



MacDonald Mines Exploration Ltd.

Management Discussion and Analysis (“MD&A”)

Financial Statement Report Date – December 31, 2016

Date of this Report – March 13, 2017

GENERAL

The following discussion of performance, financial condition and future prospects should be read in conjunction with the audited financial statements of MacDonald Mines Exploration Ltd. (“the Company”) for the year ended December 31, 2016, and December 31, 2015 and the notes thereto. The financial statements of the Company have been prepared by management and are in accordance with International Financial Reporting Standards (“IFRS”). All dollar amounts within this report are expressed in Canadian dollars. **In addition to reviewing this report, readers are encouraged to read the Company’s public information filings on Sedar at www.sedar.com.**

The Company’s shares trade on the TSX Venture Exchange under the symbol “BMK”. The Company is a reporting issuer in the Canadian provinces of Ontario, Alberta, British Columbia, New Brunswick, Nova Scotia, Newfoundland, Quebec and Saskatchewan.

CAUTIONARY STATEMENT ON FORWARD LOOKING STATEMENTS

Readers are cautioned not to place undue reliance on forward looking statements contained within this document, which speak only to the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties noted within this MD&A, actual events may differ materially from stated expectations.

This MD&A contains forward looking statements, including statements relating to going concern and capital raising and capital requirements, that are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated. Factors that could cause such differences include: changes in world commodity markets, changes in equity markets, changes in costs and supply of materials relevant to the exploration and mining industry, change in governments, changes to government mining another regulations as well as numerous other risk factors. Although the Company believes expectations reflected in its forward looking statements are reasonable, results may vary, and the Company cannot guarantee future results, levels of activity, performance or achievements.

NATURE OF ACTIVITIES

The Company is involved in the identification, acquisition and exploration of mineral properties with particular focus in Northern Ontario and Northern Quebec.

Sale of properties

McFaulds Lake and Area Properties, James Bay Lowlands, Ontario.

On August 5, 2016, the Company entered into an agreement with Noront Resources Ltd. (“Noront”) to sell 75% interest of the Butler VMS Zones (located in the “Ring of Fire” McFaulds Lake region, James Bay, Ontario) for a deemed consideration of \$750,000 represented by the issuance of 2,318,393 common shares of Noront at a deemed price of \$0.3235 per share. On the date of the transaction, the fair value of the shares received was \$799,846. The Company has a 25% carried interest in the property until such time as an Inferred Mineral Resource has been filed on the property for Noront in accordance with NI43-101, at which time (“the Notification Date”) a Joint Venture shall automatically be deemed to be formed between Noront and the Company and shall promptly enter into a formal joint venture agreement.

The Company shall have twenty (20) business days following the Notification Date (the "Conversion Right Exercise Period") in which to make a one-time election to transfer its 25% carried interest in the Property to Noront in exchange for a 1% NSR on the property.

If the Company fails to exercise the Conversion Right within the Conversion Right Exercise Period, Noront shall have the option (the "Buy-Back Option"), exercisable for twenty (20) days following the expiry of the Conversion Right Exercise Period, to elect to purchase the Company's 25% carried interest in the Property for a purchase price of \$3,000,000 (the "Buy-Back Purchase Price"), payable in cash or Noront shares at the option of Noront.

During the year ended December 31, 2016, the Company completed a Mineral Property Acquisition Agreement with KWG Resources Inc ("KWG") to sell the mineral claims known as the Hornby Property. In consideration of the claims sold, KWG issued 4,000,000 of its common shares to the Company. On the date of the transaction, the fair value of the shares received were valued at \$78,600. MacDonald Mines retains a 2% net smelter return ("NSR") on the Hornby Property. KWG can purchase one percent (1%) of the NSR, at any time prior to commencement of production from the claims, by making a cash payment of \$1,000,000 to the Company. KWG retains the first right of refusal to purchase the NSR on similar transaction terms should the Company, at its sole discretion, elect to sell the entire (or any part) of the 2% NSR to a bona-fide third party.

