



## **Management’s Discussion and Analysis**

### **Quarter ended September 30, 2019**

This Management Discussion and Analysis (“MD&A”), dated November 26, 2019 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 unaudited condensed interim consolidated financial statements for the periods ended September 30, 2019 and 2018, the audited consolidated financial statements as at and for the years ended December 31, 2018 and 2017 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”) as outlined in the CPA Canada Handbook.

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 Normal Course Issuer Bid (“NCIB”), future dividend payments, 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 Financial Instruments and Other Risks below.

### **Nature of Business**

Morien is a Canada based, dividend-paying, mining development company focused on the identification and purchase of mineral projects. The Corporation holds two royalty interests in coal and aggregates on tidewater-accessed projects in Nova Scotia, Canada. The Donkin Coal Mine (“Donkin” or the “Donkin Mine” or the “Mine”) commenced production in 2017 and is paying royalties to Morien. The Black Point Aggregate Project (“BP Project” or “Black Point”) is permitted and the Corporation is receiving advanced minimum royalty payments (“Advanced Payments”) on a quarterly basis, although production has not yet begun. Morien announced an inaugural quarterly dividend payment in Q4 2017, and it is the Corporation’s intention to transition its dividend from a set quarterly amount to a step-variable dividend in relation to Donkin’s production expansion and coal price. Morien has a Normal Course Issuer Bid, renewed annually since 2015, through which it has purchased approximately 19% of the Corporation’s outstanding common shares. The Corporation is focused on identifying additional royalty assets to purchase to complement its existing assets. Subject to all the risks and uncertainties outlined in greater detail elsewhere in this MD&A, potential future royalties from Donkin could range from \$5 to \$10 million per year at full production over the anticipated 30+ year life of mine, and royalties from Black Point could range from \$250,000 to \$750,000 per year over the anticipated 50+ year life of mine.

## **Project Summaries**

### **Donkin Coal Mine – Nova Scotia, Canada**

#### Overview

Donkin is a producing coal mine located in Cape Breton, Nova Scotia that is owned and operated by Kameron Collieries ULC (“Kameron”), a private company and an affiliate of The Cline Group.

#### Startup

Kameron commenced production at the Donkin Mine with the first continuous miner unit in Q1 2017, and Morien received its first royalty payment from Kameron on saleable coal from Donkin the following quarter. In Q3 2017, a 500 tonne per hour coal handling and preparation plant (wash plant) became operational at Donkin, triggering the first export of washed, saleable coal in Q4 2017.

#### Current Donkin Mine Status

On July 4, 2019, Kameron reported the sudden passing of Chris Cline, owner and founder of Kameron and The Cline Group. Mr. Cline was very connected to the Donkin Mine and was instrumental in advancing it from non-producing status to a large and growing coal mine that employs over 140 people.

Following a brief period of bereavement, the Donkin Mine returned to normal operations. Michael Beyer continues in his role as the CEO of Cutlass Collieries LLC, parent company to Kameron. Mr. Beyer is the former CEO of Foresight Energy LP which controlled three of the four most productive longwall coal mines in the USA, and which was sold to Murray Energy for US\$1.4 billion in 2015.

Kameron is in the Development Phase of the Mine where two operating coal sections are actively developing the Mine’s main underground infrastructure and first production panel to allow for the long term and highly active Production Phase, which will incorporate retreat mining. For the retreat mining phase, Kameron is currently evaluating the viability of installing a longwall mining system, which should significantly reduce Kameron’s operating costs and significantly increase production volumes. If a longwall mining system is not employed, a continuous miner panel-depillaring retreat mining method will likely be the production plan employed. In both cases an increase in productivity is anticipated.

#### Sales and Marketing

In Q2 2018, Kameron signed a multi-year off-take agreement with local power utility Nova Scotia Power Inc. (“NSP”) to supply a portion of Donkin coal production to NSP’s nearby Lingan Generating Station, a short 20 kilometre truck haul from the Donkin Mine. The remaining portion of Donkin coal production is sold overseas as either low ash, high-energy, thermal coal or as high-volatile, semi-soft metallurgical coal.

#### Transportation

Kameron has completed the construction of a dedicated, 7.6 kilometre private coal haul road that will bypass certain communities along the approximately 30 kilometre truck route between the Donkin Mine and Provincial Energy Ventures Ltd.’s (“PEV”) port facility in Sydney, Cape Breton, currently responsible for handling all of the exported coal from Donkin. The Nova Scotia Department of Transportation and Infrastructure Renewal is responsible for completing the intersections at both ends of the private road, and following that, the haul road is expected to become operational.

