# MGX MINERALS INC.

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**MANAGEMENT DISCUSSION AND ANALYSIS**
**FOR THE YEAR ENDED JULY 31, 2019**

The following Management's Discussion and Analysis ("MD&A"), prepared as of December 30, 2019, should be read in conjunction with the audited consolidated financial statements of MGX Minerals Inc. ("MGX" or "the Company") for the year ended July 31, 2019, which were prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial amounts are stated in Canadian dollars unless stated otherwise.

Additional information relating to the Company and its operations is available under the Company's profile on SEDAR at www.sedar.com

**FORWARD-LOOKING STATEMENTS**

The Company's consolidated financial statements for the year ended July 31, 2019, and this accompanying MD&A contain statements that constitute "forward-looking statements" within the meaning of National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators.

It is important to note that, unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of December 30, 2019.

Forward-looking statements often, but not always, are identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", "targeting" and "intend" and statements that an event or result "may", "will", "should", "could", or "might" occur or be achieved and other similar expressions.

These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors. All statements, other than statements of historical fact, included herein, including without limitation, statements about potential mineralization at the Company's properties, the timelines to complete exploration programs or technical reports and statements about the Company's future development of its properties. 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. As a consequence, actual results might differ materially from results forecast or suggested in these forward-looking statements. Additional risks and uncertainties are identified under the heading "RISKS AND UNCERTAINTIES" in this MD&A.

Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, except as required by law, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

**DESCRIPTION OF BUSINESS**

The Company is engaged in the acquisition, exploration and development of mineral resource properties and industrial technologies. The Company operates and invests in mineral properties located in Canada. The Company's mineral property portfolio consists of lithium, magnesium oxide, silca, niobium-tantulum, and gold properties. The Company owns, operates and sells water treatment systems to the oil and gas industry through its 60% owned partner PurLucid Treatment Solutions ("PurLucid") who continues to develop advanced water treatment technology. The Company owns rapid lithium extraction technology from brine which eliminates the need for solar evaporation. The head office is located at Suite 303, 1080 Howe Street, Vancouver, British Columbia, Canada, V6Z 2T1.

On July 4, 2014, the Company completed a reverse takeover transaction (the "RTO" or the "Transaction") by Manto Gold Corp. ("Manto" or the "Subsidiary"). In connection with closing of the Transaction, "Defiant Minerals

Corp." ("Defiant") changed its name to "MGX Minerals Inc." and Manto became the wholly-owned subsidiary of the Company.

## OVERALL PERFORMANCE

Highlights:

The Company completed a non-brokered private placement issuing 2,591,667 non-flow-through units ("NFT Units") at $0.60 per NFT Unit. Each NFT Unit consists of one common share of the Company and one common share purchase warrant that entitles the holder to acquire one additional common share for a period of 36 months from the date of closing at an exercise price of $0.67 The Company also issued 8,079,151 flow-through units ("FT Units") at $0.65 per FT Unit. Total gross proceeds of the private placement were $6,806,448. Each FT Unit consists of one flow-through common share and one-half common share purchase warrant. Each full warrant entitles the holder to acquire an additional common share of the Company for a period of 36 months from the date of closing at an exercise price of $0.70. The Company recorded a flow-through premium of $403,958. The Company allocated a value of $884,230 to the warrants using the residual method.

During the year ended July 31, 2019, PurLucid completed initial commissioning from its 5m$^3$ per hour NFLi-5 advanced wastewater treatment system. The system was deployed for a 3 week test period as preparation for an additional in-line deployment of a new 10m$^3$ per hour system. The first system is fully manufactured and being tested and updated to be fit for commercial use in the near future. The 2$^{nd}$ unit has been delivered but is not currently in use. PurLucid will continue to develop the first unit until it is commercially usable and will apply the upgrades made to the first unit to both of the remaining units before deploying them.

On April 11, 2019 the Company received conditional exchange approval for the listing of MGX-R as per the Spin-Out transaction and completed the Spinout on June 26, 2019.

On June 10, 2019 the Company entered into a Joint Venture Agreement (the "JV Agreement") with Eureka Resources ("Eureka") to install a commercial rapid petrolithium recovery system in Pennsylvania. Subsequent to July 31, 2019 the unit was delivered on site but has not yet generated any revenue.

## SELECTED ANNUAL INFORMATION

The following is a summary of certain selected audited consolidated financial information of the Company for the years ended July 31, 2019, 2018 and 2017

| | **2019** **$** | **2018** **$** | **2017** **$** |
|---|---:|---:|---:|
| Total revenues | - | - | - |
| Net loss | (26,110,694) | (25,378,273) | (13,916,691) |
| Net loss per share (basic and diluted) [1] | (0.18) | (0.27) | (0.24) |
| Mineral properties | 3,240,660 | 10,276,950 | 4,850,186 |
| Total assets | 26,734,303 | 38,055,472 | 11,563,110 |
| Long term liabilities | 27,322 | 124,670 | - |
| Working Capital (Deficit) | (5,889,417) | 5,676,527 | 2,370,658 |

## DISCUSSION OF OPERATIONS

The Company recorded a net loss of $26,110,694 ($0.18 per share) for the year ended July 31, 2019 as compared to a loss of $25,378,273 ($0.27 per share) for the year ended July 31, 2018.

The change in loss for the year ended July 31, 2019 is due to the following:

- The Company incurred $3,485,715 (2018 – 9,687,770) of advertising and promotion expenses during the year ended July 31, 2019. During the period ended July 31, 2018 the Company began advertising and marketing of its products and technologies to industry for waste water treatment and mineral extraction to the oil and gas industry. This included hiring a US Cleantech public relations firm. The major marketing and public relations effort generated a significant sales pipeline and global recognition of the Company's technology resulting in winning of the Standard & Poors Global Platts Metals Global 2018 Leadership in Base and Specialty Metals Award for the extraction of lithium from oilfield brine. The Company has engaged consultants from various industries as the Company continues to expand its presence in both the lithium extraction, waste water treatment, battery mass storage and traditional mineral and metals exploration markets. During the year ended July 31, 2019 the Company made the decision to not proceed with its Utah lithium projects and therefore stopped marketing efforts related to those properties.

