



## **Management's Discussion and Analysis**

### **Year ended December 31, 2016**

This Management Discussion and Analysis ("MD&A"), dated February 28, 2017 relates to the operating results and financial condition of Morien Resources Corp. ("Morien" or the "Corporation") and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2016 and 2015 and the notes thereto.

The following discussion and analysis includes consolidated financial information relating to the Corporation's subsidiaries and is presented in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion other than statements of historical fact, including those that address future milestone and royalty payments, the acquisition of additional mineral assets, expected working capital requirements, future purchases under the Corporation's NCIB, exploration and evaluation activities, and events or developments the Corporation expects, are forward-looking statements. Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions (including assumptions relating to economic, market and political conditions and the Corporation's working capital requirements), such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, evaluation and development results, continued availability of capital and financing and general economic, market or business conditions.

The risk factors identified above are not intended to represent a complete list of the factors which could affect the Corporation. Additional factors are noted under "Risk Factors" in the Corporation's Annual Information Form for the year ended December 31, 2016, a copy of which is available on the Corporation's SEDAR document page at [www.SEDAR.com](http://www.SEDAR.com).

## **Nature of Business**

### **General**

On November 9, 2012, Advanced Primary Minerals Corporation amalgamated with Erdene Resources Inc. ("ERI") to form Morien Resources Corp. pursuant to a statutory plan of arrangement under the *Canada Business Corporation Act*. The principal business of the Corporation is the identification, purchase, exploration and development of mineral interests. The Corporation has a wholly owned subsidiary, Advanced Primary Minerals USA Corp. ("APMUSA"), a Delaware company which holds kaolin interests, 1052 acres of surface land, and is effectively a dormant company.

Morien owns two core assets in the form of royalty interests in the Donkin Coal Mine and Black Point Aggregate Project, both located in the province of Nova Scotia, Canada. The Corporation is focused on identifying additional mineral assets to purchase to complement the Corporation's existing assets.

## Project Summaries

### Donkin Coal Mine – Nova Scotia, Canada

On January 7, 2015, the Corporation signed a definitive agreement with Kameron Collieries ULC (“Kameron”), an affiliate of The Cline Group LLC (“Cline”), to sell the Corporation’s 25% working interest in the Donkin Coal Mine (“Donkin” or “Donkin Mine”) in Cape Breton, Nova Scotia. Pursuant to the agreement, Kameron agreed to pay Morien aggregate cash consideration of \$5.5 million; \$2.0 million on closing; \$2.0 million on or before the earlier of the sale of first domestic coal and the 2nd anniversary of closing (February 27, 2017); and \$1.5 million on or before the earlier of the first export sale of coal and the 3rd anniversary of closing (February 27, 2018). Morien is also entitled to a gross production royalty of 2% on the first 500,000 tonnes of coal sales per calendar quarter, net of certain coal handling and preparation costs, and 4% on any tonnage above 500,000 tonnes per calendar quarter, net of certain coal handling and preparation costs.

At a special meeting of shareholders held February 10, 2015, the transaction with Kameron was approved. The transaction closed on February 27, 2015 and Kameron became the owner and operator of the Donkin Mine. The Corporation received its first payment of \$2.0 million on close of the sale on February 27, 2015. On February 27, 2017, the Corporation received its second milestone payment of \$2.0 million.

The following is a list of Kameron’s project development highlights:

- In Q2 2015, Kameron finished dewatering the two, 3.6 km long access tunnels to the Donkin Mine’s target coal seam
- A 69 kV electrical line from the town of Glace Bay to a newly constructed electrical sub-station at the Donkin Mine is complete
- Construction of a new warehouse/washhouse/office was completed in the second quarter of 2016
- Tunnel refurbishment was completed in 2016
- Additional underground assessment drilling was completed in 2016
- Assembly of the initial mine fleet is complete, including two continuous miners, roof bolters, and personnel carriers
- A 3.6 km tunnel conveyor system has been installed and is operational
- Approximately 46 full-time employees/contractors are currently working onsite and Kameron is forecasting a total of 135 full-time workers onsite at full production
- Production from the first continuous miner is expected in Q1 2017, with a second expected later in 2017
- Construction of the coal handling, preparation and processing plant is underway and anticipated to become operational in mid-2017
- The first dual coal section is anticipated to be operational in early 2017 with a second operational in 2018; a typical coal section consists of two continuous miners, six battery haulers, one feeder breaker, and two roof bolters
- Kameron has cited the following as key project strengths at Donkin:
  - Coal quality – low ash, high energy thermal coal; high quality metallurgical coal (low ash, high vitrinite content, high fluidity, high crucible swell number;

