Sprott Resource Holdings Inc. 2017 Annual Report

Management's Discussion and Analysis
of Financial Position and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of the performance, financial condition and future prospects of Sprott Resource Holdings Inc. (formerly, Adriana Resources Inc., herein referred to as "SRHI" or the "Company"). This document is prepared as at March 2, 2018 and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2017, including the notes thereon (the "Financial Statements"). The Company prepares its Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in Canadian dollars ("CAD") unless otherwise indicated. Further information may be accessed at www.sedar.com, and may also be found on the Company's website at www.sprottresource.com.

Forward-looking statements and information are used throughout this document. See the Forward-Looking Information section at the end of this document highlighting the caution that a reader should place on all forward-looking information.

See the Abbreviations and Defined Terms sections at the end of this document for abbreviations and defined terms used throughout.

The Company's head office is based in Toronto, Ontario, Canada. Effective February 9, 2017, the common shares traded under the symbol "SRHI" on the Toronto Stock Exchange ("TSX") as a result of the Arrangement (defined below). The Company previously traded under the symbol "ADI".

SRHI has three wholly-owned subsidiaries that hold it's investment portfolio; Sprott Resource Corp. ("SRC"), ADI Mining Ltd. ("ADM"), and Sprott Resource Coal Holding Corp. ("SRCHC"). SRC has one wholly-owned subsidiary, SRH Chile SpA ("SRH Chile").

ADRIANA RESOURCES INC. BUSINESS COMBINATION WITH SPROTT RESOURCE CORP.

On February 9, 2017 ("Acquisition Date"), SRC and Adriana Resources Inc. ("ADI") closed a business combination pursuant to a plan of arrangement under the Canada Business Corporations Act ("Arrangement").

Under the Arrangement, SRC became a wholly-owned subsidiary of ADI and holders of common shares of SRC (“SRC Shareholders”) received 3.0 ADI common shares per common share of SRC. On February 8, 2017, ADI shareholders received one-quarter of a warrant in respect of each ADI share held, with each whole warrant (each, a “Warrant”) having a five-year term and a strike price of $0.333 per share (the “Warrant Distribution”). The Warrants trade on the TSX under the symbol SRHI.WT.

As part of the Arrangement, ADI shareholders approved a name change of ADI to "Sprott Resource Holdings Inc." together with the TSX approving the graduation of ADI from the Toronto Venture Exchange to the TSX.

Concurrent with the completion of the Arrangement, (i) Sprott Inc. ("Sprott") invested $10 million in ADI common shares at a price of $0.233 per share and (ii) a fund managed by a subsidiary of Sprott, together with Term Oil Inc. (a corporation controlled by A.R. (Rick) Rule IV), invested a total of $5 million in units of ADI (each unit comprised of one ADI common share and one Warrant) at a price of $0.25 per unit ("Unit") (together, the "Transaction").

A subsidiary of Sprott received 21,750,000 Warrants as a long-term incentive to replace the Profit Distribution program which was terminated upon completion of the Arrangement.

If the daily weighted average trading price of the Company's common shares for any 45 consecutive trading day period is greater than $0.583 per common share, the expiry date of the Warrants may be accelerated by SRHI.

Immediately following the completion of the Arrangement, the board of directors of SRHI was reconstituted and was then majority comprised of the former members of the board of directors of SRC (the "Board").

As a result of the Arrangement, the Company initiated its transition from a private equity firm to a diversified holding company focused on owning controlling interests in businesses in the natural resource industry which it believes can generate sustainable free cash flow. On February 1, 2018, the Company completed this transition and now focuses on owning majority positions in such businesses.

Following the completion of the Arrangement, SRC became a wholly-owned subsidiary of SRHI. The Company has determined that the acquisition of ADI was a business combination in accordance with IFRS 3, *Business Combinations*, and as such has accounted for it in accordance with this standard using the acquisition method with SRC as the acquirer. As such, the comparative information in the Financial Statements is the SRC comparative information, with the results of operations of ADI consolidated from February 9, 2017.

Although the previous ADI legal entity remains the top public entity in the corporate structure, SRC was determined to be the acquirer, through completion of a reverse acquisition, as its shareholders retained majority control post-Arrangement, the composition of the Board reflected a majority of pre-Arrangement SRC Board members, and SRC has retained key management functions of the combined business. The acquisition of ADI and closing of the Transaction expanded the Company's cash reserves and provided it with an iron ore investment in Lac Otelnuk Mining Ltd. ("LOM"). The Company incurred transaction costs of $1.7 million related to the Arrangement, the majority of which were expensed in the year ended December 31, 2016 in accordance with IFRS 3, *Business Combinations*. The Company also incurred $0.1 million of share issue costs which were netted against share capital and warrants.

In the accounting for the reverse acquisition, the consideration is determined by reference to the fair value of the number of shares the legal subsidiary, being SRC, would have issued to the legal parent entity, being the Company, to obtain the same ownership interest in the combined entity. As a result, the capital stock consideration is measured at the value of 52,518,079 shares that would have been issued by SRC. Similarly, the consideration in respect of the Warrants is determined by reference to the fair value of the number of Warrants the legal subsidiary, being SRC, would have issued to the legal parent entity, being the Company, to obtain the same ownership interest in the combined entity. As a result, the Warrant consideration is measured at the value of 13,129,520 Warrants that would have been issued by SRC.

As per the Company's accounting polices in accordance with IFRS 3, *Business Combinations*, changes to the preliminary measurements of assets and liabilities acquired are retrospectively adjusted when new information is obtained until the final measurements are determined within one year of the Acquisition Date. During the second quarter of 2017, the Company identified amended fair values of certain assets acquired and liabilities assumed as part of the acquisition of ADI resulting in a bargain purchase gain of $255 thousand compared to the bargain purchase gain of $70 thousand reported at March 31, 2017, a difference of $185 thousand (no adjustments were made during the remainder of 2017). The $185 thousand increase in the bargain purchase gain and the adjustments to the assets acquired and liabilities assumed have been retrospectively recorded as at the Acquisition Date.

The following table summarizes the fair value of the consideration paid and the revised and finalized fair values of identified assets acquired and liabilities assumed from ADI with a comparative to the preliminary results presented in the March 31, 2017 Condensed Interim Consolidated Financial Statements.

(in thousands)	Revised based on new information	As reported at March 31, 2017
Consideration		
Issuance of SRC common shares	$ 30,460	$ 30,460
Issuance of Warrants	1,690	1,690
Total consideration	**$ 32,150**	**$ 32,150**
Preliminary fair value of assets acquired:		
Cash and cash equivalents	$ 26,409	$ 26,409
Other current assets	195	443
Investment in LOM	6,517	5,755
	33,121	32,607
Preliminary fair value of liabilities acquired:		
Accounts payable and accrued liabilities	716	387
Net assets acquired	**$ 32,405**	**$ 32,220**
Bargain purchase gain	**$ 255**	**$ 70**

The reverse takeover resulted in a bargain purchase gain of $255 thousand which is included as a reduction of General and Administrative Expenses on the Consolidated Statements of Operations.

SPROTT RESOURCE HOLDINGS INC. MARKETED OFFERING

On April 18, 2017, SRHI closed a "best efforts" marketed offering ("Offering") of units (the "Offered Units") made pursuant to an agency agreement dated April 3, 2017 between the Company and a syndicate of agents led by Sprott Capital Partners, a division of Sprott Private Wealth LP, and including Haywood Securities Inc.

Pursuant to the Offering, the Company sold 120,000,000 Offered Units at a price of $0.25 per Offered Unit for gross proceeds of $30 million. Each Offered Unit consists of one common share in the capital of SRHI (a "Common Share") and one Common Share purchase warrant in the capital of SRHI (an "Offered Warrant"). Each Offered Warrant will expire on February 9, 2022 and has a strike price of $0.333 per Common Share. The Offered Warrants trade on the TSX under the symbol SRHI.WT.

INVESTMENT IN S.C. MINERA TRES VALLES

On October 2, 2017, SRHI announced the successful completion of its previously announced investment in Chilean producing copper mine S.C. Minera Tres Valles ("MTV") from the Vecchiola Group for an aggregate purchase price of USD$39.9 million (CAD$49.9 million), consisting of USD$33.5 million (CAD$41.9 million) in cash and USD$6.4 million (CAD$8.0 million) in Common Shares. A total of 51,191,847 Common Shares were issued to the Vecchiola Group in connection with this investment, providing SRHI with a 70% equity interest in MTV. See the *Material Investments* and *Mineral Reserve and Mineral Resource Estimates* sections elsewhere in this MD&A.

BUSINESS STRATEGY AND OUTLOOK

About SRHI

SRHI is a publicly-listed diversified resource holding company focused on holding businesses in the natural resource industry. SRHI previously announced on February 9, 2017 that it was transitioning into a diversified resource holding company and on February 1, 2018, the Company completed this transition. Based in Toronto, SRHI is a member of the Sprott Group of Companies and is managed by a team of resource professionals. SRHI's current businesses and holdings are concentrated in the mining, energy and agriculture sectors. SRHI focuses on owning controlling interests in businesses and is committed to being a high-value partner to the management teams it backs and the co-investors who invest alongside SRHI.

Business Strategy

For 2017, the Company had several objectives. As of the date hereof, below is the Company's update of the progress made in each of these objectives:

i. *Identifying and pursuing attractive investments in the natural resource industry*

During 2017, the Company identified 113 investment opportunities.

Consistent with SRHI's transition to a diversified holding company, a focus on owning controlling interests in businesses we believe can generate sustainable free cash flow was, and continues to be, an important factor in SRHI's capital allocation process.

These specific investments are sourced through several channels. The Company, through its own initiatives and relationships with proven management teams, directors and professional firms and through a relationship with the Sprott Group of Companies, continues to build a proprietary deal flow network. The Company strongly believes that our proprietary deal flow network is a competitive advantage in sourcing investment opportunities in the natural resource sector.

As a result, in October 2017, the Company made an investment into MTV resulting in a 70% equity interest in the producing Chilean copper mine.

ii. *Advancing divestment opportunities of non-core investments*

SRHI may determine to pursue an exit of an investment for any number of reasons including, but not limited to, as a result of determining that the investment has advanced sufficiently that SRHI's expected investment objectives have been met, or that SRHI's investment objectives can no longer be expected to be realized, or that the investment is no longer aligned with SRHI's business strategy or model.

During 2017, the Company disposed of its entire investment in Union Agriculture Group ("Union Agriculture") for total gross proceeds of $6.1 million. We continue to look to exit our non-core investments, including Beretta Farms Inc. ("Beretta Farms", formerly One Earth Farms Corp.).

Realizing dispositions of non-core investments will provide liquidity to sustain SRHI's investment operations, make new investments and support existing investments.

iii. *Transitioning to a diversified resource holding company*

Following the completion of the business combination between SRC and ADI to create SRHI, SRHI initiated a transition from a private equity firm to a diversified resource holding company. This transition was completed effective February 1, 2018 and SRHI now focuses on holding businesses in the natural resource industry that it believes can generate sustainable free cash flow. With SRHI's recent investment in MTV and its subsequent active involvement in the MTV business, the foundation has been set for the Company to continue to vary its mix of assets that differs from that of SRC or ADI historically, including businesses with a longer time horizon and/or different expected return compositions.

iv. *Growing the value of the investment portfolio*

SRHI has positioned both its core holdings of InPlay Oil Corp. ("InPlay Oil") and Corsa Coal Corp. ("Corsa Coal") for their respective sector recoveries. Both underlying commodities have responded well during 2017 and we believe both are well positioned for growth as we see the long-term fundamentals for energy and metallurgical coal as favorable. With the addition of MTV and copper as its underlying commodity, we now have three businesses with producing assets and positive earnings before income taxes, depreciation and amortization.

v. *Effectively communicating to current and prospective shareholders*

The Company believes that frequent and effective communications with SRHI shareholders is critical to achieving our overall business objectives. The Company has been proactive with this through transparent financial and portfolio investment reporting, regular quarterly investor update calls, and engaging with shareholders at industry conferences and through other media channels.

vi. *Continuing to partner with management and directors with a proven track record of success*

The Company believes that partnering with proven management teams and directors, with expertise in their respective fields and a track record of generating returns for shareholders, will significantly increase an investment's chance of success. Our recent investment in MTV was preceded by an extensive due diligence period which included assessing the current management team. We are confident that the management team of MTV, with the active involvement of SRHI, will create shareholder value.

Outlook

SRHI currently has no debt and approximately $34 million in Net Cash (see *Defined Terms* section elsewhere in this MD&A). SRHI remains well positioned to support existing investments and/or pursue new accretive investment opportunities as management deems appropriate.

The SRHI portfolio is diversified across a number of natural resource sectors, with the bulk of its holdings in mining and energy. As a result, the Company's portfolio valuations are significantly impacted by commodity price volatility. Three of SRHI's material holdings are its investments in the copper producer MTV, metallurgical coal company, Corsa Coal and light-oil producer, InPlay Oil.

SRHI has positive views on the price of copper, metallurgical coal, and light oil. SRHI received technical studies outlining the potential of the MTV resource in March 2018. More details on the information contained in these studies can be found in the *Mineral Reserve and Mineral Resource Estimates* section elsewhere in this MD&A. SRHI is committed to monetizing non-core investments where possible in order to focus on its mining and energy investments.

SELECTED FINANCIAL INFORMATION

Financial Statements Summary

(in thousands except per share amounts and issued and outstanding common shares)	2017	2016	2015
Investment gain (loss) [1]	$ (35,620)	$ 10,397	$ (111,551)
Net income (loss) and comprehensive income (loss) attributable to shareholders [1]	$ (42,172)	$ 3,484	$ (119,494)
Basic and diluted income (loss) per share [2]	$ (0.07)	$ 0.01	$ (0.41)
Common shares issued and outstanding [2]	681,680,846	290,016,306	293,623,509
Weighted average common shares issued and outstanding - basic [2]	582,648,984	287,599,972	290,569,143
Weighted average common shares issued and outstanding - diluted [2]	582,648,984	290,016,306	292,564,203
Total assets	$ 152,784	$ 113,272	$ 121,614
Total liabilities	$ 2,033	$ 2,487	$ 14,287
Total equity attributable to shareholders of the Company	$ 150,751	$ 110,785	$ 107,327

[1] Amounts for 2016 and 2015 are of SRC, without giving effect to the Arrangement
[2] Figures for 2016 and 2015 have been adjusted to reflect the post-Arrangement ratio of 3.0 ADI shares for each SRC share

Net Asset Value ("NAV") and Share Value

	As at				
	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016
NAV (in thousands), based on fair values [1,2]	$ 150,751	$ 132,053	$ 142,579	$ 137,821	$ 110,785
NAV per share, based on fair values [3]	$ 0.22	$ 0.21	$ 0.23	$ 0.27	$ 0.38
Closing price per share (TSX:SRHI and TSX:SCP) [4]	$ 0.16	$ 0.15	$ 0.16	$ 0.20	$ 0.17
Discount to NAV [5]	29.9%	28.6%	30.4%	25.9%	55.3%
Number of common shares issued and outstanding [4]	681,680,846	630,488,999	630,488,999	510,488,999	290,016,306

[1] NAV is equivalent to total equity attributable to shareholders of the Company. Amounts at December 31, 2016 are of SRC, without giving effect to the Arrangement.
[2] NAV at March 31, 2017 has been increased by $185 thousand as a result of the retrospective application of the revised purchase price allocation in the second quarter of 2017 for the Arrangement - see ADI Business Combination With SRC section elsewhere in this MD&A.
[3] Company's NAV divided by the number of the Company's common shares that are issued and outstanding ("NAV per share").
[4] Figure at December 31, 2016 has been adjusted to reflect the post-Arrangement ratio of 3.0 ADI shares for each SRC share.
[5] Discount to NAV is the discount between NAV per share and the Company's closing stock price on the TSX on the period-end date.

Statements of Operations

(in thousands)	For the Year Ended Dec. 31, 2017	Dec. 31, 2016
Investment gain (loss)	$ (35,620)	$ 10,397
Expenses	$ 6,552	$ 6,913
Net income (loss) and comprehensive income (loss) attributable to shareholders	$ (42,172)	$ 3,484

The investment losses are comprised primarily of unrealized losses on investments.

Statements of Financial Position

(in thousands)	As at Dec. 31, 2017		Dec. 31, 2016	
Working capital [1]	$ 35,339	23.4%	$ 10,116	9.1%
Investments owned, at fair value				
Mining	91,006	60.4%	51,040	46.1%
Energy production and services	15,188	10.1%	19,361	17.5%
Agriculture	9,218	6.1%	30,268	27.3%
Total equity attributable to shareholders of the Company	$ 150,751	100.0%	$ 110,785	**100.0%**

[1] *Working capital is the Company's cash and cash equivalents together with its trade and other receivables less its total liabilities.*

INVESTMENT SUMMARY

At December 31, 2017, the Company held seven investments (the "Investments") in three sectors and $36.2 million in cash and cash equivalents. A summary of the Investments at December 31, 2017 is presented below *(in thousands)*.

Industry Sector	***% of NAV*** [1]	***Public/ Private***	***Companies***	***Fair Value, Dec. 31, 2017***	***SRHI Ownership (undiluted)***
Mining	60.4%	Public (TSX-V)	**Corsa Coal**[2] is a Canadian company in the business of mining, processing and selling metallurgical and thermal coal, as well as actively exploring, acquiring and developing U.S. resource properties that are consistent with its existing coal business.	33,302	17.2%
		Public (TSX-V)	**Virginia Energy Resources Inc.** ("Virginia Energy") is a Canadian company which owns a uranium deposit in southern Virginia, U.S.	1,133	16.5%
		Private	**MTV** [2] is a fully permitted and operating copper mine located near Salamanca in Region IV of Chile. The mine first began commercial production in 2010 and consists of two main deposits: Papomono (underground) and Don Gabriel (open pit).	50,054	70.0%
		Private	**LOM** is a Canadian company which was established to explore the Lac Otelnuk iron ore property in Quebec	6,517	40.0%
Energy production and services	10.1%	Public (TSX)	**InPlay Oil** [2] is a growth-oriented, light oil development and production company focused on large oil in place pools with low recovery factors, low declines and long life reserves primarily targeting the Cardium Formation in Alberta, Canada.	$ 13,769	11.3%
		Private	**R.I.I. North America Inc.** ("RII") is a Canadian energy technology company.	1,419	14.8%
Agriculture	6.1%	Private	**Beretta Farms** is a Toronto, Canada based vertically integrated food business focused on natural and organic protein-based food production and retail.	9,218	50.0%
				$ 115,412	

[1] Cash and cash equivalents, trade and other receivables less total liabilities represent 23.4% of NAV
[2] An investment initiated by the current management team.

PORTFOLIO REVIEW

Year Ended December 31, 2017

As at December 31, 2017, the Company's investment portfolio was valued at $115.4 million (December 31, 2016: $100.7 million). The investment portfolio consists of private (unlisted) investment positions and public (listed) investment positions.

Portfolio breakdown

	As at					
		Dec. 31, 2017			Dec. 31, 2016	
(in thousands except (#))			(#)			(#)
Private positions	$	67,208	4	$	35,507	3
Public positions		48,204	3		65,162	3
Investment portfolio	$	115,412	7	$	100,669	6

Private investment positions (58.2% of portfolio)

Private investment positions consist of investments in mining, energy production and services, and agriculture companies. The largest investment accounted for 74.5% of the private investment positions at December 31, 2017 (December 31, 2016: 47.6%).

Public investment positions (41.8% of portfolio)

Public investment positions consist of investments in energy production and services along with mining companies. The largest investment accounted for 69.1% of the public investment positions at December 31, 2017 (December 31, 2016: 77.5%). Public investment positions can arise through holdings of previously private investment positions. However, the Company may also invest in public companies that it believes are significantly undervalued or where the management team, which the Company wishes to support, operates through a public vehicle.

Portfolio movement

	For the Year Ended			
(in thousands)		Dec. 31, 2017		Dec. 31, 2016
Opening investment portfolio, at fair value	$	100,669	$	120,767
New investments		49,894		14,361
Investments acquired as part of the Arrangement		6,550		—
Realizations [1]		(6,081)		(44,857)
Portfolio gain (loss) [2]		(35,620)		10,397
Closing investments portfolio, at fair value	$	115,412	$	100,669

[1] Includes gross proceeds from investment dispositions and interest income
[2] Represents the net gain (loss) on investments`

New investments

For the year ended December 31, 2017, there was a $49.9 million new investment made, compared to $14.4 million of new investments for the year ended December 31, 2016. The addition to the portfolio for the year ended December 31, 2017 was the investment in MTV, in addition to the $6.6 million of investments acquired as part of the Arrangement. New investments for the year ended December 31, 2016 were comprised of follow-on investments in InPlay Oil and Corsa Coal.

Realizations

Realizations for the year ended December 31, 2017 amounted to $6.1 million of gross proceeds received from the disposition of the Company's entire holdings in Union Agriculture. Realizations for the year ended December 31, 2016 amounted to $44.9 million which were primarily comprised of the gross proceeds received from the disposition of (i) the Company's entire holdings of Long Run Exploration Ltd. ("Long Run"), a non-core investment ($12.0 million) and (ii) the Company's entire holdings of Independence Contract Drilling, Inc. ("ICD"), also a non-core investment ($29.9 million).

	For the Year Ended	
(in thousands)	**Dec. 31, 2017**	Dec. 31, 2016
Proceeds from investments	**$ (6,081)**	$ (44,789)
Return of capital - Delphi Energy royalty investment	**—**	(68)
Total realizations	**$ (6,081)**	$ (44,857)

Portfolio return

For the year ended December 31, 2017, the Company's investment portfolio decreased by $35.6 million comprised primarily of unrealized losses on investments. This return includes unfavourable currency movements of $2.7 million for the year ended December 31, 2017.

	For the Year Ended Dec. 31, 2017			For the Year Ended Dec. 31, 2016		
(in thousands)	Public	Private	**Total**	Public	Private	**Total**
Net realized loss on investments	$ (10)	$ (22,644)	**$ (22,654)**	$ (152,843)	$ (48,973)	**$ (201,816)**
Reversal of previously recorded unrealized loss on investments[1]	10	22,644	**22,654**	152,843	48,973	**201,816**
Change in unrealized gain (loss) on investments	(16,968)	(15,946)	**(32,914)**	41,872	(26,261)	**15,611**
Change in unrealized foreign exchange loss on investments	—	(2,706)	**(2,706)**	(1,583)	(3,631)	**(5,214)**
Total portfolio gain (loss)	$ (16,968)	$ (18,652)	**$ (35,620)**	$ 40,289	$ (29,892)	**$ 10,397**

[1] *Amounts resulting from accounting reversals of investments sold in the period*

For the year ended December 31, 2017, the Company recorded a net realized loss of $22.7 million which was a result of the disposition of Union Agriculture. The table above illustrates that this entire amount is offset by the reversal of recorded unrealized losses on this investment.

The majority of the portfolio loss for the year ended December 31, 2017 resulted from a change in the unrealized loss on its public and private investments. The change in unrealized loss on investments is predominantly due to the decreased value of the Company's investment in Corsa Coal followed by unrealized losses in the Company's private agricultural investment and energy services investment.

Specifics of the change in unrealized loss on investments for the year ended December 31, 2017 is detailed in the *Operating Results* section elsewhere in this MD&A.

The investment portfolio is reported at fair value which is subject to daily changes including commodity price changes, foreign exchange movements and changes in market prices. The Company's investment portfolio at December 31, 2017 has approximately $50.1 million denominated in U.S. dollars. For every 5% increase (decrease) in the Canadian/U.S. foreign exchange rate (relative to the U.S. dollar), the Company's investment portfolio will decrease (increase) by approximately $2.5 million.

Portfolio sectors

The fair value of the investment portfolio is as follows:

(in thousands)		As at				
		Dec. 31, 2017			Dec. 31, 2016	
Mining	$	91,006	78.9%	$	51,040	50.7%
Energy production and services		15,188	13.2%		19,361	19.2%
Agriculture		9,218	7.9%		30,268	30.1%
Total investments owned, at fair value	$	115,412	100%	$	100,669	100%

Three Months Ended December 31, 2017

Portfolio movement

(in thousands)		For the Three Months Ended		
		Dec. 31, 2017		Dec. 31, 2016
Opening investment portfolio, at fair value	$	56,702	$	95,473
New investments		49,894		11,701
Realizations [1]		(3,509)		(14,042)
Portfolio gain [2]		12,325		7,537
Closing investments portfolio, at fair value	$	115,412	$	100,669

[1] Includes gross proceeds from investment dispositions and interest income
[2] Represents the net gain on investments

New investments

For the three months ended December 31, 2017 there was a $49.9 million new investment made, compared to $11.7 million of new investments for the three months ended December 31, 2016. The addition to the portfolio for the three months ended December 31, 2017 was the investment in MTV. New investments for the three months ended December 31, 2016 were follow-on investments in InPlay Oil and Corsa Coal.

Realizations

Realizations for the three months ended December 31, 2017 amounted to $3.5 million which was solely comprised of the gross proceeds received from the disposition of the Company's remaining holdings in Union Agriculture. Realizations for the three months ended December 31, 2016 amounted to $14.0 million and were primarily comprised of the gross proceeds received from the disposition of the Company's remaining investment in ICD.

(in thousands)		For the Three Months Ended		
		Dec. 31, 2017		Dec. 31, 2016
Total realizations	$	(3,509)	$	(14,042)

Portfolio return

For the three months ended December 31, 2017, SRC's investment portfolio increased by $12.3 million, comprised primarily of unrealized gains on investments. This return includes favourable currency movements of $0.2 million for the three months ended December 31, 2017.

	For the Three Months Ended Dec. 31, 2017			For the Three Months Ended Dec. 31, 2016		
(in thousands)	Public	Private	**Total**	Public	Private	**Total**
Net realized loss on investments	$ —	$ (17,646)	**$ (17,646)**	$ (10,916)	$ (473)	**$ (11,389)**
Reversal of previously recorded unrealized loss on investments[1]	—	17,646	**17,646**	10,916	473	**11,389**
Change in unrealized gain (loss) on investments	12,081	—	**12,081**	8,150	(1,050)	**7,100**
Change in unrealized foreign exchange gain on investments	—	244	**244**	167	270	**437**
Total portfolio gain (loss)	$ 12,081	$ 244	**$ 12,325**	$ 8,317	$ (780)	**$ 7,537**

[1] Amounts resulting from accounting reversals of investments sold in the period

For the three months ended December 31, 2017, the Company recorded a net realized loss of $17.6 million which was solely a result of the disposition of the Company's remaining holdings in Union Agriculture. The table above illustrates that this entire amount is offset by the reversal of previously recorded unrealized losses on this investment.

The majority of the portfolio gain for the three months ended December 31, 2017 resulted from a change in the unrealized gain on investments. The change in unrealized gain on investments is predominantly due to the increased value of the Company's public investment in Corsa Coal.

Specifics of the change in unrealized gain (loss) on investments for the three months ended December 31, 2017 is detailed in the *Operating Results* section elsewhere in this MD&A.

PRIVATE COMPANY VALUATIONS

The Company has several private company investments which are discussed in the *Material Investments* section elsewhere in this MD&A.

The valuation of private companies is inherently difficult. The Company has the expertise to determine the fair value of its private investments yet acknowledges the value in sourcing outside expertise. As a result, the Company has adopted a valuation policy that includes engaging independent external valuators (each, a "Valuator") to perform an assessment of fair value of each material private investment on at least an annual basis unless (i) there is sufficient external evidence, such as a recent third-party transaction, that would provide meaningful and supportable evidence to conclude on fair value or (ii) it is both uneconomical to perform and the range of fair values for the investment would not result in a material difference from any value within the range.

There are two generally accepted valuation approaches: (i) the going concern approach, and (ii) the liquidation approach. Within each valuation approach there are various techniques available to the valuator to complete the valuation. The selection and basis for each valuation is subject to the valuator's professional judgment.

The Company obtained an independent valuation of the MTV investment as at December 31, 2017.

MATERIAL INVESTMENTS

Material investments in private companies are discussed by sector below. Certain disclosures in this "*Material Investments*" section have been provided by management of the respective investee companies.

Mining

S.C. Minera Tres Valles

(in thousands, except per share amounts)	**December 31, 2017**
Equity ownership	70.0%
Fair value	$50,054
Fair value per share	$1.49
Cost	$49,900
Type of investment	Mining
External valuation performed in the last 12 months	Yes [1]
Valuation basis	Recent transaction price
Private company discount	No
Value drivers	Mining methodology Cost control Capacity utilization

[1] *Last completed at December 31, 2017*

Investment background

SRHI completed the investment on October 2, 2017, purchasing a 70% equity interest from the Vecchiola Group (Chile) for $41.9 million (USD $33.5 million) of cash and $8.0 million (USD$6.4 million) in Common Shares for a total investment of $49.9 million (USD$39.9 million).

