

# **CALLINEX MINES INC.**

## **Management's Discussion and Analysis for the three and six months ended March 31, 2017**

---

The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and six months ended March 31, 2017 ("MD&A") has been prepared as of May 29, 2017. It should be read in conjunction with the condensed interim financial statement of Callinex Mines Inc. for the three and six months ended March 31, 2017 as well as the audited annual financial statements for the year ended September 30, 2016 and the accompanying MD&A for the year then ended.

The referenced financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in the Company's presentational currency of Canadian dollars unless otherwise indicated.

### **CORPORATE SUMMARY**

Callinex Mines Inc. (the "Company" or "Callinex") is principally engaged in the acquisition, exploration and development of mineral properties within established Canadian mining jurisdictions with its head office located in Vancouver, British Columbia, Canada. The Company is a reporting issuer in British Columbia and Alberta and trades its common shares on the TSX Venture Exchange under the symbol CNX.

#### **Business Strategy**

Callinex Mines Inc. is focused on discovering and developing zinc and copper rich mines within prolific Canadian volcanogenic massive sulphide ("VMS") mining jurisdictions. The Company is actively exploring its new zinc-gold discovery at its Pine Bay Project, located within close proximity HudaBay's 777 mine and mill in the Flin Flon mining district of Manitoba. Callinex is also advancing its Nash Creek and Superjack projects, which host significant zinc-rich mineral resources within the Bathurst mining district of New Brunswick.

#### **Operational Highlights**

- Entered into an option agreement to acquire a 100% interest in the Big Island Project located near Flin Flon, Manitoba and contains the Tara Lake Deposit, one of the highest-grade VMS discoveries within the Flin Flon Mining District; and
- Completed over 3,000m of drilling at its Pine Bay Project located in the Flin Flon Mining District of Manitoba;
- Announced plans to commence a 5,000 to 10,000m drilling campaign at its Nash Creek and Superjack Projects located within the Bathurst Mining District of New Brunswick.

# CALLINEX MINES INC.

## Management's Discussion and Analysis for the three and six months ended March 31, 2017

### EXPLORATION PROGRAMS AND EXPENDITURES

During the six months ended March 31, 2017, the Company incurred deferred exploration expenditures of \$2,042,496 (2016 - \$1,191,625). The majority of the expenditures relate to the Pine Bay property.

	Flin Flon	Pt Leamington	Nash Creek	Superjack	Other	Total
	\$	\$	\$	\$	\$	\$
<b>September 30, 2016</b>	<b>10,187,247</b>	<b>578,684</b>	<b>151,496</b>	<b>153,587</b>	<b>1,367,964</b>	<b>12,438,978</b>
Acquisition	53,544	-	-	-	-	53,544
Assaying	2,411	18,745	-	-	-	21,156
Camp costs	114,937	-	-	-	-	114,937
Consulting	9,902	-	10,602	-	-	20,504
Drilling	1,591,008	-	-	-	-	1,591,008
Geologists	100,917	300	-	-	-	101,217
Geochemical	40,963	-	-	-	-	40,963
Geophysical	208,987	1,000	13,253	3,130	-	226,370
Other	13,899	-	25	-	-	13,924
Permitting	10,046	-	4,915	-	-	14,961
Recovery	(160,000)	-	-	438	(11,362)	(170,924)
Share-based compensation	14,836	-	-	-	-	14,836
	2,001,450	20,045	28,795	3,568	(11,362)	2,042,496
<b>March 31, 2017</b>	<b>12,188,697</b>	<b>598,729</b>	<b>180,291</b>	<b>157,155</b>	<b>1,356,602</b>	<b>14,481,474</b>

The following are the exploration and evaluation assets held by the Company:

#### Pine Bay

Callinex owns a 100% interest, subject to a 1% Net Smelter Return ("NSR") royalty and a 5.12% Net Profits Interest, in the 6,000ha Pine Bay Project. The project is located 16km east of Flin Flon, MB and covers the Baker Patton Felsic Complex, one of the largest and most highly altered accumulations of felsic rocks within the Flin Flon Greenstone Belt. The project hosts four past producing VMS mines and historic resources. Additionally, high-grade copper and zinc mineralization is contained within a mineral lease that allows for the right to operate a mine and covers a 212m vertical shaft with 760m of underground development.

