



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Year Ended**

**SEPTEMBER 30, 2018**

## **MANAGEMENT’S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2018**

*The following is Management’s Discussion and Analysis (“MD&A”) of the financial condition and results of operations for Western Resources Corp. (“the Company” or “WRX”) for the year ended September 30, 2018. It has been prepared as of December 18, 2018 and includes financial and other information up to the date of this report. The MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company for the year ended September 30, 2018. All financial information in this MD&A is prepared in accordance with International Financial Reporting Standards (“IFRS”), and all dollar amounts are expressed in Canadian dollars. For additional information, readers should also refer to Company information filed on [www.sedar.com](http://www.sedar.com).*

### **Forward Looking Statements**

The following MD&A contains forward-looking statements. All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding mineral resource estimates, exploration results, potential mineral resources, potential mineralization and future plans and objectives of the Company are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, risks related to the exploration stage of the Company’s mineral properties, uncertainties relating to the availability and costs of financing needed in the future, the possibility that future exploration results will not be consistent with the Company’s expectations, changes in equity markets, changes in commodity prices, failure to establish estimated mineral resources (the Company’s mineral resource figures are estimates and no assurances can be given that the indicated levels of potash will be produced), fluctuations in currency exchange rates, inflation, political developments, changes to regulations affecting the Company’s activities, delays in obtaining or failure to obtain required project approvals, the uncertainties involved in interpreting geological data, the other risks involved in the mineral exploration business, and uncertainties and market price fluctuation of real estate investment industry. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

### **Description of Business**

Western Resources Corp. (“the Company”) was incorporated on January 16, 2017 by Western Potash Corp. (“Western Potash”) under the British Columbia Business Corporations Act.

On March 31, 2017, Western Potash completed a corporate reorganization by way of a court approved plan of arrangement under the Business Corporations Act (British Columbia) (the "Arrangement") with the Company, pursuant to which the Company has acquired all of the issued and outstanding common shares of Western Potash and Western Potash has become a wholly-owned subsidiary of the Company.

The Company is primarily a mineral exploration company engaged in the acquisition, evaluation, exploration and development of potash mineral properties in Canada. Its potash properties are located in Southern Saskatchewan. The Company's objectives are to discover, define and develop a world-class potash deposit. The Company currently has no mineral production that yields any revenues.

In the fiscal years ended September 30, 2018 and 2017, to increase the return on cash assets before cash assets are used to advance Phase I of the Milestone Project, the Company invested excess funds in real estate development in the Greater Vancouver area.

## **Overview**

The global market for potash improved slightly in 2017, with prices increasing slightly in the last part of the year. Marginal increases in 2018 have continued in both price and demand. In the long-term, management remains confident that demand for potash will continue to increase in-line with the global growth in population and decrease in arable land, particularly in areas such as Brazil, China, and Southeast Asia.

On the potash supply side, there are a number of brownfield expansion projects that have been completed and proposed greenfield projects. However, some of the expansions from existing suppliers replaced either high cost or near end of life assets, and the historical market discipline by many of the large producers will likely be maintained. There are also a number of potential greenfield projects, however management continues to be confident that only the low cost, long life projects will be viable in the current market. In addition, conventional potash mines have a high CAPEX and long development period of several years.

Saskatchewan is one of the best regions in the world for mining, with large high-quality resources, stable government, good infrastructure and a highly skilled and available workforce. Thus, the Company continues to believe that even in this competitive market there is an opportunity for an innovative potash producer, provided the operating costs are low and the right marketing strategy is adopted. By adjusting our plan to market, with a staged approach the Phase I Project (Pilot Plant Scale Selective Solution Mining Operation of 146,000 tonnes of MOP per year) to prove the innovative solution mining technology, and a future Phase II and III (at 1.4 million tonnes per year scale of MOP Solution Mine for each phase) when the market is right provides the most optimum strategy for the asset to be developed.

After an extensive review of the worldwide market and sales price of potash, the Company has decided the sales market for Phase I product will be focused on North America with the benefit of higher gross margins. The Company has secured a binding offtake agreement for the entire Phase I production, with a large North American fertilizer distributor, including transporting the Company's future granular products to the North American market.

The Company continues to advance the Phase I Project while continuing to recognize important project aspects including i) finance ii) market iii) technology and iv) government and community support needed for a successful execution. The Company is working to use its strong cash position to best move the project forward and negotiate with equipment vendors, suppliers and constructors.