Subsequent to December 31, 2016, the Company entered into two agreements to acquire mineral properties as follows:

Acquisition of Mineral Properties

Holdsworth Property

On December 7, 2016, (the "Effective Date") the Company entered into an option purchase agreement with Noble Mineral Exploration Inc, (optionor) for 75% undivided interest of nineteen mineral claims covering approximately 304 hectares which together comprise the "Holdsworth Gold & Silver Project" (the "Mineral Properties") located in Corbiere and Esquega Townships in Northern Ontario.

In order to exercise the First Option and earn an initial 51% undivided interest, the Company is required to:

1. Issue 2,500,000 common shares (issued on January 12, 2017)
2. Issued 2,500,000 share purchase warrants (issued January 12, 2017)
3. Incur a minimum of \$1,200,000 in exploration expenditures with an eighteen month period following the effective date.

On satisfaction of meeting the first option requirements and to earn an additional 24% undivided interest (representing an aggregate 75% undivided interest) in the Mineral Properties, the Company must make the following payments to the Optionor and incur the following Expenditures.

1. Incur a further \$1,000,000 of Expenditures on or before the second anniversary of the date of the First Option is exercised and the Based Interest is earned; and
2. make a payment of Cdn \$100,000 to the Optionor on providing notice to the Optionor that the Company wishes to exercise the Second Option.

Charlevoix - Silica Property

On November 22, 2016, (the "Effective Date") the Company entered into a purchase agreement with 9019-5504 Quebec Inc. to acquire a 100% interest in certain 6 mining claims located in the Province of Quebec known as the Charlevoix Silica Property. In consideration for the purchase of the mining claims, the Company issued 9,000,000 common shares on January 12, 2017 at a deemed price of \$0.10 per share

OVERALL PERFORMANCE

The net income for the year ended December 31, 2016 was \$434,956 compared to a net loss of \$1,103,090 for the same period of the prior year. The income from the current period is derived from the sale of property aggregating \$878,446

For the comparative period, the loss was mainly attributed to a provision of \$942,000 with respect to Part XII.6 tax and penalties on flow through shares and a write down of equipment aggregating \$45,210.

Net comprehensive loss for the year ended December 31, 2016 was \$Nil compared to a loss of \$7,642 for the same period of the prior year. As at December 31, 2016, the Company had an accumulated deficit of \$56,471,681 compared to \$56,906,637 as at December 31, 2015.

MINERAL EXPLORATION ACTIVITIES

Wawa-Holdsworth

The company carried out three preliminary prospecting trips to the property in November and December, 2016, during which preliminary mapping and structural measurements were taken, as well as, collecting grab samples for assay analysis.

The company commenced an exploration program on the property in late January of 2017. The program consists of the re-sampling of historic diamond drill core and ground geophysical survey over the entire property.

A 62km grid, covering the entire property is currently being cut by Haveman Brothers. The company has contracted ClearView Geophysics Inc. to conduct a MAG and Horizontal Loop Electromagnetic (HLEM) geophysics survey on the property. The geophysical survey will start following completion of the line cutting.

The historic core is in an industrial lot near the town of Wawa, Ontario, and will be processed onsite. MacDonald Mines has hired a geologist and core technician, to confirm the location of historic samples in the drill core, and re-log the core using geological logs, handheld XRF geochemical analysis, short-wave infra-red (SWIR) mineral analysis, and handheld magnetic susceptibility analysis, and creating a photographic database of the core. This phase of work is currently underway.

Charlevoix Silica

During January 2017, MacDonald mines safely and successfully carried out a reconnaissance and prospecting program at the company's Charlevoix silica claims. The objective was to scout access routes and, if possible, collect samples of a high-purity quartzite unit that outcrops on the claims.

A team of two personnel (geologist and prospector), spent a total of four days prospecting the claims from January 13-16, 2017. The property was accessed from the East via Notre Dame des Monts road on snowmobiles, and from the West through Sitec's Silicium quartz mine site. At the time of the visit the claims were covered in 1-3 meters of snow, and samples were obtained by digging down to outcrop. Samples were collected to be as representative as possible of each outcrop exposed. A total of 12 samples were collected, 7 of which were of the high-purity quartzite unit being targeted by the program, and several structural measurements and bedrock locations were also recorded. The presence of the high-purity quartzite unit and its projected location on the claims was confirmed, and it was traced for approximately 500 meters.