In October, 2016 Callinex announced that hole 284-3-93-DPN intersected 10.3m grading 13.1% zinc equivalent mineralization ("Zn Eq.") containing 6.0% Zn, 1.8 g/t Au, 60.4 g/t Ag, 0.7% Cu and 0.4% Pb including a higher grade interval over 4.2m grading 20.8% Zn Eq. containing 11.8% Zn, 2.4 g/t Au, 73.8 g/t Ag, 0.7% Cu and 0.7% Pb (See News Release dated October 18, 2016). The discovery was made by extending a historic Placer Dome drill hole by 38 meters. The historic drill hole was initially drilled as part of their mandate to discover a 30 million ton Volcanogenic Massive Sulphide ("VMS") deposit at the Pine Bay Project.

Callinex has completed over 15,000m of drilling with the objective to discover additional high-grade VMS mineralization within the project area. The Company anticipates completing further drill programs in 2017 and 2018.

## **CALLINEX MINES INC.**

### **Management's Discussion and Analysis for the three and six months ended March 31, 2017**

---

#### **Big Island**

Callinex has an option to acquire a 100% interest in the Big Island Project located 10 km east from HudBay's processing facilities in Flin Flon, Manitoba. The Project includes the Tara Lake Deposit, which is one of the highest-grade VMS discoveries within the Flin Flon Mining District. Interestingly, no follow-up exploration has occurred at the Tara Lake Deposit since the initial discovery and subsequent exploration that was conducted between 1987 and 1991. Callinex believes this represents a compelling exploration opportunity given the tenor of mineralization combined with modern geological and geophysical advancements over the last 25 years.

Callinex has initiated a geological and geophysical review of the project area in order to identify drill-ready targets. It is anticipated that the initial exploration focus will be on identifying extensions to high-grade mineralization. An initial drill program is anticipated to occur during a 2017 summer drill program.

In exchange for acquiring a 100% interest in the Big Island Project from Copper Reef Mining Corp., along with approximately \$1 million in work credits sufficient to keep the claims in good standing for 10 years, Callinex has agreed to make payments over a period of four years including:

- \$50,000 in cash and 100,000 common shares within five days following the effective date of the agreement; (paid and issued at the fair value of \$29,500).
- \$50,000 in cash and 100,000 common shares on or before the first anniversary of the effective date;
- \$50,000 in cash and 100,000 common shares on or before the second anniversary of the effective date;
- \$50,000 in cash and 150,000 common shares on or before the third anniversary of the effective date;
- \$65,000 in cash and 300,000 common shares on or before the fourth anniversary of the effective date; and
- A 1% Net Smelter Royalty which can be repurchased for \$1,000,000.

The Company may elect at any point in time to terminate the option agreement at its discretion.

#### **Flin Flon**

Callinex owns a 100% interest, subject to a 2% NSR royalty of which 1% of the NSR royalty may be purchased for \$1,000,000, in the Flin Flon Project. The project is located 3 km southeast of Flin Flon, MB and covers 2,455 ha with similar geological strata to the main mine horizon that hosts Hudbay's 777 mine. The project was acquired based on the presence of these favourable geological strata, known mineral occurrences and close proximity to more than ten former producing VMS mines.

Callinex has completed interpretation of an airborne geophysical survey that led to the identification of several prospective drill targets. Additionally, the Company entered into an option agreement with HudBay Minerals Inc. to acquire land adjacent to its Hook Lake target. Callinex anticipates this target could be tested as part of an upcoming drilling program in 2017 or 2018.

#### **Superjack and Nash Creek properties**

The Nash Creek and Superjack projects are located within the Bathurst Mining Camp ("BMC") of New Brunswick, Canada, and benefit from excellent infrastructure including road access to an operating processing facility approximately 90km and 50km away by road. The BMC has been one of the most productive and economically significant base metal mining districts in the world. In total, more than 130 million tonnes of ore have been extracted from at least ten mines, nearly all of which has been mined since the 1950s.