- Low mining costs – 8.1 raw tonnes per linear foot, 6.9 clean tonnes per linear foot;
  - Short truck haul to local power stations and deep water ports; and
  - Substantial resource – 483 million tonnes; 30 year expected project life (2 continuous miner sections)
- Kameron expects the washed coal quality of Donkin to be a high fluidity, high volatile metallurgical coal, with 3.5% ash, 1.5-2.0% sulphur, and 13,500+ BTU/lb

On November 21, 2016, the Government of Canada announced a plan to phase out coal-fired power plants by 2030. The same day, the province of Nova Scotia announced an agreement-in-principle with the federal government which will allow Nova Scotia to continue to build on the progress the province has made in reducing Green House Gas emissions while allowing for the province to continue to utilize coal in its energy mix beyond the 2030 closure deadline announced by the federal government.

Kameron representative Jim Bunn was quoted as saying "Minister McKenna's announcement will not affect the commencement of production at the Donkin Mine, which is expected in December 2016. Kameron Collieries has always considered the closure of Lingan and Point Aconi power stations as a distinct possibility. There are ample opportunities to export the Donkin coal to both metallurgical and thermal customers, and this can be augmented by domestic thermal demand until these local plants are forced to close."

### **Black Point Aggregate Project – Nova Scotia, Canada**

The Black Point aggregate project ("BP Project" or "Black Point") consists of a granite deposit along the southern shore of Chedabucto Bay in Guysborough County, Nova Scotia, and has suitable characteristics for the development of a crushed stone marine export aggregate operation for supplying markets in the United States and Caribbean region.

On April 11, 2014, Morien entered into agreements ("Agreements") with Vulcan Materials Company ("Vulcan") and the Municipality of the District of Guysborough for the development of the BP Project. Under the terms of the Agreements, Vulcan assumed Morien's interest in the BP Project and became manager and operator of Black Point in exchange for milestone payments totaling \$1,800,000, and a royalty stream payable on all material sold from Black Point over the life of the project. The first payment of \$1,000,000 was received on signing and transfer of interest to Vulcan.

On April 26, 2016, the BP Project received positive environmental assessment decisions from both federal and provincial authorities. The full decisions and related documents can be viewed at the Canadian Environmental Assessment Agency website and the Nova Scotia Environment website. On May 5, 2016, the Corporation received a \$400,000 milestone payment from Vulcan following receipt of the positive provincial and federal environmental approvals. Morien is due to receive an additional \$400,000 milestone payment from Vulcan upon the completion of related and pending permitting agreements for Black Point.

### **Land Holdings – Georgia, USA**

Pursuant to a February 1, 2001 agreement, International Paper Inc ("IP") had an option to purchase 1,052 acres of land owned by APMUSA in Hancock County, Georgia for \$1 per acre. In February 2016, the Corporation received confirmation from the successor to International Paper Inc. that the option expired without exercise. As a result, the Corporation is now in the process of evaluating options for the land.

## **Banks Island Gold Ltd. Royalty – British Columbia, Canada**

Through various corporate transactions dating from 2009 to 2011 involving Morien's predecessor companies (see Morien's Annual Information Form for more details), the Corporation acquired a 1.5% Net Smelter Returns royalty ("NSR") over the marketable metal, ores, minerals and concentrates produced and shipped from a 1,987 hectare area within Banks Islands Gold Ltd.'s ("Banks Island") Yellow Giant gold property located 105 km south of Prince Rupert, British Columbia.

