project held by Aguia is \$nil based on the uncertainty due to the early stage of the project. The Company reviews the carrying value of the investment whenever events or changes in circumstances indicate that impairment may be present. Estimates are made and assumptions are used in this review, and these are subject to various risks and uncertainties which may ultimately have an effect on the expected recoverability of the carrying value of this investment.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Subject to the limitations, if any, described below, the Company's CEO and CFO, have as at the end of the three months ended October 31, 2015, designed Disclosure and Control Procedures, ("DC&P") or caused it to be designed under their supervision, to provide reasonable assurance that:

- Material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and
- Information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in Canada.

There have been no significant changes to the Company's disclosure controls and procedures and internal controls over financial reporting that occurred during the three months ended October 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The CEO and CFO have certified that Internal Controls over Financial Reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Audit Committee of the Company have reviewed this MD&A, and the condensed interim financial statements for the three months ended October 31, 2015, and the Company's board of directors approved these documents prior to their release.

## NON-IFRS MEASURES

The Company has identified certain measures that it believes will assist understanding of the performance of the business. As the measures are not defined under IFRS they may not be directly comparable with other companies' adjusted measures. The Non-IFRS measures are not intended to be a substitute for, or superior to, any measures of performance but management has included them as these are considered to be important comparables and key measures used within the business for assessing performance. These measures are explained further below:

### *Working capital*

This MD&A refers to working capital, which is not a recognized measure under IFRS. This Non-IFRS performance measure does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. Management uses this measure internally. The use of this measure enables management to better assess performance trends. Management understands that a number of investors and others who follow the Company's performance assess performance in this way. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The definition for working capital and reconciliation of the Non-IFRS measure to reported IFRS measures is as follows:

| <b>As at:</b>  | <b>October 31,<br/>2015</b> | <b>July 31<br/>2015</b> |
|--|-----------------------------|-------------------------|
| Cash and cash equivalents  | \$ 619,158                  | \$ 505,452              |
| Fixed-income investments   | 9,076,249                   | 12,800,211              |
| Investments, at fair market value through profit and loss        | 7,410,569                   | 5,974,079               |
| Loans receivable   | 1,090,657                   | -                       |
| Amounts receivable and other                                     | 67,323                      | 46,570                  |
| Prepaid  | 35,779                      | 38,096                  |
|  | 18,299,735                  | 19,364,408              |
| Current Liabilities  |                             |                         |
| Accounts payable and accrued liabilities                         | 693,493                     | 184,954                 |
| <b>Working Capital (current assets less current liabilities)</b> | <b>\$ 17,606,242</b>        | <b>\$ 19,179,454</b>    |

## CAPITAL MANAGEMENT

The Company considers its capital structure to consist of share capital, warrants and share purchase options. The Company manages its capital structure and makes adjustments based on the funds available to support the acquisition, exploration and development of its mineral properties. The board of directors has not established quantitative return on capital criteria for management and relies on the expertise of management and the board of directors to sustain future development of the business.

The management and board of directors of the Company review its capital management approach on an ongoing basis and believe it reflects a reasonable approach given the relative size of the Company's assets. The Company and its subsidiaries are not subject to externally imposed capital requirements.

## **RISK AND UNCERTAINTIES**

The Company is subject to risks and challenges similar to other companies in a comparable stage of development. These risks include dependence on key individuals. The operations of the Company are speculative due to the high-risk nature of its business, which are the acquisition, exploration and development of mining projects. These risks could materially affect the Company's future operating results and could cause actual events to differ materially from those described herein and in forward-looking statements and forward-looking information relating to the Company. The risks of the Company are also described in the Company's AIF which can be found at [www.sedar.com](http://www.sedar.com).

### *No Revenues*

To date, the Company has not recorded any revenues from operations nor has the Company commenced commercial production on any property. There can be no assurance that the Company has sufficient capital resources to continue as a going concern, that significant losses will not occur in the near future or that the Company will be profitable in the future. The Company's expenses and capital expenditures will increase as consultants, personnel associated with the exploration, and possible development are advanced. The Company expects to continue to incur losses unless and until such time as it enters into commercial production and generates sufficient revenues to fund its continuing operations. The development of the Company's property will continue to require the commitment of substantial resources. There can be no assurance that the Company will continue as a going concern, generate any revenues or achieve profitability.