MTV is a fully permitted and operating mining complex located nine kilometers from Salamanca in Region IV of Chile. The mine first began commercial production in 2010 and consists of two main deposits: Papomono (underground) and Don Gabriel (open pit). In addition to mining its own deposits, MTV has an agreement with Empresa Nacional De Mineria ("ENAMI"), a Chilean state owned enterprise, to toll-treat mineralized material, and in addition MTV purchases tonnage from local miners for processing. MTV has a processing plant with permitted crushing capacity of 5,400 tonnes per day ("tpd") of ore, and can operate consistently up to 7,000 tpd with a minor amendment to its permit and with the addition of a quaternary crusher. The Solvent-Extraction Electrowinning processing plant is designed to produce up to 18,500 tonnes per annum of 99.9% pure copper cathodes. The Vecchiola Group purchased 100% of MTV in 2013 after Vale S.A. invested USD$242 million to purchase, explore, develop and build MTV.

MTV owns the mineral rights to 44,334 hectares of land in Chile, and has total measured and indicated mineral resources of 18.3 million tonnes at 1.03% CuT containing 417 million pounds of copper, and total inferred mineral resources of 3.5 million tonnes at 1.11% CuT containing 84.4 million pounds of copper. See *Mineral Reserve and Mineral Resource Estimates* elsewhere in this MD&A for details.

Market environment

MTV produces copper cathodes which are sold through an offtake agreement with an international trading group. SRHI is bullish on copper because from its analysis, long-term supply/demand fundamentals support improving copper prices. There are a number of factors that led SRHI to this conclusion, first among which is the belief that a structural supply deficit is coming. The bear market in copper from 2010-2015 contributed to under investment in the sector, which contributed to significant supply destruction. Existing mines are beginning to experience declining ore grades and a lack of exploration has resulted in an insufficient number of new, high-quality discoveries. On the demand side of the equation, SRHI expects China to continue consuming ever-increasing quantities of copper, with investment in its electrical power grid being the key driver of this consumption. In addition, it is becoming increasingly clear that electrification of the automobile industry is coming much quicker than previously anticipated. The average electric vehicle (“EV”) requires about three times as much copper as the average gasoline or diesel powered vehicle. SRHI believes the emergence of EVs will provide an additional structural tailwind for copper.

Equity analyst consensus currently forecast a copper price of USD$2.94 per pound in 2018. Cochilco, the Chilean state copper commission forecast an average global copper price of $3.06 per pound in 2018, a sharp upward revision from its mid-year estimate of $2.77 per pound due to greater demand in China. A higher price forecast should serve to increase production from third-party miners which may increase the toll-milling and purchased ore to be processed at MTV's plant.

Operational Update

In the fourth quarter of 2017, MTV mined 150,870 tonnes at a copper grade of 1.05%, an increase of 26% and a decrease of 7% respectively compared to 119,440 tonnes at a grade of 1.13% in the third quarter of 2017. The increase in tonnage quarter over quarter is a result of slowed mining activities during the third quarter due to heavy rainfalls.

Crusher activity increased by 29% to 209,819 tonnes in the fourth quarter of 2017 compared to 162,336 tonnes in the third quarter of 2017, driven primarily by increased mining activity noted above, and increased third party tonnage delivery.

Average crushing throughput of 2,281 tonnes per day is approximately 40% of the crushing plant capacity. MTV will seek to increase production of mineralized material in the coming quarters from the Don Gabriel open-pit mine. In addition, higher forecasted copper prices are expected to result in higher delivery of third-party and ENAMI mineralized material.

Copper production decreased by 5.3% to 1,452 tonnes in the fourth quarter of 2017, compared to 1,533 tonnes in the third quarter of 2017, primarily a result of the higher sulfide material being processed during the quarter, which require a longer leaching period.

	For the three months ended	
	December 31, 2017	**September 30, 2017**
Don Gabriel Open Pit		
Tonnage mined (a)	77,662	54,195
Waste mined (tonnes) (b)	254,486	165,975
Strip ratio (b/a)	3.28	3.06
Copper grade mined (% of tonnes mined)	0.87%	0.85%
Papomono Underground		
Tonnage mined	73,208	65,245
Copper grade mined (% of tonnes mined)	1.24%	1.36%
MTV Consolidated Totals		
Total tonnage mined	150,870	119,440
Average copper grade mined (% of tonnes mined)	1.05%	1.13%
Copper cathodes produced (tonnes)	1,452	1,533
MTV copper cathodes sold (tonnes)	1,228	1,346
ENAMI copper cathodes sold (tonnes)	240	180
Average sales price per lb (USD)	$2.79	$2.81
Crusher Activity		
Total mineral crushed (tonnes)	209,819	162,336
Copper grade crushed (% of tonnes crushed)	1.16%	1.25%
Average tonnes per day crushed (tpd)	2,281	1,765

Major risks

The risks are fully described in the *Risk Management* section of this MD&A.

Material listed investments

Summary information on the Company's material listed investments is presented below. Given their public company status, significant amounts of information on each of these listed investments is available as a result of their respective required continuous disclosure obligations. Readers are encouraged to obtain this information in order to best assess the financial position, results of operations, future prospects and risks associated with each of these listed investments of the Company. Additional information relating to these investments is available through their respective SEDAR (see *Defined Terms* section) filings and websites but such additional information is not incorporated by reference herein.

(in thousands)	December 31, 2017					
Listed investment	Ticker Symbol and Stock Exchange		Cost		Fair Value	Valuation Basis [1]
InPlay Oil	IPO: TSX	$	34,669	$	13,769	closing price
Corsa Coal	CSO: TSX-V	$	41,372	$	33,302	closing price

[1] The fair values of financial instruments with quoted bid and ask prices are based on the price within the bid-ask spread that are most representative of fair value and may include closing prices in exchange markets.

Other Investments

Beretta Farms Inc. (formerly One Earth Farms Corp.)

Investment background

Beretta Farms (a name change from One Earth Farms Corp. in the third quarter of 2017) is headquartered in Toronto, Canada and is a vertically integrated branded food products business focused on meat-based proteins sourced from animals raised in humane conditions without antibiotics, added hormones or steroids under a natural or organic protocol. Beretta Farms participates in the value chain from farm to fork. Beretta Farms raises beef cattle, the majority of which are located in Western Canada, harvests the cattle at its wholly-owned slaughter and processing facility in Lacombe, Alberta and sells natural and organic beef, together with other natural and organic proteins including poultry, pork and value-added food products to customers in the Canadian market as well as to customers in select export markets, including within the European Union ("EU"), China, the United States and the Middle East.

Valuation Approach

As discussed in the *Private Company Valuations* section of this MD&A, the Company did not engage a Valuator for its investment in Beretta Farms as at December 31, 2017. The Company has instead fair valued this investment relying on the most recent available information provided to investors, commodity pricing trends, the Company's large equity position in Beretta Farms, discussions with Beretta Farms management and other inputs. The last Estimate Valuation report as to the value of the Company's equity interest in Beretta Farms was prepared as at September 30, 2016. The fair value reported for Beretta Farms is unchanged from June 30, 2017.

The Company completed its valuation using a going concern basis applying an adjusted net assets approach to determine fair value at December 31, 2017. The fair value of Beretta Farms was determined by adjusting the reported book value of those assets and liabilities required in operations to their respective fair values as at December 31, 2017, including a full provision for Beretta Farms' intangible assets. In determining fair value, no value for Beretta Farms' tax loss pools was attributed.

The Company's reported fair value of Beretta Farms is recorded at approximately 0.85 times book value with approximately 90% of book value represented by tangible, liquid assets net of liabilities, including cash and receivables, biological assets and property and equipment. The fair value of Beretta Farms' largest asset, its current and long-term biological assets was estimated using the mid-point of a third-party Canadian commodity livestock pricing index based on the gender and average weight of the cattle with respect to current biological assets. There is no third-party index for natural, organic or grass fed cattle which command premiums over commodity cattle prices. The majority of Beretta Farms' cattle are natural or organic biological assets. Beretta Farms' remaining asset is its intangible assets, including brands and intangible assets purchased in acquisitions completed in 2013, 2014 and 2015.

OPERATING RESULTS

Year Ended December 31, 2017

Operating results for the year ended December 31, 2017 compared to the year ended December 31, 2016 are presented below.

Investment gain (loss)

Investment gain (loss) for the Company is comprised of its net loss on investments.

(in thousands)	For the Year Ended Dec. 31, 2017	Dec. 31, 2016
Net gain (loss) on investments	$ (35,620)	$ 10,397

Net gain (loss) on investments

Net gain (loss) on investments is comprised of (i) net realized loss on investments, (ii) reversal of previously recorded unrealized loss on investments, (iii) change in unrealized gain (loss) on investments and (iv) change in unrealized foreign exchange loss on investments.

(in thousands)	For the Year Ended Dec. 31, 2017	Dec. 31, 2016
Net realized loss on investments	$ (22,654)	$ (201,816)
Reversal of previously recorded unrealized loss on investments[1]	22,654	201,816
Change in unrealized gain (loss) on investments	(32,914)	15,611
Change in unrealized foreign exchange loss on investments	(2,706)	(5,214)
Net gain (loss) on investments	$ (35,620)	$ 10,397

[1] *Amounts resulting from accounting reversals of investments sold in the period.*

Net realized loss on investments

Net realized loss on investments is determined by calculating the realized gain on investments and subtracting the calculated realized loss on investments. Gain or loss on investments is the difference between the gross proceeds received on disposing of an investment less the average cost base of that respective investment. Should the amount of this calculation result in a positive number, it is a realized gain on investment. If the amount of this calculation results in a negative number, it is a realized loss on investment. Transaction costs related to a disposition are recorded separately in Transaction costs in the Consolidated Statements of Operations.

During the year ended December 31, 2017, the Company disposed of its entire holdings in Union Agriculture resulting in a realized loss of $22.6 million. During the year ended December 31, 2016, the Company disposed of its entire holdings in (i) Potash Ridge Corp. ("Potash Ridge"), (ii) One Earth Oil & Gas Inc. ("OEOG"), (iii) Long Run, (iv) Stonegate Agricom Ltd. ("Stonegate"), and (v) ICD resulting in a combined realized loss of $201.8 million.

(in thousands, except #)	For the Year Ended Dec. 31, 2017	#	Dec. 31, 2016	#
Total realized gains	$ —	—	$ —	—
Total realized losses	(22,654)	2	(201,816)	6
Net realized loss on investments	$ (22,654)	2	$ (201,816)	6

Reversal of previously recorded unrealized loss on investments

When an investment is disposed of, all previously recorded unrealized losses are reversed through "Reversal of previously recorded unrealized loss on investments" and the economics of the transaction are fully captured in "Net realized loss on investments".

	For the Year Ended	
(in thousands)	**Dec. 31, 2017**	Dec. 31, 2016
Potash Ridge	**$ —**	$ 13,775
OEOG	**—**	48,500
Long Run	**—**	87,835
Stonegate	**—**	24,381
ICD	**—**	26,852
Union Agriculture	**22,644**	—
Other	**10**	473
Reversal of previously recorded unrealized loss on investments[1]	**$ 22,654**	$ 201,816

[1] *Amounts resulting from accounting reversals of investments sold in the period.*

Change in unrealized gain (loss) on investments

The following table provides further detail as to the composition of the changes in unrealized gain (loss) on investments recorded in the respective periods:

		For the Year Ended	
(in thousands)	Public/Private	**Dec. 31, 2017**	Dec. 31, 2016
Long Run	Public	**$ —**	$ 3,680
ICD	Public	**—**	(208)
InPlay Oil (post November 11, 2016 go public transaction)	Public	**(353)**	(2,069)
InPlay Oil	Private	**—**	(3,111)
RII	Private	**(3,820)**	—
Corsa Coal	Public	**(17,219)**	40,286
Beretta Farms	Private	**(4,142)**	(14,696)
Union Agriculture	Private	**(7,985)**	(8,648)
Other investments	Private/Public	**604**	377
Change in unrealized gain (loss) on investments		**$ (32,914)**	$ 15,611

See the *Material Investments* section for a discussion to support the change in the unrealized gain (loss) on investments of the private investments.

Change in unrealized foreign exchange loss on investments

	For the Year Ended	
(in thousands)	**Dec. 31, 2017**	Dec. 31, 2016
ICD	**$ —**	$ (1,583)
Union Agriculture	**(2,866)**	(3,631)
MTV	**160**	—
Change in unrealized foreign exchange loss on investments	**$ (2,706)**	$ (5,214)

Expenses

	For the Year Ended	
(in thousands)	**Dec. 31, 2017**	Dec. 31, 2016
General and administrative expenses	**$ 1,280**	$ 1,852
Management fees and compensation	**2,898**	2,240
Transaction costs	**1,506**	1,870
Finance expense	**—**	1,037
Foreign currency translation loss (gain)	**868**	(86)
Total expenses	**$ 6,552**	$ 6,913

The composition of general and administrative ("G&A") expenses is as follows:

	For the Year Ended	
(in thousands)	**Dec. 31, 2017**	Dec. 31, 2016
Professional fees	**$ 289**	$ 196
Public company reporting costs	**1,253**	1,129
Office expenses	**448**	547
Interest income	**(455)**	(20)
Bargain purchase gain	**(255)**	—
	$ 1,280	$ 1,852

Public company reporting costs include $235 thousand of director stock-based compensation for the year ended December 31, 2017 (year ended December 31, 2016: $307 thousand). Interest income was $455 thousand for the year ended December 31, 2017 (year ended December 31, 2016: $20 thousand) and is a result of the cash balances held from the capital raised by the Company through the Arrangement, Transaction and Offering. The bargain purchase gain is the result of the Arrangement as more fully described in the section *ADI Business Combination With SRC* located elsewhere in this MD&A.

The increase in management fees and compensation costs for the year ended December 31, 2017, compared with the year ended December 31, 2016, is due to the increase in the average NAV of the Company on which the fee is based. Included in management fees and compensation is stock-based compensation for the year ended December 31, 2017 of $239 thousand (year ended December 31, 2016: $174 thousand), in connection with the Company's equity incentive plan that was, in part, paid in lieu of cash compensation.

For the year ended December 31, 2017, transaction costs of $1.5 million were incurred, compared to $1.9 million for the year ended December 31, 2016. For the year ended December 31, 2017, transaction costs of $1.5 million were primarily a result of professional fees associated with the Arrangement, Transaction and Offering of $458 thousand, together with costs of $1 million associated with the investment in MTV and the evaluation of other potential new investments. These costs are not expected to be comparable to prior periods since they arise primarily when transactions are identified and entered into at the discretion of management.

Under IFRS, interest expense is included as finance expenses. The Company did not incur finance expenses for the year ended December 31, 2017 compared to $1.0 million for the year ended December 31, 2016. The finance expense in the comparable period was comprised of interest expense on SRC's debt facility which SRC repaid in full on October 13, 2016.

For the year ended December 31, 2017, an unrealized foreign currency translation loss of $868 thousand was incurred, compared to a $86 thousand gain for the year ended December 31, 2016. The Company was negatively affected by an appreciating CAD in relation to the United State Dollar ("USD") during the third quarter of 2017 given the purchases of USDs in anticipation of closing the MTV investment.

Income taxes

The Company did not report any current income taxes for the year ended December 31, 2017 or for the year ended December 31, 2016.

As at December 31, 2017 and December 31, 2016, management determined that the Company did not meet the criteria as set out in International Accounting Standard 12: *Income Taxes* to recognize a deferred tax asset.

Deferred income taxes are primarily driven by the change in unrealized gains and losses reported by the Company. As the Company reports unrealized gains, all else being equal, the Company will record a deferred income tax expense as there is a strong correlation between unrealized gains and deferred income tax expense. Similarly, as the Company reports unrealized losses, all else being equal, the Company will record a deferred income tax recovery subject to the Company determining that unrealized losses are more likely than not to be utilized in the future.

As a result of the Arrangement, the majority of all income tax losses available to shelter future income taxes for both SRC and ADI expired.

Net income (loss) and comprehensive income (loss)

For the year ended December 31, 2017, the Company reported net loss and comprehensive loss attributed to shareholders of $42.2 million ($0.07 per share) compared to net income and comprehensive income attributed to shareholders of $3.5 million ($0.01 per share) reported for the year ended December 31, 2016. The components of these amounts are discussed in the explanations provided above.

Three Months Ended December 31, 2017

Operating results for the three months ended December 31, 2017 compared to the three months ended December 31, 2016 are presented below.

Investment gain

Investment gain for the Company is comprised of its net gain on investments.

	For the Three Months Ended	
(in thousands)	**Dec. 31, 2017**	Dec. 31, 2016
Net gain on investments	**$ 12,325**	$ 7,537

Net gain on investments

Net gain on investments is comprised of (i) net realized loss on investments, (ii) reversal of previously recorded unrealized loss on investments, (iii) change in unrealized gain on investments and (iv) change in unrealized foreign exchange gain on investments.

(in thousands)	For the Three Months Ended Dec. 31, 2017	Dec. 31, 2016
Net realized loss on investments	$ (17,646)	$ (11,389)
Reversal of previously recorded unrealized loss on investments (excluding the effects of foreign exchange)[1]	17,646	11,389
Change in unrealized gain on investments	12,081	7,100
Change in unrealized foreign exchange gain on investments	244	437
Net gain on investments	$ 12,325	$ 7,537

[1] *Amounts resulting from accounting reversals of investments sold in the period*

Net realized loss on investments

(in thousands, except #)	For the Three Months Ended Dec. 31, 2017	#	Dec. 31, 2016	#
Total realized gains	$ —	0	$ —	0
Total realized losses	(17,646)	1	(11,389)	2
Total net realized loss on investments	$ (17,646)	1	$ (11,389)	2

During the three months ended December 31, 2017, the Company disposed of its remaining investment in Union Agriculture resulting in a realized loss of $17.6 million. During the three months ended December 31, 2016, the Company disposed of its remaining investment in ICD resulting in a realized loss of $10.9 million and its remaining investment in a royalty investment resulting in a realized loss of $0.5 million.

Reversal of previously recorded unrealized loss on investments

In the year an investment is disposed of, all previously recorded unrealized losses are reversed through "Reversal of previously recorded unrealized loss on investments" and the economics of the transaction are fully captured in "Net realized loss on investments".

(in thousands)	For the Three Months Ended Dec. 31, 2017	Dec. 31, 2016
Union Agriculture	$ 17,646	$ —
ICD	—	10,916
Other	—	473
Reversal of previously recorded unrealized loss on investments[1]	$ 17,646	$ 11,389

[1] *Amounts resulting from accounting reversals of investments sold in the period*

Change in unrealized gain (loss) on investments

The following table provides further detail as to the composition of the changes in unrealized gain (loss) on investments recorded in the respective periods:

(in thousands)	Public/Private	For the Three Months Ended Dec. 31, 2017	Dec. 31, 2016
ICD	Public	$ —	$ (128)
InPlay Oil	Public	1,847	(2,069)
Corsa Coal	Public	10,234	10,159
Beretta Farms	Private	—	(668)
Union Agriculture	Private	—	(378)
Other investments	Private/Public	—	184
Change in unrealized gain on investments		$ 12,081	$ 7,100

See the *Material Investments* section for a discussion to support the change in the unrealized gain (loss) on investments of the private investments.

Change in unrealized foreign exchange gain on investments

(in thousands)	For the Three Months Ended Dec. 31, 2017	Dec. 31, 2016
ICD	$ —	$ 167
Union Agriculture	84	270
MTV	160	$ —
Change in unrealized foreign exchange gain on investments	$ 244	$ 437

Expenses

(in thousands)	For the Three Months Ended Dec. 31, 2017	Dec. 31, 2016
General and administrative expenses	$ 538	$ 535
Management fees and compensation	748	576
Transaction costs	379	1,441
Finance expense	—	25
Foreign currency translation gain	(74)	(84)
Total expenses	$ 1,591	$ 2,493

The composition of G&A expenses is as follows:

(in thousands)	For the Three Months Ended Dec. 31, 2017	Dec. 31, 2016
Professional fees	$ 62	$ 34
Public company reporting costs	383	313
Office expenses	210	208
Interest income	(117)	(20)
	$ 538	$ 535

Public company reporting costs includes $154 thousand of director stock-based compensation for the three months ended December 31, 2017 (three months ended December 31, 2016: $77 thousand). Interest income was $117 thousand for the three months ended December 31, 2017 (three months ended December 31, 2016: $20 thousand) and is a result of the cash balances held from the disposition of the Union Agriculture investment together with the capital raised by the Company through the Arrangement, Transaction and Offering.

The increase in management fees and compensation costs for the three months ended December 31, 2017, compared with the three months ended December 31, 2016, is due to the increase in the average NAV of the Company on which the fee is based. Included in management fees and compensation is stock-based compensation for the three months ended December 31, 2017 of $34 thousand (three months ended December 31, 2016: $3 thousand), in connection with the Company's equity incentive plan that was, in part, paid in lieu of cash compensation.

For the three months ended December 31, 2017, transaction costs of $379 thousand were incurred, compared to $1.4 million for the three months ended December 31, 2016. For the three months ended December 31, 2017, transaction costs of $379 thousand were a result of professional fees associated with the Arrangement, Transaction and Offering of $97 thousand together with costs of $282 thousand associated with investments. Transaction costs are not expected to be comparable to prior periods since they arise primarily when transactions are identified and entered into at the discretion of management.

Under IFRS, interest expense is included as finance expenses. The Company did not incur finance expenses for the three months ended December 31, 2017 compared to $25 thousand for the three months ended December 31, 2016. The finance expense in the comparable period was comprised of interest expense on SRC's debt facility which SRC repaid in full on October 13, 2016.

For the three months ended December 31, 2017, an unrealized foreign currency translation gain of $74 thousand was recognized, comparable to a $84 thousand translation gain for the three months ended December 31, 2016.

Income taxes

For the three months ended December 31, 2017 and three months ended December 31, 2016, the Company did not report any current or deferred income taxes.

Net income and comprehensive income

For the three months ended December 31, 2017, the Company reported net income and comprehensive income of $10.7 million ($0.02 per share) compared to net income and comprehensive income of $5.0 million ($0.02 per share) reported for the three months ended December 31, 2016. The components of these amounts are discussed in the explanations provided above.

Statement of Financial Position

Assets

(in thousands)		As at Dec. 31, 2017		As at Dec. 31, 2016
Cash and cash equivalents	$	36,208	$	12,196
Trade and other receivables		1,164		407
Investments owned, at fair value		115,412		100,669
Total assets	$	152,784	$	113,272

Cash and cash equivalents at both December 31, 2017 and December 31, 2016 were held primarily in deposit accounts at Schedule 1 banks.

The carrying amount of the trade and other receivables incorporates management's assessment of credit risk. For additional information, see Credit Risk under the *Risk Management* section elsewhere in this MD&A.

For a detailed discussion of the Company's investment portfolio, see the *Investment Summary*, *Portfolio Review* and *Material Investments* sections of this MD&A.

Liabilities

(in thousands)		As at Dec. 31, 2017		As at Dec. 31, 2016
Total liabilities	$	2,033	$	2,487

Total liabilities, which are comprised of trade and other payables as at December 31, 2017 include management fees payable to Sprott Consulting Limited Partnership ("SCLP") of $0.3 million (December 31, 2016: $0.2 million).

Working capital

(in thousands)		As at Dec. 31, 2017		As at Dec. 31, 2016
Cash and cash equivalents, trade and other receivables	$	37,372	$	12,603
Liabilities		(2,033)		(2,487)
Working capital	$	35,339	$	10,116

NAV per share

		As at Dec. 31, 2017		Sep. 30, 2017		Jun. 30, 2017		Mar. 31, 2017		Dec. 31, 2016
NAV per share, based on fair values [1]	$	0.22	$	0.21	$	0.23	$	0.27	$	0.38

[1] *Amounts at December 31, 2016 and earlier have been adjusted to reflect the* post-Arrangement ratio of 3.0 ADI shares for each SRC share.

Management views NAV per share (see *Defined Terms* section) as an indicative performance measure as it reflects the value attributable to each Common Share. NAV (and not NAV per share) on a stand-alone basis is not necessarily an absolute basis of measurement as it does not reflect all of the impacts in value to the shareholder, including the effects of the $120 million in capital returned to SRC shareholders through normal course issuer bids and the 2013 dividend.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	For the Year Ended Dec. 31, 2017	Dec. 31, 2016
Cash flows from operating activities		
Net income (loss) attributable to shareholders	$ (42,172)	$ 3,484
Items not affecting cash	35,839	(9,915)
Purchase of investments	(49,894)	(14,362)
Sale of investments	6,081	44,857
Changes in non-cash operating working capital	(1,765)	665
Cash provided by (used in) operating activities	(51,911)	24,729
Cash flows from financing activities		
Cash and cash equivalents received on Arrangement, net of issue costs	26,283	—
Proceeds from shares issued for MTV investment	8,003	—
Net proceeds from Transaction	14,559	—
Net proceeds from Offering	27,502	—
Proceeds from credit facility	—	4,500
Repayments of credit facility	—	(17,200)
Acquisition of treasury stock	(424)	(508)
Cash provided by (used in) financing activities	75,923	(13,208)
Change in cash and cash equivalents	24,012	11,521
Cash and cash equivalents - Beginning of year	12,196	674
Cash and cash equivalents - End of year	$ 36,208	$ 12,195

For the year ended December 31, 2017, the Company recorded a net loss of $42.2 million. Items not affecting cash totaled $35.8 million and together with a net purchase of investments of $43.8 million and a decrease in non-cash operating working capital of $1.8 million, the Company reported cash used in operating activities of $51.9 million.

For the year ended December 31, 2016, the Company recorded net income of $3.5 million. Items not affecting cash totaled $9.9 million and together with a net sale of investments of $30.5 million the Company reported cash provided by operating activities of $24.7 million.

For the year ended December 31, 2017, cash provided by financing activities totaled $75.9 million compared to cash used for financing activities of $13.2 million for the year ended December 31, 2016. For the year ended December 31, 2017, cash provided by financing activities was comprised primarily of $26.3 million in cash received as a result of the Arrangement, proceeds from shares issued for the MTV investment of $8.0 million, net proceeds from the Transaction of $14.6 million and net proceeds from the Offering of $27.5 million, partially offset by $0.4 million used in the purchase of Common Shares for the equity incentive plan.

For the year ended December 31, 2016, cash used for financing activities of $13.2 million comprised of funds drawn on the credit facility of $4.5 million, repayments of the credit facility of $17.2 million and the purchase of Common Shares for the equity incentive plan of $0.5 million.

There are no legal or practical restrictions on the ability of SRC, SRH Chile, SRCHC, or ADM to transfer funds to the Company for the Company to meet its obligations.

FINANCING ACTIVITIES BY THE COMPANY

It has been the Company's policy to preserve a financially strong company that has the capital available to support the growth of existing investments and make new investments. The Company had net cash of $34 million at December 31, 2017. In certain circumstances, the Company will provide loans or guarantees to investee companies in which it has significant ownership to further their respective business plans. There are no loans or guarantees to investee companies at December 31, 2017.

On September 29, 2015, SRC as the borrower entered into an amended and restated credit facility ("Facility") with Sprott Resource Lending Corp., a subsidiary of Sprott, which was subsequently amended by an amending agreement dated May 10, 2016. The credit facility was an $18.0 million term facility that matured on November 11, 2016 (“Maturity Date”) and was available for general corporate purposes. Upon signing the amending agreement SRC paid a commitment fee equal to 0.5% of the Facility. Interest accrued daily at 8% per annum, compounded monthly. On October 13, 2016, SRC repaid the Facility in full.

On February 9, 2017, SRC and ADI closed their previously announced Arrangement where SRC became a wholly-owned subsidiary of ADI and holders of common shares of SRC received 3.0 ADI common shares per common share of SRC. The Arrangement provided the Company with incremental cash and cash equivalents of $26.4 million, other assets of $6.7 million and assumed liabilities of $0.7 million. See the section *ADI Business Combination with SRC* elsewhere in this MD&A for additional details.

On February 9, 2017, (i) Sprott invested $10 million in ADI common shares and (ii) a fund managed by a subsidiary of Sprott, together with Term Oil Inc. (a corporation controlled by A.R. (Rick) Rule IV), invested a total of $5 million in units of ADI. See the section *ADI Business Combination with SRC* elsewhere in this MD&A for additional details.