On April 19, 2018, the Board of Directors approved a three-phase development plan (the “Plan”) for the Milestone Potash Project. The Plan includes Phase I at an annual capacity of 146,000 tonnes granular products by applying “horizontal cavern development + selective solution mining + crystal pond recovery” technique, Phase II at an annual capacity of 1.4 million tonnes potash and Phase III at another 1.4 million tonnes potash per annum. Development of Phase II & Phase III will depend on the success of the mining methodology applied in Phase I.

The Board had approved a budget of about \$13 million for 2018 for the early works including construction of the haul access road, site clearing, engineering and preparation by the Saskatchewan crown utilities.

The water source well project was initiated in early June 2018 and was completed on July 18, 2018 with all site facilities decommissioned and removed. According to the Water Supply Well Report completed by WaterMark Consulting Ltd., the established water source is able to fully support the required water usage of the Phase I Project over the life of the project. A water usage application was submitted on September 25, 2018 to the Saskatchewan Water Security Agency (WSA). On November 16, 2018, WSA granted the approval to operate works and water rights license for the well.

The access road and site clearing started in early October and the 2018 planned work completed on December 2, 2018 with remaining work to be finished in early 2019 as planned.

In May 2018, the Company awarded SNC-Lavalin (“SNCL”) engineering contract to complete the detailed engineering design for the Phase I Project which will be finished by early 2019. As of the reporting date, engineering is ongoing to develop the specifications for the long lead item equipment packages. The plant site layout has been finalized and a detailed 3D model is being developed to assist in best practice design and construction reviews. AGAPITO Associates (“AGAPITO”) has been contracted to finalize the underground drilling, cavern development and solution mining design which will be ready by early 2019. Per subsequent event disclosure on this MD&A and on Note 18 of the Company’s consolidated financial statements for the year ended September 30, 2018, the Company’s subsidiary Western Potash Corp. has entered into a Limited Notice to Proceed Agreement (“LNTP”) with SNCL for commencement of certain procurement services and construction executive preparation activities for the construction of the Phase I plant.

In August 2017, the “Development Agreement” signed with the Rural Municipality of Lajord (“RM of Lajord”) was amended to cover the construction and operation of the Phase I Project and usage of RM of Lajord roads. The Company continues to engage RM of Lajord with updates on road construction and other progress of the project. The Company is very encouraged by the continued broad support for the project and continues to actively engage the community, the Saskatchewan government, the RM of Lajord, and the local landowners with continuous meetings, sponsorships, and community newsletters etc.

Management is confident in a stable sale of the Phase I project’s output and believes that a low-cost competitive advantage will be maintained. If this can be demonstrated at a Phase I Plant scale, economies of scale will position Phases II and III (expansion of 1.4 million tonnes per year for each phase) very favorably in comparison to other producers. China Blue Chemical (“CBC”) is one of the four potash importers in China and a strategic shareholder in the Company. The Company has a non-exclusive off-take agreement for one-third (1/3) of the Phase II and III (1.4 million tonnes per year “Mtpy” for each phase) production with CBC.

During 2017 and 2018, the Company has been actively looking to invest its excess cash funds to earn a higher return. The Company has identified several partners in the real-estate development business in



Vancouver. The Company has partnered with Formwerks Boutique Investments Ltd. (Formwerks), an award-winning firm with a portfolio of over 600 custom single-family homes and townhouses in the Greater Vancouver area. The Company has four existing limited partnerships with Formwerks. During the year ended September 30, 2018, the Company entered into a new limited partnership with Formwerks, 1168930 B.C. Ltd. (1168930), CWC Group Enterprises Ltd. (CWC), and 1168387 B.C. Ltd. (1168387) to develop real estate projects in the Greater Vancouver area. As of September 30, 2018, the Company has invested approximately \$17.7 million in real estate projects. The Company also provided loans to the four limited partnerships and to unrelated companies to facilitate the acquisition of land lots for the development of real estate projects. As of September 30, 2018, the Company has advanced approximately \$18.9 million in real estate loans to associates, as well as approximately \$16.5 million in real estate loans to unrelated companies to develop real estate projects in Greater Vancouver area.