The Corporation began to receive royalty payments from Banks Island in the second quarter of 2014. On July 31, 2015, Banks Island suspended operations at the Yellow Giant mine and put the mine into care and maintenance until certain permitting and regulatory issues were resolved and funding secured to re-commence operations. Unable to resolve their issues, in January 2016 Banks Island filed for bankruptcy and no further royalties are expected from the property. Morien received a total of \$153,731 from the Yellow Giant NSR while the mine operated.

For a complete list of the risk factors that can affect the Corporation's properties and royalty interests, please refer to "Risk Factors" in the Corporation's Annual Information Form for the year ended December 31, 2016.

## **Selected Annual Financial Information**

The following information has been extracted from the Corporation's audited consolidated financial statements.

*Expressed in thousands of Canadian dollars except per share amounts.*

| <b>Fiscal Year Ended December 31</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|--------------------------------------|-------------|-------------|-------------|
| Revenues                             | \$ Nil      | \$ 35       | \$ 119      |
| Loss from operations                 | \$ 907      | \$ 1,078    | \$ 839      |
| Net loss for the year                | \$ 507      | \$ 1,078    | \$ 14,397   |
| Basic and diluted loss per share     | \$ 0.01     | \$ 0.02     | \$ 0.28     |
| Total assets                         | \$ 4,694    | \$ 5,423    | \$ 7,225    |
| Cash dividends declared              | \$ Nil      | \$ Nil      | \$ Nil      |

*All financial data has been prepared in accordance with IFRS.*

## **Discussion of Operations**

### **Years ended December 31, 2016 and 2015**

The Corporation recognized no royalty revenue in 2016 (2015 - \$34,994) (see Project Summaries re Banks Island).

Corporate and administration expenses amounted to \$861,766 in 2016 compared to \$1,072,732 in 2015, a \$210,966 decrease. The table below provides a breakdown of the corporate and administration costs in 2016 versus 2015: Employee and service agreement fees decreased due to lower fees paid to Erdene Resource Development Corporation and no bonuses paid in 2016; share based compensation decreased due to lower option grants; professional fees decreased primarily due to lower legal fees; and regulatory costs are lower because 2015 included costs for two shareholder meetings, including the Special Meeting to approve the sale of the Donkin Mine.

|                                       | For the year ended December 31 |                     |                     |
|---------------------------------------|--------------------------------|---------------------|---------------------|
|                                       | 2016                           | 2015                | Change              |
| Employee and service agreement fees   | \$ 467,642                     | \$ 589,018          | \$ (121,376)        |
| Share-based compensation              | 56,250                         | 90,647              | (34,397)            |
| Investor relations and communications | 64,850                         | 60,672              | 4,178               |
| Office and sundry                     | 27,618                         | 29,149              | (1,531)             |
| Professional fees                     | 73,838                         | 93,429              | (19,591)            |
| Regulatory compliance                 | 154,980                        | 187,867             | (32,887)            |
| Travel and accommodations             | 16,588                         | 21,950              | (5,362)             |
|                                       | <b>\$ 861,766</b>              | <b>\$ 1,072,732</b> | <b>\$ (210,966)</b> |

Exploration and evaluation expenses were \$50,256 for the year ended December 31, 2016 compared to \$89,764 in 2015. Management has continued to review and evaluate acquisition opportunities to complement the Corporation's existing assets, including conducting site visits. Management continued to assist Vulcan with permitting the Black Point and in 2016 charged \$15,926 to Vulcan for management services (2015 - \$46,252). The following table shows a breakdown of exploration and evaluation expenses in 2016 and 2015.

|                             | For the year ended December 31 |                  |                    |
|-----------------------------|--------------------------------|------------------|--------------------|
|                             | 2016                           | 2015             | Change             |
| Employee compensation costs | \$ 32,756                      | \$ 110,068       | \$ (77,312)        |
| Other expenses              | 33,426                         | 25,948           | 7,478              |
| Partner recoveries          | (15,926)                       | (46,252)         | 30,326             |
|                             | <b>\$ 50,256</b>               | <b>\$ 89,764</b> | <b>\$ (39,508)</b> |

The following table shows the breakdown of exploration and evaluation expenses by project.