On April 18, 2017, the Company closed its previously announced Offering for gross proceeds of $30.0 million resulting in the issuance of 120 million Offered Units. See the section *SRHI Marketed Offering* elsewhere in this MD&A for additional details.

On October 2, 2017, the Company issued 51,191,847 common shares for $8.0 million as part of the purchase price for its investment in MTV. See the section *Investment in S.C. Minera Tres Valles* elsewhere in this MD&A for additional details.

EQUITY DATA

Authorized capital:

Common shares, no par value, unlimited shares.

Issued and outstanding:

The Company had 681,680,846 common shares issued and outstanding as at December 31, 2017 and on the date hereof.

(in thousands, except #)	Common shares (#)		Amount
Balance - December 31, 2015 and December 31, 2016	157,554,238	$	280,902
Shares issued on Arrangement, net of issue costs	290,016,306		30,341
Shares issued on Transaction, net of issue costs	62,918,455		13,726
Shares issued on Offering, net of issue costs	120,000,000		22,955
Shares issued on MTV investment	51,191,847		8,003
Balance - December 31, 2017 and March 2, 2018	**681,680,846**		355,927

Outstanding warrants:

Common share purchase warrants outstanding are as follows:

(in thousands, except #)	Warrants (#)	Amount
Balance - January 1, 2016 and January 1, 2017	—	$ —
Warrants issued on Arrangement, net of issue costs	39,388,560	1,683
Warrants issued on Transaction, net of issue costs	20,000,000	833
Warrants issued on termination of Profit Distribution	21,750,000	933
Warrants issued on Offering, net of issue costs	120,000,000	4,547
Balance - December 31, 2017 and March 2, 2018	**201,138,560**	**$ 7,996**

The Warrants have an exercise price of $0.333 per common share and expire on February 9, 2022. See the sections *ADI Business Combination with SRC, SRHI Marketed Offering* and *Financing Activities by the Company* elsewhere in this MD&A for additional details.

Outstanding stock options:

The number of Common Shares available under the Company's stock option plan (the "Option Plan") shall not exceed 10% of the issued and outstanding Common Shares as at the date of such grant. The Company may grant options to directors, officers, employees or consultants of the Company. The exercise price per stock option is determined by the Company at the time the option is granted but, in any event, shall not be less than the closing price of the shares on the TSX on the trading day immediately preceding the date of the grant of the option, unless the grant of the option occurs during a blackout period, in which case the exercise price per share shall not be less than the closing price of the shares on the TSX on the second trading day immediately following the expiry of the blackout period. Options granted pursuant to the Option Plan have a ten year term and shall vest and become exercisable by an optionee in three tranches: one third of the number of options vesting each of six, twelve and eighteen months following the date of grants.

The Company did not grant any stock options in the year ended December 31, 2017. SRC's stock option plan was cancelled on February 9, 2017 on the completion of the Arrangement and all SRC stock options expired as a result. The Option Plan of the Company remains in place.

The continuity of stock options is as follows:

	Stock options (#)	Weighted average exercise price (per unit)
Balance - December 31, 2016	5,250,000	$ 0.30
Expired	(950,000)	0.81
Balance - December 31, 2017	**4,300,000**	**$ 0.19**
Forfeited	(300,000)	$ 0.20
Balance - March 2, 2018	**4,000,000**	**$ 0.19**

The following table summarizes the options outstanding as at December 31, 2017:

Year of Expiry	Number of options outstanding		Weighted average exercise price (per unit)	Weighted average remaining contractual life (years)	Number of exercisable options outstanding		Weighted average exercise price (per unit)
2018	650,000	$	0.22	0.36	650,000	$	0.22
2019	650,000		0.17	1.36	650,000		0.17
2020	3,000,000		0.19	2.88	3,000,000		0.19
	4,300,000	$	0.19	2.27	4,300,000	$	0.19

Treasury stock

On May 21, 2014, SRC adopted an equity incentive plan (the "Plan") for employees and directors of SRC and as a result of the Arrangement, effective February 9, 2017, the Plan continued as if it was the Plan of SRHI. The Plan and Trust (defined below) continue to operate purchasing shares of the Company in the open market.

The Plan has been established and the Company funds an independent trust (the "Trust") with cash, which is used by the independent trustee to purchase Common Shares on the open market. The shares are held in the Trust and the Company can request the Trust to set aside the Common Shares it holds for the benefit of directors and employees (individually the "Beneficiary") until certain conditions are satisfied, at which time the Trust may allocate and issue those Common Shares to the Beneficiary or, if requested, dispose of them and remit the receipts to the Beneficiary. The Common Shares set aside for employees in the Trust form a part of total compensation that was historically paid as cash and is not incremental compensation. The Common Shares set aside for directors in the Trust cannot be monetized or removed from the Trust until the director retires or otherwise leaves the Board. A portion of the Common Shares purchased by the Trust was a result of certain employees and consultants foregoing base compensation historically paid in cash for Common Shares of the Company purchased through the Trust.

The Common Shares held by the Trust are accounted for as treasury stock and reflected as a separate component of shareholders' equity. As the rights to receive the shares vest to the Beneficiary, the grant date fair value of the shares is recorded as stock-based compensation expense with a corresponding entry to contributed surplus. There is no change in the amount of the Company's issued and outstanding Common Shares as a result of either the purchase by the Trust or the granting and vesting of the Common Shares to employees or directors.

The Trust purchased 2.7 million Common Shares for the year ended December 31, 2017 (for the year ended December 31, 2016: 2.7 million Common Shares). During the year ended December 31, 2017, an additional 2.8 million Common Shares were released on vesting from the equity incentive plan.

(in thousands, except #)	Common shares (#)		Amount
Unvested common shares held by the Trust, December 31, 2016 [1]	1,602,261	$	437
Acquired for equity incentive plan	2,725,926		424
Released on vesting of equity incentive plan	(2,839,229)		(619)
Unvested common shares held by the Trust, December 31, 2017	**1,488,958**		**242**
Acquired for equity incentive plan	95,087		15
Released on vesting of equity incentive plan	(95,087)		(15)
Unvested common shares held by the Trust, March 2, 2018	**1,488,958**	**$**	**242**

[1] Number of Common Shares is reflected post-Arrangement ratio of 3.0 ADI shares for each SRC share

COMMITMENTS (as at March 2, 2018)

SRHI Management Services Agreement ("MSA")

Effective February 9, 2017, the Second Amended and Restated MSA between SRC and SCLP was cancelled ("Cancelled MSA") and a new MSA was entered into effective February 9, 2017 between SRHI and SCLP (the "MSA"). The terms of the MSA are substantially the same as the Cancelled MSA with further detail of the MSA provided in the *Management Fee and Profit Distribution* section located elsewhere in this MD&A.

Up until October 2, 2017, SRHI invested and operated in the natural resource sector through Sprott Resource Partnership ("SRP") and ADM. Substantially all of the holdings of SRHI were held by SRP. On October 2, 2017, SRP was restructured resulting in an effective amalgamation with SRC and the Partnership Agreement was terminated. There is no impact to the operations of the Company as a result of this effective amalgamation and substantially all of the holdings of SRHI are now held by SRC.

TRANSACTIONS WITH RELATED PARTIES

The Company entered into the following transactions with related parties during the year ended December 31, 2017.

Management fees and employment compensation pursuant to the Cancelled MSA and MSA for the year ended December 31, 2017 were $2.9 million (year ended December 31, 2016: $2.2 million). The employment compensation portion was paid directly by SRHI or one of its subsidiaries to employees and consultants provided by SCLP and the remainder was paid and payable to SCLP, an entity with directors and officers in common. As at December 31, 2017, there were $0.3 million (December 31, 2016: $0.2 million) payable to SCLP for management fees calculated pursuant to the MSA (December 31, 2016: Cancelled MSA).

Commissions paid to Sprott Capital Partners ("SCP") and Sprott Global Resource Investments Ltd. ("Sprott Global") in connection with the Transaction and Offering for the year ended December 31, 2017 were $2.1 million (year ended December 31, 2016: $nil). SCP and Sprott Global are affiliates of SCLP.

Transactions with related parties are recorded at the price agreed between the parties. Transactions in the normal course of business are measured at the monetary amount, which is the amount of consideration established, agreed to and paid by the related parties based on standard commercial terms.

From time-to-time, the Company pays compensation directly to employees and consultants of SRHI for which it is reimbursed by Sprott.

MANAGEMENT FEE AND PROFIT DISTRIBUTION

January 1, 2016 to February 8, 2017

The Cancelled MSA was in effect from January 1, 2016 to February 8, 2017 and may be accessed at www.sedar.com.

The calculation of management fees payable to SCLP is determined in respect of each fiscal quarter - 0.5% of the Quarterly NAV (see *Defined Terms* section) of SRC (2% per annum) where Quarterly NAV of SRC means, the average of the NAV of SRC as at the end of such fiscal quarter and the NAV of SRC as at the end of the immediately preceding fiscal quarter. NAV of SRC, means, in respect of a particular date, SRC's total assets less its total liabilities less its minority interest, all as at such date as set forth in SRC's consolidated financial statements prepared as at such date.

Effective February 9, 2017

Effective February 9, 2017, the Cancelled MSA was replaced and the MSA was entered into effective February 9, 2017 between SRHI and SCLP.

Under the MSA, SCLP manages or, subject to certain restrictions, engage others to manage, all of the undertaking, affairs and assets of SRHI and provides all necessary or advisable administrative services and facilities.

In consideration for the management and administrative services provided by SCLP to SRHI under the MSA, SRHI will pay to SCLP, in respect of each fiscal quarter, a management services fee equal to 0.5% of the Quarterly NAV of SRHI (as defined in the MSA) for such fiscal quarter, less the total remuneration paid directly by SRHI to all persons nominated by SCLP as employees, officers or directors of SRHI who provide investment management services to SRHI, but excluding any expenses recorded as a result of the granting of stock options under SRHI's stock option plan for such fiscal quarter (the "Management Services Fee"). To the extent the Quarterly NAV of SRHI for a fiscal quarter is in excess of $1 billion, the Management Services Fee payable in respect of such excess amount will be reduced to 0.375%.

If and to the extent that SCLP is requested in writing by the directors of SRHI to render services to SRHI other than those required to be rendered pursuant to the MSA, such additional services and activities will be compensated for separately and will be on such terms that are generally no less favourable to SRHI than those available from arm's length parties (within the meaning of the Tax Act) for comparable services. In addition to the Management Services Fee payable to SCLP pursuant to the MSA, SRHI will be responsible for paying all fees and expenses incurred in connection with the operation and administration of its business.

The Adjusted Annual Operating Expenses (as defined in the MSA) shall not: (a) exceed 3.25% of the Annual NAV of SRHI (as defined in the MSA) in respect of its fiscal year ending December 31, 2017 (provided that SRHI's fiscal year ending December 31, 2017 and fiscal quarter ending March 31, 2017 shall each be deemed to begin on the date of the MSA for the purposes of calculating both the Adjusted Annual Operating Expenses and the Maximum Adjusted Annual Operating Expenses (as defined below) pursuant to this item (a)), and (b) exceed 3% of the Annual NAV of SRHI in respect of fiscal years commencing with SRHI's fiscal year ended December 31, 2018 and thereafter (the "Maximum Adjusted Annual Operating Expenses"). Where such Adjusted Annual Operating Expenses exceed the Maximum Adjusted Annual Operating Expenses (unless otherwise consented to by the board of directors of SRHI), the Management Services Fee payable by SRHI to SCLP in respect of the last quarterly payment to be made in respect of such fiscal year shall be reduced to ensure the Adjusted Annual Operating Expenses are equal to (or, in any case, do not exceed) the applicable Maximum Adjusted Annual Operating Expenses. For the period February 9, 2017 to December 31, 2017, the Company's annualized Adjusted Annual Operating expense was less than 3.25%.

SCLP shall, and shall ensure that its nominees shall, exercise the powers granted and discharge its, and their, duties under the MSA honestly, in good faith and in the best interests of SRHI and, in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent manager, or Person, would exercise in comparable circumstances.

The MSA will continue in full force and effect until it is terminated by either SRHI or SCLP giving at least one year prior written notice (or such shorter period as the parties may mutually agree upon) to the other party of such termination. If the MSA is terminated by SRHI, other than for the reasons set out in the paragraph immediately below, SRHI shall pay to SCLP within 5 business days of such termination, a termination payment equal to 1% of the NAV of SRHI (as defined in the MSA).

SRHI may terminate the MSA at any time if SCLP breaches any of its material obligations under the MSA and such breach has not been cured within 30 days following notice thereof from SRHI. Notwithstanding the foregoing, the MSA will terminate immediately where a winding-up, liquidation, dissolution, bankruptcy, sale of substantially all assets, sale of business or insolvency proceeding has been commenced or is being contemplated by SCLP, and will be terminated upon the completion of any such proceeding by SRHI. In addition, in the event that a Person or group of Persons, acting jointly or in concert, acquires control over at least 50% of the voting securities of SRHI (a "Change of Control"), SCLP may elect, in its sole discretion, to terminate the MSA by giving SRHI written notice of such termination within 90 days after the Change of Control.

In the event that SCLP terminates the MSA upon a Change of Control, SRHI will (a) call a meeting of its shareholders to approve the change of SRHI's name to remove any reference to "Sprott", and (b) pay to SCLP within five business days of such termination, a termination fee equal to 3% of the NAV of SRHI, plus (if and to the extent applicable) an amount equal to 20% of the amount by which the market capitalization of SRHI exceeds the NAV of SRHI, all determined as at the termination date. Any change of SCLP (other than by assignment to its successor or affiliate) will require SRHI's approval. SRHI may, in its sole discretion, terminate and replace SCLP where it deems it to be in the best interests of SRHI.

SRHI acknowledges and agrees under the MSA that SCLP, for and on behalf of Sprott, reserves all right, title and interest in or to the name or designation, or reference to "Sprott" in the name or designation of any of SRHI's affiliates or, if applicable, SRHI. Upon termination of the MSA, SRHI will forthwith upon written request of SCLP call a meeting of its shareholders to approve an amendment of its articles to change the name of SRHI or any of its affiliates to one which does not include the word "Sprott" or any words similar thereto, and to cause to be executed and delivered all instruments necessary to evidence such change of name.

On February 9, 2017, SRC entered into the Partnership Agreement with the Managing Partner in respect of SRP. The terms of the Partnership Agreement do not provide for a profit distribution to be made to the Managing Partner. On October 2, 2017, SRP was restructured resulting in an effective amalgamation with SRC and the Partnership Agreement was terminated. There is no impact to the operations of the Company as a result of this effective amalgamation.

For the purposes of calculating management fees for the three months ended December 31, 2017, the reported NAV at September 30, 2017 of $132.1 million was used together with the NAV reported at December 31, 2017 of $150.8 million. Management fees are calculated quarterly based on the average NAV of the current quarter and the prior quarter.

SUMMARY OF QUARTERLY RESULTS [1]

	2017				2016			
(in thousands, except per share amounts)	**Dec**	Sept	Jun	Mar	Dec	Sept	Jun	Mar
Investment gain (loss)	**$ 12,325**	$ (8,036)	$ (21,719)	$ (18,190)	$ 7,537	$ 12,502	$ (16,143)	$ 6,498
Net income (loss) attributable to shareholders [2]	**$ 10,734**	$ (10,553)	$ (23,292)	$ (19,061)	$ 5,044	$ 10,919	$ (17,517)	$ 5,035
Basic and diluted earnings (loss) per share	**$ 0.02**	$ (0.02)	$ (0.04)	$ (0.05)	$ 0.02	$ 0.04	$ (0.06)	$ 0.02

[1] Financial information includes the results of operations of ADI consolidated from February 9, 2017. As such, the comparative information is the SRC comparative information and the per share amounts reflect post-Arrangement ratio of 3.0 ADI shares for each SRC share.

[2] Net loss attributable to shareholders for the three months ended March 31, 2017 has been increased by $185 thousand as a result of the retrospective application of the revised purchase price allocation in the second quarter of 2017 for the Arrangement - see ADI Business Combination With SRC section elsewhere in this MD&A.

The Company is not impacted materially by seasonality.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed or caused to be designed under management's supervision, disclosure controls and procedures that provide reasonable assurance that (i) material information relating to the Company is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual and interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. In conducting this evaluation, management has considered, among other things, the corporate charter and policies of the Company, including the Company's disclosure policy.

The Company's CEO and CFO have also designed internal controls over financial reporting which are designed, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company has engaged an independent advisory and accounting firm to assist management in conducting the evaluation and suggest best practices when they are not being applied and also to test the key controls within the material financial cycles. This evaluation is done under the supervision of, and with the participation of the CEO and CFO.

The officers of the Company do not expect that the disclosure controls and procedures of internal controls over financial reporting will prevent all errors and fraud, based on their evaluation. The CEO and CFO have concluded that the Company's disclosure controls and procedures and internal controls over financial reporting were effective as at December 31, 2017. There were no significant changes in the Company's internal controls over financial reporting that occurred during the three months ended December 31, 2017, that have materially affected, or are reasonably likely to have materially affected, the Company's internal controls over financial reporting. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments by management represent an integral component of the Financial Statements prepared in conformity with IFRS. The estimates made in the Financial Statements reflect management's judgments based on past experiences, present conditions and expectations of future events. Where estimates were made, the reported amounts for assets, liabilities, revenues and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time the Financial Statements were prepared. Other than explained below, please refer to Note 2 of the Financial Statements for details on critical accounting estimates.

Fair value of investments

The Company's investments are recorded in the Consolidated Statements of Financial Position at fair value. Management uses their judgment to select a variety of methods and make assumptions that are not always supported by quantifiable market prices or rates. Judgment is required in order to determine the appropriate valuation methodology under this standard and subsequently in determining the inputs into the valuation model used. These judgments include making assessments of the future earnings potential of investee companies, appropriate earnings multiples to apply, and adjustments to comparable multiples. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making these estimates in these Financial Statements. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these Financial Statements and the differences may be material. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair values of various assets and liabilities. The fair values of financial instruments with quoted bid and ask prices are based on the price within the bid-ask spread that are most representative of fair value and may include closing prices in exchange markets.

Financial assets and liabilities that are not measured at fair value on the Consolidated Statements of Financial Position are represented by cash and cash equivalents, trade and other receivables, and trade and other payables. Due to their short-term nature and low credit risk, the fair values of these financial assets and liabilities approximate their carrying amounts.

Determination of investment entity status

The most significant judgment made in preparing the Financial Statements is the determination that the Company is an investment entity. In accordance with IFRS 10, an investment entity is an entity that: "obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis." In determining its status as an investment entity, the most significant judgments made include the determination by the Company that its investment-related activities with subsidiaries, other than SRC, SRH Chile and ADM do not represent a separate substantial business activity and that fair value is the primary measurement attribute used to monitor and evaluate substantially all of its investments.

Effective February 1, 2018, SRHI management determined that SRHI no longer qualifies as an investment entity. See the section *Diversified Holding Company* elsewhere in this MD&A for additional details.

Stock-based compensation

Equity compensation through the Trust can only be granted to employees and directors when the Company is permitted to purchase its own shares through the TSX. From time-to-time, equity compensation is approved during a period of regulatory blackout which requires management to estimate the number of shares that will ultimately be granted as equity compensation.

Warrants

The Company engages in equity financing transactions which may involve issuance of equity units which are comprised of common shares and warrants. Share purchase warrants that are part of units are measured at fair value on the date of issue using the Black-Scholes option pricing model which requires management to make certain estimates in fair valuing the warrants.

Business combinations

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgements as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 – *Business Combinations*. Based on an assessment of the relevant facts and circumstances, the Company concluded that the acquisition of ADI on February 9, 2017 met the criteria for accounting as a business combination.

The allocation of the purchase price of acquisitions requires estimates as to the fair market value of acquired assets and liabilities. The information necessary to measure the fair values as at the acquisition date of assets acquired and liabilities assumed requires management to make certain judgments and estimates about future events, including but not limited to estimates of mineral reserves and mineral resources and exploration potential of the assets acquired, future operating costs and capital expenditures, discount rates to determine fair value of assets acquired and future metal prices and long term foreign exchange rates.

Changes to the preliminary measurements of assets and liabilities acquired may be retrospectively adjusted when new information is obtained until the final measurements are determined within one year of the Acquisition Date.

MINERAL RESERVE AND MINERAL RESOURCE ESTIMATES

On March 2, 2018, the Company announced the results of an updated mineral reserve and mineral resource estimate, pre-feasibility study for the implementation of chloride media leaching, and feasibility study for the expansion of the Don Gabriel Manto open pit, as well as an update on the operating and growth activities, for its 70%-owned MTV property located near Salamanca, Chile.

Updated Mineral Resource Estimate Highlights:

- Total measured and indicated mineral resource of 18.3 million tonnes at 1.03% CuT containing 417 million pounds of copper.
- Total inferred mineral resource of 3.5 million tonnes at 1.11% CuT containing 84.4 million pounds of copper.

Salt Leach Pre-Feasibility Study Highlights:

- Potential to increase copper recoveries by 10%, up to a 40% reduction in the leaching cycle time, and up to 65% reduction in sulfuric acid consumption in the leaching cycle.
- Estimated capital cost of US$6.9 million, which includes the activities from detailed engineering to the end of construction.
- Approximately 11 months to implement.
- Less than two year payback.

Don Gabriel Manto Feasibility Study Highlights:

- Almost triples production from the Don Gabriel Manto open pit.
- Mine plan based on mineral reserves of 5.17 million tonnes at 0.814% CuT at a copper cut-off grade of 0.25%.
- Produce approximately 14 million pounds of copper per year over a six-year reserve life.
- Currently selecting the open pit contract mining contractor for Don Gabriel.

The mineral reserve and mineral resource estimates for the deposits on the MTV property are determined in accordance with the Canadian Securities Administrators' National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101"). The mineral reserve and mineral resource estimates disclosed in this MD&A have been reviewed, verified and approved by Michael G. Hester, Vice President, IMC, M.S. Mining Engineering and Gabriel Vera, President, GVMetallurgy, Metallurgical Engineer, both of whom are independent "qualified persons" (as defined in NI 43-101).

Mineral reserve and mineral resource estimates for the MTV property, effective as of January 1, 2018, are summarized in the tables below. Additional information can be found in the Company's press release dated March 2, 2018, which is available on the Company's website, www.sprottresource.com and on SEDAR, www.sedar.com.

	Mining Method	Ore Ktonnes	CuT (%)	Contained Copper (klbs)
Don Gabriel Mineral Reserve				
Proven Mineral Reserve	OP	898	0.800	15,827
Probable Mineral Reserve	OP	4,270	0.817	76,871
Total Proven and Probable Mineral Reserve		**5,168**	**0.814**	**92,698**

	Mining Method	CuT Cutoff(%)	Resource Ktonnes	CuT (%)	Contained Copper (klbs)
Measured Mineral Resource					
Don Gabriel Manto	OP	0.20	983	0.82	17,857
Don Gabriel Veins	UG	0.64	0	0.00	0
PPM Massivo	UG	0.34	2,449	1.94	104,796
PPM Cumbre	OP	0.19	266	0.49	2,844
PPM Cumbre	UG	0.34	0	0.00	0
PPM Mantos Connection	UG	0.59	262	1.27	7,312
PPM South	UG	0.58	634	1.28	17,821
Epithermal	UG	0.65	0	0.00	0
PPM North	OP	0.19	102	0.96	2,150
North Manto	UG	0.58	834	1.08	19,894
Total Measured Mineral Resource			**5,530**	**1.42**	**172,674**
Indicated Mineral Resource					
Don Gabriel Manto	OP	0.20	5,476	0.83	99,959
Don Gabriel Veins	UG	0.64	0	0.00	0
PPM Massivo	UG	0.34	891	1.62	31,881
PPM Cumbre	OP	0.19	2,388	0.54	28,429
PPM Cumbre	UG	0.34	351	0.48	3,699
PPM Mantos Connection	UG	0.59	1,287	1.02	28,856
PPM South	UG	0.58	989	1.00	21,760
Epithermal	UG	0.65	509	0.98	10,997
PPM North	OP	0.19	250	1.00	5,506
North Manto	UG	0.58	633	0.97	13,495
Total Indicated Mineral Resource			**12,774**	**0.87**	**244,581**
Measured and Indicated Mineral Resource					
Don Gabriel Manto	OP	0.20	6,459	0.83	117,816
Don Gabriel Veins	UG	0.64	0	0.00	0
PPM Massivo	UG	0.34	3,340	1.86	136,676
PPM Cumbre	OP	0.19	2,654	0.53	31,273
PPM Cumbre	UG	0.34	351	0.48	3,699
PPM Mantos Connection	UG	0.59	1,549	1.06	36,168
PPM South	UG	0.58	1,623	1.11	39,581
Epithermal	UG	0.65	509	0.98	10,997
PPM North	OP	0.19	352	0.99	7,656
North Manto	UG	0.58	1,467	1.03	33,389
Total Measured and Indicated Mineral Resource			**18,304**	**1.03**	**417,255**
Inferred Mineral Resource					
Don Gabriel Manto	OP	0.20	79	0.70	1,216
Don Gabriel Veins	UG	0.64	2,020	1.33	59,273
PPM Massivo	UG	0.34	22	2.64	1,282
PPM Cumbre	OP	0.19	537	0.66	7,861
PPM Cumbre	UG	0.34	298	0.53	3,482
PPM Mantos Connection	UG	0.59	117	0.79	2,043
PPM South	UG	0.58	111	0.95	2,317
Epithermal	UG	0.65	223	1.01	4,970
PPM North	OP	0.19	13	2.90	832
North Manto	UG	0.58	37	1.39	1,131
Total Inferred Mineral Resource			**3,457**	**1.11**	**84,408**

Notes:

- *The Company's mineral reserve and mineral resource estimates as at January 1, 2018 are classified in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") "CIM Definition Standards - For Mineral Resources and Mineral Reserves" adopted by the CIM Council (as amended) in accordance with the requirements of NI 43-101. Mineral reserve and mineral resource estimates reflect the Company's reasonable expectation that all necessary permits and approvals will be obtained and maintained.*
- *Mineral reserves were estimated using a copper price of US$2.75/lb.*
- *Mineral resources were estimated using a copper price of US$3.30/lb.*
- *OP means open pit mining, UG means underground mining method.*
- *Cutoff grades vary by deposit to reflect likely mining methods, variations in costs and slight variances in expected metal recovery by deposit.*
- *CuT is total copper assay, comprised of acid soluble (CuS), cyanide soluble (CuCN) and residual copper (CuR), each with different leach kinetics. Recoveries based on conversion from existing acid leach method to chloride media acid leaching as described in this announcement and pending technical report from Independent Mining Consultants Inc.*
- *Further information, including key assumptions, parameters and methods used to estimate mineral reserves and mineral resources will be described in the technical report on the MTV deposits to be published within 45 days of the date of the Company's March 2, 2018 press release announcing the mineral reserve and mineral resource estimates and related developments with respect to the MTV deposits.*
- *Mineral resources are reported inclusive of mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Mineral resources for proposed open pit deposits are constrained within an economic pit shell.*
- *The estimate of mineral resources and mineral reserves may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing or certain other risks. Please refer to the risks related to the Company's activities in the mining sector in the Risk Management section of this MD&A.*
- *Totals may not add due to rounding.*

DIVERSIFIED HOLDING COMPANY

As a result of the Arrangement, SRHI announced that is was transitioning from a private equity firm to a diversified holding company focused on holding businesses in the natural resource industry, and that the transition was expected to take less than 12 months.

Effective February 1, 2018, SRHI management determined that SRHI had substantially completed its transition to a diversified holding company.

SRHI, as an investment entity, viewed its investment-related activities as a separate substantial business activity and that fair value was the primary measurement attribute used to monitor and evaluate substantially all of its investments. As a diversified holding company, this is no longer the case.

Instead, SRHI no longer views fair value as its primary measurement attribute and as a result of the anticipated financial reporting requirements as a diversified holding company, new primary measurement attributes will be developed and presented on a go-forward basis.

SRHI management continues to assess the impacts on the Company's financial reporting as a diversified holding company. The Company's preliminary assessment is that it will no longer be able to continue its investment entity status as a diversified holding company. However, SRHI management cautions readers that this is a preliminary assessment that could change. Should this preliminary assessment become a final determination, the most significant impacts to the Company's financial reporting include consolidating investments that are controlled by the Company and reporting investments under significant influence using equity accounting.