## Selected Annual Information

The following table presents financial information for the years ended September 30, 2018, September 30, 2017 and September 30, 2016.

|  | For the Year Ended<br>September 30, 2018 | For the Year Ended<br>September 30, 2017 | For the Year Ended<br>September 30, 2016 |
|--|--|--|--|
| Other income   | \$ 4,304,345                             | \$ 1,324,804                             | \$ 683,452                               |
| Operating expenses                                   | 2,352,417                                | 2,523,369                                | 6,070,115                                |
| Net income (loss) and comprehensive<br>income (loss) | 1,951,928                                | (1,198,565)                              | (5,386,663)                              |
| Basic and diluted loss per share                     | 0.021                                    | (0.013)                                  | (0.060)                                  |
| Total assets   | 151,703,719                              | 148,441,474                              | 149,777,324                              |
| Total current liabilities                            | 1,472,008                                | 161,691                                  | 298,976                                  |
| Total long-term liabilities                          | -  | -  | -  |
| Cash dividends                                       | -  | -  | -  |

For the year ended September 30, 2018, the Company had a net income and comprehensive income of \$1,951,928 compared to a net loss and comprehensive loss of \$1,198,565 for the year ended September 30, 2017. The Company's operating expenses decreased \$170,952 to \$2,352,417 for the year ended September 30, 2018 from \$2,523,369 for the year ended September 30, 2017 primarily due to decreases in consulting fees, legal fees and filing and regulatory fees. Consulting fees were lower due to fewer consultants employed in fiscal 2018. Legal and filing fees decreased because the Company had a corporate reorganization in fiscal 2017 and there were no such costs in fiscal 2018. Office and miscellaneous and telephone decreased slightly for the year ended September 30, 2018. Since the completion of the pilot study, the Company has continued to decrease most of its discretionary spending as the Company transitions from the exploration stage to the development stage of its mining operations and it focuses spending on the development of its Milestone Project. However, salaries and wages increased during the year due to hiring of two new employees; investor relations and travel also increased due to the progress of the Milestone Project.

The positive net income earned during the year ended September 30, 2018 is mainly due to increase in interest income from loans receivable to associates, loans receivable related to real estate projects, and income from investment in associates which consisted primarily of the Company's share of the net profit from the sale of land by FB Eighth Limited Partnership (FB Eighth LP). Interest income increased by

\$974,248 to \$2,143,997 for the year ended September 30, 2018, as the Company was able to earn higher interest income from loans to both associates and other entities. The Company also earned \$1,715,113 income from investment in associates representing the Company's share of the net profit from the sale of land in the FB Eighth LP in the year ended September 30, 2018.

For the year ended September 30, 2017, the Company had net loss and comprehensive loss of \$1,198,565 compared to a net loss and comprehensive loss of \$5,386,663 for the year ended September 30, 2016. The Company's operating expenses decreased \$3,546,746 for the year ended September 30, 2017 primarily due to decreases in consulting fees by \$3,552,777 due to significant severance payments made in the year ended September 30, 2016.

## **Review of Annual Financial Results**

### ***Net Income (Loss) and Comprehensive Income (Loss)***

During the year ended September 30, 2018 the Company earned a net income and comprehensive income of \$1,951,928 (\$0.02 per common share) as compared to a net loss and comprehensive loss of \$1,198,565 (\$0.01 loss per common share) for the year ended September 30, 2017.

### ***Operating expenses***

Operating expenses decreased by \$170,952 to \$2,352,417 for the year ended September 30, 2018 from \$2,523,369 for the year ended September 30, 2017 primarily due to decreases in consulting fees, legal fees, filing and regulatory fees, and office and miscellaneous expenses. This was partially offset by increases in salaries and wages, investor relations, rent, accounting fees and travel expenses.

Consulting fees decreased by \$215,536 to \$744,887 for the year ended September 30, 2018 from \$960,423 for the year ended September 30, 2017 due to fewer consultants employed compared to prior year.

Legal fees decreased by \$111,971 to \$80,752 for the year ended September 30, 2018 from \$192,723 for the year ended September 30, 2017 due to cost associated with the implementation of the Company's plan of arrangement in fiscal 2017. There was no such cost in fiscal 2018.

Filing and regulatory fees decreased by \$35,324 to \$66,426 for the year ended September 30, 2018 from \$101,750 for the year ended September 30, 2017 also due to costs related to the Company's plan of arrangement in fiscal 2017 whereas there were no such costs in fiscal 2018.

Office and miscellaneous expenses decreased by \$22,199 to \$119,880 for the year ended September 30, 2018 from \$142,079 for the year ended September 30, 2017. This is due to management's efforts to reduce general and administrative costs.

Salaries and wages increased by \$109,335 to \$241,852 for the year ended September 30, 2018 from \$132,517 for the year ended September 30, 2017 due to two new hires.