In January 2019, it was reported that PEV was proceeding with the first phase of a \$75 million expansion of its export facility. A dredging vessel is currently operating in the waters surrounding the PEV port in order to extend the depth to 16.5 metres. The project is expected to be complete in Q1 2020. Once complete, the

PEV port will be capable of accommodating larger, Capesize vessels, significantly reducing the cost of transporting Donkin coal to overseas markets.

#### Mine Safety and Revised Roof Bolting Plan

In January 2019, the Nova Scotia Department of Labour and Advanced Education (“LAE”) rescinded its approval of the existing ground control (roof bolting) procedure at Donkin due to a series of roof falls in the Mine. No workers were injured nor equipment damaged in any of the falls. Kameron was directed by LAE to review a variety of engineering and operational measures designed to monitor, control and prevent future roof falls at Donkin. In late January 2019, Kameron submitted a revised ground control and mine plan to LAE and was subsequently granted approval to recommence operations at a reduced capacity using the interim ground control plan. In May 2019, Kameron was granted approval by LAE for a revised ground control procedure that allowed for the continuation of normal operations at Donkin.

#### Morien’s Involvement

In Q1 2015, Morien sold its 25% working interest in Donkin to Kameron for aggregate cash consideration of \$5.5 million and a gross production royalty. As of 2017, the \$5.5 million cash consideration has been paid to Morien in full. The gross production royalty that Morien owns for the Donkin Mine consists of 2.0% on the revenue from the first 500,000 tonnes of coal sales per calendar quarter, net of certain coal handling and transportation costs, and 4.0% on the revenue from coal sales from quarterly tonnage above 500,000 tonnes, net of certain coal handling and transportation costs. The royalty is payable to Morien on a quarterly basis over the anticipated 30+ year mine life.

#### Royalty Payments from Kameron

Morien recognized the following royalty payments from Kameron between Q2 2017 and Q3 2019:

*Expressed in thousands of Canadian dollars*

	Fiscal 2019			Fiscal 2018			Fiscal 2017		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Royalty Payment	\$ 252	\$ 119	\$ 169	\$ 298	\$ 241	\$ 216	\$ 165	\$ 96	\$ 16

The reduced royalties received in Q1 and Q2 of 2019 are believed to be related to a variety of factors, including a downturn in the seaborne coal export market in the Atlantic region which resulted in reduced export sales of Donkin coal. Weak natural gas prices and increased Russian coal imported into Europe are considered to be the primary reasons for the downturn. Morien’s expectations for increased global coal demand, for both thermal and metallurgical coal, has not changed and the Corporation continues to believe the current weakness in the Atlantic region is cyclical and that coal markets will rebound in 2020. The positive sentiment for improving coal pricing into 2020 is reflected in the current contango situation with year-ahead Cal-20 futures for European, CIF ARA, thermal coal trading approximately 20% higher than current spot pricing (S&P Global Platts, November 14, 2019). The higher royalty that Morien received in Q3 2019 is believed to reflect improving export conditions for Donkin coal overseas.

The Donkin Mine is currently permitted for run-of-mine annual production of 3.6 million tonnes, which is expected to produce approximately 3.0 million saleable tonnes after being washed in Kameron’s coal handling and preparation plant. At 3.0 million saleable tonnes, and using a wide range of coal pricing (C\$60 to \$130 per tonne), royalty payments to Morien could be in the order of C\$5 to \$10 million annually. These values are only estimates based on assumptions that Morien management consider reasonable as of November 2019 and would only be achieved if and when Donkin reaches permitted production levels. Actual results and royalties received, if any, subject primarily to production rates and coal pricing, may vary from

those estimated by Morien<sup>1</sup>. Morien incurs general and administrative expenses in respect of the administration and preparation of regulatory filings as a public company, collection of revenues from the aforementioned royalties, and seeking and acquiring new mineral projects.

### Project Strengths

Kameron has cited the following as key project strengths at Donkin:

- Coal quality – low ash, high energy thermal coal, and high-quality metallurgical coal (low ash, high vitrinite content, high fluidity, high crucible swell number);
- Low mining costs;
- Short truck haul to a local power station and deep-water port; and
- Substantial resource (30+ year mine life) – production assumptions based on Probable Reserves of 58 million tonnes. The Reserve estimate is based on an Indicated Resource of 174 million tonnes, which does not include an additional 172 million tonnes of Inferred Resources.