## CALLINEX MINES INC.

### Management's Discussion and Analysis for the three and six months ended March 31, 2017

The Company has outlined an initial drilling campaign at its Superjack and Nash Creek properties. It is anticipated the drilling program will occur during the summer of 2017 and consist of 5,000 to 10,000 meters. The objective of the program will be to test for expansion potential to the north of the Hickey Zone mineralization at the Nash Creek Project while the drilling program at the Superjack property will test for expansion of the A Zone at depth.

#### Pt. Leamington property

The Pt. Leamington Project, consisting of Mining Lease 136(2655), is located approximately 37km by road and trails from the city of Grand-Falls Windsor, Newfoundland, and approximately 20km from the provincial power grid. The deposit is a large, felsic-hosted zinc rich VMS deposit that dips 70 degrees to the west, has a strike length of 500m and a maximum thickness of 85m. Massive sulphides have been intercepted to a depth of 360m below surface from a total of approximately 21,714m of drilling in 72 drill holes. Regional government mapping and lithogeochemical sampling has indicated that the Pt. Leamington Project's host volcanic stratigraphy extends well beyond the vicinity of the deposit.

The Company has completed preliminary metallurgical work to characterize the nature of mineralization. Callinex will assess opportunities for further metallurgical testing.

#### Other

The Company has an interest in other properties. The other properties are in good standing and do not require any further commitments. These include the Neuron property, Gossan Gold project, Sneath Lake property, Coles Creek property, Fox River property, Moak Lake property, Norris Lake property, the Herblet Lake property and the Island Lake properties.

### QUARTERLY INFORMATION

The following is selected financial data from the Company's unaudited quarterly financial statements for the last eight quarters ending with the most recently completed quarter, being the three months ended March 31, 2017.

	<b>March 31 2017 (\$)</b>	<b>December 31 2016 (\$)</b>	<b>September 30 2016 (\$)</b>	<b>June 30 2016 (\$)</b>
<b>Three months ended</b>				
Revenues	-	-	-	-
Loss	(339,031)	(780,302)	(593,356)	(554,469)
Loss per share (basic and diluted)	(0.01)	(0.01)	(0.01)	(0.01)

	<b>March 31 2016 (\$)</b>	<b>December 31 2015 (\$)</b>	<b>September 30 2015 (\$)</b>	<b>June 30 2015 (\$)</b>
<b>Three months ended</b>				
Revenues	-	-	-	-
Loss	(425,562)	(410,251)	(3,520,954)	(256,397)
Loss per share (basic and diluted)	(0.01)	(0.01)	(0.09)	(0.01)

<sup>(1)</sup> The basic and diluted loss per share amounts are the same amount due to the anti-dilutive effect of outstanding stock options and warrants.

The loss for the quarter ended September 30, 2015 was higher due to \$3,536,375 of exploration and evaluation assets written down offset by a \$418,306 deferred tax recovery.

## CALLINEX MINES INC.

### Management's Discussion and Analysis for the three and six months ended March 31, 2017

---

#### RESULTS OF OPERATIONS

##### Six months ended March 31, 2017

During the six months ended March 31, 2017, the Company reported a loss of \$1,119,333 and a loss per share of \$0.01 (2016 - \$835,813 and \$0.02 loss per share)

	2017 (\$)	2016 (\$)
General and administrative expenses	(1,130,389)	(568,070)
Share-based payments	(269,393)	(267,743)
Finance income	11,056	-
Loss for the period	(1,119,333)	(835,813)

With respect to general and administrative expenses, the 2017 expenditures were generally higher than those of 2016 primarily because of the Company's increased activity levels. The most significant general and administrative expenses were with respect to the following:

##### Corporate development - \$423,259 (2016 - \$171,757)

These costs relate to corporate development matters. The increase is as a result of increased activity in relation to corporate development, project acquisitions and capital raising efforts during the period.

##### Management and consulting fees - \$175,939 (2016 - \$173,848)

These include fees paid to the Company's senior executives and employees.

##### Professional fees - \$57,835 (2016 - \$37,728)

These include fees paid for legal (\$22,664) and accounting and audit fees (\$35,171). The increase in fees was due to an increase in activities.