### *Current Global Financial Conditions*

Financial markets globally have been subject to increased volatility. Access to financing for the Corporation has been negatively affected by low precious metals prices, uncertain economic conditions and uncertainty with respect to sovereign defaults and liquidity throughout the world. These factors may negatively affect the ability of the Corporation to obtain financing in the future and, if obtained, on terms favourable to the Corporation. If these levels of volatility and market turmoil continue or worsen, the Corporation may not be able to secure appropriate debt or equity financing when needed, any of which could affect the trading price of the Corporation's securities in an adverse manner.

### *Investment Exposure*

Given the nature of SMC's activities and recent investments made by the Company to deploy its capital in the short term, the results of operations and financial condition of the Company are dependent upon the market value of the securities purchased. Market value can be reflective of the actual or anticipated operating results of companies in the portfolio and/or the general market conditions that affect the resource and other sectors. Various factors affecting the resource and other sectors could have a negative impact on the Company's investments and thereby have an adverse effect on its business. Additionally, the Company's investments are mostly in small-cap businesses that may never mature or generate adequate returns or may require a number of years to do so. Junior exploration companies may never achieve commercial discoveries and production. Company-specific and industry-specific risks that materially adversely affect the Company's investments may have a materially adverse impact on operating results.

### *Nature of Mining, Mineral Exploration and Development Projects*

Mineral exploration is highly speculative in nature. There is no assurance that exploration efforts will be successful. Even when mineralization is discovered, it may take several years until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable mineral reserves through drilling. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of mineral resources or mineral reserves. There is no certainty that the expenditures made by the Corporation towards the search and evaluation of mineral deposits will result in discoveries or development of commercial quantities of ore.

Mining operations generally involve a high degree of risk. The Corporation's operations are subject to the hazards and risks normally encountered in mineral exploration and development, including environmental hazards, explosions, and unusual or unexpected geological formations or pressures. Such risks could result in damage to, or destruction of, mineral properties, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability.

#### *No Mineral Resources or Mineral Reserves have been estimated at East Sullivan*

The East Sullivan Property is in the exploration stage and sufficient work has not been done to describe mineralization on the property with enough geological confidence for such mineralization to be reported as a mineral resource or mineral reserve. There is no assurance given by the Corporation that continuing work on the property will lead to defining the mineralization with enough confidence and in sufficient quantities to report it as a mineral resource or mineral reserve, or to economically extract it.

#### *Unknown Environmental Risks for Past Activities*

Exploration and mining operations incur risks of releases to soil, surface water and groundwater of metals, chemicals, fuels, liquids having acidic properties and other contaminants. In recent years, regulatory requirements and improved technology have significantly reduced those risks, however, such risks have not been eliminated, and significant risk of environmental contamination from present and past exploration or mining activities still exists for mining companies. Companies may be liable for environmental contamination and natural resource damages relating to properties that they currently own or operate or at which environmental contamination occurred while or before they owned or operated the properties. No assurance can be given that potential liabilities for such contamination or damages caused by past activities at the East Sullivan Property do not exist.

#### *Liquidity Concerns and Future Financings*

The Company will require capital and operating expenditures in connection with the exploration and development of its properties and for working capital purposes. There can be no assurance that the Company will be successful in obtaining required financing as and when needed. The only sources of future funds presently available to The Company are the sale of equity capital, or the offering by The Company of an interest in its properties to be earned by another party or parties carrying out exploration or development thereof. There is no assurance that any such funds will be available for operations. Failure to obtain additional financing on a timely basis could cause The Company to reduce, delay or terminate its proposed operations, with the possible loss of such operations.

Volatile markets may make it difficult or impossible for the Corporation to obtain debt financing or equity financing on acceptable terms, if at all. Failure to obtain additional financing on a timely basis may cause the Corporation to postpone or slow down its development plans, delay or forfeit rights to certain acquisitions, forfeit rights in some or all of its properties or reduce or terminate some or all of its activities.