RISK MANAGEMENT

There are risks associated with owning Common Shares or Warrants that holders should carefully consider. The risks and uncertainties below are not the only risks and uncertainties facing the Company and its Investments. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the business, operations and future prospects of the Company and its Investments and cause the price of the Company's securities to decline. If any of the following risks actually occur, the business of the Company and its Investments, as applicable, may be harmed and their respective financial condition, financial performance and cash flows may suffer significantly. In that event, the trading price of the Company's securities could decline and holders of the Company's securities may lose all or part of their investment. In addition to the risks described elsewhere and the other information contained in this MD&A, holders of the Company's securities should carefully consider each of, and the cumulative effect of all of, the following risk factors.

Company Risks

Lack of Diversification

From time to time, the Company may have only a limited number of investments and projects and, as a result, the performance of the Company may be adversely affected by the unfavourable performance of one investment or project. As well, the Company's investments and projects are concentrated in the natural resource sector. As a result, the Company's performance will be disproportionately subject to adverse developments in this particular sector.

MTV represents approximately 55% of the Mining segment and approximately 33% of total equity attributable to shareholders of the Company as at December 31, 2017.

Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Company is subject to price risk through its public equity investments. The Company's private market investments are also subject to price risk as they are impacted by many general and specific market variables.

A 10% increase/decrease in the value of all public equity and private market investments would result in an approximate increase/decrease in the value of public and private market exposure and an unrealized gain/loss in the amount of $11.5 million.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, and the Company's investments expose it to this risk. Market risk includes interest rate risk, foreign currency risk and other price risk such as commodity price risk. The sensitivities to market risks included below are based on a change in one factor while holding all other factors constant. In practice, this is unlikely to occur, and changes in some of the factors may be correlated - for example, changes in interest rates and changes in foreign currency rates.

Commodity Price Risk

Commodity price risk is the risk that the fair values or cash flows associated with the Company's investments will vary due to changes in the prices of a particular commodity, e.g. copper, metallurgical coal, oil, natural gas liquids, natural gas or livestock. The Company's investee companies may engage in various programs to mitigate exposure to commodity price risk.

The Company is exposed to commodity price risk in respect of several of its investments since their revenues are dependent on the market price of copper, metallurgical and thermal coal, iron ore, petroleum, natural gas or agricultural products. The price of these commodities is volatile and subject to fluctuations that may have a significant effect on the ability of the investee companies to meet their obligations, capital spending targets or commitments, and expected operational results which in turn impacts their fair values as recorded by the Company.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to minimal interest rate risk from its interest bearing financial instruments as they typically have short-term maturities.

Through the equity portion of some of its Investments, the Company is also indirectly exposed to interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has exposure to foreign currency risk due to the effects of changes in foreign exchange rates related to certain U.S. denominated investments and cash and cash equivalents. The Company is also indirectly exposed to foreign exchange risk due to the effects of changes in foreign exchange rates related to the underlying operations of some of its Investments. These risks are monitored and evaluated for their effects on cash flows and the benefits of hedging strategies are continuously reviewed.

As at December 31, 2017, approximately $50.1 million or 32.8% (December 31, 2016: $16.9 million or 14.9%) of total assets were invested in proprietary investments priced in USD, and approximately $14.7 million or 9.6% of total assets was held in USD cash (December 31, 2016: $nil). As at December 31, 2017, had the exchange rate between the USD and the CAD increased or decreased by 5%, with all other variables held constant, the increase or decrease, respectively, in net loss for the year ended December 31, 2017 would have amounted to approximately $3.2 million (for the year ended December 31, 2016: $0.8 million).

As at the date hereof, the Company held approximately $11.8 million of cash and cash equivalents priced in USD, and approximately $51.1 million of investments priced in USD.

Key Management and the MSA with SCLP

The success of the Company will be largely dependent upon the performance of its key officers, consultants and employees and upon the relationship between the Company and SCLP through the MSA. The Company's officers and employees are provided by SCLP pursuant to the MSA. SCLP may terminate any of the Company's key officers, consultants and employees without notice to the Company. In addition, pursuant to the MSA, SCLP may terminate the MSA upon 180 days' notice. The termination of any of the key officers, consultants or employees of the Company or the MSA by SCLP may have a negative effect on the performance of the Company. The Company has not purchased any "key-man" insurance with respect to any of its directors, officers or key employees and has no current plans to do so.

Regulatory Risk

Certain of the Investments may be subject to extensive government regulations and oversight with respect to their business activities. Failure to comply with applicable regulations, obtain applicable regulatory approvals or maintain those approvals may subject the applicable operating company to civil penalties, suspension or withdrawal of any regulatory approval obtained, injunctions, operating restrictions and criminal prosecutions and penalties, which could, individually or in the aggregate, have a material adverse effect on the Company's consolidated financial position.

Increased Risks Associated with Emerging Market Investments Generally

The Company's investment in Chile-based MTV may be considered an investment in an emerging market. This investment is dependent upon economic conditions in Chile, and any decline in Chile's economic conditions could have an adverse effect on such investment. Emerging market investments generally pose a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments.

As a result of investing in emerging markets such as Chile, the Company is exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to, terrorism, hostage taking, military repression, crime, political instability, currency controls, extreme fluctuations in currency exchange rates, high rates of inflation, labour unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licenses, permits, approvals and contracts, illegal mining, changes in taxation and mining laws, regulations and policies, corruption risks of using foreign representatives and consultants, restrictions on foreign exchange and repatriation, and changing political conditions and governmental regulations relating to foreign investment and the mining business.

Operating in emerging markets can increase the risk that contractual and/or mineral rights may be disregarded or unilaterally altered. In addition to potentially affecting the price of copper, general inflationary pressures may also affect MTV's labour, commodity and other input costs at operations in emerging markets, which could have a materially adverse effect on the Company's financial condition, financial performance and capital expenditures for the development of its projects.

There can be a greater level of political, social and economic risk in emerging markets compared to some other countries in which the Company operates. Operations in emerging markets may be subject to more frequent civil disturbances and criminal activities such as trespass, illegal mining, sabotage, theft and vandalism.

The foregoing risks may limit or disrupt operating mines or projects, restrict the movement of funds, cause MTV or the Company to have to expend more funds than previously expected, or result in the deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation, and may materially adversely affect the Company's financial position or financial performance. Certain of these risks have increased in recent years. Furthermore, in the event of disputes arising from MTV's activities in Chile, the Company may be subject to the jurisdiction of courts outside North America, which could adversely affect the outcome of the dispute.

Increased Risks Associated with Emerging Markets in South America

Global economic crises could negatively affect investor confidence in emerging markets or the economies of the principal countries in South America, including Chile. Such events could materially and adversely affect MTV's business, financial condition and financial performance and as a result could have an adverse effect on the Company's investment in MTV.

A crisis in other emerging market countries could dampen investor enthusiasm and the value attributed to companies with South American operations. Financial conditions in Argentina, Brazil or other emerging market countries could negatively impact Chile's economy in the future. Although economic conditions in these countries may differ significantly from economic conditions in Chile, investors' reactions to developments in these other countries, such as the recent developments in the global financial markets, may substantially affect the capital flows into, and the market value of companies with operations in Chile.

A significant deterioration in the economic growth of any of the main trading partners of Chile could have a material impact on the trade balance of the country and could materially and adversely affect its economic growth. This, in turn, could adversely affect MTV's business, financial condition and the results of its operations and as a result could have an adverse effect on the value of the Company's investment in MTV.

Conflicts of Interest

Certain directors and officers of the Company are or may become associated with other natural resource companies, SCLP, Sprott, Sprott Resource Lending Corp., Sprott Asset Management LP or Sprott Korea Corp., which may give rise to, or appear to give rise to, conflicts of interest. In accordance with the *Canada Business Corporations Act*, directors who have a material interest in any person who is a party to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and the officers are required to act honestly and in good faith with a view to the best interests of the Company. The directors and officers of the Company have either other full-time employment or other business or time restrictions placed on them and accordingly, the Company will not necessarily be the only business enterprise of these directors and officers.

Exposure to Unforeseen Tax Liabilities

The Company and the Investments are subject to income taxes as well as non-income based taxes, in Canada and various foreign jurisdictions and the Company's and the Investment's tax structures are subject to review by numerous taxation authorities. Although the Company strives to ensure that its tax estimates and filing positions are reasonable, the Company cannot assure shareholders that the final determination of any tax audits and litigation will not be different from what is reflected in the Company's or the Investments' historical income tax provisions and accruals, and any such differences may materially affect the Company's operating results for the affected period or periods.

Activist Shareholder Risks

The Company may be subject, from time to time, to challenges in the operation of its business due to actions instituted by activist shareholders or others. Responding to such actions could be costly and time-consuming, may not align with the Company's business strategies and could divert the attention of the Board and senior management from the pursuit of business strategies. Perceived uncertainties as to the Company's future direction as a result of shareholder activism may lead to the perception of a change in the direction of the business or other instability and may make it more difficult to attract and retain qualified personnel and business partners and may affect the Company's relationships with other third parties.

United States Investment Company Act

It is intended that the Company will make acquisitions and other investments in a manner so as not to be an investment company under the United States *Investment Company Act of 1940* (the "**Investment Company Act**"). The Investment Company Act contains substantive legal requirements that regulate the manner in which investment companies are permitted to conduct their business activities. If the United States Securities and Exchange Commission or a court were to determine that the Company is an investment company, the Company could be required to register as an investment company. This would negatively affect the Company's ability to consummate acquisitions; subject the Company to disclosure and accounting guidance geared toward investment, rather than operating companies; limit the Company's ability to borrow money, issue options, issue multiple classes of stock and debt, and engage in transactions with affiliates; and require the Company to undertake significant costs and expenses to meet the disclosure and regulatory requirements to which it would be subject as a registered investment company. In order not to be regulated as an investment company under the Investment Company Act, unless the Company can qualify for an exemption, the Company must ensure that it is engaged primarily in a business other than investing, reinvesting, owning, holding or trading in securities (as defined in the Investment Company Act) and that it does not own or acquire "investment securities" (as defined in the Investment Company Act) having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. The Company will monitor its holdings to ensure continuing and ongoing compliance with the 40% test.

To ensure that majority-owned investments do not become categorized as "investment securities," the Company may need to make additional investments in these subsidiaries to offset any dilution of its interest that would otherwise cause such a subsidiary to cease to be majority-owned or dispose of such investments at inopportune times. The Company may also need to forego acquisitions that it would otherwise make or retain, or dispose of investments that it might otherwise hold. Although the Company intends to monitor its holdings periodically and prior to each acquisition or disposition, it may not be able to maintain an exclusion from registration as an investment company. If the Company is required to register as an investment company but fails to do so, the Company would be prohibited from engaging in its business, and criminal and civil actions could be brought against it. In addition, the Company's contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of the Company and liquidate its business. Finally, if the Company were to become an investment company then it would be subject to material additional regulation under the Investment Company Act, and its operations would be materially and adversely affected. There can no assurance that the Company will be able to make the acquisitions and/or other investments in a manner that would enable the Company to comply with the Investment Company Act.

U.S. federal income tax consequences of "passive foreign investment company" status

Certain U.S. beneficial holders of the Common Shares should be aware that they could be subject to certain adverse U.S. federal income tax consequences in the event that the Company is, or becomes, classified as a passive foreign investment company (a "**PFIC**") for U.S. federal income tax purposes. The determination as to whether a non-U.S. corporation is a PFIC is based on the application of complex U.S. federal income tax rules, which are subject to differing interpretations, and the determination will depend on the composition of the income, expenses and assets of the non-U.S. corporation from time to time and the nature of the corporation's activities. Based on current assets and activities and on assumptions about activities during the balance of the current taxable year, the Company believes that it will be classified as a PFIC for the 2017 taxable year, and may be a PFIC in future tax years. However, PFIC classification for any taxable year is based on the application of complex U.S. federal income tax rules, which are subject to differing interpretations, and is fundamentally factual in nature, and the determination of the Company's PFIC status is made annually based on the types of income the Company earns and the type and value of its assets in each such year, as well as on the application of complex U.S. federal income tax rules, including "look through" rules with respect to its subsidiaries, and cannot be determined until after the end of such taxable year. Shareholders of the Company are urged to consult their own tax advisors regarding the likelihood and consequences of the Company being treated as a PFIC for U.S. federal income tax purposes, including the availability and advisability of any elections that may help mitigate the tax consequences to a U.S. Holder if the Company is a PFIC. Under proposed U.S. Treasury Regulations, if the Company is classified as a PFIC, the holding period for any common shares acquired on the exercise of Warrants would begin on the date certain U.S. beneficial holders acquire the Warrants. This could affect adversely the availability of any election that otherwise may be available with respect to the Common Shares received upon the exercise of Warrants. Shareholders are urged to consult their own tax advisors regarding the consequences of these rules with respect to the Warrants and common shares received upon the exercise of Warrants, including the availability and advisability of any elections that may help mitigate the tax consequences to a U.S. Holder if the Company is a PFIC.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by maintaining sufficient cash and cash equivalents balances to enable settlement of transactions on the due date. Periodic cash flow forecasts are performed to ensure the Company has sufficient cash to meet operational costs. For additional information, see the *Financing Activities by the Compan*y section elsewhere in this MD&A.

The Company invests in securities of public and private companies. In some cases, the Company may be restricted by contract or by applicable securities laws from selling such securities for a period of time. The inability to sell such securities may impair the Company's ability to exit these investments when the Company considers it appropriate.

If required, the ability of the Company to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of the Company and the Investments. There can be no assurance that debt or equity financing will be available, or, together with internally generated funds, will be sufficient to meet or satisfy the Company's objectives or requirements or, if the foregoing are available to the Company, that they will be on terms acceptable to the Company.

Credit Risk

Credit risk is the risk that a third party will fail to meet its contractual obligations, which could result in the Company incurring a loss. Trade and other receivables are subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk.

The Company has no significant concentrations of credit risk and its exposure to credit risk arises through the Company's cash held primarily through large Canadian financial institutions with credit ratings of AA or higher.

Credit risk is also managed by dealing with counterparties that the Company believes to be creditworthy and by actively monitoring credit exposure and the financial health of the counterparties.

Detection of Errors or Fraud

Due to the inherent limitations of internal control systems, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all. Accordingly, the Company cannot provide absolute assurance that all control issues, errors or instances of fraud, if any, within (or otherwise impacting) the Company have been or will be prevented or detected. In addition, over time, certain aspects of a control system may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate, which the Company may not be able to address quickly enough to prevent all instances of error or fraud.

Risks Relating to the LOM Joint Venture

Integration and Strategic Relationships

The Company was formed as a result of the business combination between SRC and ADI completed on February 9, 2017. The LOM Joint Venture was formed under a joint venture agreement between ADI, a wholly-owned subsidiary of WISCO International Resources Development and Investment Limited ("**WISCO**") and LOM, the joint venture vehicle, signed on January 12, 2012 (the "**LOM JV Agreement**"). The LOM JV Agreement may expose the Company to new geographic, political, operating, financial and geological risks. The strategic relationship under the LOM JV Agreement may have unknown significant liabilities. Pursuant to the LOM JV Agreement, the Company may have difficulty realizing anticipated synergies and maximizing the financial and strategic position of the strategic relationship. The integration of the strategic relationship may disrupt the Company's ongoing business and its relationships with employees, customers, suppliers and contractors. Any failure by LOM to meet its obligations, or any disputes with respect to the parties' respective rights and obligations could have a material adverse effect on the Company.

Disputes between the Company and WISCO or its Affiliates Could Harm the Company's Operations

Disputes may arise between the Company and WISCO or its affiliates in a number of areas, including with respect to LOM under the JV Agreement and the interpretation or application of the provisions of the LOM JV Agreement. The Company may not be able to resolve any potential conflicts, and even if it does, the resolution may be less favourable than if the Company were dealing with a party that did not own a majority interest in LOM.

WISCO has Effective Control of LOM

As at the date of this MD&A, WISCO beneficially owned 60% of the common shares of LOM, and WISCO has the right to appoint a majority of the directors to LOM. Accordingly, WISCO has effective control of LOM and the Lac Otelnuk Project.

LOM is not the Company's Subsidiary

The Company has a minority interest in LOM and does not control the board of directors of LOM and the Company's business plans for LOM may conflict with the plans of WISCO who owns the majority interest in LOM. This may restrict the ability of the Company to deal freely with LOM and the Lac Otelnuk Project, to increase its equity interest in LOM and the Lac Otelnuk Project and to structure its business in a tax effective manner.

WISCO may not Vote its Shares in the Best Interest of the Company

As of the date of this MD&A, WISCO beneficially owned 30,216,480 of the Common Shares. WISCO's beneficial ownership represents approximately 4.4% of the Company's issued and outstanding common shares. WISCO's interest in LOM and the Lac Otelnuk Project is greater than its investment in the Company. To the extent any vote of the Company shareholders is required, it could create a conflict of interest between what is in the best interest of the Company and what is in the best interest of WISCO, including in circumstances where a shareholder vote is required in respect of a financing and the failure to obtain such financing could result in WISCO diluting the Company's interest in LOM and increasing WISCO's interest in LOM.

The Company may be Subject to Dilution of its Interest in LOM and the Lac Otelnuk Project

The Company may be subject to dilution of its interest in LOM and the Lac Otelnuk Project, should additional funding become necessary to continue operations. Should additional funds become necessary to supplement, increase, or improve the operations, the Company may not be in the position to invest additional capital, and if it fails to invest additional capital its interest in LOM and the Lac Otelnuk Project could be diluted.

At present, the Company owns a minority interest in LOM. At the present time, the Company does not have the ability to fund the Lac Otelnuk Project to commercial production. Furthermore, there is no assurance that WISCO, the majority holder in LOM, will be able to fund the Lac Otelnuk Project either. The inability to fund may have a significant impact on the value of the Company's investment in LOM. If the Lac Otelnuk Project is not funded properly, the Company and/or LOM may lose its rights to the Lac Otelnuk Project.

Dividends

The Company does not currently intend to pay a dividend on its common shares. Any future determination to pay dividends will be at the discretion of the Board and will depend upon the capital requirements of the Company, results of operations and such other factors as the Board considers relevant.

Cybersecurity Risks and Threats

The Company relies on information technology networks and systems, including those of third-party service providers, to process, transmit and store electronic information. In particular, the Company depends on its information technology infrastructure for a variety of functions, including financial reporting and other data management, procurement, invoicing and email communications. Any of these systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, terrorist attacks, sabotage and similar events. Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to the Company's or any of the Investment's information technology systems to sophisticated and targeted measures known as 'advanced persistent threats', which might not be noticed for some period of time. The ever-increasing use and evolution of technology, including cloud-based computing, creates opportunities for the unintentional dissemination or intentional destruction of confidential information stored in the Company's or any of the Investment's systems or in non-encrypted portable media or storage devices. The Company or any of the Investments could also experience a business interruption, information theft of confidential data, or reputational damage from industrial espionage attacks, malware or other cyber-attacks, which may compromise the Company's or any of the Investment's system infrastructure or lead to data leakage, either internally or at third-party providers. Despite the implementation of advanced threat protection, detection and mediation measures, information and network security measures and disaster recovery plans, the Company's or any of the Investment's systems and those of third parties on which the Company or any of the Investments rely may also be vulnerable to computer viruses, break-ins and similar disruptions. If the Company or any of the Investment are unable (or are perceived as unable) to prevent, or detect and mitigate the impact of, such outages and breaches, the Company's or any of the Investment's operations may be disrupted and the Company's or any of the Investment's business reputation could be adversely affected.

Risks Relating to the Mining Sector

SRHI has investments in the mining sector through its investments in MTV, Corsa Coal and the Lac Otelnuk Iron Project.

The Company encourages investors in its securities to consult Corsa Coal's public disclosure record for information on risk factors affecting their business (available under Corsa Coal's profile on SEDAR at www.sedar.com). An extract of certain risk factors disclosed in Corsa Coal's annual information form dated March 7, 2017 and MD&A for the period ended September 30, 2017 are appended to this MD&A at Schedule "A". Such risk factors specifically apply to Corsa Coal and, more generally, the Company's investments in other companies in the mining industry.

The following risks specifically apply to MTV and, more generally, the Company's investments in other companies in the mining industry.

Commodity Prices

Commodity prices fluctuate widely and may be affected by numerous factors beyond the control of a mining company such as the sale or purchase by various dealers, central banks and financial institutions, interest rates, exchange rates, inflation or deflation, currency exchange fluctuation, global and regional supply and demand, production and consumption patterns, speculative activities, increased production due to improved mining and production methods, government regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of resources, environmental protection and international political and economic trends, conditions and events. The price of commodities has fluctuated widely in recent years, and future serious price declines could cause continued development of a mining company's properties to be impracticable. Further, reserve calculations and life-of-mine plans using significantly lower commodity prices could result in material write downs of a mining company's investment in mining properties and increased amortization, reclamation and closure charges.

In addition to adversely affecting reserve estimates and its financial condition, declining commodity prices could impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

Resource Exploration, Development and Production Risks

Mining companies are engaged in the business of exploring, acquiring and developing resource properties. Resource exploration is speculative in nature and there can be no assurance that any minerals discovered or acquired will result in an increase in a mining company's resource base. Such exploration and development as well as acquisitions involves a high degree of financial and other risks over a significant period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Substantial expenses will be required to expand a mining company's resource base and to design and construct mining and processing facilities. Whether a resource deposit will be commercially viable depends on a number of factors, including the particular attributes of the deposit (i.e. mineral quality, size, access and proximity to infrastructure), financing costs, the cyclical nature of commodity prices and government regulations (including those relating to environmental protection).

A future increase in a mining company's mineral reserves will depend on its ability to select and acquire suitable properties. No assurance can be given that any mining company will be able to locate or acquire control over satisfactory properties for acquisition that will be economically viable in the current market.

Production

A mining company's revenues depend on its level of mining production and the sales price for the minerals it has mined. Production targets include the company's current operating mines and those that are in the permitting stage, under development or under option. As the estimation of resources and reserves is speculative in nature, there can be no certainty that the resources in the current properties of mining companies will be upgraded to reserves. As a result, mining companies may not achieve their production projections. Mining companies may then need to lease and/or option additional properties which may take time and may be subject to the same uncertainties inherent in mining. In addition, production levels are no guarantee that mining companies will be able to obtain sales contracts or orders for the minerals that they produce and as a result sales may be below their production capabilities and mining companies may reduce actual production to reflect actual customer demand and sales orders received. Also, there is no guarantee as to the price for mineral sales.

Mineral Resources and Mineral Reserves

To achieve its projected level of production, a significant portion of a mining company's mineral resources may need to be upgraded to mineral reserves. Such upgrade in classification may require additional data and establishing the economic feasibility of mineralization currently classified as resources. There can be no assurance that a mining company will be able to successfully upgrade its mineral resources to mineral reserves.

Estimating mineral reserves and mineral resources involves a determination of economic recovery of minerals that are in the ground, which in turn requires that assumptions be made regarding its future price and the cost of recovery. There are numerous uncertainties inherent in estimating the quantities and qualities of, and costs to mine, recoverable reserves, including many factors beyond a mining company's control. Such factors include: improvements to mining technology; changes to government regulation; geologic and mining conditions, which may not be fully identified by available exploration data or may differ from a mining company's experience in current operations; historical production from the area compared with production from other producing areas; future resource prices; operating costs; capital expenditures; taxes; royalties and development and reclamation costs; preparation plant recovery levels and mine recovery levels; all of which may vary considerably from actual results.

A mining company's actual production experience may require the revision of production estimates because actual mineral tonnage recovered from an identified mineral reserve or property may vary materially from estimates. Mineral reserves disclosed by a mining company should not be interpreted as assurance of mine life or of the profitability of current or future operations. In addition, revenues and expenditures with respect to a mining company's reserves may vary materially from estimates. The estimates of mineral reserves may not accurately reflect a mining company's actual mineral reserves and may need to be restated in the future. Any inaccuracy in a mining company's estimates could result in lower than expected revenues or higher than expected costs. A mining company's recoverable mineral reserves will decline as a result of production over time, and a mining company may not be able to mine all of its mineral reserves. Its future success may depend on conducting successful exploration and development activities or acquiring properties containing economically recoverable mineral reserves. There can be no assurance that a mining company will succeed in developing additional mines in the future.

Operating Risks

Mining operations are and will continue to be subject to operating risks that could result in decreased mineral production. Such operating risks may increase a mining company's cost of mining and delay or halt production at particular mines, either permanently or for varying lengths of time. These conditions and events include but are not limited to:

- the lack of availability of qualified labour;
- inability to acquire, maintain, amend or renew necessary permits or mining or surface rights in a timely manner, if at all;
- failure of resource and reserve estimates to prove correct;
- interruptions due to transportation delays or unavailability;
- changes in governmental regulation of the mineral industry, including the imposition of additional taxes, fees or actions to suspend or revoke its permits or changes in the manner of enforcement of existing regulations;
- limited availability of mining and processing equipment and parts from suppliers;
- the lack of availability of the necessary equipment of the type and size required to meet production expectations;
- equipment breakdown;
- mining and processing equipment failures and unexpected maintenance problems;

- unfavourable changes or variations in geologic conditions, such as the quality of mineral deposits and the amount of rock embedded in or overlying the mineral deposit and other conditions that can make underground or open pit mining difficult or impossible;
- severe and adverse weather and natural disasters, such as heavy rains and flooding;
- increased or unexpected reclamation costs;
- unfavourable fluctuations in the cost or availability of necessary commodities or commodities-based products such as diesel fuel, lubricants, explosives, electric cables and steel;
- unexpected mine safety accidents, including fires and explosions from methane; and
- failure of the mineral mined to meet expected quality specifications.

These conditions and events may increase a mining company's cost of mining and delay or halt production at particular mines either permanently or for varying lengths of time. A mining company's planned exploration and development projects and acquisition activities may not result in the acquisition of significant additional mineral deposits and a mining company may not have continuing success developing its current or additional mines.

Mining Operations

Mining operations generally involve a high degree of risk. A mining company's operations will be subject to all of the hazards and risks normally encountered in resource exploration, development and exploitation that are beyond the control of a mining company. Such risks include pit wall slides, pit flooding, unusual and unexpected geological formations, seismic activity, rock bursts, ground failure and other conditions involved in the drilling or cutting and removal of material, environmental hazards, industrial accidents, periodic interruptions due to adverse weather conditions, labour disputes, political unrest, threats of war, terrorist threats and theft of production. The occurrence of any of the foregoing could result in damage to, or destruction of, resource properties or interests, production facilities, personal injury, damage to life or property, environmental damage, delays or interruption of operations, increases in costs, monetary losses, legal liability and adverse government action. Although a mining company maintains liability insurance in an amount that it considers consistent with industry practice, liabilities could exceed policy limits resulting in a mining company incurring significant costs. The potential costs associated with liabilities not covered by insurance or excess insurance coverage may cause substantial delays and require significant capital outlays.

The climatic conditions of a mining company's activities will have an impact on operations and, in particular, severe weather such as heavy precipitation and flooding could disrupt the delivery of supplies, equipment and fuel. Exploration and mining activity levels could fluctuate. Unscheduled interruptions in a mining company's operations due to mechanical or other failures or industrial relations related issues or problems or issues with the supply of goods or services could have a serious impact on the performance of those operations. Other operating risks include unfavourable changes or variations in geological conditions such as the thickness of the mineral deposits and the amount of rock embedded in or overlying the mineral deposit and other conditions that can make underground mining difficult or impossible; mining and processing equipment failures and unexpected maintenance problems; increased water entering mining areas and increased or accidental mine water discharges; unfavourable fluctuations in commodities-based products such as diesel fuel, reagents for processing, lubricants, electric cables, rubber, explosives, steel, copper, and other raw materials; and unexpected mine safety accidents, including fires and explosions from methane. There can be no assurance that a mining company will be able to manage effectively the expansion of its operations or that its current personnel, systems, procedures and controls will be adequate to support operations.

Environmental Risks, Hazards and Liabilities

A mining company's operations may inadvertently substantially impact the environment or cause exposure to hazardous materials, either of which could result in material liabilities to that mining company. A mining company may be subject to claims under domestic or foreign legislation, and/or common law doctrines, for toxic torts, natural resource damages, and other damages as well as the investigation and clean-up of soil, surface water and groundwater. Such claims may arise, for example, out of current, former or future activities at sites that a mining company owns or operates, as well as at sites that a mining company or its predecessor entities owned or operated in the past, or at contaminated sites that have always been owned or operated by third parties. Mining operations can also impact flows and water quality in surface water bodies and remedial measures may be required, such as lining of stream beds, to prevent or minimize such impacts. Many of a company's mining operations may take place in the vicinity of streams, and similar impacts could be asserted or identified at other streams in the future. A mining company's liability for such claims may be joint and several, so that it may be held responsible for more than its share of the remediation costs or other damages, or even for the entire share.