##### Share-based compensation expense - \$269,393 (2016 - \$267,743)

The costs related to options granted to executives, directors and consultants. The expense in the current period was based on 250,000 (2016 - 1,600,000) newly granted options and vesting terms of options granted in previous years. In the current period, there was also \$14,836 (2016 - \$nil) of share-based compensation that was capitalized to exploration and evaluation assets.

##### Three months ended March 31, 2017

During the three months ended March 31, 2017, the Company reported a loss of \$339,031 and a loss per share of \$0.00 (2016 - \$425,562 and \$0.01 loss per share)

	2017 (\$)	2016 (\$)
General and administrative expenses	(258,307)	(268,606)
Share-based payments	(91,736)	(156,956)
Finance income	11,012	-
Loss for the period	(339,031)	(425,562)

The general and administrative expenses were consistent from period to period. Corporate development expense decreased from \$91,123 in the 2016 period compared to \$51,769 in the 2017 period. This was offset by increases in listing and filing fees and office and administration expenses.

## CALLINEX MINES INC.

### Management's Discussion and Analysis for the three and six months ended March 31, 2017

#### FINANCING ACTIVITIES

Pursuant to the terms of the warrants issued under the Company's private placement financings completed on July 30, 2015 and May 11, 2016, if the average volume weighted average trading price of the Company's shares on the TSX Venture Exchange is above \$0.60 per share for a period of any fifteen trading days, the Company is entitled to accelerate the expiry date of the warrants. On December 5, 2016 the Company elected to provide such notice and a total of 5,246,336 warrants were exercised for gross proceeds of \$2,360,851.

On November 22, 2016 the Company closed a private placement consisting of 8,050,000 non-flow through units at \$0.50 per unit and 1,820,000 flow through shares at \$0.55 per share for aggregate gross proceeds of \$5,026,000. Each non-flow through unit consists of one non-flow through common share and one-half of one share purchase warrant. Each warrant entitles the holder to acquire one non-flow through common share at a price of \$0.75 for a period of three years.

#### LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2017 the Company had cash on hand of \$8,304,480 compared to \$4,259,785 as at September 30, 2016. The net increase in cash for the period is due to the Company raising \$7,062,432 of net proceeds through a private placement and exercise of warrants, offset by cash used in operating activities (\$912,787) and investing activities (\$2,104,950).

As at March 31, 2017 the Company had working capital of \$8,253,010 (September 30, 2016 - \$4,170,807) and no long term debt.

#### RELATED PARTY TRANSACTIONS

Compensation paid or payable to the Company's Board of Directors and corporate officers for services provided during the three and six months ended March 31, 2017 and 2016 was as follow:

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Professional fees <sup>(1)</sup>	4,920	8,360	15,120	12,731
Management and consulting <sup>(2)</sup>	54,000	57,000	123,000	122,000
Share-based compensation	45,461	86,409	142,521	144,345
	104,381	151,769	280,641	279,076

(1) Includes fees earned by the former Chief Financial Officer, Rebecca Moriarty. The business purpose of the transactions was to compensate the individual for administration and management services provided. The Company has a consulting agreement with Malaspina Consultants Inc., a company that employs Ms. Moriarty. The consulting agreement can be terminated with sixty days' notice.

(2) Includes salary earned by the Chief Executive Officer, Max Porterfield, and a Director, Mike Muzykowski. The business purpose of the transactions was to compensate the individuals for administration and management services provided. The Company has an employment agreement with Mr. Porterfield that includes a change of control provision calling for a severance payment of two years of annual salary.

As at March 31, 2017 a total of \$3,000 (September 30, 2016 - \$3,000) from related parties is included in accounts receivables and \$9,000 (September 30, 2016 - \$9,000) was owed to related parties and is included in accounts payable and accrued liabilities.

# **CALLINEX MINES INC.**

## **Management's Discussion and Analysis for the three and six months ended March 31, 2017**

---

### **FUTURE ACCOUNTING STANDARDS AND PRONOUNCEMENTS**

At the date of approval of the financial statements the following standards, which are applicable to the Company, were issued but not yet effective. The Company is currently evaluating the impact of the standards on its financial statements. The following is a brief summary of the principal new or amended standards:

#### **IFRS 9 - Financial instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 also amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in OCI, and guidance on financial liabilities and derecognition of financial instruments. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted.