Investor relations increased by \$38,216 to \$82,212 for the year ended September 30, 2018 from \$43,996 for the year ended September 30, 2017 due to promotional expenses related to efforts to advance the Milestone Project.

Rent expenses increased by \$32,946 to \$751,835 for the year ended September 30, 2018 from \$718,889 for the year ended September 30, 2017 due to an annual increase in monthly office rent pursuant to the lease agreement for the Vancouver office.

Accounting fees increased by \$26,422 to \$102,460 for the year ended September 30, 2018 from \$76,038 for the year ended September 30, 2017 primarily due to the timing of audit services performed.

Travel expenses increased by \$23,211 to \$86,870 for the year ended September 30, 2018 from \$63,659 for the year ended September 30, 2017 due to efforts to advance the Milestone Project and securing the off-take agreement.

All other components of operating expenses changed marginally from the comparative period.

### ***Other Income and Loss***

During the year ended September 30, 2018, the Company recognized \$1,715,133 in income from associates related to its share of the net profit from the sale of land by FB Eighth LP. No such income was earned in the comparative period.

During the year ended September 30, 2018, interest income increased by \$974,248 to \$2,143,997 from \$1,169,749 for the year ended September 30, 2017. The increase is mainly due to increase in loans provided to associates and other parties related to real estate projects.

During the year ended September 30, 2018, rental income increased by \$96,627 to \$384,153 from \$287,526 for the year ended September 30, 2017 due to more vacant office space rented out and thus more sublease rent recoveries.

During the year ended September 30, 2018, other income increased by \$63,441 due to a one-time fee received for the access to some of the Company's exploration data related to a previously disposed of mineral properties in Manitoba. No such other income was earned in the comparative period.

During the year ended September 30, 2018, the Company wrote off \$3,570 in accounts receivable from a sublease tenant, which resulted in a decrease of \$102,116 in impairment expenses recognized as compared to \$105,686 in impairment loss recognized during the year ended September 30, 2017 due to large write-down of accounts and loans receivable.

## Summary of Quarterly Results

The following table reports selected financial information for the 8 most recent quarters.

|  | Three months ended<br>September 30, 2018 | Three months ended<br>June 30, 2018 | Three months ended<br>March 31, 2018 | Three months ended<br>December 31, 2017 | Total        |
|--|--|-------------------------------------|--------------------------------------|---|--------------|
| Other income                                       | \$ 2,546,281                             | \$ 790,779                          | \$ 587,644                           | \$ 379,641                              | \$ 4,304,345 |
| Operating expenses                                 | 519,947                                  | 624,572                             | 571,778                              | 636,120                                 | 2,352,417    |
| Net income (loss) &<br>comprehensive income (loss) | 2,026,334                                | 166,207                             | 15,866                               | (256,479)                               | 1,951,928    |
| Income (loss) per share - basic<br>and diluted     | 0.022                                    | 0.002                               | -                                    | (0.003)                                 | 0.021        |

  

|  | Three months ended<br>September 30, 2017 | Three months ended<br>June 30, 2017 | Three months ended<br>March 31, 2017 | Three months ended<br>December 31, 2016 | Total        |
|--|--|-------------------------------------|--------------------------------------|---|--------------|
| Other income                                       | \$ 271,851                               | \$ 359,139                          | \$ 364,913                           | \$ 328,901                              | \$ 1,324,804 |
| Operating expenses                                 | 738,306                                  | 782,845                             | 542,804                              | 459,414                                 | 2,523,369    |
| Net income (loss) &<br>comprehensive income (loss) | (466,455)                                | (423,706)                           | (177,891)                            | (130,513)                               | (1,198,565)  |
| Income (loss) per share - basic<br>and diluted     | (0.005)                                  | (0.005)                             | (0.002)                              | (0.001)                                 | (0.013)      |

The Company's net income (loss) and comprehensive income (loss) for the fourth quarter of fiscal 2018 increased to income of \$2,026,334 from a net income and comprehensive income of \$166,207 for the third quarter of fiscal 2018. Operating expenses decreased to \$519,947 during the fourth quarter of fiscal 2018 from \$624,572 for the third quarter of fiscal 2018. The decrease in operating expenses is primarily due to decreases in legal fees, travel and filing and regulatory fees in the fourth quarter of fiscal 2018, which was partially offset by an increase in accounting fees. Other income increased to \$2,546,281 in the fourth quarter of 2018 from \$790,779 in the third quarter of fiscal 2018. Increase in other income is primarily due to income from investment in associates of \$1,715,113 related to the Company's share of net profit from the sale of land by FB Eighth LP and higher interest income due to higher loans to associates and other parties related to real estate projects.