SELECTED HISTORICAL FINANCIAL DATA

The following tables set out financial performance highlights for the last eight quarters and have been adjusted to give effect to the change in accounting policy:

	Fourth Quarter December 31, 2016	Third Quarter September 30, 2016	Second Quarter June 30, 2016	First Quarter March 31, 2016
	\$	\$	\$	\$
Net income (loss) from operations	(291,230)	733,631	(35,549)	28,104
Income taxes	Nil	Nil	Nil	Nil
Future income taxes recovered	Nil	Nil	Nil	Nil
Net income (loss)	(291,230)	733,631	(35,549)	28,104
Net loss per share, basic	(0.01)	(0.00)	(0.00)	(0.00)
Comprehensive gain / (loss)	145,165	(152,751)	5,944	1,642
Cash flow (used in) / provided by operations	(36,338)	(5,852)	(18,942)	3,881
Cash & cash equivalents, end of period	604,464	10,106	15,958	34,900
Assets	1,103,674	634,578	46,375	59,741
Future tax liabilities	Nil	Nil	Nil	Nil

	Fourth Quarter December 31, 2015	Third Quarter September 30, 2015	Second Quarter June 30, 2015	First Quarter March 31, 2015
	\$	\$	\$	\$
Net loss from operations	(110,665)	(943,967)	(69,327)	(14,978)
Income taxes (expense) recovery	Nil	Nil	Nil	Nil
Future income taxes recovered	(35,447)	Nil	Nil	Nil
Net loss	(75,218)	(943,567)	(69,327)	(14,978)
Net loss per share, basic	(0.00)	(0.04)	(0.00)	(0.00)
Comprehensive (loss) / gain	(2,785)	(2,764)	3,445	(5,538)
Cash flow used in operations	(2,247)	10,840	(50,490)	(17,531)
Cash & cash equivalents, end of period	31,019	33,266	139,957	122,916
Assets	54,038	105,354	221,361	207,370
Future tax liabilities	Nil	Nil	Nil	Nil

Results of Operations for the year ended December 31, 2016 and 2015

	2016	2015
Exploration expenditures	-	975
Salaries, professional and consulting fees	81,774	13,556
Depreciation	4,276	19,521
Shareholder communications	44,013	43,134
General & Administrative	14,957	35,235
Investment loss	176,903	4,015
Part XII.6 tax and penalties	-	942,000
Provision for severance	72,000	-
Write down of equipment		45,210
Total expenses	393,923	1,103,646
Net loss from operations	(393,923)	(1,103,646)
Sale of properties	878,446	-
Loss on sale of marketable securities	(49,570)	-
Investment and other income	3	556
Net income (loss) for the period	(434,956)	(1,103,090)

Expenses

There was little activity during the year ended December 31, 2016 and for the year ended December 31, 2015.

As a result, general and administrative expenses were lower when compared to the prior year. The significant expenses in 2016 were related to legal fees incurred in November and December 2016 on revival of the Company to an operating status and a severance expense of \$72,000 in connection with the termination of services with respect to the previous CEO and CFO.

In addition, the Company recognized an investment loss through its holdings from marketable securities as the share prices of these marketable securities are significant lower than its original amount by more than 20%.

For the prior year, the significant expenses consisted of \$942,000 relating to flow-through repayment and Part XII.6 tax. The Company also took a write down of equipment aggregating \$45,210.

LIQUIDITY AND FINANCIAL POSITION

For a further understanding of the movements in cash during the period, readers are encouraged to review the statements of cash flow within financial statements filed by the Company.

<u>As at December 31</u>	<u>2016</u>	<u>2015</u>
Cash provided (used) in operating activities	\$ (57,251)	\$ (59,428)

The Company had working capital deficiency on December 31, 2016 totaling \$714,118 compared to a working capital deficiency of \$1,522,574 at December 31, 2015. Cash and cash equivalents totaled \$604,464 on December 31, 2016 and \$31,019 on December 31, 2015.

Between December 30, 2016 and January 20, 2017, the Company raised \$818,580 in connection with private placement of shares.

On March 6 and 7, 2017, the Company raised an additional \$381,420 through private placement of shares bringing the total funds raised to date in the amount of \$1,200,000.