|                              | For the year ended December 31 |                  |                    |
|------------------------------|--------------------------------|------------------|--------------------|
|                              | 2016                           | 2015             | Change             |
| Donkin                       | \$ 2,877                       | \$ 2,542         | \$ 335             |
| Black Point                  | 6,756                          | 99               | 6,657              |
| Banks Island                 | 563                            | 4,715            | (4,152)            |
| Project evaluation and other | 40,060                         | 82,408           | (42,348)           |
|                              | <b>\$ 50,256</b>               | <b>\$ 89,764</b> | <b>\$ (39,508)</b> |

On May 5, 2016, the Corporation received a \$400,000 milestone payment from Vulcan following receipt of the positive provincial and federal environmental approvals.

Net loss for the year ended December 31, 2016 was \$506,588 or \$0.01 per share compared to a net loss of \$1,077,643 or \$0.02 per share in 2015.

The Corporation recognized other comprehensive income of \$485,537 for the year ended December 31, 2016 (2015 – \$269,236) related to an adjustment to the fair value of the Kameron receivable and \$462 (2015 – Nil) of unrealized gains on available-for-sale marketable securities. Most of the change in the Kameron fair value is due to the estimated probability of receipt of the \$2.0 million second payment changing from 80% to 100%. Given progress on development of the Donkin Mine, the probability of collection of the final milestone payment of \$1.5 million has been increased from 80% to 85%.

Total comprehensive loss for the year ended December 31, 2016 was \$20,589 compared to a comprehensive loss of \$807,852 in 2015.

## Fourth Quarter

In the fourth quarter of 2016, the Corporation purchased and cancelled 658,000 shares (2015 – 535,000 shares) at a cost of \$253,858 (2015 – \$112,730) under the Corporation’s NCIB.

Other than mentioned above, there were no unusual events of items during the fourth quarter of 2016 that affected the Corporation’s financial condition, cash flows or results of operations in a material nature.

## Summary of Quarterly Results

*Expressed in thousands of Canadian dollars except per share amounts*

|  | Fiscal 2016  |              |              |              | Fiscal 2015  |              |              |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | Q4<br>Dec-16 | Q3<br>Sep-16 | Q2<br>Jun-16 | Q1<br>Mar-16 | Q4<br>Dec-15 | Q3<br>Sep-15 | Q2<br>Jun-15 | Q1<br>Mar-15 |
| Revenue                                      | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ 35        |
| Net income (loss)                            | \$ (139)     | \$ (283)     | \$ 167       | \$ (252)     | \$ (184)     | \$ (263)     | \$ (330)     | \$ (301)     |
| Basic and diluted<br>income (loss) per share | \$ -         | \$ -         | \$ -         | \$ (0.01)    | \$ -         | \$ -         | \$ (0.01)    | \$ (0.01)    |
| Total assets                                 | \$ 4,694     | \$ 4,638     | \$ 5,015     | \$ 5,022     | \$ 5,423     | \$ 5,697     | \$ 5,975     | \$ 7,076     |

The Corporation’s expenditures and net loss vary from quarter to quarter depending largely on the extent of corporate and administrative support required with respect to its core assets. The net income in the second quarter of 2016 is primarily due to receipt of \$400,000 from Vulcan. Upon completion of the remaining permitting requirements related to Black Point, the Corporation expects to receive the remaining payment of \$400,000 from Vulcan. The Corporation is not aware of any other specific trends which account for fluctuations in financial results from period to period.

## Liquidity and Capital Resources

At December 31, 2016, the Corporation had working capital of \$3,362,438, compared to \$2,534,283 at December 31, 2015.

In the year ended December 31, 2016, the Corporation purchased 2.4 million shares under a normal course issuer bid (“NCIB”) at a total cost of \$721,969 (2015 – 4.26 million shares at a cost of \$979,713). On May 5, 2016 the Corporation received a \$400,000 milestone payment from Vulcan. An additional \$400,000 is due upon receipt of certain other permitting agreements.