#### **IFRS 16 - Leases**

This standard specifies how an issuer will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has an insignificant value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019.

### **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

### **SUBSEQUENT EVENTS**

- Callinex entered into a drill contract to complete a minimum of 5,000m and a maximum of 15,000m at its Superjack and Nash Creek Project located in the Bathurst Mining District of New Brunswick;
- Callinex completed a drill program at the Pine Bay Project and hole PBM-024 intersected 2.6m of massive sulphides grading 3.0% Cu Eq. containing 1.64% Cu, 0.53% Zn, 0.92 g/t Au and 34.6 g/t Ag located 180m along strike and 70m below drill hole 284-3-93-DPN (See News Release dated May 1, 2017).
- The Company completed one additional hole, PBM-025, which was to test a near-surface target along the Cabin VMS Horizon. This hole did not encounter any material concentrations of base or precious metal mineralization.
- Appointed Jordan Butler as Vice President, Corporate Development and Matthew Anderson as Chief Financial Officer effective May 1, 2017.

## CALLINEX MINES INC.

### Management's Discussion and Analysis for the three and six months ended March 31, 2017

---

#### OUTSTANDING SHARE DATA AND DILUTION CALCULATION

The Company has authorized share capital consisting of common shares without par value. The number of shares authorized is unlimited. The Company has issued warrants for the purchase of common shares and also a stock option plan. The table below summarizes the Company's common shares and stock options and warrants that are convertible into common shares as of May 29, 2017:

Issued and outstanding common shares	77,865,808
Share options with a weighted average exercise price of \$0.35	5,855,000
Share purchase warrants with a weighted average exercise price of \$0.75	4,025,000
<b>Fully Diluted</b>	<b>87,745,808</b>

#### RISKS AND UNCERTAINTIES

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

Operational risks include finding and developing reserves economically, marketing production and services, product deliverability uncertainties, changing governmental law and regulation, First Nations consultation, hiring and retaining skilled employees and contractors and conducting operations in a cost effective and safe manner. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations. Insurance may be maintained at levels consistent with prudent industry practices to minimize risks, but the Company is not fully insured against all risks, nor are all such risks insurable.

Financial risks include commodity prices and interest rates all of which are beyond the Company's control. Additional financial risks are the Company's ability to raise capital and to repay indebtedness it incurs.

Regulatory risks include the possible delays in getting regulatory approval to the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the Company must meet in order to maintain its exchange listing.

#### DISCLOSURE CONTROLS AND PROCEDURES

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the condensed interim financial statements for the three and six months ended March 31, 2017 and this accompanying MD&A (together, the "Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with its filings on SEDAR at [www.sedar.com](http://www.sedar.com).



## **CALLINEX MINES INC.**

### **Management's Discussion and Analysis for the three and six months ended March 31, 2017**

---

#### **FORWARD LOOKING STATEMENTS**

Certain of the statements made herein may constitute "forward-looking statements" or contain "forward-looking information" within the meaning of applicable Canadian securities laws. In this context, forward-looking statements often address expected future business and financial performance, and often contain words such as "anticipate", "believe", "plan", "estimate", "expect", and "intend", statements that an action or event "may", "might", "could", "should", or "will" be taken or occur, or other similar expressions. All statements, other than statements of historical fact, included herein including, without limitation; statements about the potential for additional mineralization at the Company's properties, the timelines to complete the Company's exploration programs, timing for permit applications, timing for new resource estimates, timing to complete technical reports, forecasts for exploration expenditures, estimates of future administrative costs and statements about the Company's future development of its properties. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in mine exploration and development including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; risks associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour or interruptions in production; the potential for unexpected costs and expenses and commodity price; uncertain political and economic environments; changes in laws or policies, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties, including those described under Risk Factors Relating to the Company's Business in the MD&A.

Forward-looking information is in addition based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of commodities; that the Company can access financing, appropriate equipment and sufficient labour and that the political environment will continue to support the development and operation of mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements. The Company does not intend to update forward-looking statements or information, except as may be required by applicable law.

#### **OTHER INFORMATION**

Additional information related to the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website at [www.callinex.ca](http://www.callinex.ca)