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

The Black Point Aggregate Project is a granite deposit located along the southern shore of Chedabucto Bay in Guysborough County, Nova Scotia, with suitable characteristics for the development of a crushed stone marine export operation for supplying markets in the USA and Caribbean region.

In Q2 2014, Morien entered into agreements (“Agreements”) with Vulcan Materials Company (“Vulcan”), the USA’s largest aggregate producer, 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 Black Point and became manager and operator in exchange for milestone payments totaling \$1,800,000 and a production royalty payable over the 50+ year life of the project. The first payment of \$1,000,000 was received in 2014 on signing and transfer of interest to Vulcan.

In April 2016, the BP Project received positive environmental assessment decisions from both federal and provincial authorities. In May 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 and final milestone payment of \$400,000 from Vulcan upon the completion of related and pending permitting agreements for Black Point.

In April 2018, Vulcan was granted a two-year extension by the Nova Scotia provincial government for the BP Project. Vulcan indicated the target market conditions for crushed stone from the Black Point location are still short of their original expectations.

“While conditions are not yet ready for Black Point Aggregates to break ground, we maintain our strong interest in the Project,” said Frank Lieth, Vulcan’s Vice President of Black Point Aggregates Inc., a wholly owned subsidiary of Vulcan. “Although the time is not quite right to move forward, we will continue to invest in the project and work to meet the requirements outlined in the April 26, 2016, environmental approval. We are not going anywhere - we remain very much committed to the community, stakeholders, and agreements made.”

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<sup>1</sup> The above technical disclosures are consistent with the information in the technical report titled “Technical Report, Donkin Coal Project, Cape Breton, Nova Scotia, Canada” dated November 2012, found on Morien’s SEDAR profile.

According to the conditions of the extension, Vulcan must within two years of the approval of the date of the extension (April 2020), commence work on the BP Project unless granted a further written extension by the Minister of Environment.

Since Q3 2017, Morien has received an advanced minimum royalty payment (“Advanced Payments”) of \$25,000 per quarter from Vulcan, subject to annual inflationary adjustments according to the Producer Price Index (“PPI”) for crushed stone. All Advanced Payments are recorded by Morien as unearned revenue and will be credited against future production royalties from Black Point.

### **Land Holdings – Georgia, USA**

Pursuant to a 2001 agreement, International Paper Inc. (“IP”) had an option to purchase 1,054 acres of land for \$1 per acre in Georgia, USA, owned by Advanced Primary Minerals USA Corp. (“APMUSA”), a Delaware company and wholly owned subsidiary of Morien. In February 2016, Morien received confirmation from the successor to IP that the option expired without exercise, relinquishing ownership of the land to APMUSA.

In August 2019, Morien sold its 1,054 acres, through APMUSA, to a Georgia-based individual for approximately CAD \$938,000 in cash, after deducting transaction related costs. Morien has sufficient non-capital losses carried forward within APMUSA to offset the capital gain on the sale of the land.

### **Project Generation**

The Corporation continues to evaluate royalty assets to purchase to complement its existing royalty portfolio. The Corporation is focused on acquiring long-life, cash-flowing royalties in the industrial mineral and bulk commodity market segments in North America.

## **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>2018</b>	<b>2017</b>	<b>2016</b>
Revenues	920	166	—
Loss from operations	(578)	(589)	(907)
Net income (loss) for the year	(572)	576	(507)
Basic income (loss) per share	(0.01)	0.01	(0.01)
Diluted income (loss) per share	(0.01)	0.01	(0.01)
Total assets	3,429	4,274	4,694
Cash dividends declared	537	272	—
Cash dividends declared per share	0.01	0.005	—

Note: The 2017 and 2016 figures are not restated for the adoption of accounting standards IFRS 9 and IFRS 15, applied retrospectively without restatement of those years. Therefore, the amounts may not be comparable.

## Discussion of Operations

### Three months ended September 30, 2019 and 2018

The Corporation recognized \$252,225 in royalty revenue in the third quarter of 2019 (2018 – \$240,944) from Kameron related to Donkin coal sales. The Advanced Payment for Black Point in the third quarter of 2019 of \$27,794 (2018 – \$25,000) is recognized as unearned revenue.