The operating expenses in the four quarters of fiscal year 2017 ranged between \$0.5 million to \$0.8 million. The operating expenses in the four quarters of fiscal year 2018 in the range of \$0.5 million to \$0.6 million and are slightly lower than the four quarters in fiscal year 2017 primarily due to fewer consultants employed and decreases in legal fees and filing fees due to corporate reorganization done in fiscal 2017.

## Review of Fourth Quarter Financial Results

### *Net Income (Loss) and Comprehensive Income (Loss)*

Net income and comprehensive income for the three months ended September 30, 2018 was \$2,026,334 compared to a net loss and comprehensive loss of \$466,455 for the three months ended September 30, 2017, an increase of \$2,492,789. The increase is due to an increase in the Company's share of net income from associates and increased interest income from loans to associates and other parties.

### ***Operating Expenses***

Operating expenses decreased by \$218,359 to \$519,947 for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to the decreases in consulting fees, legal fees, and travel expenses, which were partially offset by an increase in accounting fee, investor relations and salaries and wages. Most other significant components of operating expenses for the three months ended September 30, 2018 changed marginally in comparison to the same period in 2017.

Consulting fees decreased by \$196,549 to \$168,200 for the three-month ended September 30, 2018 from \$364,749 for the three months ended September 30, 2017 due to fewer consultants employed compared to comparative period prior year.

Legal fees decreased by \$64,055 to a credit of \$31,303 for the three months ended September 30, 2018 from an expense of \$32,752 for the three months ended September 30, 2017 due to legal fees related to the various investment in associates which were accrued in previous quarters but subsequently reversed in the last quarter of fiscal 2018 as they are being paid by the real estate partnerships.

Travel expenses decreased by \$18,306 to \$13,211 for the three months ended September 30, 2018 from \$31,517 for the three months ended September 30, 2017 due to less investor relation related travel done compared to comparative period prior year.

Investor relations expenses increased by \$33,281 to \$40,594 for the three months ended September 30, 2018 from \$7,313 for the three months ended September 30, 2017 due to promotional expenses related to efforts to advance the Milestone Project.

Accounting fees increased by \$16,612 to \$30,520 for the three months ended September 30, 2018 from \$13,908 for the three months ended September 30, 2017. This is due to timing of audit services performed.

Salaries and wages increased by \$10,352 to \$63,093 for the three months ended September 30, 2018 from \$52,741 for the three months ended September 30, 2017 due to new hires in fiscal 2018.

All other components of operating expenses were consistent with the comparative period.

### ***Other Income and Loss***

During the three months ended September 30, 2018, the Company recognized \$1,715,133 in income from associates related to its share of the net profit from the sale of land by FB Eighth LP. No such income was earned in the comparative period.

During the three months ended September 30, 2018, interest income increased by \$464,318 to \$749,064 from \$284,746 for the three months ended September 30, 2017. The increase is mainly due to increase in interest income from more real estate loans issued to associates and other parties.

During the three months ended September 30, 2018, the Company wrote off \$3,570 in accounts receivable from a sublease tenant, which resulted in a decrease of \$96,532 in impairment expense recognized as compared to \$100,102 in impairment loss recognized during the three months ended September 30, 2017 due to large write-down of accounts and loans receivable.

## **Liquidity and Capital Resources**

### ***Cash Resources and Liquidity***

As at September 30, 2018, the Company had cash and cash equivalents of \$9,154,280, term deposits of \$275,021 and working capital of \$40,901,040 compared to cash and cash equivalents of \$1,606,813, term deposits of \$54,724,469 and working capital of \$60,408,708 as at September 30, 2017. The Company has no debt or other long-term obligations outstanding impacting liquidity or future cash flows as of September 30, 2018. The Company is in the development stage of a potash mine as at September 30, 2018.

Future cash requirements depend primarily on the stage and the extent of development the Company is planning to implement and the short and long-term investment opportunities in real estate industry as well. Subsequent development programs will depend on the cost and duration of work planned and on the results from previous programs. As of the date of this report, the Company is sufficiently funded to commence development and maintain its current properties and fund its operating expenses for the next year.