- The Company incurred management fees of $271,000 (2018 - $3,989,771). Management fees during the year ended July 31, 2018 included the vesting of Restricted Share Units ("RSU") that were issued to a Director of the Company.
- Consulting fees of $2,102,648 (2018 - $1,786,200) increased as the Company has increased its presence in the lithium exploration and rapid extraction markets. Additionally, the Company has added additional consulting fees related to activity in the US. The Company is also consolidating the results of its wholly-owned subsidiary MGX Renewables.
- The Company incurred research and development costs of $5,600,171 (2018 - $nil) related to the development of the Zinc-air and water filtration technologies through the Company's subsidiaries MGX-R and PurLucid.
- Office and administration expense increase to $1,789,678 (2018 - $1,186,112) this is primarily related to the consolidation of MGX-R and PurLucid.
- During the year ended July 31, 2019 the Company wrote off $8,931,374 (2018 - $275,470) of mineral property acquisition costs related to projects the Company will no longer purse.
- During the year ended July 31, 2019 the Company recorded a gain on acquisition of PurLucid of $2,612,500 (2018 - $nil).

## SUMMARY OF QUARTERLY RESULTS

The following table sets out financial information for the past eight quarters:

| | Three Months Ended ($) | | | |
|---|---|---|---|---|
| | **July 31, 2019** | **April 30, 2019** | **January 31, 2019** | **October 31, 2018** |
| Loss and comprehensive loss | (10,833,880) | (3,324,560) | (5,965,983) | (5,986,271) |
| Basic and diluted loss per share* | (0.07) | (0.03) | (0.04) | (0.05) |
| Total assets | 26,734,303 | 36,085,667 | 36,436,030 | 35,771,842 |
| Working capital (deficit) | (5,889,417) | (1,386,356) | 251,825 | 361,314 |

| | Three Months Ended ($) | | | |
|---|---|---|---|---|
| | **July 31, 2018** | **April 30, 2018** | **January 31, 2018** | **October 31, 2017** |
| Loss and comprehensive loss | (6,779,158) | (8,083,505) | (5,627,706) | (4,887,904) |
| Basic and diluted loss per share* | (0.06) | (0.08) | (0.06) | (0.07) |
| Total assets | 38,055,472 | 22,705,878 | 25,520,622 | 9,875,187 |
| Working capital | 5,052,087 | 2,387,736 | 6,592,655 | (97,039) |

* No exercise or conversion is assumed during the periods in which a loss is incurred, as the effect is anti-dilutive.

The increase in net loss during the period ended July 31, 2019 is due to the write-down of mineral property acquisition costs of $8,931,374. This was offset by a gain from discontinued operations of $425,282 related to the Spin-out of Zinc8.

The increase in net loss for the period ended July 31, 2017 is related primarily to share based payments expense of $1,534,532. The increase in the net loss for the period ended July 31, 2018 is discussed above. The Company also completed a financing during the period ended January 31, 2018 resulting in the increase in working capital.

The loss for the quarter ended July 31, 2017 includes $4,765,040 of management expense related to the vesting of the restricted stock units granted to director.

### Investment in MGX Renewables (Formerly ZincNyx Energy Solutions)

During the year ended July 31, 2018 the Company acquired a 100% interest in MGX Renewables Inc. MGX-R is focused on the development of zinc-air mass storage systems. MGX-R recently entered the final phase of product development for its next generation zinc-air mass storage systems. The Energy Storage System ("ESS") is designed to deliver power in the range of 20 kilowatt ("kW") – 50 megawatt ("MW") and storage in the range of 120Kilowatt hour ("Kwh") – 1Gigawatt hour ("GWh") over extended periods of time. The rechargeable zinc-air fuel cell technology allows the system o be configured to support a wide range of discharge power, recharge power and duty cycle requirements.

During the year ended July 31, 2019 the Company entered into an arrangement agreement ("Spin-out"), with its wholly owned subsidiary Zinc8 whereby MGX would complete a spin out of 40% of the common shares of Zinc8 pursuant to a plan of arrangement under the Business Corporations Act (British Columbia). Under the terms of the Spin-Out, the Company's shareholders of record on June 29, 2018 would receive one Zinc8 share for each 12.4163 MGX shares then held, and MGX shareholders of record on October 22, 2018 would receive one Zinc8 share for each 59.8186 MGX shares then held as a return of capital.

On June 26, 2019 the Spin-out was completed whereby MGX distributed 11,991,761 common shares of Zinc8 as a return of capital reducing its interest in Zinc8 from 100% to 46.4%.

As at June 26, 2019 the value of the Company's investment in Zinc8 was as follows:

| | **$** |
|---|---|
| Value of Investment | 5,034,258 |
| | |
| Retained by MGX | 3,021,937 |
| Return of capital to shareholders | 2,012,321 |
| | **5,034,258** |

The Company fair valued its investment in Zinc8 using a fair market price of $0.20 to $3,678,215 and recorded a gain on disposal of $3,213,237 on June 26, 2019.

Upon completion of the Spinout MGX settled $420,000 of debt in exchange for 3,111,110 shares of Zinc8, the shares were fair valued at $420,000 so no gain on debt settlement was recorded. The Company also sold 300,000 shares for proceeds of $43,680. As at July 31, 2019 the Company held 14,597,129 shares of Zinc8 representing 37.63% of all outstanding shares of Zinc8.