Corporate and administration expenses amounted to \$145,981 for the three months ended September 30, 2019 (2018 – \$160,988), a decrease of \$15,007. The table below provides a breakdown of the corporate and administration costs for the three months ended September 30, 2019 and 2018.

	For the three months ended September 30		
	2019	2018	Change
	\$	\$	\$
Employee and service agreement fees	93,765	101,419	(7,654)
Investor relations and communications	23,200	14,819	8,381
Office and sundry	6,043	5,509	534
Professional fees	5,533	18,914	(13,381)
Regulatory compliance	16,117	19,873	(3,756)
Travel and accommodations	1,324	454	870
	<b>145,981</b>	<b>160,988</b>	<b>(15,007)</b>

Exploration and evaluation expenses were \$28,844 for the three months ended September 30, 2019 (2018 – \$1,426), an increase associated with consulting work related to the Corporation's project generation efforts.

The table below provides a breakdown of the exploration and evaluation expenses for the three months ended September 30, 2019 and 2018.

	For the three months ended September 30		
	2019	2018	Change
	\$	\$	\$
Employee and contract costs	28,844	1,426	27,418

Net and comprehensive income for the three months ended September 30, 2019 was \$1,027,394 or \$0.02 per share compared to net and comprehensive income of \$101,347 or \$0.00 per share for the three months ended September 30, 2018. The increase in earnings in the quarter was due to the sale of land in Georgia, USA.

### Nine months ended September 30, 2019 and 2018

The Corporation recognized \$540,034 in Donkin royalty revenue to September 30, 2019 (2018 – \$622,374). The reduced royalties received in the first three quarters of 2019 are believed to be related to a variety of factors, including a downturn in the Atlantic region coal export market which resulted in reduced overseas sales of Donkin coal. However, the third quarter royalty has increased which is believed to reflect improved export conditions for Donkin coal. The Advanced Payments for Black Point to September 30, 2019 of \$83,139 (2018 – \$75,000) include PPI adjustments and are recognized as unearned revenue.

Corporate and administration expenses amounted to \$540,925 in the nine months ended September 30, 2019 (2018 - \$528,997), an increase of \$11,928 primarily due to increased audit fees and tax advisory services associated with the Corporation's project generation efforts. The table below provides a breakdown of the corporate and administration costs for the periods ended September 30, 2019 and 2018.

	For the nine months ended September 30		
	2019	2018	Change
	\$	\$	\$
Employee and service agreement fees	<b>269,739</b>	262,027	7,712
Investor relations and communications	<b>79,501</b>	71,249	8,252
Office and sundry	<b>18,375</b>	21,001	(2,626)
Professional fees	<b>70,627</b>	54,806	15,821
Regulatory compliance	<b>95,091</b>	104,048	(8,957)
Travel and accommodations	<b>7,591</b>	15,866	(8,275)
	<b>540,925</b>	528,997	11,928

Exploration and evaluation expenses were \$125,656 for the nine months September 30, 2019 (2018 – \$1,426), an increase associated with consulting work related to the Corporation's project generation efforts.

The table below provides a breakdown of the exploration and evaluation expenses for the nine months ended September 30, 2019 and 2018.

	For the nine months ended September 30		
	2019	2018	Change
	\$	\$	\$
Employee and contract costs	<b>125,656</b>	1,426	124,230

Net and comprehensive income for the nine months ended September 30, 2019 was \$794,417 or \$0.01 per share compared to total comprehensive loss of \$791,950 or (\$0.01) per share in 2018.

## Summary of Quarterly Results

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

	Fiscal 2019			Fiscal 2018 <sup>(1)</sup>				Fiscal 2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	<b>252</b>	119	169	298	241	216	165	96
Net income (loss)	<b>1,027</b>	(128)	(105)	220	101	(799)	(94)	323
Basic income (loss) per share	<b>0.02</b>	—	—	—	—	(0.01)	—	—
Diluted income (loss) per share	<b>0.02</b>	—	—	—	—	(0.01)	—	—
Total assets	<b>3,646</b>	3,068	3,158	3,429	3,559	3,640	4,039	4,274
Cash dividends declared	<b>132</b>	132	132	133	134	134	136	272

*(1) The amounts of revenue for each of the four quarters of 2018 have been revised for the amounts previously reported to reclassify \$25,000 each quarter to unearned revenue. In addition, the fair value measurement of marketable securities held for sale were reclassified from other comprehensive income to profit or loss for the nine months ended September 30, 2018.*