A mining company may have reclamation and mine closure obligations. It is difficult to determine the exact amounts which may be required to complete all land reclamation activities in connection with their properties. Estimates of total reclamation and mine-closure liabilities are based upon permit requirements and a mining company's experience. The amounts recorded are dependent upon a number of variables, including the estimated future retirement costs, estimated proven reserves, assumptions involving profit margins and inflation rates. If these accruals are insufficient or liability in a particular year becomes greater than may be anticipated, a mining company's operating results could be adversely affected.

Government Regulation

Government authorities regulate the mining industry to a significant degree, in connection with, among other things, exploration and development activities, employee health and safety, labour standards, air quality standards, toxic substances, water pollution, groundwater quality and availability, plant and wildlife protection, the reclamation and restoration of mining properties and the discharge of materials into the environment. Mining companies are subject to extensive laws and regulations controlling not only the mining of and exploration of mineral properties, but also the possible effects of such activities upon the environment. For example, government regulatory agencies may order certain mines to be closed temporarily or permanently. Future legislation and regulations or amendments could cause additional expense, capital expenditures, reclamation obligations, revocation of licenses, restrictions and delays in the development of a mining company's properties, the extent of which cannot be predicted. Government regulations including regulations relating to the environment, prices, taxes, royalties, land tenure, land use and importing and exporting of minerals also impact on the marketability of the minerals owned by mining companies.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions against mining companies, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Permitting Matters

Many mining companies must obtain numerous permits, licenses and approvals that strictly regulate access, environmental and health and safety and other matters in connection with resource mining. Permitting rules are complex and may change over time, which may make securing additional permits or modification to existing permits and compliance difficult.

Regulatory agencies have considerable discretion in whether or not to issue permits or grant consents and they may choose not to issue permits or grant consents to a mining company or renew existing permits, licenses or consents as they come due. There can be no assurance that a mining company will be able to acquire, maintain, amend or renew all necessary licences, permits, mining rights or surface rights for its anticipated exploration and development. If a mining company is to be granted a permit, it may be some time before those new permits are issued. Accordingly, new permits, licenses and approvals required by a mining company to operate the mines may not be issued at all, or if issued, may not be issued in a timely fashion, or may contain requirements which restrict its ability to conduct its mining operations or subject it to additional constraints or costs.

Environmental Regulation

All phases of the natural resources business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and Canadian and other foreign laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emission of various substances produced in association with operations. The legislation also requires that facility sites and mines be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, and in some cases, enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed or permits revoked and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. A mining company's total compliance with the full spectrum of environmental regulation may not always be possible, and significant penalties may be incurred as a result of violations of environmental laws.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The environmental issues affecting a mining company's operations include permitting and reclamation requirements, air pollution laws and regulations, regulations relating to climate change, water pollution laws and regulations, hazardous waste regulation, endangered species regulations, mine safety regulations and restrictions against greenhouse gas emissions. The discharge of pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require mining companies to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect a mining company's financial condition, results of operations or prospects. A mining company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances that may exist on or under any of its properties or that may be produced as a result of its operations.

Land Use Regulation and Conflicting Land Uses

Land use regulation may negatively impact the ability to begin or carry out mining operations in particular locations. Zoning laws control land use and often prohibit mining entirely. New land use restrictions may be enacted in areas of current or planned mining operations by new legislation or regulation.

A mining company's properties may be affected by other conflicting developments that may impact mineral development by increasing the cost of mineral recovery and decreasing the amount of minerals recoverable. As determinations that lands are unsuitable are awarded more frequently, the amount of land available for mining declines and the risk that mining in planned areas will be prohibited increases. There is a risk that certain lands will not be open for mining, decreasing the number of operations that mining companies can maintain or acquire in the future. Even in areas where mining may not be prohibited outright, the presence of other land uses restricts the ability of mining companies to operate efficiently. Residential structures, other buildings, gas wells, pipelines, roads, electric transmission lines, and numerous land uses other than mining are commonly located in areas where mining companies operate. These land uses may inhibit a mining company's operations, and negative impacts on these land uses that may result from a mining company's operations could create liability exposure. Additionally, the need to accommodate other land uses may result in a less efficient use of the mining property.

Title to Assets

A mining company may lease or option mineral rights in order to conduct a number of its mining operations. If defects in title or boundaries are found to exist after a mining company commences mining, its right to mine may be limited or prohibited. No assurance can be given that there are no title defects affecting a mining company's properties or those which it proposes to acquire or those upon which it has operations. The mineral or operations properties may be subject to prior unregistered liens, agreements or transfers or other undetected title defects. There can be no assurance that title to a mining company's mineral properties or those on which it has operations will not be challenged or impugned or defeated by a holder of superior title or registered liens or adverse claims. Third parties may have valid claims underlying portions of a mining company's interests and the permits or tenures may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. If a title defect exists, it is possible that a mining company may lose all or part of its interest in the properties to which such defects relate. If there are title defects with respect to any properties, a mining company might be required to compensate other persons or perhaps reduce its interest in the property. Also, in any such case, the investigation and resolution of title issues may divert a mining company's management's time from on-going exploration and development programs.

Additional Funding Requirements

Capital expenditures for the exploration, development, production, and acquisition of mineral reserves in the future may depend in part on funds not entirely raised by internally generated cash flow. As a result, a mining company may need external equity or debt financing and there is no assurance that it will be able to secure either kind of external financing at an economically viable cost and under reasonable conditions, if at all.

Additional equity financing could be dilutive to shareholders and could substantially decrease the trading price of a mining company's securities. A mining company may issue common shares or other equity securities in the future for a number of reasons. Additional debt financing, if secured, could involve restrictions being placed on financing and operating activities which could reduce the scope of a mining company's operations or anticipated expansion, or involve forfeiting its interest in some or all of its properties and licenses, incurring financial penalties, or reducing or terminating its operations.

Environmental Developments and Regulation in Chile

Mining companies are required to seek and to comply with the terms of governmental concessions, permits, authorisations and other approvals in connection with their exploration, construction and operating activities. Obtaining the necessary governmental permits can be a complex and time-consuming process and may involve costly undertakings.

In the last couple of decades the Chilean environmental regulation has evolved, been perfected and become more restrictive by means of Laws No. 19,300; 20,417 and 20,600, which govern all environmental activities in the country such as environmental damage, air and water quality and emission standards. A new statutory framework, specialized assessment system, environmental superintendence and courts have also been created. Pursuant to these new laws, any project or activity capable of causing environmental impact must be submitted to the Environmental Impact Assessment System in order to be evaluated prior to its development.

Furthermore, Chilean mining companies must actively monitor specific air emission levels, ambient air quality, the quality of nearby surface water, the level of contaminants in the soil and the creation, management and disposal of solid and liquid waste. Such companies must also submit quarterly reports on emission levels and annual reports on water monitoring to environmental authorities. The environmental authorities conduct additional testing to validate the company’s results. If a mining company exceeds certain emission levels or does not comply with the environmental regulation, authorities may impose the following sanctions depending on how infractions are qualified: written warnings; fines; provisional or definitive closure of the facilities or site; and the revocation of permits. A mining company will be responsible to third parties for the environmental liabilities and related compensatory damages incurred by its governing body or agents

In addition to the above, Chilean mining companies must also comply with Law No. 20,551 on the closure of mining sites and facilities. This law aims to mitigate the effects of the mining industry by requiring companies to follow a closure plan bound to a financial guarantee. The value of a closure plan corresponds to the present value of the costs associated with the closure and post-closure activities described in the plan, which are calculated considering the lifespan of the site, comprising all mines and facilities as part of a single project. The aforementioned financial guarantee is lodged gradually with the National Geology and Mining Service ("**SERNAGEOMIN**") during the site's lifespan by means of legally recognized financial instruments, such as cash collaterals, certificates of deposit and letters of credit. Accordingly, pursuant to Law No. 20,551, at least 20% of the guarantee must be provided within one year from the approval of the closure plan permit. For sites whose lifespan is under 20 years, the remaining portion of the guarantee must be provided within 2/3 of the lifespan. Subsequently, as the closure and post-closure measures are executed by the mining company, the guarantee is released (returned) by the State to the company. If a closure plan is not satisfactorily implemented by a mining company, SERNAGEOMIN may apply fines and execute the guarantee.

The costs associated with compliance with environmental laws, regulations and licences are substantial. The addition of new laws and regulations, changes to existing laws and regulations or the more stringent enforcement or restrictive interpretation of current laws, regulations, rulings or clearances could cause additional expenditure to be incurred by, impose restrictions on, or impose suspensions of a mining company's operations and cause delays in the development of its projects. Moreover, these laws and regulations may allow governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from the environmental, health and safety impacts of the mining company's past and current operations, and could lead to the imposition of substantial fines, penalties or other civil sanctions. The occurrence of any of these factors may have a material adverse effect on MTV's business, results of operations and financial condition and the price of the Company's shares.

In 2015, Chile passed legislation introducing a new carbon tax in 2017. Law No. 20,780 established a tax of USD $5 per tonne of CO_2, which would initially cover fixed sources of emissions, such as large boilers and electricity generators; however, the cost could increase if the scope of the legislation changes.

Finally, it should be noted that MTV's project is situated in the *Manquehua* and *Cárcamo* gorges, located near the communes of Salamanca and Illapel, in the province of Choapa, IV Region of Coquimbo. That area is near *Raja de Manquehua*, which is in the process of being declared a natural sanctuary, due to offering special opportunities for study and geological, paleontological, zoological, botanical or ecological investigations, as well as having natural formations whose conservation is of scientific and State interest. Such declaration will be the result of years of joint efforts of local communities and authorities. Once the declaration is effective, any modification or expansion of MTV's project will be subject to the provisions of the special legislation governing this category of protected area, increasing the number of permits necessary for the project's execution. Obtaining these additional permits will be difficult and time consuming and, as a result, MTV's project may be delayed.

Mine Safety Regulation

Employee safety and health regulation in the mining industry is often comprehensive and pervasive. The cost of complying with numerous safety and health laws applicable to the mining industry in many jurisdictions is substantial. In many cases, negative publicity surrounding accidents in the mining industry has resulted in expensive new safety requirements and substantially increased penalties for failure to comply with these regulations. Failure to comply with such requirements may result in fines and/or penalties being assessed against mining companies. Given the complexity of the mine safety and health regulations, there is a risk that a mining company's business operations will be affected by these regulations.

Fatality or Severe Injury to Employees or Contractors

The business of mining is inherently risky. During construction of the mine or during mining operations, employees and contractors may be subject to risks and hazards, including environmental hazards, industrial accidents, human error, weather events, light vehicle incidents or other events. The occurrence of any of the foregoing could result in personal injury, permanent disabilities or fatalities to one or more employees or contractors. These incidents could lead to investigation delays, criminal or civil proceedings, investigation costs, monetary damages and reputation damage to a mining company.

Labour

If either the rail, truck or barge carrier or port facilities upon which a mining company is dependent to deliver minerals to its customers are or become unionized, there is potential for strikes, lockouts or other work stoppages or slow-downs involving the unionized employees of its key service suppliers which could have a material adverse effect on a mining company. There may be competition for qualified personnel in the various jurisdictions in which mining and operations take place and there can be no assurance that a mining company will be able to continue to attract and retain all personnel necessary for the development and operations of its business. Mining is a labour-intensive industry. From time to time, a mining company may encounter a shortage of experienced mine workers. In addition, the employees of a mining company may be unionized or choose to unionize, which may disrupt operations on account of contract negotiations, grievances, arbitrations, strikes, lockouts or other work stoppages or actions. As a result, a mining company may be forced to substantially increase labour costs to remain competitive in terms of attracting and retaining skilled labourers. Furthermore, it is possible that a decreased supply of skilled labour may cause a delay in a mining company's operations and negatively affect its ability to expand production.

MTV Labour

Certain of MTV's operations may be carried out under potentially hazardous conditions. Whilst MTV intends to operate in accordance with all applicable health and safety regulations and requirements, MTV remains susceptible to the possibility that liabilities might arise as a result of accidents or other workforce-related misfortunes, some of which may be uninsurable or beyond MTV's control.

MTV's operations may be affected by labour-related problems in the future, such as union demands and litigation for pay raises and increased benefits. There can be no assurance that work stoppages or other labour-related developments (including the introduction of new labour regulations in Chile) will not adversely affect the results of operations or the financial condition of MTV.

Furthermore, when the world mining industry is buoyant there is increased competition for the services of suitably qualified and/or experienced sub-contractors, such as mining and drilling contractors, assay laboratories, metallurgical test work facilities and other providers of engineering, project management and mineral processing services. As a result, MTV may experience difficulties in sourcing and retaining the services of suitably qualified and/or experienced sub-contractors. The loss or diminution in the services of suitable qualified and/or experienced sub-contractors or an inability to source or retain necessary sub-contractors or their failure to properly perform their services could have a material and adverse effect on MTV's business, results of operations, financial condition and prospects.

MTV is unable to predict the risk of insolvency or other managerial failures by any of the contractors or other service providers used by MTV in its current and future activities. Any such insolvency or managerial failures may have a material adverse effect on the results of operations or the financial condition of MTV.

There are currently no proposed bills in Chile that imply significant changes to labour regulations. However, the reform to collective bargaining legislation, which came into effect on April, 2017, is currently being implemented. These new regulations strengthen a labour union's leverage during collective bargaining by prohibiting the replacement of the workers taking part in a strike, foster unionization and prevent companies from extending the benefits of a collective agreement to non-unionized workers without the prior consent of the union. Although the designation of emergency teams is currently permitted in order to avoid greater damages during a strike, this measure is nonetheless applied in a very restrictive manner.

Community Relations

The maintenance and promotion of an appropriate relationship with communities near a mining site that may be affected by the project's externalities is very important. Such relationship is usually obtained by the mining company conducting dialogues and round tables with community stakeholders and implementing social, educational or economic development programs that benefit the community.

In Chile, an inappropriate relationship with the community could have the following impacts:

i. In the event that an expansion or update of a mining company's project is submitted for environmental approval, local communities may participate in the applicable environmental assessment by filing observations that they deem appropriate. These may result in the environmental authority imposing stricter environmental measures and commitments in the resulting Environmental Assessment Resolution approving the project than those that were initially estimated as legally required. In addition, if communities feel they were not properly considered or consulted, they may file a claim before the Committee of Ministers, which, as a result, may decide to reject the original approval of the project or modify the approved Environmental Assessment Resolution and impose additional environmental commitments.

ii. Any person who feels damaged in any of his or her constitutional rights may file a special constitutional action before the Court of Appeals in order to halt a project.

iii. A citizen organization or any of its members may submit a complaint before the Environmental Superintendence in order to initiate an investigation of a mining project, which could potentially result in the imposition of sanctions to a mining company or even the halt of the project involved.

In case of MTV, one of the most active communities in the area is *Comunidad Agrícola La Chalinga*. Moreover, there are several communities which have constituted cooperatives or other types of legal entities through which they act, such as *Cooperativa Agrícola de Colonización Illapel*

Limitada and *Cooperativa Agrícola Chuchini Limitada*. Most of these organizations or groups of families located in the area of MTV's project are dedicated to agriculture and their main focus is to protect natural resources, especially water sources, from different companies.

Indigenous People

Various international and national laws, codes, resolutions, conventions, guidelines, and other materials relate to the rights of indigenous peoples. Many of these materials impose obligations on governments to respect the rights of indigenous people. Some mandate that governments consult with indigenous people regarding government legislative or administrative measures, which may directly affect indigenous peoples, including actions to environmentally approve mining projects. ILO Convention 169, which has been ratified by Chile, is an example of such an international convention. Consultations carried out in application of this Convention must be undertaken in good faith and in a form appropriate to the circumstances, with the objective of achieving agreement or consent to the proposed measures. Mining rights and easements are not affected by such consultations, as these are granted by means of court rulings. However, in the case of easements, indigenous people and public offices may participate, giving their opinion, opposing their granting, delaying their processing or increasing their compensation price. The obligations of government and private parties under the various international and national materials pertaining to indigenous people continue to evolve and be defined. Examples of recent developments in this area include the United Nations Declaration of the Rights of Indigenous People and the International Finance Corporation's revised Performance Standard 7, which requires governments to obtain the free, prior, and informed consent of indigenous peoples who may be affected by government action. While the territory where MTV's operations is located is not near an indigenous population, MTV's current and future operations are still subject to a risk that one or more groups of indigenous people may oppose continued operation, further development or new development of MTV's projects or operations. Such opposition may be directed through legal or administrative proceedings or expressed in manifestations such as protests, roadblocks or other forms of public expression against MTV's activities. Opposition by indigenous people to MTV's operations may delay or require modification of MTV's project or may require MTV to enter into agreements with indigenous people with respect to its project.

Uninsured Risks

A mining company may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, a mining company may incur liability to third parties (in excess of any insurance coverage) arising from negative environmental impacts or any other damage or injury.

Mineral Transportation and Costs

Mineral producers depend upon rail, barge, trucking, overland conveyor and other systems to deliver minerals to customers and transportation costs are a significant component of the total cost of supplying minerals. While mineral customers typically arrange and pay for transportation of minerals from the mine to the point of use, disruption of these transportation services because of weather-related problems, insurgency, strikes, lock-outs, transportation delays, excessive demand for their services or other events could temporarily impair a mining company's ability to supply minerals to customers and thus could adversely affect a mining company's revenue and results of operations.

Disruption in capacity of, or increased costs of, transportation services could make minerals less desirable, and could make a mining company's minerals less competitive than other sources of that mineral. In addition, increases in the cost of fuel, or changes in other costs relative to transportation costs for minerals produced by competitors, could adversely affect a mining company's operations. To the extent such increases are sustained, a mining company could experience losses and may decide to discontinue certain operations forcing a mining company to incur closure or care and maintenance costs, as the case may be.

Dependence on Third Party Suppliers and Loss of Customer Base

A mining company may enter into mineral supply agreements which may require the delivery of minerals on a regular basis to its customers. If a mining company's own mining production does not reach capacity, that mining company may have to enter into mineral supply agreements with third party suppliers in order to meet its customers' demands. There can be no assurance that the third parties will, from time to time, be able to supply the requisite quantities of minerals on the schedule negotiated with a mining company. Such third party suppliers may be subject to the same risks relating to engineering, weather, labour, materials and equipment as a mining company.

Changes in purchasing patterns in the mineral industry may make it difficult for a mining company to enter into long term supply agreements with new customers. The execution of a satisfactory mineral supply agreement may be the basis on which a mining company will undertake the development of mineral reserves required to be supplied under the agreement. When a mining company's current agreements with customers expire or are otherwise renegotiated, a mining company's customers may decide to purchase fewer amounts of minerals than in the past or on different terms, including pricing terms less favourable to a mining company, or may choose to purchase from other suppliers. Mineral contracts may also contain force majeure provisions which may allow for the temporary suspension of performance by a mining company or its customers during the duration of specified events beyond the control of the affected party.

Acquisition Risks

A mining company's future success may depend upon it conducting successful exploration and development activities and acquiring properties containing additional economic coal reserves. A mining company may also be required to generate capital, either through its operations or through outside financing, to mine these additional reserves. A mining company may increase its coal reserve base through acquisitions of other mineral rights, leases, or producing properties or continuing to use its existing leased properties.

Acquisitions involve a number of inherent risks, any of which could cause a mining company to not realize the anticipated benefits. A mining company may be unable to successfully integrate the companies, businesses or properties it acquires. Acquisition transactions involve various inherent risks, including:

- uncertainties in assessing the value, strengths, and potential profitability of, and identifying the extent of all weaknesses, risks, contingent and other liabilities (including environmental or mine safety liabilities) of, acquisition candidates;
- the potential loss of key customers, management and employees of an acquired business;
- the ability to achieve identified operating and financial synergies anticipated to result from an acquisition;
- problems that could arise from the integration of the acquired business; and
- unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying a mining company's rationale for pursuing the acquisition. Any one or more of these factors could cause a mining company not to realize the benefits anticipated to result from an acquisition.

Any acquisition opportunities the Company may pursue could materially affect its liquidity and capital resources and may require the Company to incur indebtedness, seek equity capital or both. In addition, future acquisitions could result in the Company assuming more long-term liabilities relative to the value of the acquired assets.

Availability of Equipment and Access Restrictions

Natural resource exploration, development and exploitation activities are dependent on the availability of particular types of drilling, cutting, conveying and other excavating equipment and related supplies and equipment in the particular areas where such activities will be conducted as well as their parts in the case that maintenance is needed on such equipment. Demand for or restrictions on access to such limited equipment and supplies may affect the availability of such equipment and may delay exploration, development and exploitation activities. Future operations could be adversely affected if a mining company encounters difficulty obtaining equipment, tires and other supplies on a timely basis, or such equipment and supplies are available only at significantly increased prices.

Operating in Foreign Jurisdictions

Exploration in Chile exposes MTV, and the Company, to risks that may not otherwise be experienced if operations were domestic. Real and perceived political risk in some countries may also affect MTV's ability to finance exploration programs and future mine development opportunities. Although Chile has a mature and stable political system and enjoys one of the best country risk ratings of the region, there is always the potential for changes in mining policies, royalties, taxes or shifts in political attitude towards foreign investment in natural resources. Changes, even if minor in nature, may adversely affect MTV's operations.

Competition

The resource exploration and mining business is competitive in all of its phases. Competitive factors in the distribution and marketing of minerals include price and methods and reliability of delivery. A mining company will compete with numerous other companies and individuals, including competitors with greater financial, technical and other resources, in the search for and the acquisition of attractive resource properties. The principal factors that determine the price for which a mining company's minerals can be sold are demand, competition, mineral quality, efficiency in extracting and transporting minerals, and proximity to customers. Increases in transportation costs could make a mining company's minerals less competitive or could make some of a mining company's operations less competitive than other sources of minerals. An oversupply of any particular mineral will also likely adversely affect the price of that mineral on the market. There can be no assurance that a mining company will be able to compete successfully with other mineral producers and suppliers and its failure to compete effectively could adversely affect its operations and performance.

Foreign Currency Risk

Certain mining companies report their financial results in a foreign currency; however, they may incur certain costs and expenses in CAD or a different currency. As a result a mining company's operating results and cash flows could be negatively affected by currency exchange rates between the CAD and another currency.

In addition, a mining company may compete in international markets against minerals produced in other countries. Many minerals are generally sold internationally in U.S. dollars. As a result, mining costs in competing producing countries may be reduced in U.S. dollar terms based on currency exchange rates, providing an advantage to mineral producers in other countries. Currency fluctuations among countries purchasing and selling minerals could adversely affect the competitiveness of a mining company's minerals in international markets.

Hedging Risk

A mining company may hedge its projected future mineral production by entering into customer contracts that require it to deliver such mineral with established pricing over a period of time. If the price of the mineral increases, the mining company may be materially adversely affected by having hedged its future production pursuant to these contracts. Alternatively, should the price of the mineral decrease below the levels stated in the contracts, the mining company could be materially adversely affected should these contracts not be honoured.

Litigation

Due to the nature of mining operations, it is possible for legal proceedings to arise from time to time in the course of a mining company's business and operations. There is always the potential that an individual matter or the aggregation of many matters could adversely affect a mining company.

First Nations Potential Land Claims

A mining company's mineral projects may be located in areas subject to First Nations land claims. The development and the operation of such properties may require the conclusion of impact and benefit agreements ("**IBAs**") and/or other agreements with the affected First Nations. As a result of the IBAs or of other agreements, a mining company may incur significant financial or other obligations to affected First Nations. The negotiation of such IBAs may also significantly delay the advancement of the properties. There can be no assurance a mining company will be successful in reaching an IBA or other agreement with First Nations groups who may assert rights or may have a claim which affects any of its projects.

Restriction against Greenhouse Gas Emissions

Laws restricting the emissions of greenhouse gases in jurisdictions or areas where mining companies conduct business or sell minerals could adversely affect operations and demand for these minerals. Mining companies may be subject to regulation of greenhouse gas emissions from stationary sources as well as mobile sources such as cars and trucks. Current and proposed laws, regulations and trends and electricity generators may influence the switch to other fuels that generate less greenhouse gas emissions, possibly further reducing demand for certain minerals.

Anti-Corruption Legislation

Mining companies are subject to anti-corruption legislation including the *Corruption of Foreign Public Officials Act* (Canada) and other similar acts (collectively "**Anti-Corruption Legislation**"), which prohibit mining companies or any of their officers, directors, employees or agents acting on their behalf from paying, offering to pay or authorizing the payment of anything of value to any foreign government official, government staff member, political party or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an office capacity. The Anti-Corruption Legislation also requires public companies to make and keep books and records that accurately and fairly reflect their transactions and to devise and maintain an adequate system of internal accounting controls. International activities create the risk of unauthorized payments or offers of payments by employees, consultants or agents, even though they may not always be subject to a mining company's control. Mining company's existing safeguards and any future improvements may provide to be less than effective, and employees, consultants and agents may engage in conduct for which mining companies may be held responsible. Any failure by a mining company to adopt appropriate compliance procedures and to ensure that its employees and agents comply with Anti-Corruption Legislation and applicable laws and regulations in foreign jurisdictions could result in substantial penalties or restrictions on its ability to conduct its business, which may have a material adverse impact on a mining company or its share price.

Infrastructure

Some mineral properties may be located in remote areas at some distance from existing infrastructure. Mineral production conducted at remote locations would require building, adding or extending infrastructure, which could add to time and cost required for mine development. Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. In order to develop mines on such properties, it will be necessary to negotiate and conclude various agreements for various infrastructure requirements, including for rail transportation, power and port access with various industry participants, including external service and utility providers. The inability to conclude any such agreements could have a material adverse effect on a company's ability to produce or market any products from the projects. A company's projects may require access to a sea port, however, there is no assurance that access to such facilities or alternative facilities on economically feasible terms will be available. In addition, there is no certainty that a mining company will be able to access sources of power on economically feasible terms for all of its projects and requirements. Further, aging infrastructure could lead to increased costs or reduced production. An inability to meet infrastructure requirements could have a material adverse effect on a mining company's results of operations and financial condition.

Risks Relating to Energy Production and Services Industry

The Company encourages investors in its securities to consult InPlay Oil's public disclosure record for information on risk factors affecting their business (available under InPlay Oil's profile on SEDAR at www.sedar.com). An extract of certain risk factors disclosed in InPlay Oil's annual information form dated March 30, 2017 is appended to this MD&A at Schedule “B”. Such risk factors specifically apply to InPlay Oil and, more generally, the Company’s investments in other companies in the energy production and services industry.

Risks Relating to the Agriculture Sector

SRHI has investments in the agriculture sector through its investment in Beretta Farms.

A Limited Operating History

Beretta Farms' operations have a limited history. Accordingly, Beretta Farms is subject to many risks common to such enterprises, including under-capitalization, cash shortages, lack of revenue, integration difficulties and limitations with respect to personnel, financial and other resources. There is no assurance that Beretta Farms will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

A Rise in the Price of Inputs

The profitability of Beretta Farms' retail products is highly susceptible to input costs, especially for cattle and chickens, which largely remain outside Beretta Farms' control.

Production and pricing of inputs, such as cattle and chicken, are determined by constantly changing market forces of supply and demand over which Beretta Farms has limited or no control. Such factors include, among other things, weather patterns, outbreaks of disease, the level of supply inventories and demand for grains and other feed ingredients, as well as government agricultural and energy policies.

Volatility in Beretta Farms' commodity and raw material costs directly impacts its gross margins and profitability. Beretta Farms' objective is to offset commodity price increases with pricing actions over time. However, Beretta Farms may not be able to increase its product prices enough to sufficiently offset increased raw material costs due to consumer price sensitivity or the pricing postures of its competitors. In addition, if Beretta Farms increases prices to offset higher costs, it could experience lower demand for its products and sales volumes. Conversely, decreases in Beretta Farms' commodity and other input costs may create pressure on it to decrease its prices. Over time, if Beretta Farms is unable to price its products to cover increased costs, to offset operating cost increases with continuous improvement savings, then commodity and raw material price volatility or increases could materially and adversely affect its profitability, financial condition and results of operations.

Product Pricing and Sales Volumes

Beretta Farms' profitability is dependent, in large part, on its ability to make pricing decisions regarding its products that, on the one hand encourage consumers to buy, yet on the other hand recoup development and other costs associated with those products. Products that are priced too high will not sell and products priced too low will lower Beretta Farms' profit margins.