Prior to disposition the Company consolidated the results of Zinc8, upon completion of the Spinout the Company re-classified expenses associated with Zinc8 to gain (loss) on discontinued operations.

| | Year ended, July 31, 2019 $ | Year ended July 31, 2018 $ |
|---|---|---|
| **Expenses** | | |
| Advertising and promotion | 297,908 | 56,815 |
| Consulting fees | 78,500 | 53,555 |
| Depreciation | 31,106 | 1,794 |
| Office and administrative | 303,636 | 177,786 |
| Professional fees | 122,048 | 81,847 |
| Research and development | 1,725,146 | 701,618 |
| Salaries | 229,611 | 158,343 |
| | (2,787,955) | (1,231,758) |
| Gain on loss of control over Zinc8 | 3,213,237 | - |
| **Income (loss) from discontinued operations** | **425,282** | **(1,231,758)** |

As at June 26,2019 the Company deconsolidated the results of Zinc8 and accounts for its investment in Zinc8 as an equity investment. For the period from June 27, 2019 to July 31, 2019 Zinc8 incurred a loss of $338,526 of which MGX recorded a loss on equity investment of $150,757. Zinc8's results from the date of disposition were as follows:

| | From date of disposition $ |
|---|---|
| Revenue | - |
| Expense | (338,526) |
| **Net loss** | **(338,526)** |

On June 30, 2018 the Company entered into a loan agreement (the “Loan Agreement”) with Zinc8 Energy Solutions Inc., which was at the time a wholly-owned subsidiary of the Company. As at June 30, 2018 the Company had advanced $2,952,222 to Zinc8, these amounts were due on demand and non-interest bearing. The Loan Agreement replaced the existing advances payable with a long-term loan receivable bearing interest at 12% per annum, and due on December 31, 2020. Additional advances by the Company are under the same terms as the Loan Agreement. The loan receivable was previously eliminated on consolidation.

The balance of the loan at July 31, 2019 is as follows:

| | $ |
|---|---|
| **Balance, July 31, 2018** | **-** |
| Addition on Spinout of Zinc8 | 5,048,825 |
| Repayments | (200,000) |
| Advances | 23,112 |
| Interest | 56,040 |
| **Balance, July 31, 2019** | **4,927,977** |

**Investment in PurLucid**

During the year ended July 31, 2018 the Company acquired a 55% interest in PurLucid, for full details on the acquisition of PurLucid refer to note 19 of the accompanying financial statements for the period ended July 31, 2019. PurLucid has developed a high temperature filtration system for the purification of waste water and geothermal brines. PurLucid has developed a low energy design process that removes scale-forming ions and dissolved salts while not requiring a reduction in brine temperatures for filtration to occur. The PurLucid technology separates impurities from oil and gas wastewater and produceds clean water as a final product. MGX continues development of its Rapid Lithium Brine ("RBL") extraction technology which would work in conjunction with PurLucid's water treatment units.

On November 26, 2018, PurLucid had processed the first shipment of 40m$^3$ wastewater brine from an oilsands customer. Purlucid used the 5m$^3$ unit, capable of 750 barrels per day ("BPD") of processing, to treat highly concentrated evaporator blowdown wastewater ("EBD"). PurLucid will analyze the results for the first processed wastewater and make improvements as necessary to have the unit ready for full time commercial use.

PurLucid has completed work on a new 10m$^3$ high temperature system, capable of 1,500BPD, that is not yet deployed. PurLucid is also developing a 20m$^3$ system utilized to treat one-through steam generator boiler blowdown brine.

During the year ended July 31, 2019 the Company incurred the following research and development costs related to the wastewater treatment units and the RBL extraction technology.

| | **2019**<br>**$** | **2018**<br>**$** |
|---|---:|---:|
| Personnel | 486,703 | - |
| Engineering | 436,163 | - |
| Operations | 791,113 | - |
| Testing | 3,879 | - |
| Materials | 3,882,313 | - |
| | **5,600,171** | **-** |

**Eureka Joint Venture**

During the year ended July 31, 2019 the Company entered into a Joint Venture (the "JV Agreement") with Eureka Resources LLC. ("Eureka") whereby MGX will deploy its rapid lithium extraction unit acquired from PurLucid, along with additional components provided by PurLucid, at Eureka's waste water treatment facility in Wysox Pennsylvania. The JV Agreement states that MGX and Eureka will share revenue received by MGX from sales of lithium chloride and other agreed upon minerals that are extracted from Marcellus Shale produced water that has first been treated at Eureka's waste water treatment facility using Eureka's intellectual property. The Marcellus Shale produced water will then be treated by MGX for rapid extraction of lithium chloride and other minerals. The JV Agreement has a term of 5 years commencing on the date the MGX unit is ready for use at the Eureka waste water facility, upon mutual agreement the term can be extended for an additional two years at which point upon mutual agreement there can be an additional 2 year extension of the term.

As per the JV Agreement, MGX will be responsible for all costs associated with the installation of its unit, provisions of raw materials to operate the unit, any repairs and maintenance of the unit and any and all costs and taxes associated with the sale or transfer of Lithium Chloride or other minerals. Eureka will be responsible for ensuring the treated waste water is made available to the MGX Unit and for the associated costs. During the first 24 months of the JV Agreement, 35% of gross revenue will be payable to Eureka and 65% of gross revenue shall be retained by MGX. For the remainder of the agreement the gross revenue will be split with each party receiving 50%.

The MGX Unit was shipped to the waste water facility in September of 2019 with commissioning and initial operations under way in October of 2019 with small amounts of lithium chloride being produced. The extracted lithium chloride is under analysis and revenue has not been generated.