The Corporation's expenditures and net income (loss) vary from quarter to quarter depending largely on the size of royalty payments and corporate and administrative support required with respect to its core assets. The net loss in Q2 2018 was driven primarily by non-cash, share-based compensation of \$948,200 whereas

the net income in the last two quarters of 2018 were driven by increased royalty income from Kameron. The net loss for the first two quarters of 2019 has been driven by reduced export volumes at Donkin believed to be related to a cyclical downturn in the Atlantic seaborne coal export market. The increased royalty income in Q3 2019 is believed to reflect improved export conditions for Donkin coal. 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 September 30, 2019, the Corporation had working capital of approximately \$3.5 million, compared to \$3.3 million at December 31, 2018.

As of the date of this MD&A, the Corporation had working capital of approximately \$3.5 million, which is expected to meet the Corporation's operating requirements into 2020. The Corporation may also continue to use its cash resources to acquire outstanding common shares under its NCIB (see Outstanding Share Data) and pay dividends.

Subject to all the risks and uncertainties outlined in greater detail elsewhere in this MD&A, potential future royalties from the Donkin Mine could range from \$5.0 to \$10.0 million per year at full production of 3.0 million saleable tonnes per year coal over the 30+ year mine life, and royalties from Black Point could range from \$250,000 to \$750,000 per year over the 50+ year mine life.

In Q3 2017, Vulcan began paying Morien an Advanced Payment of \$25,000 per quarter until sales commence from the BP Project or until the project is terminated. The Advanced Payment shall be increased or decreased annually in accordance with changes to the PPI, commencing July 1, 2018. All Advanced Payments from Vulcan are recorded as unearned revenue and shall be credited against future production royalty payments due to Morien.

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 2020 and two core assets in the form of royalty interests in Donkin and Black Point.

At Donkin, Kameron is in the Development Phase of the Mine where two operating coal sections are actively developing the main underground infrastructure and first production panel to allow for the long-term Production Phase, which will incorporate retreat mining. For the retreat mining phase, Kameron is currently evaluating the viability of installing a longwall mining system, which is expected to reduce operating costs and significantly increase production volumes. If a longwall mining system is not employed, a continuous miner panel-depillaring retreat mining method will likely be the production plan employed. In either case an increase in productivity is anticipated.

At Black Point, Vulcan has until April 2020 to commence work on the project unless granted a second written extension by the Nova Scotia Minister of Environment. Until a production decision is made, Morien will continue receiving advanced minimum royalty payments of \$25,000 (adjusted annually for PPI, currently recorded as \$27,794) per quarter from Vulcan.

The Corporation is focused on identifying additional mineral and royalty assets to purchase, which will complement its existing assets. How the Corporation funds future acquisitions (either by cash, shares, debt or a combination) will depend on numerous factors, including the size of the transaction and the financial considerations of Morien at the time of acquisition.



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.

The Corporation adopted a dividend policy in Q4 2017 and intends to continue issuing set quarterly dividend payments in 2019. Going forward, the Corporation's dividend is intended to be step-variable in relation to Donkin Mine production expansion and coal price, having regard to the stability of cash flow and the need to maintain flexibility to secure new royalty assets.

## **Contractual Obligations**

In 2012, the Corporation signed a management services agreement with Erdene Resource Development Corp. ("Erdene") for management personnel, office space and sundry costs. For the year ended December 31, 2018, the fee charged by Erdene amounted to \$218,125 (2017 – \$264,594) and is expected to be approximately \$234,000 in 2019, which the Corporation expects to satisfy from its current cash resources. The Corporation has terminated its services agreement with Erdene as of December 31, 2019. The Corporation has established alternate arrangements as it continues in its effort to reduce overhead costs.

## **Off-Balance Sheet Arrangements**

As at September 30, 2019, the Corporation had no 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.

## **Dividends**

In December 2017, the Corporation approved the implementation of a dividend policy and made its inaugural dividend payment on December 27, 2017.

In 2018 and for the first three quarters of 2019, Morien paid quarterly dividends of \$0.0025 per common share. The Corporation's quarterly dividend is intended to be step-variable in relation to Donkin Mine production expansion and coal price, having regard to the stability of cash flow and the need to maintain flexibility to secure new royalty assets. However, the declaration, amount and timing of future dividends will be subject to the Board of Directors' determination that the payment of a dividend is in the best interest of Morien and its shareholders, having regard to the Corporation's cash reserves, anticipated financial requirements, legal requirements for the declaration of dividends and other conditions existing at such time, including forward production guidance from Kameron. The Corporation's dividend payments have historically qualified as an 'eligible dividend' for Canadian income tax purposes.