The quantity and pricing for sales of Beretta Farms' products to retail and wholesale customers are subject to fluctuations, including adverse changes, resulting from, amongst other things, changes in end consumer demand, product decisions by wholesale customers and the actions of competitors.

Food Safety

Beretta Farms is subject to risks that affect the food industry in general, and is exposed to potential liability and costs related to food spoilage, accidental contamination, food allergens, evolving consumer preferences and nutritional and health-related concerns, product tampering, consumer product liability, product labeling and advertising errors, and the potential costs and disruptions of a product recall, either in their own operations, or in the operations of the third parties they rely on for certain processing and other supply chain activities. Beretta Farms’ processes and products are susceptible to contamination by disease-producing organisms, or pathogens, such as E. Coli, salmonella and listeria. There is a risk that these pathogens, as a result of food processing, could be present in either Beretta Farms' processing facilities or products. Beretta Farms requires strict control of the temperature at which it stores its products and is susceptible to any risks of spoilage due to issues with maintaining appropriate temperatures.

Beretta Farms' employees and management follow strict food safety protocols and processes in their manufacturing facilities and distribution systems including, but not limited to, striving for compliance with all applicable regulatory requirements, employee training and supervision in proper handling practices, and the maintenance of systems that allow traceability of all meat products from CPM to other Beretta Farms businesses or third parties, and the traceability of all meat products from Beretta Farms' businesses to customers or end retailers. However, these measures, even when working effectively, cannot eliminate all risks of an instance of food borne illness. Pathogens can also be introduced to Beretta Farms' products as a result of improper handling in transportation or at the further processing, foodservice or consumer level, along with third party tampering of products.

Beretta Farms could also be required to recall certain of its products in the event of contamination or adverse test results or as precautionary measures. There is also a risk that not all of the product subject to a recall will be properly identified, or that a recall will not be successful or not be enacted in a timely manner. Any product contamination could subject Beretta Farms to product liability claims, adverse publicity and government scrutiny, investigation or intervention, resulting in increased costs and decreased sales.

Livestock Disease

Cattle are vulnerable to viral infections and other diseases and there can be no assurance that Beretta Farms' or its supplier's livestock will not be infected. A serious outbreak of disease amongst Beretta Farms' cattle may result in losses or costs, and have a negative impact on Beretta Farms' reputation. In addition, an outbreak of such disease in the cattle industry generally, even if it does not directly infect Beretta Farms' cattle, could impact the cattle and beef industry negatively.

An outbreak of cattle disease or any outbreak of other animal epidemics might also result in material disruptions to CPM's operations, the operations of its customers or suppliers, including other Beretta Farms businesses, or a decline in the industry or in the economic growth of Canada and surrounding regions, any of which could have a material adverse impact on CPM's operations. Further, consumer concerns regarding safety and quality of food products or health concerns could adversely affect the downstream sales of CPM's customers, including Beretta Farms.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

There are no standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a material impact on the Company as an investment entity. As a result of the Company's transition to a diversified holding company effective February 1, 2018, it is expected that the financial reporting requirements of SRHI will change. See the section *Diversified Holding Company* elsewhere in this MD&A for additional details.

NON-IFRS FINANCIAL MEASURES

This MD&A uses the terms "NAV", "NAV per share", "Working Capital", "Net Cash" and "Discount to NAV" which are not recognized under IFRS and may not be comparable to similar measures presented by other companies. The Company uses these measures to help evaluate its performance and liquidity as well as to assess potential investments and acquisitions. The Company considers these metrics to be key performance measures as it demonstrates the Company's ability to generate funds necessary to fund future growth through capital investment. These non-IFRS measures should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS.

ADVISORY

Forward-Looking Information

Certain statements in this MD&A, and in particular the "Business Strategy and Outlook" section, contain forward-looking information (collectively referred to herein as the "Forward-Looking Statements") within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify Forward-Looking Statements. In particular, but without limiting the forgoing, this MD&A contains Forward-Looking Statements pertaining to: (i) the focus on owning controlling interests in businesses we believe can generate sustainable free cash flow continuing to be an important factor in SRHI's capital allocation process; (ii) continuing to build a proprietary deal flow network; (iii) exiting our non-core investments; (iv) positioning of InPlay Oil and Corsa Coal for their respective recoveries; (v) the belief that both InPlay Oil and Corsa Coal are well positioned for growth as we see the long-term fundamentals for energy and metallurgical coal as favourable; (vi) continuing to partner with management and directors with a proven track record of success; (vii) SRHI remains well positioned to support existing investments and/or pursue new accretive investment opportunities as management deems appropriate; (viii) views on the price of copper, metallurgical coal and light oil; (ix) SRHI is committed to monetizing non-core investments where possible in order to focus on its mining and energy investments; (x) value drivers; (xi) expectations regarding the copper market, including supply, demand, pricing and value drivers; (xii) expectations regarding MTV, including the provision of technical reports; (xiv) transaction costs are not expected to be comparable to prior periods; and (xv) the assessment that the Company will no longer be able to continue its investment entity status as a diversified holding company.

Although SRHI believes that the Forward-Looking Statements are reasonable, they are not guarantees of future results, performance or achievements. A number of factors or assumptions have been used to develop the Forward-Looking Statements, including: (i) copper markets and the price of copper in the future; (ii) the continued availability of quality management; (iii) the effects of regulation and tax laws of governmental agencies will not materially change; and (iv) those estimates listed herein under the heading "Critical Accounting Estimates and Judgments". Actual results, performance or achievements could vary materially from those expressed or implied by the Forward-Looking Statements should assumptions underlying the Forward-Looking Statements prove incorrect or should one or more risks or other factors materialize, including: (i) market volatility that would affect the ability to enter or exit investments; (ii) commodity price fluctuations and uncertainties; (iii) risks associated with the mining industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of estimates and projections relating to reserves, production, costs and expenses, and health, safety and environmental risks); (iv) risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of estimates and projections relating to reserves, production, costs and expenses, and health, safety and environmental risks); (v) risks associated with investments in emerging markets; (vi) risks associated with the food manufacturing and retail business in general (e.g., a rise in the cost of inputs, a drop in pricing and/or sales volumes, food safety); (vii) the uncertainty of reserves and resources; (viii) changes in environmental and other regulations; (ix) those risks disclosed herein under the heading "Risk Management"; and (x) those risks disclosed in Schedules "A" and "B" attached hereto. The Forward-Looking Statements speak only as of the date hereof, unless otherwise specifically noted, and SRHI does not assume any obligation to publicly update any Forward-Looking Statements, whether as a result of new information, future events or otherwise, except as may be expressly required by applicable Canadian securities laws.

Cautionary Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Mineral Resources

This MD&A may use the terms "measured", "indicated" and "inferred" mineral resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the United States Securities and Exchange Commission does not recognize them. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or other economic studies. United States investors are cautioned not to assume that all or any part of measured or indicated mineral resources will ever be converted into mineral reserves. United States investors are also cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable.

ABBREVIATIONS

$	Canadian dollars
$000s	thousands of Canadian dollars

DEFINED TERMS

- **"Acquisition Date"** means February 9, 2017.
- **"ADI"** means Adriana Resources Inc.
- **"ADM"** means ADI Mining Ltd.
- **"Arrangement"** means the plan of arrangement involving ADI and SRC.
- **"Beneficiary"** means an employee or director of the Company who is a member of the employee profit sharing plan ("EPSP").
- **"Beretta Farms"** means Beretta Farms Inc., a Toronto, Canada private based vertically integrated food business focused on natural and organic beef, chicken and other products to retail and home delivery consumers. Formerly One Earth Farms Corp.
- **"Board"** means board of directors of the Company.
- **"CAD"** means Canadian dollar(s).
- **"Cancelled MSA"** means the second amended and restated MSA between SRC and SCLP which was cancelled effective February 9, 2017.
- **"CEO"** means Chief Executive Officer.
- **"CFO"** means Chief Financial Officer.
- **"CIM"** means the Canadian Institute of Mining, Metallurgy and Petroleum.
- **"CPM"** means Canadian Premium Meats Inc.
- **"Company"** means Sprott Resource Holdings Inc. and its subsidiaries and affiliates.
- **"Commons Shares"** means common shares in the capital of SRHI.
- **"Corsa Coal"** means Corsa Coal Corp., a Canadian public company in the business of mining, processing and selling metallurgical and thermal coal, as well as actively exploring, acquiring and developing resource properties that are consistent with its existing coal business.
- **"Discount to NAV"** means the discount between the Company's NAV per share and the Company's closing stock price on the period-end date.
- **"ENAMI"** means Empresa Nacional De Mineria, a Chilean state owned enterprise.
- **"EOR"** means enhanced oil recovery.
- **"EPSP"** means the employee profit sharing plan of the Company.
- **"EU"** means the European Union.
- **"EV"** means electric vehicle.
- **"Facility"** means the credit facility the Company had in place with Sprott Resource Lending Corp.
- **"Financial Statements"** means the Company's audited annual consolidated financial statements for the year ended December 31, 2017 and 2016, including the notes thereon.
- **"G&A"** means general and administrative expenses.
- **"Heritage Angus"** means Prairie Heritage Producers.

- **"ICD"** means Independence Contract Drilling, Inc., a U.S. oil services company specializing in the manufacture and operation of oil and natural gas drilling rigs, which became a public company effective August 8, 2014.
- **"IFRS"** means International Financial Reporting Standards.
- **"InPlay Oil"** means InPlay Oil Corp., a growth-oriented, light oil development and production company focused on large oil in place pools with low recovery factors, low declines and long life reserves primarily targeting the Cardium Formation in Alberta, Canada.
- **"Investments"** means the investments held by the Company.
- **"LOM"** means Lac Otelnuk Mining Ltd.
- **"Long Run"** means Long Run Exploration Ltd.
- **"Management Services Fee"** means management and administrative services provided by SCLP to SRHI under the MSA.
- **"Managing Partner"** means Sprott Resource Consulting Limited Partnership, an affiliate of SCLP.
- **"Maturity Date"** means November 11, 2016 which is the date that the Facility matures.
- **"Maximum Adjusted Annual Operating Expense"** means 3% of the Annual NAV of SRHI in respect of fiscal years commencing with SRHI's fiscal year ended December 31, 2018 and thereafter.
- **"MD&A"** means the Company's management's discussion and analysis.
- **"MSA"** means the amended and restated Management Services Agreement between SRHI and SCLP.
- **"MTV"** means S.C. Minera Tres Valles.
- **"NAV"** means net asset value.
- **"NAV per share"** means the Company's NAV divided by the number of the Company's common shares that are issued and outstanding.
- **"Net Cash"** means cash and cash equivalents less total liabilities.
- **"NI 43-101"** means National Instrument 43-101 - Standards of Disclosure for Mineral Projects of the Canadian Securities Administrators
- **"OEOG"** means One Earth Oil & Gas Inc.
- **"Offered Units"** means the units offered in relation to the marketed offering which closed on April 18, 2017.
- **"Offering"** means the marketed offering which closed on April 18, 2017.
- **"Option Plan"** means the the Company's stock option plan.
- **"Partnership Agreement"** means the third amended and restated partnership agreement between SRC and the Managing Partner.
- **"Plan"** means the EPSP.
- **"Potash Ridge"** means Potash Ridge Corp.
- **"Profit Distribution"** means an amount agreed to be paid under the Partnership Agreement to an affiliate of SCLP equal to 20% of: (a) the pre-tax profits of SRC for the year minus (b) the average quarterly NAV of SRC for the year multiplied by the percentage return of the Index.
- **"Quarterly NAV"** means the average of the NAV of the Partnership as at the end of such fiscal quarter and the NAV of the Partnership as at the end of the immediately preceding fiscal quarter.
- **"RII"** means R.I.I. North America Inc., a privately held Calgary-based upstream oil company that owns the North American intellectual property rights for the patented Solvent Thermal Resource Innovations Process enhanced oil recovery ("EOR") technology.
- **"SCLP"** means Sprott Consulting Limited Partnership, the management company of SRC which provides active management, consulting and administrative services.
- **"SCP"** means Sprott Capital Partners, an affiliate of SCLP.
- **"SEDAR"** means System for Electronic Document Analysis and Retrieval.
- **"SERNAGEOMIN"** means National Geology and Mining Service.

- **"Sprott"** means Sprott Inc., and its subsidiaries and affiliates.
- **"Sprott Global"** means Sprott Global Resource Investments Ltd., an affiliate of SCLP.
- **"SRC"** means Sprott Resource Corp. and its subsidiaries and affiliates.
- **"SRC Shareholders"** means the holders of common shares of Sprott Resource Corp.
- **"SRCHC"** means Sprott Resource Coal Holding Corp.
- **"SRH Chile"** means SRH Chile SpA.
- **"SRHI"** means Sprott Resource Holdings Inc. and its subsidiaries and affiliates.
- **"SRP"** means Sprott Resource Partnership.
- **"Stonegate"** means Stonegate Agricom Ltd.
- **"tpd"** means tonnes per day.
- **"Transaction"** means the investment by (i) Sprott of $10 million in ADI common shares at a price of $0.233 per share and (ii) a fund managed by a subsidiary of Sprott, together with Term Oil Inc., for $5 million in Units.
- **"Trust"** means the Company's equity incentive plan (also see EPSP and Plan).
- **"TSX"** means the Toronto Stock Exchange.
- **"Union Agriculture"** means Union Agriculture Group, a diverse agribusiness firm that owns and manages farmland in Uruguay.
- **"USD"** means United States dollar(s).
- **"Valuator"** means independent external valuator.
- **"Virginia Energy"** means Virginia Energy Resources Inc.
- **"Warrant"** means each whole warrant having a five-year term and a strike price of $0.333 per share.
- **"Warrant Distribution"** means on February 8, 2017, ADI shareholders received Warrants having a five-year term and a strike price of $0.333 per share
- **"Working Capital"** means cash and cash equivalents together with its trade and other receivables less its total liabilities.

ADDITIONAL INFORMATION

Additional information related to the Company is available for viewing on SEDAR at www.SEDAR.com and on the Company's website at www.sprottresource.com.

SCHEDULE "A" - RISKS RELATING TO CORSA COAL CORP.

The following is an extract from Corsa Coal's annual information form dated March 7, 2017.

Risk Factors Relating to Operations and Production

Production

Corsa Coal's revenues depend on its level of coal mining production and the sales price for the coal it has mined. Production targets include Corsa Coal's current operating mines and those that are in the permitting stage, under development or under option. As a result, Corsa Coal may not achieve its production projections. Corsa Coal may then need to lease and/or option additional properties which may take time and may be subject to the same uncertainties inherent in mining. In addition, Corsa Coal's production levels are no guarantee that Corsa Coal will be able to obtain sales contracts or orders for the coal it produces and as a result sales may be below its production capabilities and Corsa Coal may reduce actual production to reflect actual customer demand and sales orders received. Also, there is no guarantee as to the price for the coal sales.

Resource Exploration, Development and Production Risks

Corsa Coal is engaged in the business of exploring, acquiring and developing coal resource properties. Coal exploration is speculative in nature and there can be no assurance that any coal discovered or acquired will result in an increase in Corsa Coal's resource base. Such exploration and development as well as acquisitions involves a high degree of financial and other risks over a significant period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Substantial expenses will be required to expand its resource base and to design and construct mining and processing facilities. Whether a resource deposit will be commercially viable depends on a number of factors, including the particular attributes of the deposit (i.e., coal quality, size, access and proximity to infrastructure), financing costs, the cyclical nature of commodity prices and government regulations (including those relating to environmental protection).

A future increase in Corsa Coal's reserves will depend on its ability to select and acquire suitable properties. No assurance can be given that Corsa Coal will be able to locate or acquire control over satisfactory properties for acquisition that will be economically viable in the current market.

Resource and Reserves

To achieve its projected level of production, a significant portion of Corsa Coal's resources will need to be upgraded to reserves. Such upgrade in classification will require additional data and establishing the economic feasibility of mineralization currently classified as resources. There can be no assurance that Corsa Coal will be able to successfully upgrade its resources to reserves.

Reserve Estimates and Replacement of Reserves

Estimating reserves and resources involves a determination of economic recovery of minerals that are in the ground, which in turn requires that assumptions be made regarding its future price and the cost of recovery. There are numerous uncertainties inherent in estimating the quantities and qualities of, and costs to mine, recoverable reserves, including many factors beyond Corsa Coal's control. Such factors include: improvements to mining technology; changes to government regulation; geologic and mining conditions, which may not be fully identified by available exploration data or may differ from Corsa Coal's experience in current operations; historical production from the area compared with production from other producing areas; future coal prices; operating costs; capital expenditures; taxes; royalties and development and reclamation costs; preparation plant recovery levels and mine recovery levels; all of which may vary considerably from actual results.

Corsa Coal's actual production experience may require the revision of production estimates because actual mineral tonnage recovered from an identified reserve or property may vary materially from estimates. Coal reserves disclosed by Corsa Coal should not be interpreted as assurance of mine life or of the profitability of current or future operations. In addition, revenues and expenditures with respect to Corsa Coal's reserves may vary materially from estimates. The estimates of reserves may not accurately reflect Corsa Coal's actual reserves and may need to be restated in the future. Any inaccuracy in Corsa Coal's estimates could result in lower than expected revenues or higher than expected costs. Corsa Coal's recoverable reserves will decline as it produces coal and Corsa Coal may not be able to mine all of its reserves. Corsa Coal's future success may depend on conducting successful exploration and development activities or acquiring properties containing economically recoverable reserves. There can be no assurance that Corsa Coal will succeed in developing additional mines in the future.

Permitting Matters

Mining companies must obtain numerous permits, licenses and approvals that strictly regulate access, environmental and health and safety and other matters in connection with coal mining. Permitting rules are complex and may change over time, which may make securing additional permits or modification to existing permits and compliance difficult.

Regulatory agencies have considerable discretion in whether or not to issue permits or grant consents and they may choose not to issue permits or grant consents to Corsa Coal or renew existing permits, licenses or consents as they come due. There can be no assurance that Corsa Coal will be able to acquire, maintain, amend or renew all necessary licenses, permits, mining rights or surface rights for its anticipated exploration and development. If Corsa Coal is to be granted a permit, it may be some time before those new permits are issued. Accordingly, new permits, licenses and approvals required by Corsa Coal to operate the mines may not be issued at all, or if issued, may not be issued in a timely fashion, or may contain requirements which restrict its ability to conduct its mining operations or subject it to additional constraints or costs.

Government Regulation

Government authorities regulate the coal mining industry to a significant degree, in connection with, among other things, exploration and development activities, employee health and safety, labor standards, air quality standards, toxic substances, water pollution, groundwater quality and availability, plant and wildlife protection, the reclamation and restoration of mining properties and the discharge of materials into the environment. Corsa Coal is subject to extensive U.S. federal and state laws and regulations controlling not only the mining of and exploration of mineral properties, but also the possible effects of such activities upon the environment. For example, government regulatory agencies may order certain of Corsa Coal's mines to be closed temporarily or permanently. Future legislation and regulations or amendments could cause additional expense, capital expenditures, reclamation obligations, revocation of licenses, restrictions and delays in the development of Corsa Coal's properties, the extent of which cannot be predicted. Government regulations including regulations relating to the environment, prices, taxes, royalties, land tenure, land use and importing and exporting of coal also impact on the marketability of the coal owned by Corsa Coal.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions against Corsa Coal, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Operating Risks

Corsa Coal's coal mining operations are and will continue to be subject to operating risks that could result in decreased coal production. Such operating risks may increase Corsa Coal's cost of mining and delay or halt production at particular mines, either permanently or for varying lengths of time. These conditions and events include but are not limited to:

- the lack of availability of qualified labor;
- inability to acquire, maintain, amend or renew necessary permits or mining or surface rights in a timely manner, if at all;
- failure of resource and reserve estimates to prove correct;
- interruptions due to transportation delays or unavailability;
- changes in governmental regulation of the coal industry, including the imposition of additional taxes, fees or actions to suspend or revoke its permits or changes in the manner of enforcement of existing regulations;
- limited availability of mining and processing equipment and parts from suppliers;
- the lack of availability of the necessary equipment of the type and size required to meet production expectations;
- mining and processing equipment failures and unexpected maintenance problems;
- unfavorable changes or variations in geologic conditions, such as the thickness of the coal deposits, irregularity in coal seams and the amount of rock embedded in or overlying the coal deposit and other conditions that can make underground or open pit mining difficult or impossible;
- severe and adverse weather and natural disasters, such as heavy rains and flooding;
- increased or unexpected reclamation costs;
- unfavorable fluctuations in the cost or availability of necessary commodities or commodities-based products such as diesel fuel, lubricants, explosives, electric cables and steel;
- unexpected mine safety accidents, including fires and explosions from methane; and
- failure of coal mined to meet expected quality specifications.

These conditions and events may increase Corsa Coal's cost of mining and delay or halt production at particular mines either permanently or for varying lengths of time. Corsa Coal's planned exploration and development projects and acquisition activities may not result in the acquisition of significant additional coal deposits and Corsa Coal may not have continuing success developing its current or additional mines.

Mining Operations and Insurance

Mining operations generally involve a high degree of risk. Corsa Coal's operations will be subject to all of the hazards and risks normally encountered in resource exploration, development and exploitation that are beyond the control of Corsa Coal. Such risks include pit wall slides, pit flooding, unusual and unexpected geological formations, seismic activity, rock bursts, ground failure and other conditions involved in the drilling or cutting and removal of material, environmental hazards, industrial accidents, periodic interruptions due to adverse weather conditions, labor disputes, political unrest, threats of war, terrorist threats and theft of production. The occurrence of any of the foregoing could result in damage to, or destruction of, resource properties or interests, production facilities, personal injury, damage to life or property, environmental damage, delays or interruption of operations, increases in costs, monetary losses, legal liability and adverse government action. Although Corsa Coal maintains liability insurance in an amount that it considers consistent with industry practice, liabilities could exceed policy limits resulting in Corsa Coal incurring significant costs. The potential costs associated with liabilities not covered by insurance or excess insurance coverage may cause substantial delays and require significant capital outlays.

The climatic conditions of Corsa Coal's activities will have an impact on operations and, in particular, severe weather such as heavy precipitation and flooding could disrupt the delivery of supplies, equipment and fuel. Exploration and mining activity levels could fluctuate. Unscheduled interruptions in Corsa Coal's operations due to mechanical or other failures or industrial relations related issues or problems or issues with the supply of goods or services could have a serious impact on the performance of those operations. Other operating risks include unfavorable changes or variations in geological conditions such as the thickness of the coal deposits and the amount of rock embedded in or overlying the coal deposit and other conditions that can make underground mining difficult or impossible; mining and processing equipment failures and unexpected maintenance problems; increased water entering mining areas and increased or accidental mine water discharges; unfavorable fluctuations in commodities-based products such as diesel fuel, reagents for processing, lubricants, electric cables, rubber, explosives, steel, copper, and other raw materials; and unexpected mine safety accidents, including fires and explosions from methane. There can be no assurance that Corsa Coal will be able to manage effectively the expansion of its operations or that its current personnel, systems, procedures and controls will be adequate to support operations.

Fatality or Severe Injury to Employees or Contractors

The business of coal mining is inherently risky. During construction of the mine or during mining operations, employees and contractors may be subject to risks and hazards, including environmental hazards, industrial accidents, human error, weather events, light vehicle incidents or other events. The occurrence of any of the foregoing could result in personal injury, permanent disabilities or fatalities to one or more employees or contractors. These incidents could lead to investigation delays, criminal or civil proceedings, investigation costs, monetary damages and reputation damage to Corsa Coal.

Uninsured Risks

Corsa Coal may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, Corsa Coal may incur liability to third parties (in excess of any insurance coverage) arising from negative environmental impacts or any other damage or injury.

Coal Transportation and Costs

Coal producers depend upon rail, barge, trucking, overland conveyor and other systems to deliver coal to customers and transportation costs are a significant component of the total cost of supplying coal. While coal customers typically arrange and pay for transportation of coal from the mine to the point of use, disruption of these transportation services because of weather- related problems, insurgency, strikes, lock-outs, transportation delays, excessive demand for their services or other events could temporarily impair Corsa Coal's ability to supply coal to customers and thus could adversely affect Corsa Coal's revenue and results of operations.

Disruption in capacity of, or increased costs of, transportation services could make coal a less competitive source of energy or could make Corsa Coal's coal less competitive than other sources of coal. In addition, increases in the cost of fuel, or changes in other costs relative to transportation costs for coal produced by competitors, could adversely affect Corsa Coal's operations. To the extent such increases are sustained, Corsa Coal could experience losses and may decide to discontinue certain operations forcing Corsa Coal to incur closure or care and maintenance costs, as the case may be.

Dependence on Third Party Suppliers and Loss of Customer Base

Corsa Coal may enter into coal supply agreements which may require the delivery of coal on a regular basis to its customers. If Corsa Coal's own mining production does not reach capacity, Corsa Coal may have to enter into coal supply agreements with third party suppliers in order to meet its customers' demands. There can be no assurance that the third parties will, from time to time, be able to supply the requisite quantities of coal on the schedule negotiated with Corsa Coal. Such third party suppliers may be subject to the same risks relating to engineering, weather, labor, materials and equipment as Corsa Coal.

Changes in purchasing patterns in the coal industry may make it difficult for Corsa Coal to enter into long term supply agreements with new customers. The execution of a satisfactory coal supply agreement may be the basis on which Corsa Coal will undertake the development of coal reserves required to be supplied under the agreement. When Corsa Coal's current agreements with customers expire or are otherwise renegotiated, Corsa Coal's customers may decide to purchase fewer tons of coal than in the past or on different terms, including pricing terms less favorable to Corsa Coal, or may choose to purchase from other suppliers. Coal contracts may also contain force majeure provisions which may allow for the temporary suspension of performance by Corsa Coal or its customers during the duration of specified events beyond the control of the affected party.

Quality Specifications

Most of Corsa Coal's coal supply agreements will contain provisions requiring the delivery of coal meeting quality specifications for certain characteristics such as BTU, sulfur content, ash content, hardness, ash fusion temperature, FSI, volatile matter and reflectance and other matters such as phosphorous. Failure to meet these specifications could result in economic penalties, including price adjustments, the rejection of deliveries or, in the extreme, termination of the contracts.

Title to Assets

Corsa Coal has leased or optioned mineral rights in order to conduct a number of its mining operations. If defects in title or boundaries are found to exist after Corsa Coal commences mining, its right to mine may be limited or prohibited. No assurance can be given that there are no title defects affecting Corsa Coal's coal properties or those which it proposes to acquire or those upon which it has operations. The coal or operations properties may be subject to prior unregistered liens, agreements or transfers or other undetected title defects. There can be no assurance that title to Corsa Coal's coal properties or those on which it has operations will not be challenged or impugned or defeated by a holder of superior title or registered liens or adverse claims. Third parties may have valid claims underlying portions of Corsa Coal's interests and the permits or tenures may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. If a title defect exists, it is possible that Corsa Coal may lose all or part of its interest in the properties to which such defects relate. If there are title defects with respect to any properties, Corsa Coal might be required to compensate other persons or perhaps reduce its interest in the property. Also, in any such case, the investigation and resolution of title issues may divert management's time from on-going exploration and development programs.

Acquisition Risks

Corsa Coal's future success may depend upon it conducting successful exploration and development activities and acquiring properties containing additional economic coal reserves. Corsa Coal may also be required to generate capital, either through its operations or through outside financing, to mine these additional reserves. Corsa Coal may increase its coal reserve base through acquisitions of other mineral rights, leases, or producing properties or continuing to use its existing leased properties.

Acquisitions involve a number of inherent risks, any of which could cause Corsa Coal to not realize the anticipated benefits. Corsa Coal may be unable to successfully integrate the companies, businesses or properties it acquires. Acquisition transactions involve various inherent risks, including:

- uncertainties in assessing the value, strengths, and potential profitability of, and identifying the extent of all weaknesses, risks, contingent and other liabilities (including environmental or mine safety liabilities) of, acquisition candidates;
- the potential loss of key customers, management and employees of an acquired business;
- the ability to achieve identified operating and financial synergies anticipated to result from an acquisition;
- problems that could arise from the integration of the acquired business; and
- unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying Corsa Coal's rationale for pursuing the acquisition.

Any one or more of these factors could cause Corsa Coal not to realize the benefits anticipated to result from an acquisition. Any acquisition opportunities Corsa Coal may pursue could materially affect its liquidity and capital resources and may require Corsa Coal to incur indebtedness, seek equity capital or both. In addition, future acquisitions could result in Corsa Coal assuming more long-term liabilities relative to the value of the acquired assets.