## MINERAL PROPERTIES

The following table summarizes the Company's mineral property assets as at July 31, 2019 and July 31, 2018 and the changes for the periods then ended, and exploration expenditures for the year ended July 31, 2019.

| | Driftwood | Fran | Canada Lithium | US Lithium | Argentina Lithium | Chile Lithium | Case Lake | Silica Projects | Prospects and Others | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Balance, July 31, 2018** | **230,231** | **414,429** | **2,720,332** | **3,962,454** | **326,775** | **-** | **2,030,731** | **465,000** | **126,999** | **10,276,951** |
| Paid in cash | - | - | - | 733,386 | - | 133,861 | - | - | - | 866,626 |
| Paid by issue of shares | - | - | 178,000 | - | - | 850,457 | - | - | - | 1,028,457 |
| Write-down of mineral property assets | - | - | (893,332) | (4,695,219) | (326,775) | (850,457) | (2,030,731) | - | (999) | (8,931,374) |
| **Balance, July 31, 2019** | **230,231** | **414,429** | **2,005,000** | **-** | **-** | **-** | **-** | **591,000** | **-** | **3,240,660** |
| | | | | | | | | | | |
| **Exploration expenditures** | | | | | | | | | | |
| Administrative | 2,222 | 78,663 | 1,211 | 475 | - | - | - | 1,680 | 474 | 84,725 |
| Consulting | 116,128 | 67,000 | 17,106 | 23,536 | - | 238,888 | 65,775 | 78,965 | 18,163 | 625,562 |
| Drilling | 144,250 | 772,681 | 174,150 | 298,380 | - | 98,887 | - | 43,305 | - | 1,531,653 |
| Excavation | - | - | - | - | - | - | 137,362 | 155,663 | - | 293,024 |
| Field work | 65,747 | 480,476 | 188,798 | 470,231 | 224,209 | 230,991 | - | 21,481 | 751 | 1,682,685 |
| Geological | 9,825 | 8,790 | 72,792 | 66,224 | - | 20,896 | - | 37,175 | 1,800 | 217,501 |
| Lab work | 13,686 | 77,075 | 54,667 | - | - | - | - | 11,131 | - | 156,558 |
| Licenses and fees | 5,294 | 32,893 | 17,854 | - | - | 18,500 | - | - | 23 | 74,563 |
| Miscellaneous | 6,631 | 27,070 | 949 | - | - | 2,451 | - | 6,341 | - | 43,443 |
| Travel & accommodation | 10,039 | 184,377 | 46,972 | 4,122 | - | 105,677 | - | 8,232 | 733 | 360,343 |
| BC METC | - | (71,383) | - | - | - | - | - | - | - | (71,383) |
| **Total at July 31, 2019** | **374,016** | **1,657,640** | **574,499** | **862,968** | **224,209** | **716,290** | **203,137** | **363,972** | **21,944** | **4,998,675** |

***Fran Property** (British Columbia)*

The Company entered into an option agreement (the “Option Agreement”) on May 24, 2013, and amended on June 30, 2013, to acquire a 100% undivided interest in the Fran Claims (the “Fran Property”), located within the Omineca Mining District 60 kilometres north of Fort St. James, British Columbia and 30 kilometers southwest of the Mt. Milligan Mine Gold-Copper Mine

In order to acquire its 100% undivided interest in the Fran Property, the Company must pay Manto Resources Inc. (the “Optionor”) a total of $40,000 in cash, issue 24,877,310 shares of the Company to the Optionor and incur up to $100,000 of exploration expenditures on the property September 30, 2019.

The Company completed a fall drill program at the Fran Property that retuned broad intercept from 227.0 to 241.0 meters of gold mineralization at depth. The gold mineralization was contained within a quartz-pyrite vein which averaged 21 g/t Au over 2.2m including 35.9 g/t Au across 0.76m and 26.70 g/t Au over 0.75 meters.

Based on the results of the fall drill program the Company has commenced an additional drill program that will drill a twin vertical hole to confirm and test below a historic drill hole from 2002. In August 2019 the Company received drill results from its 2018/2019 exploration program, and is now planning a follow up seven-hole 2,800 metre drill program to further delineate the SE and NW extensions of the high-grade Bullion Alley gold zone. Full details are available in the August 12, 2019 news release on Sedar.com

***Driftwood Claims** (British Columbia)*

The Company entered into an option agreement on July 7, 2014 to acquire a 90% interest in the Driftwood Claims (the “Driftwood Property”). The Company has completed the requirements as per the agreement and owns a 90% interest in the Driftwood Property.

During the year ended July 31, 2017, the Company filed a resource estimate for the Driftwood Property that showed measured plus indicated mineral resources of 8.028 million tonnes grading 43.31% magnesium oxide, inferred mineral resources of 846,000 tonnes grading 43.20 magnesium oxide with the bulk of the resource located less than 100 metres from surface. The full NI 43-101 complaint resource estimate was filed on www.sedar.com on September 26, 2016. On October 27, 2016, the Company completed 16 drill holes as part of an infill drilling campaign in an effort to complete a preliminary economic assessment. On December 5, 2016 the Company completed its Phase III drill program on 16 holes totaling 1,212 metres. Significant intercepts from the drill program showed grades ranging from 41.6% to 43.8 at intercepts of 46.5 to 120 metres.

As reported in the Company’s March 6, 2018 news release, the Company has completed a successful Preliminary Economic Assessment (“PEA”). The complete PEA has been prepared in accordance with NI-43-101 standards. The PEA presumes a conventional quarry pit operation with a process plant and a furnace/kiln combination to produce a saleable dead burn magnesium oxide (DBM) product. The plant will also have the ability to produce caustic-calcined magnesium oxide (CCM) as a separate saleable product.

The PEA is preliminary in nature and there is no certainty that the forecast results stated in the PEA will be realized, the full PEA can be found on Sedar.com.

In July 2019 the Company completed an Archaeological Impact Assessment for the Driftwood Property as part of a larger ongoing program to complete a Pre-Feasibility Study (“PFS”) to build on the previously completed PEA. In August 2019 the Company received a drill permit for up to 50 sites at the Driftwood property and commenced began mobilization in late October. The program will complete infill and extension drilling to prepare for the PFS.