In the long term the ability of the Company to continue as a going concern and the recoverability of amounts shown for mineral property and development costs is dependent upon the ability of the Company to obtain necessary financing to complete the development and upon future profitable production from the Milestone Project and the recoverability of investments in, and loans to, real estate projects. At September 30, 2018, the Company has incurred operating losses in the mining segment since inception and expects to incur further losses during the development and construction of the Milestone Project. However, the Company has a working capital surplus of \$40,901,040 as at September 30, 2018 including cash and cash equivalents of \$9,154,280 and term deposits of \$275,021. Subsequently in October 2018, the Company received a cash distribution of \$6,443,293 consisting of a \$4,728,180 return of investment in associate and a \$1,715,113 representing the Company's share of FB Eighth LP's net profit from the sale of land that completed on September 28, 2018, and \$4,915,000 from repayment of loan receivable from associate. A portion of the cash was re-invested in a new partnership arrangement as disclosed on Note 9 of the Company's September 30, 2018 Consolidated Financial Statements. The Company also received \$9,377,774 on December 11, 2018 from repayment of loan receivable principal of \$9,260,000 and interest per Note 7(b). Although the Company believes that its current cash position plus the cash received subsequent to year end is sufficient to fund mine development costs and general and administrative expenses for the next year, the Company will require additional equity or debt financing beyond one year to fund the completion of the construction of a Phase I plant at the Milestone Project and general and administrative expenses and other obligations until commissioning of the plant. In the longer term, additional financing may be required to expand the mining operation at the Milestone Project if the cash flows of the Phase I plant are not sufficient to fund such expansion. Furthermore, as the Company has not yet commenced construction or commissioning of the Phase I plant, there are no guarantees that the Phase I plant will operate as expected, if at all, or that the Company will be able to complete construction of the plant on time and on budget. Material cost overruns may also require additional financing. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

### ***Financing Activities***

The Company has raised approximately \$220 million since its inception, net of issuance costs, through non-brokered private placements of common shares, exercise of warrants, exercise of compensation options and its Initial Public Offering.

There were no financing activities during the year ended September 30, 2018.

On November 17, 2017 a Chinese bank issued a Letter of Intent to the Company indicating that the Chinese bank will consider providing financing for the Milestone Phase I project under certain conditions. The Chinese bank is in the process of assessing the loan application from the Company; there is no guarantee that the Chinese bank will finance the Phase I project.

### ***Investment Activities***

Cumulative mineral properties and mine development costs totaled \$87,990,368 as at September 30, 2018 compared to \$81,387,736 as at September 30, 2017. The increase reflects the Company's development activities at its Milestone property in Saskatchewan where \$6,602,632 in development costs were incurred during the year ended September 30, 2018.

During the year ended September 30, 2018, to increase return on its excess cash and cash equivalents and term deposits, the Company entered into a number of arrangements with Formwerks Boutique Investments Ltd. ("Formwerks"), a Vancouver based real estate development company, to develop real estate projects.

(i) FB Burrard:

On June 1, 2017, the Company's wholly owned subsidiary Western Garden Properties Corp. ("Western Garden"), signed a shareholder agreement with Formwerks to set up FB Burrard Development Ltd. ("FB Burrard"). Western Garden and Formwerks each own a 50% voting interest in FB Burrard. Amongst other things, the shareholder agreement requires unanimous consent by Western Garden and Formwerks for decisions related to all relevant activities of FB Burrard. Accordingly, the Company has concluded that it jointly controls FB Burrard with Formwerks and accounts for its investment using the equity method. FB Burrard is the general partner of FB Burrard Development Limited Partnership ("FB Burrard LP"). The Company's wholly owned subsidiary Western Potash and Formwerks are the limited partners of FB Burrard LP with Western Potash initially contributing 80% of the equity contributions to FB Burrard LP. FB Burrard LP is in the business of developing a real estate project on 16th Avenue in Vancouver, British Columbia.

In December 2017, the Company sold 500,000 units of its Class A Units in FB Burrard LP representing 7.69% of the total outstanding Class A units, to WGEP Investment Management LLP ("WGEP"), a partnership where two officers of the Company are partners, for total cash proceeds of \$500,000. No gain or loss was recognized as the consideration was equal to the carrying value of these units. Cash flow from FB Burrard LP will be distributed to the Partners initially according to their respective capital contributions until the initial capital contribution has been recovered and a specified rate of return on funds invested has been achieved. Subsequent distributions on Western Potash's Class A Units of FB Burrard LP are limited to 52.31% of the profit as defined in the agreement.