Surety Bonds

U.S. federal and state laws require Corsa Coal to obtain surety bonds to secure payment of certain long-term obligations such as mine closure or reclamation costs, federal and state workers' compensation costs, coal leases and other obligations. These bonds are typically renewable annually. Surety bond issuers and holders may not continue to renew the bonds or may demand additional collateral or other less favorable terms upon those renewals. The ability of surety bond issuers and holders to demand additional collateral or other less favorable terms has increased as the number of companies willing to issue these bonds has decreased over time. Failure to obtain or renew surety bonds on acceptable terms could affect Corsa Coal's ability to secure reclamation and coal lease obligations in the United States and its ability to mine or lease coal properties. That failure could result from a variety of factors, including, without limitation: (i) lack of availability, higher expense or unfavorable market terms of new bonds; (ii) restrictions on availability of collateral for current and future third-party surety bond issuers under the terms of Corsa Coal's current debt instruments; and (iii) the exercise by third-party surety bond issuers of their right to refuse to renew the surety.

Risk Factors Relating to Capital Resources

Additional Funding Requirements

Capital expenditures for the exploration, development, production, and acquisition of coal reserves in the future may depend in part on funds not entirely raised by internally generated cash flow. As a result, Corsa Coal may need external equity or debt financing and there is no assurance that it will be able to secure either kind of external financing at an economically viable cost and under reasonable conditions, if at all.

Additional equity financing could be dilutive to shareholders and could substantially decrease the trading price of Corsa Coal's securities. Corsa Coal may issue common shares or other equity securities in the future for a number of reasons. Additional debt financing, if secured, could involve restrictions being placed on financing and operating activities which could reduce the scope of Corsa Coal's operations or anticipated expansion, or involve forfeiting its interest in some or all of its properties and licenses, incurring financial penalties, or reducing or terminating its operations.

Taxation in Canada and the United States

Corsa Coal, a Canadian corporation, is subject to income tax under Canadian tax rules. The principal business operations of Corsa Coal in the United States are conducted through its wholly owned direct U.S. subsidiary, Wilson Creek Holdings, Inc. ("**WCH**"), which owns approximately 81.0% of WCE, a U.S. limited liability company and 100% of Mincorp Acquisition Corp. ("**MAC**"), a U.S. corporation. WCE owns Kopper Glo Mining, LLC ("**KGM**") and Maryland Energy ("**MER**"), two U.S. limited liability companies. MAC owns Mincorp, Inc., PBS Coals, Inc.("**PBS**"), Rox Coal, Inc., Norwich Services, Inc. Quecreek Mining, Inc., Croner, Inc. and Elk Lick Energy, Inc., all of which are U.S. Corporations. Corsa Coal's subsidiary is a U.S. company and subject to taxation under U.S. tax rules. WCE, KGM and MER are treated as disregarded entities for U.S. tax purposes, and as such, their income and losses will be treated as incurred directly by WCH (on a pro rata basis based on its ownership interest in WCE), their parent company, which is subject to U.S. tax laws. WCH will file a consolidated tax return which will include MAC and all of its subsidiaries. The payment of dividends from Corsa Coal's subsidiaries to Corsa Coal will be subject to U.S. withholding tax in certain circumstances.

Risk Factors Relating to Equipment and Labor

Availability of Equipment and Access Restrictions

Natural resource exploration, development and exploitation activities are dependent on the availability of particular types of drilling, cutting, conveying and other excavating equipment and related supplies and equipment in the particular areas where such activities will be conducted as well as their parts in the case that maintenance is needed on such equipment. Demand for or restrictions on access to such limited equipment and supplies may affect the availability of such equipment and may delay exploration, development and exploitation activities. Future operations could be adversely affected if Corsa Coal encounters difficulty obtaining equipment, tires and other supplies on a timely basis, or such equipment and supplies are available only at significantly increased prices.

Labor

If either the rail, truck or barge carrier or port facilities upon which Corsa Coal will be dependent to deliver coal to its customers are or will become unionized, there is potential for strikes, lockouts or other work stoppages or slow-downs involving the unionized employees of its key service suppliers which could have a material adverse effect on Corsa Coal. There is competition for qualified personnel in the Appalachian coal mining industry and there can be no assurance that Corsa Coal will be able to continue to attract and retain all personnel necessary for the development and operations of its business. Coal mining is a labor-intensive industry. From time to time, Corsa Coal may encounter a shortage of experienced mine workers. In addition, the employees of Corsa Coal may choose to unionize, which may disrupt operations on account of contract negotiations, grievances, arbitrations, strikes, lockouts or other work stoppages or actions. As a result, Corsa Coal may be forced to substantially increase labor costs to remain competitive in terms of attracting and retaining skilled laborers. Furthermore, it is possible that a decreased supply of skilled labor may cause a delay in Corsa Coal's operations and negatively affect its ability to expand production.

Equipment Breakdown

Breakdowns of equipment, difficulties or delays in obtaining replacement shovels and other equipment, natural disasters, industrial accidents or other causes could temporarily disrupt Corsa Coal's operations, which in turn may also materially and adversely affect its business, prospects, financial condition and results of operations.

Risk Factors Relating to Market Conditions

Competition

The resource exploration and coal mining business is competitive in all of its phases. Competitive factors in the distribution and marketing of coal include price and methods and reliability of delivery. Corsa Coal will compete with numerous other companies and individuals, including competitors with greater financial, technical and other resources, in the search for and the acquisition of attractive resource properties. The principal factors that determine the price for which Corsa Coal's coal can be sold are demand, competition, coal quality, efficiency in extracting and transporting coal, and proximity to customers. Increases in transportation costs could make Corsa Coal's coal less competitive as a source of energy or could make some of Corsa Coal's operations less competitive than other sources of coal. An oversupply of coal will also likely adversely affect the price of coal on the market. There can be no assurance that Corsa Coal will be able to compete successfully with other coal producers and suppliers and its failure to compete effectively could adversely affect its operations and performance.

In recent years, the competitive environment for coal was impacted by sustained growth in a number of the largest markets in the world, including the U.S., China, Japan and India, where demand for both electricity and steel have supported pricing for thermal and metallurgical coal. During the last several years, there has been a significant weakening in the market for coal, and in particular metallurgical coal, and a corresponding drop in demand and prices. The economic stability of these markets has a significant effect on the demand for coal and the level of competition in supplying these markets. The cost of ocean transportation and the value of the U.S. dollar in relation to foreign currencies significantly impact the relative attractiveness of Corsa Coal's coal as it competes on price with other foreign coal producing sources. During the last several years, the U.S. coal industry has experienced increased consolidation, which has contributed to the industry becoming more competitive. Increased competition by competing coal producers or producers of alternate fuels in the markets in which Corsa Coal serves could cause a decrease in demand and/or pricing for Corsa Coal's coal.

Foreign Currency Exchange

Corsa Coal reports its financial results in U.S. dollars; however, it incurs certain costs and expenses in Canadian dollars. As a result Corsa Coal's operating results and cash flows could be negatively affected by currency exchange rates between the Canadian and U.S. dollars. Exchange rates with European markets may also adversely affect the results of Corsa Coal.

Foreign Currency Fluctuations

Corsa Coal may compete in international markets against coal produced in other countries. Coal is sold internationally in U.S. dollars. As a result, mining costs in competing producing countries may be reduced in U.S. dollar terms based on currency exchange rates, providing an advantage to coal producers in other countries. Currency fluctuations among countries purchasing and selling coal could adversely affect the competitiveness of Corsa Coal's coal in international markets.

Commodity Prices

Commodity prices, including coal prices, fluctuate widely and may be affected by numerous factors beyond the control of Corsa Coal such as the sale or purchase by various dealers, central banks and financial institutions, interest rates, exchange rates, inflation or deflation, currency exchange fluctuation, global and regional supply and demand, production and consumption patterns, speculative activities, increased production due to improved mining and production methods, government regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of resources, environmental protection and international political and economic trends, conditions and events. The price of commodities, including coal, has fluctuated widely in recent years, and future serious price declines could cause continued development of Corsa Coal's properties to be impracticable. Further, reserve calculations and life-of-mine plans using significantly lower commodity prices could result in material write downs of Corsa Coal's investment in mining properties and increased amortization, reclamation and closure charges.

In addition to adversely affecting reserve estimates and its financial condition, declining commodity prices could impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

Coal Price and Volume Volatility

Coal demand and price are determined by numerous factors beyond the control of Corsa Coal including the domestic and international demand for steel and steel products; coal consumption by the domestic utility industry; the demand for electricity; the availability of competitive coal supplies; the supply and demand for domestic and foreign coal; seasonal changes in the demand for Corsa Coal's coal; interruptions due to transportation delays; proximity to, and capacity and cost of, transportation facilities; air emission standards for coal fired power plants; inflation; political and economic conditions; global or regional political events and trends; international events and trends; international exchange rates; the cost implications to Corsa Coal in response to regulatory changes, administrative and judicial decisions; production costs in major coal producing regions; the price and availability of alternative fuels, including the effects of technology developments; the effect of worldwide energy conservation efforts; future limitations on utilities' ability to use coal as an energy source due to the regulation and/or taxation of greenhouse gases under climate change initiatives; and various other market forces.

An increase in demand for coal could attract new investors to the coal industry, which could result in the development of new mines and increased production capacity throughout the industry. An oversupply in world markets could occur. The general downturn in the economies of Corsa Coal's significant markets occurred in 2012 and continued throughout 2013, 2014, 2015 and part of 2016. A significant reduction in the demand for steel products has reduced and could continue to reduce the demand for metallurgical coal. Similarly, if less expensive ingredients could be used in substitution for metallurgical coal in the integrated steel mill process, the demand for metallurgical coal would materially decrease. The combined effects of any or all of these factors on coal price or volume cannot be predicted.

Reduced coal consumption by North American electric power generators has resulted and could result in lower prices for Corsa Coal's thermal coal. The amount of coal consumed for electric power generation is affected primarily by the overall demand for electricity; the location, availability, quality and price of competing fuels for power such as natural gas, nuclear, fuel oil and alternative energy sources such as hydroelectric power; technological developments, and environmental and other governmental regulations. Weather patterns also can greatly affect electricity generation.

Extreme temperatures, both hot and cold, cause increased power usage. Mild temperatures result in lower electrical demand. Accordingly, significant changes in weather patterns could reduce the demand for Corsa Coal's thermal coal.

Corsa Coal's results of operations may also be dependent upon the prices it charges for its coal as well as its ability to improve productivity and control costs. Decreased demand would cause spot prices to decline and require an increase in productivity and lower costs in order to maintain margins. Corsa Coal may not be able to maintain its margins. Declining prices may adversely affect operating results for future periods and Corsa Coal's ability to generate cash flows necessary to improve productivity and invest in operations.

Financial Market Fluctuations

In recent years, the securities markets in Canada and elsewhere have experienced a high level of price and volume volatility, and the market prices of securities of many public companies have experienced significant fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. It may be anticipated that any quoted market for Corsa Coal's securities will be subject to such market trends and that the value of such securities may be affected accordingly. The turmoil in the global financial markets has had and may continue to have an impact on Corsa Coal. Numerous factors, including many over which Corsa Coal has no control, may have a significant impact on the market price of its securities.

In addition, the current economic environment has reduced the availability of credit in the marketplace. Volatility and disruption of financial markets could limit Corsa Coal's customers' ability to obtain adequate financing to maintain operations and result in a decrease in sales volumes that could have a negative impact on operational results.

Volatility in Market Price

The market price of Corsa Coal's common shares ("**Corsa Shares**") has experienced and may experience significant volatility. Numerous factors, including many over which Corsa Coal has no control, may have a significant impact on the market price of the Corsa Shares.

Raw Material Costs

Unexpected increases in raw material costs could greatly impair Corsa Coal's operations. The coal mining operations of Corsa Coal use significant amounts of steel, petroleum products and other raw materials for mining equipment, supplies and materials. If the price of steel, petroleum products and other commodities such as rubber products and liquid fuels increase, Corsa Coal's operational expenses will increase.

Coal Hedging Risk

Corsa Coal may, in the future, hedge its projected future coal production by entering into customer contracts that require it to deliver coal with established pricing over a period of time. If the price of coal increases, Corsa Coal may be materially adversely affected by having hedged its future production pursuant to these contracts. Alternatively, should coal prices decrease below the levels stated in the contracts, Corsa Coal could be materially adversely affected should these contracts not be honored.

Terrorist Attacks and Threats, Escalation of Military Activity in Response to Such Attacks or Acts of War

Corsa Coal's business will be affected by general economic conditions, fluctuations in consumer confidence and spending, and market liquidity, which may decline as a result of numerous factors outside of Corsa Coal's control, such as terrorist attacks and acts of war. Future terrorist attacks against U.S. targets, rumors or threats of war, actual conflicts involving the U.S. or its allies, or military or trade disruptions affecting customers may materially adversely affect operations. As a result, there could be delays or losses in transportation and deliveries of coal to customers, decreased sales of coal and extension of time for payment of accounts receivable from customers. Strategic targets such as energy-related assets may be at greater risk of future terrorist attacks than other targets in the U.S. In addition, such disruption may lead to significant increases in energy prices that could result in government-imposed price controls. It is possible that any, or a combination, of these occurrences could have a material impact on cash flows, results of operations or financial condition.

Foreign currency risk

Corsa Coal's foreign exchange risk arises primarily with respect to the U.S. dollar as a result of its activities evaluating potential opportunities and the development and operation of its assets in the United States. Corsa Coal has elected not to actively manage its foreign exchange exposure at this time.

Price risk

Corsa Coal is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on Corsa Coal's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Corsa Coal closely monitors commodity prices of resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by Corsa Coal.

Risk Factors Relating to Legal Matters

Litigation

Due to the nature of mining operations, it is possible for legal proceedings to arise from time to time in the course of Corsa Coal's business and operations. There is always the potential that an individual matter or the aggregation of many matters could adversely affect Corsa Coal.

A subsidiary of Corsa Coal is a party to a claim filed by Italian steel company Lucchini S.p.A. ("**Lucchini Claim**") for $52 million against PBS in the Livorno (Italy) Tribunal. The Lucchini Claim arises from coal purchase and sale transactions between PBS, as seller, and Lucchini, as purchaser. The transactions all occurred between November 2010 and January 2012, before Corsa Coal acquired PBS. The Lucchini Claim alleges that during the relevant time period, both PBS and Lucchini were owned and/or controlled by OAO Severstal and Alexey Mordashov. According to the Lucchini Claim, among other things, (i) PBS sold Lucchini $52 million of coal between February 2011 and January 2012, (ii) insolvent companies, such as Lucchini, may claw back payments from a group of companies without regard to value given, (iii) Lucchini was insolvent at all relevant times, (iv) PBS was part of the OAO Severstal/ Mordashov Group at all relevant times, (v) PBS' knowledge of the insolvency can be imputed and (vi) PBS had actual knowledge of the insolvency. Defending this action can be costly and can distract management. There is the potential that the costs of defending litigation could have an adverse effect on our cash flows, results of operations or financial position.

Environmental Risks, Hazards and Liabilities

Corsa Coal's operations may inadvertently substantially impact the environment or cause exposure to hazardous materials, either of which could result in material liabilities to Corsa Coal. Corsa Coal may be subject to claims under U.S. federal and state statutes, and/or common law doctrines, for toxic torts, natural resource damages, and other damages as well as the investigation and clean-up of soil, surface water and groundwater. Such claims may arise, for example, out of current, former or future activities at sites that Corsa Coal owns or operates, as well as at sites that Corsa Coal or its predecessor entities owned or operated in the past, or at contaminated sites that have always been owned or operated by third parties. Mining operations can also impact flows and water quality in surface water bodies and remedial measures may be required, such as lining of stream beds, to prevent or minimize such impacts. Many of Corsa Coal's mining operations take place in the vicinity of streams, and similar impacts could be asserted or identified at other streams in the future. Corsa Coal's liability for such claims may be joint and several, so that it may be held responsible for more than its share of the remediation costs or other damages, or even for the entire share.

Corsa Coal has reclamation and may have mine closure obligations. It is difficult to determine the exact amounts which may be required to complete all land reclamation activities in connection with their properties. Estimates of total reclamation and mine-closure liabilities are based upon permit requirements and its experience. The amounts recorded are dependent upon a number of variables, including the estimated future retirement costs, estimated proven reserves, assumptions involving profit margins and inflation rates. If these accruals are insufficient or liability in a particular year becomes greater than may be anticipated, Corsa Coal's operating results could be adversely affected.

Environmental Regulation

All phases of the natural resources business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and Canadian and U.S. laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emission of various substances produced in association with operations. The legislation also requires that facility sites and mines be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, and in some cases, enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed or permits revoked and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Corsa Coal's total compliance with the full spectrum of U.S. environmental regulation may not always be possible, and significant penalties may be incurred as a result of violations of environmental laws.

Environmental legislation has evolved in a manner that resulted in stricter standards and enforcement, larger fines and liability and increased capital expenditures and operating costs, however, with the recent change in the U.S. Administration, there may be a change in the promulgation of stricter regulation. The environmental issues affecting Corsa Coal's mining operations include permitting and reclamation requirements, air pollution laws and regulations, regulations relating to climate change, water pollution laws and regulations, including the United States Clean Water Act, hazardous waste regulation, Comprehensive Environmental Response, Compensation, and Liability Act, and similar state superfund statutes, Endangered Species Act, U.S. mine safety regulations and restrictions against greenhouse gas emissions. The discharge of pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Corsa Coal to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Corsa Coal's financial condition, results of operations or prospects. Corsa Coal may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances that may exist on or under any of its properties or that may be produced as a result of its operations.

Black Lung Laws (pneumoconiosis)

Under U.S. federal black lung benefits laws, businesses that conduct current mining operations must make payments of black lung benefits to coal miners disabled with black lung disease and to certain survivors of a miner who dies from the disease. To fund these benefits, a tax is levied on coal production per ton for underground-mined and surface-mined coal to compensate miners who are totally disabled due to black lung disease and certain survivors of miners who died from the disease, who worked after

1970, but no responsible coal mine operators were identified for the claims. In addition, some claims for which coal operators had previously been responsible will be obligations of the government trust funded by the tax. The Revenue Act of 1987 extended the termination date of this tax from January 1, 1996, to January 1, 2014, or the date on which the government trust becomes solvent. The majority of benefits are paid by coal mine operators to miners and survivors through self-insurance or commercial insurance policies.

The U.S. Patient Protection and Affordable Care Act of 2010 includes significant changes to the federal black lung program. These changes include provisions, retroactive to 2005, which (1) provide an automatic survivor benefit paid upon the death of a miner with an awarded black lung claim, without requiring proof that the death was due to pneumoconiosis and (2) establish a rebuttable presumption that miners with 15 or more years of coal mine employment and proof they are totally disabled by a respiratory condition are disabled due to pneumoconiosis. These legislative changes could have a material impact on Corsa Coal's costs expended in association with the federal black lung program.

Corsa Coal may be liable under state statutes for black lung payments and is covered through insurance policies, self-insurance or state programs. U.S. Congress and state legislatures regularly consider various items of black lung legislation, which, if enacted, could adversely affect Corsa Coal's business, results of operations and financial position.

Land Use Regulation and Conflicting Land Uses

Land use regulation on the U.S. federal, state and local level may negatively impact the ability to begin or carry out mining operations in particular locations. Zoning laws control land use and often prohibit mining entirely. New land use restrictions may be enacted in areas of current or planned mining operations by new legislation or regulation. Existing U.S. federal and state surface mining statutes also allow citizens to file petitions deeming certain land unsuitable for surface mining for a variety of reasons. It is difficult to predict when a “lands unsuitable” petition will be filed, and even more difficult to determine in advance whether the petition will be granted.

Corsa Coal’s properties may be affected by oil and gas development that may impact coal development by increasing the cost of coal recovery and decreasing the amount of coal recoverable. As determinations that lands are unsuitable are awarded more frequently, the amount of land available for mining declines and the risk that mining in planned areas will be prohibited increases. There is a risk that certain lands will not be open for mining, decreasing the number of operations Corsa Coal can maintain or acquire in the future. Even in areas where mining may not be prohibited outright, the presence of other land uses restricts the ability of mining companies to operate efficiently. Residential structures, other buildings, gas wells, pipelines, roads, electric transmission lines, and numerous land uses other than mining are commonly located in areas where Corsa Coal operates. These land uses may inhibit Corsa Coal’s operations, and negative impacts on these land uses that may result from Corsa Coal’s operations could create liability exposure. Additionally, the need to accommodate other land uses may result in a less efficient use of the mining property.

U.S. Mine Safety Regulation

Employee safety and health regulation in the U.S. mining industry is comprehensive and pervasive. The cost of complying with numerous state and federal safety and health laws applicable to the mining industry is substantial. Negative publicity surrounding a series of tragic accidents in the U.S. mining industry over the past decade has resulted in expensive new safety requirements and substantially increased penalties for failure to comply with these regulations. Given the complexity of the mine safety and health regulations, there is a risk that Corsa Coal’s business operations will be affected by these regulations.

Restriction against Greenhouse Gas Emissions

U.S. federal and state laws restricting the emissions of greenhouse gases in areas where Corsa Coal will conduct its business or sell its coal could adversely affect its operations and demand for coal. Corsa Coal may be subject to regulation of greenhouse gas emissions from stationary sources as well as mobile sources such as cars and trucks. Current and proposed laws, regulations and trends, electricity generators may influence the switch to other fuels that generate less greenhouse gas emissions, possibly further reducing demand for coal.

Anti-Corruption Legislation

Corsa Coal is subject to anti-corruption legislation including the Corruption of Foreign Public Officials Act (Canada) and other similar acts (collectively “Anti-Corruption Legislation”), which prohibit Corsa Coal or any of its officers, directors, employees or agents acting on its behalf from paying, offering to pay or authorizing the payment of anything of value to any foreign government official, government staff member, political party or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an office capacity. The Anti-Corruption Legislation also requires public companies to make and keep books and records that accurately and fairly reflect their transactions and to devise and maintain an adequate system of internal accounting controls. Corsa Coal’s international activities create the risk of unauthorized payments or offers of payments by its employees, consultants or agents, even though they may not always be subject to its control. Corsa Coal strictly prohibits these practices by its employees and agents. However, Corsa Coal’s existing safeguards and any future improvements may provide to be less than effective, and its employees, consultants and agents may engage in conduct for which Corsa Coal may be held responsible. Any failure by Corsa Coal to adopt appropriate compliance procedures and to ensure that its employees and agents comply with Anti-Corruption Legislation and applicable laws and regulations in foreign jurisdictions could result in substantial penalties or restrictions on its ability to conduct its business, which may have a material adverse impact on Corsa Coal or its share price.

Risk Factors Relating to Corporate Governance

Potential Conflicts of Interest

Certain directors and officers of Corsa Coal are, and may continue to be, involved in the mining and resource exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of members of Corsa Coal. As a result, situations may arise in connection with potential acquisitions in investments where the other interests of these directors and officers may conflict with the interests of members of Corsa Coal. Directors and officers of Corsa Coal with conflicts of interest will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulation, rules and policies.

Dividends

Corsa Coal has no dividend record and is unlikely to pay any dividends in the foreseeable future as it may employ available funds for resource exploration and development. Any future determination to pay dividends will be at the discretion of the board of directors and will depend on Corsa Coal’s financial condition, results of operations, capital requirements and such other factors as the board of directors then deems relevant.

Reliance on Key Employees and Experience of Management

Corsa Coal will be dependent on the experience of key executives and a small number of highly skilled and experienced executive officers, consultants and personnel, whose contributions to the immediate and future operations of Corsa Coal and the implementation of Corsa Coal's business plan are of great importance. Locating resource deposits depends on a number of factors, not the least of which is the technical skill of the exploration personnel involved. Given the competition for qualified management personnel in the coal industry, the loss of the services of any key management personnel may have an adverse effect on Corsa Coal's business and prospects. Corsa Coal may not be able to retain some or all of its key management personnel, and even if replaceable, it may be time consuming and costly to recruit qualified replacements. Corsa Coal does not currently have any key man insurance policies on key employees and therefore there is a risk that the death or departure of any member of management or any key employee could have an adverse effect on Corsa Coal.

The Interests of Corsa Coal's Principal Shareholder May Differ From Those of Other Shareholders

As of date of [March 7, 2017], assuming the tender for redemption of all WCE Units and exchange for Corsa Shares, Quintana would exercise control or direction over an aggregate of 46,877,551 Corsa Shares, representing approximately 45.6% of Corsa Coal's then issued and outstanding Corsa Shares. The interests of Quintana may conflict with the interests of other shareholders and there is no assurance that Quintana would vote its Corsa Shares in a way that benefits minority shareholders. Accordingly, unless applicable laws or regulations would require approval by the minority shareholders, Quintana is in a position to: (i) control Corsa Coal's policies, management and affairs; (ii) subject to applicable laws, regulations and Corsa Coal's articles and by-laws, adopt amendments to certain provisions of Corsa Coal's articles; and (iii) otherwise determine the outcome of most corporate actions, including a change in control, merger or sale of all or substantially all of Corsa Coal's assets.

Historical Resource Estimates and U.S. Disclosure Standards

Corsa Coal's Annual Information Form for the year ended December 31, 2016 sets forth certain historical estimates of "reserves" (the "**Reserves Presentation**") based on methodologies acceptable in Canada pursuant to NI 43-101, which are not compliant with the SEC Industry Guide 7 as discussed below.

NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes in Canada of scientific and technical information concerning mineral projects. Of note to U.S. investors, these standards differ significantly from the requirements of the SEC (including under its Industry Guide 7).

Under U.S. standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. U.S. investors are cautioned not to assume that all or any part of historical estimates of "reserves" in the Reserves Presentation will ever be converted into reserves, or if converted, what actual poundage and grade they may have. Accordingly, information concerning descriptions or mineralization, "resources" and "reserves" contained in the Reserves Presentation are not comparable to information made public by U.S. companies subject to the reporting and disclosure requirements of the SEC.

The following is an extract from Corsa Coal's MD&A for the period ended September 30, 2017.

Climate Change

Climate change continues to attract considerable public and scientific attention. There is widespread concern about the contributions of human activity to such changes, especially through the emission of greenhouse gasses ("**GHGs**"). There are three primary sources of GHGs associated with the coal industry. First, the end use of Corsa Coal's coal by its customers in electricity generation, coke plants, and steel making is a source of GHGs. Second, combustion of fuel by equipment used in coal production and to transport Corsa Coal's coal to its customers is a source of GHGs. Third, coal mining itself can release methane, which is considered to be a more potent GHG than CO2, directly into the atmosphere. These emissions from coal consumption, transportation and production are subject to pending and proposed regulation as part of initiatives to address global climate change.

There are many legal and regulatory approaches currently in effect or being considered to address GHGs, including international treaty commitments, new foreign, federal and state legislation that may impose a carbon emissions tax or establish a "cap and trade" program, and regulation by the EPA. As a result, numerous proposals have been made and are likely to continue to be made at the international, national, regional and state levels of government to monitor and limit emissions of GHGs. Collectively, these initiatives could result in higher electric costs to Corsa Coal's customers or lower the demand for coal used in electric generation, which could in turn adversely impact our business.

At present, Corsa Coal is principally focused on metallurgical coal production, which is not used in connection with the production of power generation. However, Corsa Coal does produce and sell coal into the power-generation market. The market for Corsa Coal's coal may be adversely impacted if comprehensive legislation or regulations focusing on GHG emission reductions are adopted, or if our customers are unable to obtain financing for their operations.

SCHEDULE "B" - RISKS RELATING TO INPLAY OIL CORP.

The following is an extract from InPlay Oil's annual information form dated March 30, 2017.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of InPlay Oil depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, InPlay Oil's existing reserves, and the production from them, will decline over time as InPlay Oil produces from such reserves. A future increase in InPlay Oil's reserves will depend on both the ability of InPlay Oil to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that InPlay Oil will be able to continue to find satisfactory properties to acquire or participate in. Moreover, management of InPlay Oil may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participation uneconomic. There is also no assurance that InPlay Oil will discover or acquire further commercial quantities of oil and natural gas.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells as well as from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills and other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. Particularly, InPlay Oil may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to InPlay Oil.

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects.

As is standard industry practice, InPlay Oil is not fully insured against all risks, nor are all risks insurable . Although InPlay Oil maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event InPlay Oil could incur significant costs.