***Longworth Silica Property*** (*British Columbia)*

On July 21, 2015, the Company completed its acquisition of a 100% undivided interest in the Longworth Silica Property (“Longworth”). As per the terms of the acquisition, the Company issued 700,000 common shares to Zimtu Capital Corp (“Zimtu") at a fair value of $350,000. On July 7, 2016, the Company filed a NI 43-101 technical report for the property. The Company has commenced a nine-hole diamond drill program. The exposed bedrock samples collected from Longworth assayed up to 99.34% silicon dioxide.

***Koot Silica Property*** *(British Colombia)*

On March 2, 2015, the Company entered into an Acquisition Agreement with American Manganese Inc. (“AMY”) to acquire a 100% interest in 166 contiguous hectares located in the Golden mining district of southeastern British Columbia (the “Koot Claims”). Pursuant to the terms of the Acquisition Agreement, the Company issued 100,000 shares to AMY at the fair value of $14,000 and granted a 0.5% Net Smelter Royalty (“NSR”) on any future production to AMY. The Koot Claims are also subject to a 0.5% NSR attributable to Andris Kikauka, a director of the Company.

***Wonah Mineral Claims***

On December 15, 2015, the Company entered into a Share Purchase Agreement to acquire a 100% undivided interest in the Wonah Mineral Claims (“Wonah”). In consideration, the Company will issue 150,000 shares over a three-year period to the Company’s non-independent Qualified Person, Andris Kikauka, and a third party. There are no underlying royalties. During the year ended July 31, 2016, the Company issued 50,000 shares to the vendor at a fair value of $11,000. During the year ended July 31, 2017 the Company issued 50,000 shares that were fair valued at $68,500. The Company issued an additional 50,000 common shares, fair valued at $56,500 during the year ended July 31, 2018.

***Gibraltar Claims***

On May 17, 2018 the Company acquired the Gibraltar Silicon Claims (“Gibraltar Claims”) located northeast of Cranbrook BC. As per the terms of the acquisition agreement the Company acquired a 100% interest in the Gibraltar Claims by issuing 100,000 common shares of the Company, issued on May 17, 2018 and fair valued at $101,000. 50,000 of the common shares were issued to a Director of the Company.

The Company has commenced development activity at both its Koot and Wonah projects. Archaeological assessment and environmental assessments are expected to commence in the near future. The Company has prioritized the evaluation and development of its silicon projects due to the relative simplicity of quarry operations. The Company commenced a diamond drill program at the Koot Claims completing nine drill holes across 50 meter spacing. The Company also completed 2 drill holes as part of an 8-hole drill program at the Gibraltar claims, totaling 2,100 feet. The Company’s objective is to test subsurface dimensions of high purity quartzite.

***Lithium Properties***

**Alberta Lithium**

On January 28, 2016, the Company entered into a purchase agreement (the “Alberta Lithium Agreement”) to acquire a 100% undivided interest in 12 metallic and industrial mineral permits and permit applications in Alberta. The Company made cash payments of $20,000 and issued 1,500,000 common shares, over two year period, fair valued at $1,235,000 and owns a 100% interest in the permits.

**Buck Lake Lithium**

On April 7, 2016, the Company entered into an Option Agreement to acquire an undivided 100% interest in the Buck Lake Lithium claims (the “Buck Lake Agreement”). As per the Buck Lake Agreement, the Company must complete the following:

- Make cash payments of $20,000 (paid in April, 2016);
- Make cash payments of $20,000 each due on April 7, 2017 and April 7, 2018;
- Issue 333,332 common shares of the Company (issued at the fair value of $133,333 in May, 2016);
- Issue 333,333 common shares of the Company by April 7, 2017 (issued and fair valued at $398,998 on April 7, 2017); and,
- Issue 333,334 common shares of the Company by April 7, 2018 (issued and fair valued at $310,001)

On July 31, 2019 the Company wrote-off the Buck Lake project and recorded a loss of $893,332.

**Sturgeon Lake Lithium**

On August 16, 2016, the Company entered into an agreement to acquire a 100% interest in the Sturgeon Lake Lithium Brine Property ("Sturgeon Lake") in west-central Alberta. As per the terms of the agreement, the Company issued 2,000,000 common shares fair valued at $340,000 and made a cash payment of $40,000. Additionally, the property is subject to a 2% gross overriding royalty.

**Lisbon Valley**

On February 3, 2017 the Company announced it had entered into an agreement to acquire Lisbon Valley Petro Lithium Project ("Lisbon Valley") in Utah. As per the agreement the Company made cash payments of $75,000 USD (CAD - $98,588), issued 200,000 common shares (fair valued at $296,000) and make all land management fees.

The Company made additional cash payments of $324,632 related to additional claims and land management fees. On August 2, 2017 the Company issued an additional 100,000 common shares, fair valued at $96,000, to acquire additional Lisbon Valley Claims. During the year ended July 31, 2019 management made the decision to not continue with the Lisbon Valley project and recorded a write-down of mineral property of $1,804,845.

**Kibby Basin**

On July 12, 2018, the Company entered into an option agreement with Belmont Resources to acquire a 25% interest in the Kibby Basin Property ("Kibby") located in Nevada, the Company must incur exploration expense of $300,000 no later than October 2018. During the year ended July 31, 2019 a drill program was completed at Kibby and the Company plans to conduct up to an additional 4,800 feet od drilling across four diamond drill holes. Initial samples from the previous drill results ranged from 100PPM lithium to 580PPM lithium.