Subject to all the risks and uncertainties outlined in greater detail in the Corporation’s December 31, 2016 annual information form, with a production decision from Kameron, potential future royalties from the Donkin Mine could range from \$4.0 to \$8.0 million per year at full production of 2.75 million tonnes per year of saleable coal and royalties from Black Point could range from \$250,000 to \$750,000 per year over the mine life.

In the event the sale of aggregate from the BP Project does not commence before July 1, 2017, Vulcan shall pay to Morien, on a quarterly basis commencing on September 30, 2017, \$25,000 per quarter until sales commence or until the project is terminated (“Minimum Royalty”). The Minimum Royalty shall be increased or decreased annually in accordance with changes to the PPI (Producer Price Index),

commencing July 1, 2018. All Minimum Royalty payments shall be credited against future production royalty payments due to Morien.

As of the date of this MD&A, the Corporation had working capital of approximately \$3.1 million, which is expected to meet the Corporation's obligations through 2018. The Corporation may also continue to use its cash resources to acquire outstanding common shares under its normal course issuer bid (see Outstanding Share Data).

Other than as discussed herein, the Corporation is not aware of any trends, demands, commitments, events or uncertainties that may result in the Corporation's liquidity or capital resources either materially increasing or decreasing at present or in the foreseeable future.

## **Outlook**

Morien has a cash balance sufficient to cover operating costs through 2018, near-term milestone payments pending, and two core assets in the form of attractive royalty interests in the Donkin and Black Point projects. The Corporation is focused on identifying additional mineral assets to purchase, which will complement the Corporation's existing assets. How the Corporation funds future acquisitions (either by cash, shares or a combination) will depend on numerous factors, including the size of the transaction and the share price of Morien at the time of consideration.

The Corporation also has an active NCIB in place and may continue to purchase outstanding common shares under the NCIB if/when management feels the purchases represent the best value to shareholders.

## **Contractual Obligations**

In 2012, the Corporation signed a management services agreement with Erdene Resource Development Corporation for management personnel, office space and sundry costs. In 2016, the fee charged by Erdene amounted to \$277,814 (2015 - \$466,213) and is expected to be approximately \$255,000 in 2017, which the Corporation expects to satisfy from its current cash resources.

## **Off-Balance Sheet Arrangements**

As at December 31, 2016, the Corporation had no material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any obligations that trigger financing, liquidity, market or credit risk to the Corporation.

## **Contingent Liabilities**

In connection with the sale of the Corporation's 25% interest in the Donkin Mine, the Corporation gave an indemnification to Kameron Collieries ULC with respect to certain possible litigation matters related to the Donkin Mine and other related matters. No such claims or litigation have been initiated and the financial amount of potential claims cannot be reasonably estimated, although it is possible that such claims could be material. The Corporation has concluded that it is not probable that liability will result from these matters or from the indemnity and therefore no amount has been accrued in the financial statements.

## **Outstanding Share Data**

### **Normal Course Issuer Bid:**

On January 24, 2017, the Corporation filed a notice of intention to acquire up to 4,235,000 common shares pursuant to an NCIB, which expires on January 31, 2018. Purchases pursuant to the NCIB are made in the open market through the facilities of the TSX Venture Exchange. A copy of the notice is available to shareholders, without charge, upon request to the Company at Attn: Mike O'Keefe, 99 Wyse Rd., Dartmouth, NS, B3A 4S5.

Under the Corporation's previous NCIB, during the year ended December 31, 2016, the Corporation repurchased 2,414,000 shares, at an average of \$0.299 per share, including transaction costs, for a total of \$721,969 (2015 – 4,261,000 shares at an average of \$0.230 per share, for a total of \$979,713).

### **Share Capital:**

As of the date of this MD&A, the Corporation had 52,986,614 common shares issued and outstanding.

### **Stock Options:**

During the year ended December 31, 2016, 275,000 options with a weighted average exercise price of \$0.27 were granted to a certain officers, directors and employees of the Corporation and 57,500 options with a weighted average exercise price of \$1.49 expired. The options granted in 2016 vested immediately, and had a fair value at the date of grant of \$0.20 per option.

As of the date of this MD&A, the Corporation had 5,202,500 stock options outstanding with an average exercise price of \$0.27, all of which were exercisable.