Western Potash, Formwerks and WGEP are obligated to fund 72.31%, 20% and 7.69%, respectively, of FB Burrard LP's development and construction costs not financed by bank financing obtained by FB Burrard LP's and any cost over runs. However, the aggregate amount which the limited partners are required to contribute to the Partnership in the form of capital contributions will not exceed \$6,500,000. If FB Burrard LP needs further funding, the limited partners, have the right but not the obligation to loan funds to FB Burrard LP. During the year ended September 30, 2017, the Company contributed \$4,800,000 to FB Burrard LP and a further \$400,000 was contributed in the year ended September 30, 2018.

On July 26, 2018 FB Burrard LP secured a construction loan with a credit limit of \$12,500,000 for its development project and the Company is a guarantor for this construction loan. The maximum liability under this guarantee is limited to \$6,250,000 plus interest and costs. As a result of the financing, FB Burrard LP distributed \$2,608,289 to the Company as a return of equity.

(ii) FB Eighth:

On August 15, 2017, Western Garden and Western Potash entered into a similar arrangement with Formwerks to develop a real estate project in New Westminster, British Columbia. Western Garden and Formwerks jointly control FB Eighth Development Limited (“FB Eighth”), the general partner of FB Eighth Development Limited Partnership (“FB Eighth LP”) in which Western Potash and Formwerks have an 80% and 20% interest, respectively. Amongst other things, the shareholder agreement requires unanimous consent by Western Garden and Formwerks for decisions related to all relevant activities of FB Eighth. Accordingly, the Company has concluded that it jointly controls FB Eighth with Formwerks and accounts for its investment using the equity method. Cash flows from FB Eighth LP will be allocated similar to that of FB Burrard LP as described above. Western Potash and Formwerks are obligated to fund 80% and 20%, respectively, of FB Eighth LP’s development and construction costs not financed by bank financing obtained by FB Eighth LP and any cost over runs. The aggregate amount which the limited partners are required to contribute to FB Eighth LP in the form of capital contributions will not exceed \$5,500,000. If FB Eighth LP needs further funding, the limited partners, have the right but not the obligation to loan funds to FB Eighth LP. During the year ended September 30, 2017, the Company contributed \$1,059,391 to FB Eighth LP and a further \$3,668,789 was contributed in the year ended September 30, 2018.

On May 22, 2018, FB Eighth LP accepted an offer to sell the land beneficially owned by FB Eighth LP for a total sale price of \$15,350,000. The sale was completed on September 28, 2018. The Company recognized \$1,715,133 in income from associate related to its share of the net gain from the sale of the land. On October 3, 2018, FB Eighth LP distributed \$6,443,292 representing the Company’s capital contributions of \$4,728,180 and the Company share of net gain from the sale of the land of \$1,715,113. Additionally, FB Eighth LP repaid the loan provided in Note 7 (b).

(iii) FB Robinson:

On September 20, 2017, Western Garden and Western Potash entered into a third similar arrangement with Formwerks to develop a real estate project in Coquitlam, British Columbia. The Company initially invested a total of \$5,300,260 for its 80% interest in FB Robinson Development Limited Partnership (“FB Robinson LP”) in which FB Robinson Development Limited (“FB Robinson”) is the general partner, and Western Potash and Formwerks are the limited partners. \$640,000 of its initial investment was subsequently returned to the Company as it was not required to fund FB Robinson LP’s operations. Amongst other things, the shareholder agreement requires unanimous consent by Western Garden and Formwerks for decisions related to all relevant activities of FB Robinson. Accordingly, the Company has concluded that it jointly controls FB Robinson with Formwerks and accounts for its investment using the equity method. Cash flows from FB Robinson LP will be allocated similar to that of FB Burrard LP as described above. The aggregate amount which the limited partners are required to contribute to FB Robinson LP in the form of capital contributions will not exceed \$8,500,000. If FB Robinson LP needs further funding, the limited partners, have the right but not the obligation to loan funds to FB Robinson LP.