## **Outstanding Share Data**

### **Normal Course Issuer Bid**

On January 30, 2019, the Corporation filed a notice of intention to acquire up to 4,083,300 common shares pursuant to a Normal Course Issuer Bid ("NCIB"). 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 Corporation at 99 Wyse Rd., Suite 1480, Dartmouth, NS, B3A 4S5.

In the nine months ended September 30, 2019, the Corporation purchased and cancelled 1,442,500 shares (2018 – 992,500 shares) at an average price of approximately \$0.44 per share (2018 – \$0.59).

In 2019, to the date of this MD&A, the Corporation purchased and cancelled 1,684,500 shares at an average cost of \$0.41 per share. Total purchases since the NCIB was initiated in 2015 to September 30, 2019 include 11.5 million shares at an average weighted cost of \$0.36 per share.

## **Share Capital**

As of the date of this MD&A, the Corporation had 53,172,614 common shares issued and outstanding.

## **Stock Options**

On January 7, 2019 the Corporation issued 200,000 fully vested stock options with a five-year term and an exercise price of \$0.48. The options granted had a fair value at the date of grant of \$0.29 per option. Share-based compensation of \$58,600 was recognized in operating expenses and an increase to contributed surplus in Q1 2019.

In 2019, to the date of this MD&A, 1,602,500 incentive stock options were exercised at a strike price of \$0.25 generating gross proceeds to the Corporation of \$400,625.

As of the date of this MD&A, the Corporation had 2,730,000 stock options outstanding with an average exercise price of \$0.56, all of which were exercisable.

## **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.

### **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**

Each reporting period in 2018, the Corporation revalued its marketable securities. The fair value adjustment was recorded, net of any tax effect (after adopting IFRS 9 for the period beginning January 1, 2018) in profit and loss until the marketable securities were sold in May 2018.

### **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 following new standards and amendments to standards and interpretations under IFRS were adopted for the period beginning January 1, 2018.

### **IFRS 15 – Revenue from Contracts with Customers**

This standard provides a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgement thresholds were introduced, which affected the amount and/or timing of revenue recognized. Adoption required a restatement of opening equity as at January 1, 2018 by reducing retained earnings by \$50,000 due to the reclassification of the Vulcan Advanced Payments to unearned revenue. Quarterly results in 2018 have been restated to recognize the Vulcan Advanced Payments as additions to unearned revenue.

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

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. Adoption of the new standard required a restatement of opening equity as at January 1, 2018 by reducing accumulated other comprehensive income and increasing retained earnings by an equal amount of \$124,153. In the first three quarters of 2018, the gains and losses on the fair value adjustment of marketable securities were restated to conform with the new standard and recorded in profit or loss.

### **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. Adoption did not have an impact on the financial statements.

## **Future changes in accounting policies**

### **IFRS 16 - Leases**

IFRS 16 - Leases ("IFRS 16") will replace existing guidance in IFRS and related interpretations and requires lessees to bring most leases on the balance sheet. Lessor accounting remains similar to the current standard. The new standard is effective for the Corporation's fiscal year beginning on January 1, 2019 and is to be applied retrospectively. The new standard had no impact on the Corporation's condensed consolidated interim financial statements.

### **IFRIC Interpretation 23 - Uncertainty Over Income Tax Treatments**

In June 2017, the IASB issued IFRS Interpretations Committee Interpretation 23 Uncertainty over Income Tax Treatments ("IFRIC 23"), which is applied to the determination of taxable profit or loss, unused tax losses, unused tax credits, tax rates and tax bases, when there is uncertainty about income tax treatment under IAS 12 Income Taxes. IFRIC 23 is effective for the Corporation's fiscal year beginning on January 1, 2019 and is to be applied retrospectively. The new standard had no impact on the Corporation's condensed consolidated interim 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: (a) that material information about the Corporation and its subsidiaries would have been made known to them, and; (b) 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 Corporation’s financial instruments consist of cash and marketable securities. 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.