**Blueberry Unit**

On April 10, 2017 the Company finalized an earn-in agreement to acquire 75% interest in leases covering 110,000 acres located contiguous to the Company's Lisbon Valley project. As per the agreement the Company must complete the following:

- Cash payment of $50,000 USD (paid - $67,800)
- $500,000 USD on or before September 1, 2017 (paid - $648,480)
- $500,000 USD on or before March 1, 2018 (Paid - $640,450)
- $500,000 USD on or before September 1, 2018 (paid - $726,496)
- $450,000 USD on or before March 1, 2019

The Company did not make the March 1, 2019 payment and as at July 31, 2019 made the decision to not continue with the Bluberry Unit project and recorded a write-down of mineral property of $2,890,374.

**Chilean Lithium Salars**

On October 9, 2018 the Company entered into a definitive agreement to acquire a 50% interest in three prospective lithium exploration projects located in Chile, ("Chilean Lithium Projects"). As per the terms of the agreement the Company has agreed to make payments of $1.5m, with the first $100,000 payable in cash and the remainder payable in common shares. The Company has also agreed to incur exploration expenditures of $2,000,000 over the next 20 months. During the year ended July 31, 2019 the Company issued 1,476,274 common shares pursuant to the agreement the shares were fair valued at $850,457. At July 31, 2019 the Company wrote-off the Chilean Lithium Project and recorded a loss on write-off of mineral property assets of $984,318.

**Power Metals**

On September 18, 2017 the Company entered into an agreement with Power Metals Corp. ("Power Metals") in exchange for common shares of the Company. The terms of the transaction are as follows:

- The Company can acquire all of Power Metal's US Petrolithium Brine assets and a 20% working interest in Power Metal's current hard rock assets and any future assets acquired by Power Metals for the following 36 months
- MGX can acquire an additional 15% working interest in Power Metals hard rock assets for a period of 36 months for a total of $10,000,000.
- MGX will receive a call option to purchase up to 10,000,000 common shares of Power Metals at a price of $0.65 per share for a period of 36 months. The options will be granted to MGX if the Company completes the required share issuances.
- MGX will issue Power Metals 3,000,000 common shares that will be restricted and subject to a release schedule of 1,000,000 shares every 5 months from the signing of a definitive agreement. The first 1,000,000 shares were issued and fair valued at $960,000.

During the year ended July 31, 2019 the Company agreed to terminate the agreement and wrote-off $2,030,731 in acquisition costs related to the Power Metals agreement.

***Prospects***

The Company currently holds the rights to several prospects, the acquisition costs associated with the prospects have been capitalized.

## OUTSTANDING SHARE DATA

Authorized: Unlimited common shares without par value

All share information is reported as of December 30, 2019, in the following table:

| **Type of Security** | **Number** |
|---|---|
| Issued and outstanding common shares | 140,385,960 |
| Stock options with a weighted average exercise price of $0.64 | 15,265,000 |
| Warrants with a weighted average exercise price of $1.06 | 28,999,654 |
| Total | 184,650,614 |

## TRANSACTIONS BETWEEN RELATED PARTIES

The Company incurred the following charges with directors and officers of the Company and/or companies controlled by them during the year ended July 31, 2019 and 2018:

| | **2019** | **2018** |
|---|---|---|
| | **$** | **$** |
| Management fees | 271,000 | 3,989,771 |
| Geological fees | 38,614 | 45,450 |
| Legal | - | 70,323 |
| Share-based payments | 499,792 | 1,429,741 |
| | 809,406 | 5,535,285 |

[1] Management fees consisted of fees from Jared Lazerson (CEO) and Michael Reimann (CFO) and Marc Bruner (Director and Chairman of the Board)
[2] Geological fees consisted of fees from Andris Kikauka

All related party transactions are in the normal course of operations and have been measured at the agreed to amounts, which is the amount of consideration established and agreed to by the related parties.

As at July 31, 2019, the Company had $237,917 (July 31, 2018 - $68,354) owing to related parties, all of which is unsecured, non-interest bearing and due on demand. A total payable of $233,893(July 31, 2018 - $64,330) was owed to directors and officers of the Company and companies owned by them. A payable of $960 (2018 - $960) was owed to a company with common directors and a payable of $3,064 (2018 - $3,064) was owed to a former parent company. The amounts are non-interest bearing and due on demand.

## LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2019, the Company had working capital deficit of $5,889,417 (July 31, 2018 – $5,676,527), has not generated any revenue from operations and has an accumulated deficit of $64,650,249 (July 31, 2018 - $43,140,525). The Company had $158,531 of cash at July 31, 2019 (July 31, 2018 - $6,613,350), the Company's operations during the year ended July 31, 2019 consumed $10,543,788 of cash (2018 - $18,519,711).

The Company has no operations that generate cash flow and its long-term financial success is dependent on discovering properties that contain mineral reserves that are economically recoverable. The Company's primary capital assets resource properties and intangible assets held through subsidiaries. Exploration expenditures are expensed as incurred.

The Company's resource property agreement is an option agreement and the exercise thereof is at the discretion of the Company. To earn its interest in the properties, the Company must incur certain expenditures in accordance with the agreements (see "Mineral Properties" in this MD&A for more information).

The Company depends on equity sales to finance its exploration programs and to cover administrative expenses.