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

RELATED PARTY BALANCES

The following are the related party transactions for the year ended December 31, 2016:

- The Company incurred \$17,625 (2015: \$Nil) in administrative and professional consulting fees to directors and senior officers.
- The Company was charged \$Nil (2015: \$30,000) in rent and other administrative services by a TSX-V listed company which is managed by common directors and senior officers of the Company. Included in accounts payable and accrued liabilities is \$47,000 (2015: \$47,000) related to rent payable.
- The Company is indebted to Energizer Resources Inc. (TSX: EGZ), a company related by common management, \$50,000 in a form of a short-term loan from the same company. The loan is interest bearing at a rate of 5%, unsecured and due on demand. No amounts have been paid back as at December 31, 2016. Included in accounts payable and accrued liabilities is \$52,500 (2015: \$50,000) related to the loan and accrued interest.

As of December 31, 2016, the outstanding related party balances were:

- The Company owed \$36,912 (2015: \$Nil) to key management personnel as a reimbursement for severance costs and other business expenses incurred on behalf of the Company.
- The Company reached legal settlements with its former CEO and CFO, whereby a combined severance of \$72,000 was awarded. This amount is included in accounts payable and accrued liabilities. The Company expensed these claims during the year ended December 31, 2016.

DISCLOSURE OF OUTSTANDING SHARE INFORMATION

On November 21, 2016, the Company received approval from the TSX Venture Exchange to the consolidation of its common shares on the basis of ten (10) pre-consolidation shares for one (1) post-consolidation share (the "Consolidation"). As part of the Consolidation, the stock options and warrants were also consolidated and the exercise prices were adjusted to reflect the Consolidation.

The following table sets forth information concerning the outstanding securities of the Company as at March 13, 2017:

Security Class	Number
Common Shares	59,838,594
Warrants	21,922,572
Options	656,000

SIGNIFICANT ACCOUNTING POLICIES

For further information about the accounting policies used by the Company, please refer to the Company's financial statements and notes thereto for the year ended December 31, 2016.

Basis of Presentation

The financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale, which have been measured at fair value. The financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Significant accounting judgments and estimates

The preparation of the financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the period. On an ongoing basis, management evaluates its judgments and estimates by using its experience and other factors it believes to be reasonable. Actual results could differ from those estimates. The financial statements include estimates which are uncertain, the impacts of which are pervasive and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if it affects both current and future periods. Significant estimates and judgments include, but are not limited to, the provision for tax and penalties related to flow-through expenditures previously renounced. The provision requires management to make judgements and estimates of the likelihood and amount of penalties to be paid.

Mineral properties and exploration expenditures

The Company expenses all costs relating to the acquisition of, exploration for and development of mineral claims and credits all revenues received against the exploration expenditures. Such costs include, but are not limited to geological, geophysical studies, exploratory drilling and sampling. Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized; this includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

Flow-through shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Flow-through shares are a Canadian Income Tax incentive. Under the terms of the flow-through share agreements, the tax attributes of the related exploration expenditures are renounced by the Company to subscribers who purchase flow-through shares. Proceeds from the issuance of flow-through shares are allocated between the offering of shares and the sale of tax benefits. An allocation is made based on the difference between the quoted price of the existing shares and the amount that the investor paid for the shares. A liability is recognized for this difference. The liability is reduced and a reduction of the premium liability is recorded as other income as eligible expenditures are incurred and when it becomes the Company's intention to file the appropriate renunciation forms with Canadian tax authorities.

Share-based payment transactions

The Company has a stock option plan. All share-based awards granted, including those granted to directors not acting in their capacity as directors, are accounted for using the fair value based method. The fair value of stock options granted is recognized as an expense within the statements of comprehensive loss and a corresponding increase to reserves within the equity section of the statements of financial position. Any consideration paid by eligible participants on the exercise of stock options is credited to capital stock. The reserves amount associated with stock options is transferred to capital stock upon exercise.

FINANCIAL RISK FACTORS

The Company's financial risk exposures and the impact on the Company's financial instruments are as follows:

- (a) *Credit risk:* The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivable. The Company has no significant concentration of credit risk arising from financial instruments.