#### *Share Price Fluctuations*

The market price of securities of many companies, particularly junior exploration stage companies, experience wide fluctuations in price that are not necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in the Company's share price will not occur. As well, the Corporation has invested in a small number of junior companies. Fluctuation in the share prices of these companies may significantly affect the valuations of the Corporation's assets.

#### *Foreign Exchange*

Mineral commodities and acquisition opportunities are typically sold in U.S. dollars. The Company has also invested in foreign investments, including its investment in associate. The Company's operations are in Canada. As a result, the Company is subject to foreign exchange risks relating to the relative value of

the U.S. dollar as compared to the Canadian dollar.

#### *Insurance*

The Company's business is capital intensive and subject to a number of risks and hazards, including environmental pollution, accidents or spills, industrial and transportation accidents, labour disputes, changes in the regulatory environment, natural phenomena (such as inclement weather conditions, earthquakes, pit wall failures and cave-ins) and encountering unusual or unexpected geological conditions. Many of the foregoing risks and hazards could result in damage to, or destruction of: The Company's mineral properties or future processing facilities, personal injury or death, environmental damage, delays in or interruption of or cessation of their exploration or development activities, delay in or inability to receive regulatory approvals to transport their products, or costs, monetary losses and potential legal liability and adverse governmental action. The Company may be subject to liability or sustain loss for certain risks and hazards against which they do not or cannot insure or which it may reasonably elect not to insure because of the cost. This lack of insurance coverage could result in material economic harm to The Company.

#### *Competition*

The Company competes with many other mining companies that have substantially greater resources. Such competition may result in the Company being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund the Company's operations and develop its properties. The Company's inability to compete with other mining companies for these resources would have a material adverse effect on the Company's results of operations and business.

#### *Dependence on Outside Parties*

The Company has relied and will rely upon consultants, geologists, engineers and others and intends to rely on these parties for exploration and development expertise. Substantial expenditures are required to pursue acquisition opportunities and, in the case of new properties, to develop the exploration and plant infrastructure at any particular site. If such parties' work is deficient or negligent or is not completed in a timely manner, it could have a material adverse effect on the Company.

#### *Conflicts of Interest*

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other mining companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting such participation.

#### *Income and other taxes*

The Corporation is subject to income and other taxes in Canada. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations. The Corporation's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made. As of the date of the statement of financial position, no liability in respect of pending tax issues has been recognized in the financial statements.

### **OFF BALANCE SHEET ITEMS**

The Company does not have any off balance sheet terms.

## **ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

Additional information on the Company is available through regular filings of press releases on SEDAR ([www.sedar.com](http://www.sedar.com)), or by visiting the Company's website at [www.sulliden.com](http://www.sulliden.com).

## **FORWARD LOOKING INFORMATION AND CAUTIONARY STATEMENTS**

Except for statements of historical fact relating to the Company certain information contained herein constitutes forward-looking information. Forward-looking information includes, but is not limited to, statements with respect to future economic estimates; acquisition opportunities of the Company;; currency exchange rates; government regulation of mining operations; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the opinions and estimates of management as of the date such statements are made, and they are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during construction, expansion and start-up; variations in mineral grade and recovery rates; delay or failure to receive government approvals; timing and availability of external financing on acceptable terms; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of gold and other minerals; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes; other risks of the mining industry and other risks described herein. Although management of the Corporation has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

All forward looking statements made in this MD&A are qualified by these cautionary statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable securities law.

## **LIST OF OFFICERS AND DIRECTORS**

|                        |  |
|------------------------|--|
| Justin Reid,           | President & CEO, Director                    |
| Peter Tagliamonte,     | Senior Vice-President and Executive Director |
| Deborah Battiston,     | Chief Financial Officer                      |
| Stan Bharti,           | Executive Chairman                           |
| Bruce Humphrey,        | Director                                     |
| Diane Lai,             | Director                                     |
| Hon. Pierre Pettigrew, | Director                                     |