### **Broker Warrants:**

During 2016, 341,728 broker warrants with an exercise price of \$0.25 expired. As of the date of this MD&A, there are no broker warrants remaining outstanding.

## **Critical Accounting Estimates**

The preparation of the financial statements requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions and are continually evaluated. Actual results may differ from these estimates. The more significant areas requiring the use of management estimates and assumptions are discussed below.

### **Due from Kameron Collieries**

In assessing the value of the remaining \$3.5 million due from Kameron, the Corporation performed a probability analysis to determine the likelihood of collection of the remaining two payments. The first future payment was assigned a probability of collection of 100% due to confirmation of receipt subsequent to year end; and the second future payment was assigned a probability of collection of 85%. The present value of the long-term receivable payments was discounted using an average risk free rate of 0.73%.

The estimate of the recoverable amounts from the sale of the Donkin Mine, and the amount recorded as impairment, are subject to significant judgment and uncertainty. As the future amounts to be received by the Corporation are highly dependent on the development and operation of the project, they may be



higher or lower than initially estimated. Changes in these estimates will be recorded in future periods as these uncertainties are resolved and the actual cash payments are received. These amounts may differ materially from the amounts initially estimated.

### **Share-based payments**

The Corporation issues equity-settled share-based payments to certain employees and third parties outside the Corporation. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and dividend yields based on information available at the time the fair value is measured.

### **Fair value of financial instruments, including embedded derivatives**

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### **Taxation**

The Corporation's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and any deferred tax liabilities are recognized on the statement of financial position. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future royalty revenues, production and sales volumes, mineral prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditure, dividends and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of any deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or the entire carrying amount of any recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

### **Adoption of New Accounting Standards**

The accounting policies applied in the consolidated financial statements for the year ended December 31, 2016 are consistent with those used in the Corporation's Consolidated Financial Statements for the year ended December 31, 2015.

## **Future Changes in Accounting Policies**

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2016, and have not been applied in preparing the Corporation's consolidated financial statements for such year.

### **Amendments to IFRS 9 - Financial Instruments**

The IASB has issued IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement. The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

The Corporation intends to adopt IFRS 9 for the annual period beginning January 1, 2018. Under the new guidance, any changes to the fair value of marketable securities will be charged to income/loss during the reporting period and will no longer be classified as Other Comprehensive Income until the gain/loss is realized. As a result, the volatility of earnings will increase.

### **IAS 12 - Income Taxes**

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The Corporation intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Corporation is currently assessing the impact of adopting IAS 12.

### **IFRS 2 – Share-based Payments**

The IASB issued amendments to IFRS 2, Share-based Payments, to clarify the classification and measurement of share-based payment transactions. These amendments deal with variations in the final settlement arrangements including; accounting for cash settled share-based payments, classification of share-based payments settled net of tax obligations, and accounting for modifications of share-based payment transactions from cash-settled to equity. The amendments apply for annual periods beginning on or after January 1, 2018.

The Corporation is currently assessing the impact of adopting this standard on its consolidated financial statements.

## **Disclosure Controls and Internal Controls over Financial Reporting**

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Corporation's disclosure controls and internal controls over financial reporting to provide reasonable assurance i) that material information about the Corporation and its subsidiaries would have been made known to them and ii) regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

Venture issuers are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of, nor are they required to establish, disclosure controls and procedures and internal controls over financial reporting, as defined in National Instrument 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable

assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) processes to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

## Financial Instruments and Other Risks

### Financial Instruments

The fair values of the Corporation's financial instruments are considered to approximate the carrying amounts. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes levels to classify the inputs to valuation techniques used to measure fair value.

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.

Level 3: Inputs are unobservable (supported by little or no market activity).