	September 30, 2019			December 31, 2018		
	Level 1 \$	Level 2 \$	Level 3 \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial assets:						
Cash	3,347,121	—	—	3,070,981	—	—

### 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

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its obligations.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<b>September 30, 2019</b>	December 31, 2018
	\$	\$
Cash	<b>3,347,121</b>	3,070,981
Trade receivables	<b>290,059</b>	342,593
	<b>3,637,180</b>	3,413,574

The Corporation manages credit risk by holding the majority of its cash with Schedule 1 Canadian banks, where management believes the risk of loss to be low. Trade receivables as at September 30, 2019 include \$290,059 of a royalty receivable from Kameron. The Corporation has an allowance for doubtful accounts as at September 30, 2019 of nil (2018 – \$ nil), as management considers the credit risk on the Kameron receivable to be low. No amounts were written off during the nine months ended September 30, 2019 (2018 – \$ nil).

## 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 at September 30, 2019, the Corporation had a cash balance of \$3,347,121 (December 31, 2018 – \$3,070,981) to settle trade and other payables of \$162,678 (December 31, 2018 – \$121,246).

## Foreign currency risk

Morien operates in Canada and its equity financings have been in Canadian dollars. APMUSA is based in the USA but is not currently in active operations; therefore, the exposure to foreign currency risk is limited. The Corporation does not use any form of hedging against fluctuations in foreign exchange.

The Corporation's exposure to USD dollar currency risk was \$945,736 as at September 30, 2019 (December 31, 2018 – \$140,814). Sensitivity to a plus or minus 10% change in the USD dollar exchange rate would affect comprehensive income and deficit by approximately \$94,570 (December 31, 2018 – \$14,100).

## Commodity price risk

The Corporation 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 Corporation monitors prices for the commodities underlying the Corporation's royalties. At this point the Corporation does not enter into any hedging to offset risk.

## Equity price risk

The Corporation is exposed to equity price risk through its marketable securities which it holds from time to time. The Corporation manages exposure to equity price risk within acceptable parameters as approved by the Board of Directors.

## **Other Risk Factors**

### **Dependence on Third Party Property Owners and Operators**

The Corporation is not the operator of the Donkin Coal Mine or Black Point Project. There is no assurance that the current operators, or their successors, if any, will continue with the development of the projects in a manner that is beneficial, or most beneficial, to the Corporation.

The revenue derived from the Corporation's royalty portfolio is and will be based on the activities of third party property owners and operators. These owners and operators are responsible for determining the manner in which the properties underlying the royalties are exploited, including decisions to commence, expand, continue or reduce production from a property, and decisions to advance exploration efforts and/or conduct development of non-producing properties. The Corporation will have little or no input on such matters. The interests of third party owners and operators and those of the Corporation on the relevant properties may not always be aligned. As an example, it will, in almost all cases, be in the interest of the Corporation to advance development and production on properties as rapidly as possible in order to maximize near term cash flow, while third party owners and operators may, in many cases, take a more cautious approach to development as they are at risk on the cost of development and operations. The inability of the Corporation to control the operations for the properties in which it has a royalty interest may result in a material and adverse effect on the Corporation's profitability, results of operation and financial condition.

Similarly, where the Corporation's interest in a mineral property is a royalty interest, there is a risk that the third-party operator may be unable or unwilling to fulfill its obligations under its agreements with the Corporation, or experience financial, operational or other difficulties including insolvency, which could limit the third party's ability to perform its obligations under the royalty interest. The Corporation will not be entitled to any compensation if the operations shut down or the third-party operators discontinue their operations on a temporary or permanent basis. At any time, any operator of a property in which the Corporation has a royalty or net profit interest may decide to suspend or discontinue operations.

### **Limited Access to Data and Disclosure for Royalty Portfolio**

The Corporation is neither the property owner nor operator for the properties underlying its royalty portfolio, and the Corporation has no input into how the operations are conducted. Also, the Corporation has varying access to data on the operations or to the actual properties themselves. This will affect its ability to assess the value of the royalty interest or enhance the royalty's performance. This could also result in delays in cash flow from that anticipated by the Corporation based on the stage of development of the applicable properties underlying its royalty portfolio. The Corporation's royalty payments may be calculated by the royalty payers in a manner different from the Corporation's projections. The limited access to data and disclosure regarding the operations of the properties in which the Corporation has an interest may restrict the Corporation's ability to assess the value or enhance its performance, which may result in a material and adverse effect on the Corporation's profitability, results of operation and financial condition.

## **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).