Weakness in the Oil and Gas Industry

Recent market events and conditions, including global excess oil and natural gas supply, recent actions taken by the Organization of the Petroleum Exporting Countries ("**OPEC**"), slowing growth in emerging economies, market volatility and disruptions in Asia, sovereign debt levels and political upheavals in various countries have caused significant weakness and volatility in commodity prices. These events and conditions have caused a significant decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by the recent changes in government at a federal level and, in the case of Alberta, at the provincial level and the resultant uncertainty surrounding regulatory, tax, royalty changes and environmental regulation that have been announced or may be implemented by the new governments. In addition, the inability to get the necessary approvals to build pipelines and other facilities to provide better access to markets for the oil and gas industry in Western Canada has led to additional downward price pressure on oil and gas produced in Western Canada and uncertainty and reduced confidence in the oil and gas industry in Western Canada. Lower commodity prices may also affect the volume and value of InPlay Oil's reserves rendering certain reserves uneconomic. In addition, lower commodity prices have affected, and are anticipated to continue to affect, InPlay Oil's cash flow resulting in a reduced capital expenditure budget. Consequently, InPlay Oil may not be able to replace its production with additional reserves and both InPlay Oil's production and reserves could be reduced on a year over year basis. Any decrease in value of InPlay Oil's reserves may reduce the borrowing base under its credit facilities, which, depending on the level of InPlay Oil's indebtedness, could result in InPlay Oil having to repay a portion of its indebtedness. Given the current market conditions and the lack of confidence in the Canadian oil and gas industry, InPlay Oil may have difficulty raising additional funds or if it is able to do so, it may be on unfavourable and dilutive terms.

Prices, Markets and Marketing

Numerous factors beyond InPlay Oil's control do, and will continue to, affect the marketability and price of oil and natural gas acquired, produced or discovered by InPlay Oil. InPlay Oil's ability to market its oil and natural gas may depend upon its ability to acquire capacity on pipelines that deliver natural gas to commercial markets or contract for the delivery of crude oil by rail. Deliverability uncertainties related to the distance InPlay Oil's reserves are from pipelines, railway lines, processing and storage facilities, operational problems affecting pipelines, railway lines and facilities and government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business may also affect InPlay Oil.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of InPlay Oil. These factors include economic and political conditions in the United States, Canada, Europe, China and emerging markets, the actions of OPEC, governmental regulation, political stability in the Middle East, Northern Africa and elsewhere, the foreign supply and demand of oil and natural gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Prices for oil and natural gas are also subject to the availability of foreign markets and InPlay Oil's ability to access such markets. Oil prices are expected to remain volatile as a result of global excess supply due to the increased growth of shale oil production in the United States, the decline in global demand for exported crude oil commodities, OPEC's recent decisions pertaining to the oil production of OPEC member countries and non-OPEC member countries' decisions on production levels, among other factors. A material decline in prices could result in a reduction of InPlay Oil's net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes and the value of InPlay Oil's reserves. InPlay Oil might also elect not to produce from certain wells at lower prices.

All these factors could result in a material decrease in InPlay Oil's expected net production revenue and a reduction in its oil and natural gas production, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on InPlay Oil's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects.

Oil and natural gas prices are expected to remain volatile for the near future because of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions, political uncertainty, sanctions imposed on certain oil producing nations by other countries and ongoing credit and liquidity concerns. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

See "*Risk Management - Risks relating to the energy sector Weakness in the Oil and Gas Industry*".

Market Price of Common Shares

The trading price of securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to InPlay Oil's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices or current perceptions of the oil and gas market. Similarly, the market price of the common shares of InPlay Oil could be subject to significant fluctuations in response to variations in InPlay Oil's operating results, financial condition, liquidity and other internal factors. Accordingly, the price at which the common shares of InPlay Oil will trade cannot be accurately predicted.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

InPlay Oil considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner and InPlay Oil's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of InPlay Oil. The integration of acquired businesses may require substantial management effort, time and resources diverting management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided by third parties and assets required to provide such services. In this regard, non-core assets may be periodically disposed of so InPlay Oil can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of InPlay Oil may realize less on disposition than their carrying value on the financial statements of InPlay Oil.

Political Uncertainty

In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. During the recent presidential campaign a number of election promises were made and the new American administration has begun taking steps to implement certain of these promises. Included in the actions that the administration has discussed are the renegotiation of the terms of the North American Free Trade Agreement, withdrawal of the United States from the Trans-Pacific Partnership, imposition of a tax on the importation of goods into the United States, reduction of regulation and taxation in the United States, and introduction of laws to reduce immigration and restrict access into the United States for citizens of certain countries. It is presently unclear exactly what actions the new administration in the United States will implement, and if implemented, how these actions may impact Canada and in particular the oil and gas industry. Any actions taken by the new United States administration may have a negative impact on the Canadian economy and on the businesses, financial conditions, results of operations and the valuation of Canadian oil and gas companies, including InPlay Oil.

In addition to the political disruption in the United States, the citizens of the United Kingdom recently voted to withdraw from the European Union and the Government of the United Kingdom has begun taken steps to implement such withdrawal. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement it could have an adverse effect on InPlay Oil's ability to market its products internationally, increase costs for goods and services required for InPlay Oil's operations, reduce access to skilled labour and negatively impact InPlay Oil's business, operations, financial conditions and the market value of its common shares.

Operational Dependence

Other companies operate some of the assets in which InPlay Oil has an interest. InPlay Oil has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect InPlay Oil's financial performance. InPlay Oil's return on assets operated by others depends upon a number of factors that may be outside of InPlay Oil's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

In addition, due to the current low and volatile commodity prices, many companies, including companies that may operate some of the assets in which InPlay Oil has an interest, may be in financial difficulty, which could impact their ability to fund and pursue capital expenditures, carry out their operations in a safe and effective manner and satisfy regulatory requirements with respect to abandonment and reclamation obligations. If companies that operate some of the assets in which InPlay Oil has an interest fail to satisfy regulatory requirements with respect to abandonment and reclamation obligations InPlay Oil may be required to satisfy such obligations and to seek reimbursement from such companies. To the extent that any of such companies go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in such assets being shut-in, InPlay Oil potentially becoming subject to additional liabilities relating to such assets and InPlay Oil having difficulty collecting revenue due from such operators or recovering amounts owing to InPlay Oil from such operators for their share of abandonment and reclamation obligations. Any of these factors could have a material adverse effect on InPlay Oil's financial and operational results.

Project Risks

InPlay Oil manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost overruns could make a project uneconomic. InPlay Oil's ability to execute projects and market oil and natural gas depends upon numerous factors beyond InPlay Oil's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling, hydraulic fracturing and waterfloods, or the Corporation's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;

- accidental events;
- currency fluctuations;
- regulatory changes;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, InPlay Oil could be unable to execute projects on time, on budget, or at all, and may be unable to market the oil and natural gas that it produces effectively.

Gathering and Processing Facilities, Pipeline Systems and Rail

InPlay Oil delivers its products through gathering and processing facilities, pipeline systems and, in certain circumstances, by rail. The amount of oil and natural gas that InPlay Oil can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities, pipeline systems and railway lines. The lack of availability of capacity in any of the gathering and processing facilities, pipeline systems and railway lines could result in InPlay Oil's inability to realize the full economic potential of its production or in a reduction of the price offered for InPlay Oil's production. The lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to transport produced oil and gas to market. In addition, the pro-rationing of capacity on inter-provincial pipeline systems continues to affect the ability to export oil and natural gas. Unexpected shut downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect InPlay Oil's production, operations and financial results. As a result, producers are increasingly turning to rail as an alternative means of transportation. In recent years, the volume of crude oil shipped by rail in North America has increased dramatically. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays or uncertainty in constructing new infrastructure systems and facilities could harm InPlay Oil's business and, in turn, InPlay Oil's financial condition, operations and cash flows. In addition, the federal government has signaled that it plans to review the National Energy Board approval process for large federally regulated projects. This may cause the timeframe for project approvals to increase for current and future applications.

Following major accidents in Lac-Megantic, Quebec and North Dakota, the Transportation Safety Board of Canada and the U.S. National Transportation Board have recommended additional regulations for railway tank cars carrying crude oil. In June 2015, as a result of these recommendations, the Government of Canada passed the Safe and Accountable Rail Act which increased insurance obligations on the shipment of crude oil by rail and imposed a per tonne levy of $1.65 on crude oil shipped by rail to compensate victims and for environmental cleanup in the event of a railway accident. In addition to this legislation, new regulations have implemented the TC-117 standard for all rail tank cars carrying flammable liquids which formalized the commitment to retrofit, and eventually phase out DOT-111 tank cars carrying crude oil. The increased regulation of rail transportation may reduce the ability of railway lines to alleviate pipeline capacity issues and adds additional costs to the transportation of crude oil by rail. On July 13, 2016, the Minister of Transport (Canada) issued Protective Direction No. 38, which directed that the shipping of crude oil on DOT-111 tank cars end by November 1, 2016. Tank cars entering Canada from the United States will be monitored to ensure they are compliant with Protective Direction No. 38.

A portion of InPlay Oil's production may, from time to time, be processed through facilities owned by third parties and over which InPlay Oil does not have control. From time to time these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a materially adverse effect on InPlay Oil's ability to process its production and deliver the same for sale.

Competition

The petroleum industry is competitive in all of its phases. InPlay Oil competes with numerous other entities in the exploration, development, production and marketing of oil and natural gas. InPlay Oil's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of InPlay Oil. Some of these companies not only explore for, develop and produce oil and natural gas, but also carry on refining operations and market oil and natural gas on an international basis. As a result of these complementary activities, some of these competitors may have greater and more diverse competitive resources to draw on than InPlay Oil. InPlay Oil's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price, process, and reliability of delivery and storage.

Cost of New Technologies

The petroleum industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before InPlay Oil. There can be no assurance that InPlay Oil will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. If the Corporation does implement such technologies, there is no assurance that the Corporation will do so successfully. One or more of the technologies currently utilized by InPlay Oil or implemented in the future may become obsolete. In such case, InPlay Oil's business, financial condition and results of operations could be affected adversely and materially. If InPlay Oil is unable to utilize the most advanced commercially available technology or is unsuccessful in implementing certain technologies, its business, financial condition and results of operations could also be adversely affected in a material way.

Alternatives to and Changing Demand for Petroleum Products

Full conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and energy generation devices could reduce the demand for oil, natural gas and liquid hydrocarbons. InPlay Oil cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and cash flows.

Regulatory

Various levels of governments impose extensive controls and regulations on oil and natural gas operations (including exploration, development, production, pricing, marketing and transportation). Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase InPlay Oil's costs, either of which may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects. In order to conduct oil and natural gas operations, InPlay Oil will require regulatory permits, licenses, registrations, approvals and authorizations from various governmental authorities at the provincial and federal level. There can be no assurance that InPlay Oil will be able to obtain all of the permits, licenses, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake. In addition certain federal legislation such as the *Competition Act* and the *Investment Canada Act* could negatively affect InPlay Oil's business, financial condition and the market value of its common shares or its assets, particularly when undertaking, or attempting to undertake, acquisition or disposition activity.

Royalty Regimes

There can be no assurance that the federal government and the provincial governments of the western provinces will not adopt new royalty regimes or modify the existing royalty regimes which may have an impact on the economics of InPlay Oil's projects. An increase in royalties would reduce InPlay Oil's earnings and could make future capital investments, or InPlay Oil's operations, less economic. On January 29, 2016, the Government of Alberta adopted a new royalty regime which took effect on January 1, 2017. Details of this new regime are scheduled to be finalized and released before March 31, 2016.

Hydraulic Fracturing

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate the production of oil and natural gas. Specifically, hydraulic fracturing enables the production of commercial quantities of oil and natural gas from reservoirs that were previously unproductive. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third party or governmental claims, and could increase InPlay Oil's costs of compliance and doing business as well as delay the development of oil and natural gas resources from shale formations, which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that InPlay Oil is ultimately able to produce from its reserves.

Waterflood

InPlay Oil undertakes or intends to undertake certain waterflooding programs which involve the injection of water or other liquids into an oil reservoir to increase production from the reservoir and to decrease production declines. To undertake such waterflooding activities InPlay Oil needs to have access to sufficient volumes of water, or other liquids, to pump into the reservoir to increase the pressure in the reservoir. There is no certainty that InPlay Oil will have access to the required volumes of water. In addition, in certain areas there may be restrictions on water use for activities such as waterflooding. If InPlay Oil is unable to access such water it may not be able to undertake waterflooding activities, which may reduce the amount of oil and natural gas that InPlay Oil is ultimately able to produce from its reservoirs. In addition, InPlay Oil may undertake certain waterflood programs that ultimately prove unsuccessful in increasing production from the reservoir and as a result have a negative impact on InPlay Oil's results of operations.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with oil and gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites.

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require InPlay Oil to incur costs to remedy such discharge. Although InPlay Oil believes that it will be in material compliance with current applicable environmental legislation, no assurance can be given that environmental compliance requirements will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects.

Liability Management

Alberta, Saskatchewan and British Columbia have developed liability management programs designed to prevent taxpayers from incurring costs associated with suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder is unable to satisfy its obligation and becomes defunct. These programs generally involve an assessment of the ratio of a licensee's deemed assets to deemed liabilities. If a licensee's deemed liabilities exceed its deemed assets, a security deposit is required. Changes to the required ratio of InPlay Oil's deemed assets to deemed liabilities or other changes to the requirements of liability management programs may result in significant increases to InPlay Oil's compliance requirements. In addition, the liability management system may prevent or interfere with InPlay Oil's ability to acquire or dispose of assets as both the vendor and the purchaser of oil and gas assets must be in compliance with the liability management programs (both before and after the transfer of the assets) for the applicable regulatory agency to allow for the transfer of such assets.

The recent Alberta Court of Queen's Bench decision, *Redwater Energy Corporation (Re*) 2016 ABQB 278, found an operational conflict between the *Bankruptcy and Insolvency Act* and the Alberta Energy Regulator's ("**AER**") abandonment and reclamation powers when the licensee is insolvent. The AER appealed this decision and issued interim rules to administer the liability management program and until the Alberta Government can develop new regulatory measures to adequately address environmental liabilities. The decision from this appeal has not been released. There remains a great deal of uncertainty as to what new regulatory measures will be developed or what the impact of the court decision will have on other provinces.

Climate Change

InPlay Oil's exploration and production facilities and other operations and activities emit greenhouse gases which may require InPlay Oil to comply with greenhouse gas ("**GHG**") emissions legislation at the provincial or federal level. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As a signatory to the *United Nations Framework Convention on Climate Change* (the "**UNFCCC**") and a participant to the Copenhagen Agreement (a non-binding agreement created by the UNFCCC) and a participant to the Copenhagen Agreement (a non-binding agreement created by the UNFCCC), the Government of Canada announced on January 29, 2010 that it would seek a 17% reduction in GHG emissions from 2005 levels by 2020; however, these GHG emission reduction targets were not binding. As a result of the UNFCCC adopting the Paris Agreement on December 12, 2015, which Canada ratified on October 3, 2016, the Government of Canada implemented new GHG emission reduction targets of a 30% reduction from 2005 levels by 2030. In addition, the Government of Canada announced it would implement a Canada wide price on carbon to further reduce its GHG emissions. In addition, on January 1, 2017 the Climate Leadership Act ("**CLA**") come into effect in the Province of Alberta introducing a carbon tax on almost all sources of GHG emissions at a rate of $20 per tonne, increasing to $30 per tonne in January 2018. The direct or indirect costs of compliance with these regulations may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects. Some of InPlay Oil's significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Given the evolving nature of the debate related to climate change and the control of GHG and resulting requirements, it is not possible to predict the impact on InPlay Oil and its operations and financial condition.

Variations in Foreign Exchange Rates and Interest Rates

World oil and natural gas prices are quoted in USD. The USD/CAD exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the CAD relative to the USD will negatively affect InPlay Oil's production revenues. Accordingly, exchange rates between Canada and the United States could affect the future value of InPlay Oil's reserves as determined by independent evaluators. Although a low value of the CAD relative to the USD may positively affect the price InPlay Oil receives for its oil and natural gas production, it could also result in an increase in the price for certain goods used for InPlay Oil's operations, which may have a negative impact on InPlay Oil's financial results**.**

To the extent that InPlay Oil engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which InPlay Oil may contract.

An increase in interest rates could result in a significant increase in the amount InPlay Oil pays to service debt, resulting in a reduced amount available to fund its exploration and development activities, and if applicable, the cash available for dividends and could negatively impact the market price of the common shares of InPlay Oil.

Substantial Capital Requirements

InPlay Oil anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, InPlay Oil's ability to do so is dependent on, among other factors:

- the overall state of the capital markets;
- InPlay Oil's credit rating (if applicable);
- commodity prices;
- interest rates;
- royalty rates;
- tax burden due to current and future tax laws; and
- investor appetite for investments in the energy industry and InPlay Oil's securities in particular.

Further, if InPlay Oil's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. The current conditions in the oil and gas industry have negatively impacted the ability of oil and gas companies to access additional financing. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to InPlay Oil. InPlay Oil may be required to seek additional equity financing on terms that are highly dilutive to existing shareholders. The inability of InPlay Oil to access sufficient capital for its operations could have a material adverse effect on InPlay Oil's business financial condition, results of operations and prospects.

Additional Funding Requirements

InPlay Oil's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times and from time to time, InPlay Oil may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. Failure to obtain financing on a timely basis could cause InPlay Oil to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. Due to the conditions in the oil and gas industry and/or global economic and political volatility, InPlay Oil may from time to time have restricted access to capital and increased borrowing costs. The current conditions in the oil and gas industry have negatively impacted the ability of oil and gas companies to access additional financing.

As a result of global economic and political volatility, InPlay Oil may from time to time have restricted access to capital and increased borrowing costs. Failure to obtain such financing on a timely basis could cause InPlay Oil to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If InPlay Oil's revenues from its reserves, decrease as a result of lower oil and natural gas prices or otherwise, it will affect InPlay Oil's ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, InPlay Oil's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of InPlay Oil's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Alternatively, any available financing may be highly dilutive to existing shareholders. Failure to obtain any financing necessary for InPlay Oil's capital expenditure plans may result in a delay in development or production on InPlay Oil's properties.

Credit Facility Arrangements

InPlay Oil currently has a credit facility and the amount authorized thereunder is dependent on the borrowing base determined by its lenders. InPlay Oil is required to comply with covenants under its credit facility which may, in certain cases, include certain financial ratio tests, which from time to time either affect the availability, or price, of additional funding and in the event that InPlay Oil does not comply with these covenants, InPlay Oil's access to capital could be restricted or repayment could be required. Events beyond InPlay Oil's control may contribute to the failure of InPlay Oil to comply with such covenants. A failure to comply with covenants could result in default under InPlay Oil's credit facility, which could result in InPlay Oil being required to repay amounts owing thereunder. The acceleration of InPlay Oil's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, InPlay Oil's credit facility may impose operating and financial restrictions on InPlay Oil that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to InPlay Oil's securities, incurring of additional indebtedness, the provision of guarantees, the assumption of loans, making of capital expenditures, entering into amalgamations, mergers, take- over bids or disposition of assets, among others**.**

InPlay Oil's lenders use InPlay Oil's reserves, commodity prices, applicable discount rate and other factors, to periodically determine InPlay Oil's borrowing base. Commodity prices continue to be depressed and have fallen dramatically since 2014. There remains a substantial amount of uncertainty as to when and if commodity prices will recover. Depressed commodity prices could reduce InPlay Oil's borrowing base, reducing the funds available to InPlay Oil under the credit facility. This could result in the requirement to repay a portion, or all, of the amounts outstanding under InPlay Oil's credit facility.

There remains a substantial amount of uncertainty as to when and if commodity prices will recover. Continued depressed commodity prices or further reductions in commodity prices could result in a further reduction to InPlay Oil's borrowing base, reducing the funds available to InPlay Oil under the credit facility. This could result in the requirement to repay a portion, or all, of InPlay Oil's indebtedness.

If InPlay Oil's lenders require repayment of all or portion of the amounts outstanding under its credit facility for any reason, including for a default of a covenant or the reduction of a borrowing base, there is no certainty that InPlay Oil would be in a position to make such repayment. Even if InPlay Oil is able to obtain new financing in order to make any required repayment under its credit facility, it may not be on commercially reasonable terms or terms that are acceptable to InPlay Oil. If InPlay Oil is unable to repay amounts owing under its credit facility, the lenders under the credit facility could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness.

Issuance of Debt

From time to time, InPlay Oil may enter into transactions to acquire assets or shares of other entities. These transactions may be financed in whole or in part with debt, which may increase InPlay Oil's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, InPlay Oil may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither InPlay Oil's articles nor its by-laws limit the amount of indebtedness that InPlay Oil may incur. The level of InPlay Oil's indebtedness from time to time could impair InPlay Oil's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

From time to time, InPlay Oil may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that InPlay Oil engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, InPlay Oil's hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially impacts oil and natural gas prices.

Similarly, from time to time InPlay Oil may enter into agreements to fix the exchange rate of CAD to USD or other currencies in order to offset the risk of revenue losses if the CAD increases in value compared to other currencies. However, if the CAD declines in value compared to such fixed currencies, InPlay Oil will not benefit from the fluctuating exchange rate.

Availability of Drilling and Completion Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling, completion and related equipment (typically leased from third parties) as well as skilled personnel trained to use such equipment in the particular areas where such activities will be conducted. Demand for such limited equipment and skilled personnel or access restrictions, may affect the availability of such equipment and skilled personnel to InPlay Oil and may delay exploration and development activities.

Diluent Supply

Heavy oil and bitumen are characterized by high specific gravity or weight and high viscosity or resistance to flow. Diluent is required to facilitate the transportation of heavy oil and bitumen. A shortfall in the supply of diluent may cause its price to increase thereby increasing the cost to transport heavy oil and bitumen to market and correspondingly increasing InPlay Oil's overall operating cost, decreasing its net revenues and negatively impacting the overall profitability of its heavy oil and bitumen projects.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that a defect in the chain of title will not arise. The actual interest of InPlay Oil in properties may accordingly vary from InPlay Oil's records. If a title defect does exist, it is possible that InPlay Oil may lose all or a portion of the properties to which the title defect relates, which may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects. There may be valid challenges to title or legislative changes, which affect InPlay Oil's title to the oil and natural gas properties InPlay Oil controls that could impair InPlay Oil's activities on them and result in a reduction of the revenue received by InPlay Oil.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. Generally, estimates of economically recoverable oil and natural gas reserves and the future net cash flows from such estimated reserves are based upon a number of variable factors and assumptions, such as:

- historical production from the properties;
- production rates;
- ultimate reserve recovery;
- timing and amount of capital expenditures;
- marketability of oil and natural gas;
- royalty rates; and
- the assumed effects of regulation by governmental agencies and future operating costs (all of which may vary materially from actual results).

For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times may vary. InPlay Oil's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates and such variations could be material.

The estimation of proved reserves that may be developed and produced in the future is often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas are often estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves. Such variations could be material.

In accordance with applicable securities laws, InPlay Oil's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized in InPlay's Annual Information Form for the year ended December 31, 2016. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from InPlay Oil's oil and natural gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities InPlay Oil intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom and contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and, except as may be specifically stated, has not been updated and therefore does not reflect changes in InPlay Oil's reserves since that date.

Insurance

InPlay Oil's involvement in the exploration for and development of oil and natural gas properties may result in InPlay Oil becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although InPlay Oil maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, certain risks are not, in all circumstances, insurable or, in certain circumstances, InPlay Oil may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to InPlay Oil. The occurrence of a significant event that InPlay Oil is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects.

Geopolitical Risks

Political events throughout the world that cause disruptions in the supply of oil continuously affect the marketability and price of oil and natural gas acquired or discovered by InPlay Oil. Conflicts, or conversely peaceful developments, arising outside of Canada, including changes in political regimes or the parties in power, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and result in a reduction of InPlay Oil's net production revenue.

In addition, InPlay Oil's oil and natural gas properties, wells and facilities could be the subject o f a terrorist attack. If any of InPlay Oil's properties, wells or facilities are the subject of terrorist attack it may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects. InPlay Oil does not have insurance to protect against the risk from terrorism.

Dilution

InPlay Oil may make future acquisitions or enter into financings or other transactions involving the issuance of securities of InPlay Oil which may be dilutive.

Management of Growth

InPlay Oil may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. The ability of InPlay Oil to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of InPlay Oil to deal with this growth may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects.

Expiration of Licences and Leases

InPlay Oil's properties are held in the form of licences and leases and working interests in licences and leases. If InPlay Oil or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of InPlay Oil's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects.

Dividends

InPlay Oil has not paid any dividends on its outstanding shares. Payment of dividends in the future will be dependent on, among other things, the cash flow, results of operations and financial condition of InPlay Oil, the need for funds to finance ongoing operations and other considerations, as the Board of Directors of InPlay Oil considers relevant.

Litigation

In the normal course of InPlay Oil's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, relating to personal injuries, including resulting from exposure to hazardous substances, property damage, property taxes, land and access rights, environmental issues, including claims relating to contamination or natural resource damages and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to InPlay Oil, and as a result, could have a material adverse effect on InPlay Oil's assets, liabilities, business, financial condition and results of operations. Even if InPlay Oil prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from business operations, which could have an adverse effect on InPlay Oil's financial condition.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights in portions of western Canada. InPlay Oil is not aware that any claims have been made in respect of its properties and assets. However, if a claim arose and was successful, such claim may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects. In addition, the process of addressing such claims, regardless of the outcome, is expensive and time consuming and could result in delays which could have a material adverse effect on InPlay Oil's business and financial results.

Breach of Confidentiality

While discussing potential business relationships or other transactions with third parties, InPlay Oil may disclose confidential information relating to the business, operations or affairs of InPlay Oil. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach could put InPlay Oil at competitive risk and may cause significant damage to its business. The harm to InPlay Oil's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, InPlay Oil will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Income Taxes

InPlay Oil files all required income tax returns and believes that it is in full compliance with the provisions of the tax act and all other applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of InPlay Oil, whether by re- characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects InPlay Oil. Furthermore, tax authorities having jurisdiction over InPlay Oil may disagree with how InPlay Oil calculates its income for tax purposes or could change administrative practices to InPlay Oil's detriment.

Seasonality

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. In addition, extreme cold weather, heavy snowfall and heavy rainfall may restrict InPlay Oil's ability to access its properties and cause operational difficulties. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding decreases in the demand for the goods and services of InPlay Oil.

Third Party Credit Risk

InPlay Oil may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In addition, InPlay Oil may be exposed to third party credit risk from operators of properties in which InPlay Oil has a working or royalty interest. In the event such entities fail to meet their contractual obligations to InPlay Oil, such failures may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may affect a joint venture partner's willingness to participate in InPlay Oil's ongoing capital program, potentially delaying the program and the results of such program until InPlay Oil finds a suitable alternative partner. To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in InPlay Oil being unable to collect all or portion of any money owing from such parties. Any of these factors could materially adversely affect InPlay Oil's financial and operational results.

Conflicts of Interest

Certain directors or officers of InPlay Oil may also be directors or officers of other oil and natural gas companies and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the *Business*

Corporations Act (Alberta) ("**ABCA**") which require a director of officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with InPlay Oil to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA .

Reliance on Key Personnel

InPlay Oil's success depends in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on InPlay Oil's business, financial condition, results of operations and prospects. InPlay Oil does not have any key personnel insurance in effect for InPlay Oil. The contributions of the existing management team to the immediate and near term operations of InPlay Oil are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that InPlay Oil will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of InPlay Oil.

Information Technology Systems and Cyber-Security

InPlay Oil has become increasingly dependent upon the availability, capacity, reliability and security of our information technology infrastructure and our ability to expand and continually update this infrastructure, to conduct daily operations. InPlay Oil depends on various information technology systems to estimate reserve quantities, process and record financial data, manage our land base, analyze seismic information, administer our contracts with our operators and lessees and communicate with employees and third-party partners.

Further, InPlay Oil is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of InPlay Oil's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to our business activities or our competitive position. Further, disruption of critical information technology services, or breaches of information security, could have a negative effect on our performance and earnings, as well as on our reputation. InPlay Oil applies technical and process controls in line with industry-accepted standards to protect our information assets and systems; however, these controls may not adequately prevent cyber-security breaches. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on InPlay Oil's business, financial condition and results of operations.

Expansion into New Activities

The operations and expertise of InPlay Oil's management are currently focused primarily on oil and gas production, exploration and development in the Western Canada Sedimentary Basin. In the future InPlay Oil may acquire or move into new industry related activities or new geographical areas, may acquire different energy related assets, and as a result may face unexpected risks or alternatively, significantly increase InPlay Oil's exposure to one or more existing risk factors, which may in turn result in InPlay Oil's future operational and financial conditions being adversely affected.