## FINANCING ACTIVITIES AND CAPITAL EXPENDITURES

During the year ended July 31, 2019 the Company completed the following financing activities:

- On August 10, 2018 the Company issued 200,000 common shares pursuant to mineral property acquisitions, the shares were fair valued at $178,000 (Note 8).
- On August 22, 2018 the Company issued 89,407 common shares in lieu of consulting fees, the shares were fair valued at $64,373.
- On August 22, 2018 the Company issued 100,000 common shares for the floatation plant rental (Note 8), the shares were fair valued at $72,000.
- On October 4, 2018 the Company issued 100,000 common shares in lieu of consulting fees, the shares were fair valued at $53,000.
- On October 12, 2018 the Company issued 200,000 common shares in lieu of consulting fees, the shares were fair valued at $110,000.
- The Company issued 1,199,198 common shares to increase its ownership in PurLucid by 5%.
- The Company issued 1,144,624 common shares pursuant to a mineral property acquisition, the shares were fair valued at $721,113.
- The Company completed a non-brokered private placement issuing 2,591,667 non-flow-through units ("NFT Units") at $0.60 per NFT Unit. Each NFT Unit consists of one common share of the Company and one common share purchase warrant that entitles the holder to acquire one additional common share for a period of 36 months from the date of closing at an exercise price of $0.67 The Company also issued 8,079,151 flow-through units ("FT Units") at $0.65 per FT Unit. Total gross proceeds of the private placement were $6,806,448. Each FT Unit consists of one flow-through common share and one-half common share purchase warrant. Each full warrant entitles the holder to acquire an additional common share of the Company for a period of 36 months from the date of closing at an exercise price of $0.70. The Company recorded a flow-through premium of $403,958. The Company allocated a value of $884,230 to the warrants using the residual method.

  In connection with the financings the Company issued 419,833 finders shares and 419,833 finders warrants. The finder's warrants were fair valued using the Black-Scholes option pricing model using the following inputs: expected life – 3 years; risk-free rate – 2.20%; expected forfeiture – nil; dividend yield – nil; volatility – 118%. The Company also incurred cash financing costs of $560,765.

- On November 27, 2018, the Company issued 15,645 common shares, fair valued at $7,666 in lieu of consulting fees
- On February 20, 2019 the Company issued 543,754 common shares fair valued at $212,064 in lie of consulting fees
- On April 18, 2019 the Company issued 436,363 common shares, fair valued at $124,363, to settle debt of $124,363.

During the year ended July 31, 2019 the Company received proceeds of $178,093 pursuant to the exercise of 866,717 warrants.

During the year ended July 31, 2019 the Company incurred capital expenditures of $866,626 related to the acquisition of mineral properties; $360,877 pursuant to equipment purchases and $11,000 of reclamation deposits.

During the year ended July 31, 2019 the Company received $200,000 in loan repayments from Zinc8 and advanced $23,112.

The Company is dependent on the sale of treasury shares to finance its exploration activities, property acquisition payments and general and administrative costs. The Company will have to raise additional funds in the future to continue its operations. There can be no assurance, however, that the Company will be successful in its efforts. If such funds are not available or other sources of financing cannot be obtained, then the Company will be forced to curtail its activities.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not utilize off-balance sheet transactions.

## PROPOSED TRANSACTIONS

The Company has no proposed transactions that will materially affect the performance of the Company.

## ACCOUNTING POLICIES

The Company uses the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended July 31, 2018.

The following standards have been adopted during the year ended July 31, 2019:

***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 Company adopted IFRS 9 during the period ended July 31, 2019, adoption did not have a material impact on the Company.

The following standards have been issued but are not yet effective:

***IFRS 16, Leases***
In January 2016, the IASB issued IFRS 16, Leases, which supersedes IAS 17, Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions.

## FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, marketable securities, accounts payable and accrued liabilities, short-term loans payable and long-term loans payable. Cash is measured at amortized cost and marketable securities are measured at fair value through profit of loss. Accounts payable and accrued, short-term loans and long-term loans are all measured at amortized cost.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at July 31, 2019, the Company had working capital deficit of $5,889,417 (July 31, 2018 – $5,676,527).

### Credit Risk

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

The Company's cash is largely held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper. The Company's receivables consist of GST receivable due from the Federal Government of Canada. The Company has not experienced any significant credit losses and believes it is not exposed to any significant credit risk.

### Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

### 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. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates but it does not believe it is currently subject to any significant interest rate risk.

### Foreign currency exchange rate risk

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal. The Company will be exposed to increased foreign currency risk relating to US dollar transactions as the Company increases exploration expenses related to the Lisbon Valley, Paradox Basin and Blueberry Unit properties.

## RISKS AND UNCERTAINTIES

The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risk, including but not limited to, environmental, metal prices, political and economical.

The mineral exploration business is risky and most exploration projects will not become mines. The Company may offer an opportunity to a mining company to acquire an interest in a property in return for funding all or part of the exploration and development of the property. For the funding of property acquisitions and exploration that the Company conducts, the Company depends on the issue of shares from the treasury to investors. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record and the experience of management.

The Company has no significant source of operating cash flow and no revenues from operations. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish mineral reserves.

There is no guarantee that the Company will be able to contribute or obtain all necessary resources and funds for the exploration and exploitation of its permits, and may fail to meet its exploration commitments.

Mineral exploration involves a high degree of risk and few properties, that are explored, are ultimately developed into producing mines.

If the Company's efforts do not result in any discovery of commercial mineralization, the Company will be forced to look for other exploration projects or cease operations.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters.

**CONTINGENCIES**

On June 18, 2019 Blue Sun Productions filed a claim against the Company for unpaid invoices totalling amounts of $112,518 USD and $7,440 for services performed during the year ended July 31, 2019. The Company did not dispute the amounts owing and has recorded them in full as accounts payable and accrued liabilities on the consolidated statement of financial position as at July 31, 2019. Subsequent to July 31, 2019 a default judgement order was awarded to Blue Sun Production for the outstanding balance, interest calculated at 2% per annum up to November 28, 2019 and additional costs of $1,334. The full amount of interest and additional costs has been accrued for as at July 31, 2019.

Subsequent to July 31, 2019 Lions Gate Risk Management Group Ltd. ("Lions Gate") filed a claim again the Company in the amount of $176,398 relating to security services provided to Jared Lazerson, the CEO of the Company. The Company has filed a counter-claim stating that Lions Gate was in breach of the original security agreement and thereby caused damages to the Company. No settlement has been made and the eventual outcome is not determinable. As at July 31, 2019 the Company had recorded the full $176,398 as accounts payable and accrued liabilities on the consolidated statement of financial position.