(b) *Liquidity risk:* The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Company has a working capital deficiency of \$714,118 (2015: \$1,522,574). The Company had a cash balance of \$604,464 (2015: \$31,019) and is not sufficient to settle current liabilities of \$1,813,515 (2015: \$1,568,059). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms, except short-term debt. The Company's financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assume the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's continued existence is dependent upon its ability to obtain necessary financing to meet ongoing expenses, to complete the development of its mineral properties and upon future profitable operations.

(c) *Market risk:* Market risk is made up of interest rate risk, price risk and equity price risk.

Interest rate risk: The Company has cash balances and a \$50,000 interest-bearing debt. The Company's current policy is to invest excess cash and cash equivalents in short-term money market investments issued by highly rated entities. The Company monitors the investments it makes and is satisfied with the credit ratings.

Price Risk: The Company is indirectly exposed to this risk through the price of base metals. The Company monitors commodity prices to determine the appropriate course of action to be taken with respect to its mineral properties.

Equity Price Risk: This is defined as the potential adverse impact on the Company's earnings due to movements in individual equity movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action.

(d) *Sensitivity Analysis:* Based on management's knowledge and experience of the financial markets, the Company believes that it is "reasonably possible" for the Company's marketable securities to move plus or minus 50%. If this were to happen, comprehensive income (loss) would be affected by approximately \$240,562.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established procedures and internal control systems to ensure the timely and accurate preparation of financial, management and other reports. The Chief Executive Officer and Chief Financial Officer certify financial reports. Disclosure controls are in place to ensure all reporting meets statutory reporting requirements. The Company's management is responsible for establishing and maintaining adequate internal controls. These controls have been designed to provide reasonable, but not absolute, assurance with respect to the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal controls, however well conceived, will provide only reasonable and not absolute assurance that the objectives of the internal controls over financial reporting will be met. It should not be expected that the disclosure and internal controls and procedures would prevent all errors or fraud.

Due to the small size of the Company's finance department, there are a limited number of personnel handling accounting and financial matters and as a result, there is a lack of segregation of duties. Management believes that it has designed sufficient compensating internal controls to mitigate these limitations, including dual signatories on all cheques. Additional internal controls include audit committee and senior management review and oversight.

The Company's certifying officers, the Chief Executive Officer and the Chief Financial Officer, have reviewed the effectiveness of the design and operation of the Company's disclosure controls and procedures as a whole. Based on their review, including a review of the compensating controls relating to the lack of segregation of duties noted above, they have concluded that the Company's internal controls and procedures, as defined in National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Filings of the Canadian Securities Regulators, were effective overall.

FLOW-THROUGH PROVISION

During the year ended December 31, 2015, the Company underwent an audit conducted by the Canada Revenue Agency ("CRA") for the calendar years 2010 to 2013. As a result of the audit, CRA has proposed an adjustment to the amount of qualifying expenditure that were renounced to the Subscribers aggregating approximately \$2,500,000. In addition CRA has assessed additional Part XII.6 tax of approximately \$250,000 to the Company in connection with the shortfall and has been paid subsequent to the year end.

Included in accounts payable and accrued liabilities as at December 31, 2016 is a provision of \$1,400,000 representing the maximum amount of tax and penalties related to the 2013 shortfall in flow through eligible exploration expenditures.

The Company is evaluating the repayment terms.

On February 14, 2017, the Company agreed to settle certain of its flow-through mining expenditure obligations relating to its obligation to indemnify certain subscribers in respect of tax and penalties payable in connection with the reassessment of such purchasers' tax returns, with the issuance of 200,000 Class A common shares at a deemed price of \$0.0618 per Common Share to settle the aggregate amount of the Debt owed to such subscriber of \$12,360.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable, but not absolute, assurance that all material information is obtained, analyzed and reported to senior management on a timely basis in order for management to make reasonable decisions regarding public disclosure.

The Company's certifying officers, the Chief Executive Officer and the Chief Financial Officer, have reviewed the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on their review, they have concluded that the Company's disclosure controls and procedures, as defined in National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Filings of the Canadian Securities Regulators, were effective and provide reasonable assurance that information required to be disclosed in interim, annual and special filings are submitted under Canadian securities laws and are recorded, processed, summarized and reported in a timely fashion.