The following table provides the disclosures of the fair value of financial assets and liabilities and the level in the hierarchy.

|   | December 31, 2016 |           |           | December 31, 2015 |            |           |
|---|-------------------|-----------|-----------|-------------------|------------|-----------|
|   | Level 1           | Level 2   | Level 3   | Level 1           | Level 2    | Level 3   |
| Financial assets:   |                   |           |           |                   |            |           |
| Cash  | \$ 1,322,764      | \$ -      | \$ -      | \$ 2,616,577      | \$ -       | \$ -      |
| Marketable securities   | 80,955            | -         | -         | -                 | -          | -         |
| Current portion of long-term receivable                               | -                 | -         | 2,000,000 | -                 | -          | -         |
| Receivables   | -                 | 3,113     | -         | -                 | 10,221     | -         |
| Financial asset classified as available-for-sale long-term receivable | -                 | -         | 1,264,191 | -                 | -          | 2,778,654 |
| Financial liabilities at amortized cost:                              |                   |           |           |                   |            |           |
| Trade and other payables  | \$ -              | \$ 67,253 | \$ -      | \$ -              | \$ 110,028 | \$ -      |

The receivables relating to the sale of the Corporation's 25% working interest in Donkin are financial assets categorized as level 3 because the fair value measurement of this financial asset is based on significant inputs not observable in the market,

### Risks

In conducting its business, the principal risks and uncertainties faced by the Corporation relate primarily to the success of third party operators, with which the Corporation holds royalty agreements, successfully developing and operating their projects, exploration and evaluation results, commodity prices underlying the Corporation's royalties, access to capital and general market conditions. Exploration and development of mining operations involve many risks, many of which are outside the Corporation's control.

**Credit risk:**

The Corporation's credit risk is primarily attributable to cash and receivables from Kameron as shown in the table below.

|                                     | December 31,<br>2016 | December 31,<br>2015 |
|-------------------------------------|----------------------|----------------------|
| Cash                                | \$ 1,322,764         | \$ 2,616,577         |
| Kameron receivable, current portion | 2,000,000            | -                    |
| Kameron receivable, long-term       | 1,264,191            | 2,778,654            |
| Other receivables                   | 3,113                | 10,221               |
|                                     | <u>\$ 4,590,068</u>  | <u>\$ 2,626,798</u>  |

The Corporation manages credit risk on cash by holding the majority of its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low.

Milestone payments from Kameron include the current portion of \$2,000,000 and long term portion of \$1,264,191. The credit risk on the Kameron receivables is factored into the Corporation's fair value estimates (see Critical Accounting Estimates). Subsequent to year end, on February 27, 2017, payment of the current portion was received from Kameron.

**Liquidity risk:**

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of December 31, 2016, the Corporation had a cash balance of \$1,322,764 (December 31, 2015 - \$2,616,577) to settle current liabilities of \$67,253 (December 31, 2015 - \$110,028).

**Foreign currency risk:**

Morien operates in Canada, and equity financings are in Canadian dollars. APMUSA is based in the United States but is not currently in active operations; therefore, the exposure to foreign currency risk is limited.

The Corporation's exposure to USD dollar currency risk was \$9,960 as at December 31, 2016 (2015 - \$15,558). Sensitivity to a plus or minus 10% change in the USD dollar exchange rate would affect comprehensive loss and deficit by approximately \$996 (2015 - \$1,556). The Corporation's exposure to the British pound currency risk was \$53,344 at December 31, 2016 (2015 - Nil). Sensitivity to a plus or minus 10% change in the British pound exchange rate would affect comprehensive loss and deficit by approximately \$5,334 (2015 - Nil).

**Commodity price risk:**

The Company is exposed to commodity price risk. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors prices for the commodities underlying the Corporation's royalties. None of the properties on which the Corporation owns royalties are currently in production. At this point the Corporation doesn't enter into any hedging to offset risk.

**Equity price risk:**

The Company is exposed to equity price risk through its marketable securities. Sensitivity to a plus or minus 10% change in the market value of its marketable securities would affect comprehensive loss by approximately \$8,096 (2015 - nil).

Additional risk factors affecting the Corporation are noted under “Risk Factors” in the Corporation’s Annual Information Form for the year ended December 31, 2016, available at [www.SEDAR.com](http://www.SEDAR.com).

## **Other Information**

Additional information regarding the Corporation, including the Corporation’s annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation’s website at [www.morienres.com](http://www.morienres.com).