Subsequent to July 31, 2019 AIS Resources Limited ("AIS") filed a claim against the Company in the amount of $170,527 USD for unpaid exploration work carried out by AIS at the Salinitas project on behalf of the Company as per an oral agreement made at the time. The claim states that AIS carried out exploration work on the Company's behalf during the year ended July 31, 2019 and was not fully reimbursed for the total work completed. The Company has filed a response denying the allegations made by AIS. The Company's position is that the Company has not breached any of the obligations under the Salinitas agreement and denies it ever entered into an oral agreement. No settlement has been made and the eventual outcome is not determinable. As at July 31, 2019 the Company had recorded the full $170,526 USD as accounts payable and accrued liabilities on the consolidated statement of financial position.

Subsequent to July 31, 2019 Randy Keller filed a claim against the Company for unpaid consulting fees in the amount of $157,500 USD, severance of $42,000 USD and expenses of $17,442. The Company's position is that Keller's work did not meet contractual standards, and in April 2019 Keller agreed to amend his consulting agreement such that his work and fees would be substantially reduced. No settlement has been made and the eventual outcome is not determinable. As at July 31, 2019 the Company has accrued $218,684 relating to the Randy Keller claim as accounts payable and accrued liabilities on the consolidated statement of financial position.

The Company is currently in arbitration with Dawson Geophysics Inc. ("Dawson") regarding a planned geophysics program for a Utah petrolithium project that was never executed. Dawson claims approximately $250,000 USD in preparation costs and requests additional amounts for additional preparation and lost opportunity because the project was never completed. MGX claims it was not the operator and therefore not responsible. No settlement has been made and the eventual outcome is not determinable. As at July 31, 2019, the Company has accrued $186,000 USD related to the Dawson claims as accounts payable and accrued liabilities on the consolidated statement of financial position.

On October 10, 2019 the Company at the direction of CEO Jared Lazerson ("Lazerson") filed a civil claim against Michael Reimann and Lyndon Patrick ("Defendants"). On October 3, 2019 the Defendants delivered a board meeting notice, which set out as an agenda item a proposed resolution to remove Lazerson as CEO of MGX. On October 6, 2019 Lazerson delivered an agenda to the Defendants which included their original agenda items and added additional agenda items to address the following issues:

1) Potential conflicts between mutual directors of MGX and Zinc8
2) Filling the vacancy on the MGX Board
3) A search to find new named executives to replace the current management of MGX
4) Potential financing and collection of Zinc8 debt

At the October 7, 2019 board meeting the Defendants called for a vote on the resolution to remove Lazerson as CEO, the Defendants voted in favour of the motion while Lazerson and Andrisk Kikauka ("Kikauka"), the 4th member of the board, voted against. Lazerson, acting as chair of the meeting, cast a deciding vote against the resolution and declared the resolution had been defeated by a vote of 3-2. The Defendants left the meeting and issued a news release on October 7, 2019 stating Lazerson had been removed as CEO. Over the following days both the Defendants and Lazerson issued multiple contradictory news releases regarding Lazerson's position as CEO. The claim filed by Lazerson on behalf of MGX states that the Defendants breached fiduciary duty to MGX by issuing the news releases stating Lazerson was no longer CEO. The claim states the Defendants conduct was reckless and caused irreparable harm to MGX, including diminished value, reputational loss and loss of opportunity. The claim sought relief in the form of damages and punitive damages and an injunction preventing any further news releases without full board approval.

On October 29th, 2019 the Defendants filed a response and counter claim stating that prior to the October 7, 2019 meeting the Defendants felt Lazerson had violated his duties as a Director and Officer of the Company, as stated in the Company's articles of incorporation and as per the Business Corporations Act. They claim the breaches include but are not limited to:

1) Use of flow-through invested funds for activities that did not constitute flow-through eligible expenditures, thereby exposing MGX to tax and contractual liabilities;
2) Engagement in self-dealings whereby Lazerson transferred personally owned shares of MGX to his spouse for the purpose of selling them, without providing full disclosure;
3) Use of MGX funds for promotional activities with an unreputable company, for the purposes of creating a market for his personally owned shares;
4) Use of MGX funds for personal benefit through use of the Company's corporate credit card and personal security services from Lions Gate.

Additionally, the Defendants position is that Lazerson was not entitled to vote on the resolution removing him as CEO because he had a material interest in the motion. Therefore, the motion did pass on a 2-1 vote and the Defendants were required under relevant securities law to disseminate the news releases on behalf of MGX confirming that Lazerson had been removed as CEO. Thus, the defendants claim they did not breach fiduciary duty but rather embraced and fulfilled their fiduciary duties to MGX.

On November 22, 2019 Lazerson, through MGX, filed a response to the Defendants denying all of the claims made in their October 29th, 2019 claim.

In December of 2019 Michael Reimann and Lyndon Patrick, both directors of MGX, filed a petition against Jared Lazerson ("Lazerson"), the CEO of MGX, seeking to have him terminated from his position as President and CEO of MGX, effective October 7, 2019. The claims made in the petition were the consistent with the claims made in the October 29, 2019 response and counter claim.

The matter is unresolved and ongoing.

## FINANCIAL AND DISCLOSURE CONTROLS AND PROCEDURES

In connection with National Instrument 52-109 (Certification 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 consolidated financial statements for the year ended July 31, 2019, and this accompanying MD&A (together the "Annual 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 the Interim Filings on SEDAR at www.sedar.com.

## OUTLOOK

The outlook for precious metals is good. The capital markets needed to access financing are challenging but management believes the Company will continue as a viable entity. The properties will require significant investment as they transition into development stage projects.

## OTHER

Additional information relating to the Company's operations and activities can be found by visiting www.sedar.com and www.mgxminerals.com.