(iv) FB Third Ave:

On June 22, 2018, Western Garden entered into a shareholder agreement with Formwerks, 1168930 B.C. Ltd. (“1168930”), CWC Group Enterprises Ltd. (“CWC”), and 1168387 B.C. Ltd (“1168387”) to invest in FB 234 Third Avenue Development Limited (“FB Third”). Western Garden, Formwerks, 1168930 and CWC each hold a 22.5% voting interest in FB Third and 1168387 holds a 10% voting interest. Amongst other things, the shareholder agreement of FB Third requires unanimous consent by all the shareholders for decisions related to all relevant activities of FB Third. Accordingly, the Company has concluded that it jointly controls FB Third and accounts for its investment using the equity method. FB Third is the general partner of FB 234 Third Development Limited Partnership (“FB Third LP”) which is developing a real estate project in Vancouver, British Columbia. Western Garden, Formwerks, 1168930 and CWC each hold a 22.5% limited partnership interest in FB Third LP, and 1168387 holds a 10% limited partnership interest. Western Garden and all limited partners will advance capital to FB Third LP by way of additional capital contributions to fund the costs of the acquisition of the lands and the development cost of the project proportionate to its respective ownership interest. The aggregate amount which the limited partners are required to contribute to FB Third LP in the form of capital contributions will not exceed \$10,000,000 of which Western Garden’s share is \$2,250,000. If FB Third LP needs further funding, the limited partners, have the right but not the obligation to loan funds to FB Third LP. Cash flow and allocation of net income and losses from FB Third LP will be distributed to the limited partners, pro rata in accordance with their respective proportionate interest. Western Garden has made total capital contributions of \$2,306,250 to FB Third LP as of September 30, 2018.

On December 10, 2018, FB Third LP received a land loan from Canadian Western Bank (“CWB”) of \$10,000,000 and the Company provided a corporate guarantee for the loan limited to a maximum of \$2,250,000 plus interest and costs. FB Third LP repaid the loan provided in Note 7(b) of \$9,260,000 plus interest in full to the Company on December 11, 2018.

***Investment In Land For Development***

On May 3, 2018, the Company’s wholly owned subsidiary Western Garden Properties Corp. (“Western Garden”) made an offer of \$20,380,000 to purchase 9 residential unit lots which could permit the development of townhouses in the City of Coquitlam. As of September 30, 2018, the Company had paid a deposit of \$2,515,000 related to the proposed purchase.

On October 1, 2018, Western Garden entered into arrangement with Formwerks, as limited partners in WGP Seaton Development Limited Partnership (“Seaton LP”), to develop this real estate project with Western Garden holding an 80% interest and Formwerks a 20% interest. Western Garden and Formwerks are obligated to fund 80% and 20%, respectively, of Seaton LP’s development and construction costs not financed by bank financing and any cost over runs. The \$2,515,000 deposit was transferred to Seaton LP as Western Garden’s initial capital contribution. To finance the closing of the land purchase on the completion date of October 5, 2018, Seaton LP successfully received a land loan of \$9,500,000 on October 1, 2018 from Industrial and Commercial Bank of China (Canada) (“ICBK”) for which the Company has provided a limited corporate guarantee of up to \$7,600,000. On October 4, 2018, Western Garden also made an additional capital contribution of \$6,420,000 to Seaton LP.

***Loans Receivable From Associates***

In order to facilitate the acquisition of three land lots by FB Burrard LP during the year ended September 30, 2017, the Company provided a loan to FB Burrard LP in the amount of \$3,992,084. The loan bore interest

at the Canadian Western Bank prime rate plus 1.5% per annum. Interest on the loan was payable monthly. The loan principal of \$3,992,084 plus accrued interest was repaid in full to the Company on July 18, 2018.

During the year ended September 30, 2018, the Company provided a similar loan to FB Eighth LP in the amount of \$4,915,000 to facilitate the acquisition of land. The loan bears interest at the Canadian Western Bank prime rate plus 1.5% per annum. Interest on the loan is payable monthly. The loan principal \$4,915,000 and accrued interest of \$21,007 was repaid to the Company in full on October 1, 2018.

During the year ended September 30, 2018, the Company also provided a loan to FB Robinson LP in the amount of \$4,655,000 to facilitate the acquisition of land. The loan bears interest at the Canadian Western Bank prime rate plus 1.5% per annum. Interest on the loan is payable monthly. The loan matures on December 15, 2018. The loan is secured by a first charge security on the acquired land.

During the year ended September 30, 2018, the Company provided a loan to FB Third LP in the amount of \$9,260,000 to facilitate the acquisition of land. The loan bears interest at 9% per annum until October 28, 2018 and bears interest at 12% thereafter. Interest on the loan is payable monthly. The loan matures on December 28, 2018. The loan is secured by a first charge security on the acquired land. The loan principal of \$9,260,000 plus accrued interest was repaid to the Company in full on December 11, 2018.

### ***Loans Receivable***

The Company has advanced a first mortgage loan of \$8,460,000 to Nexst Clive Development Limited Partnership (“Nexst”), an unrelated company, for acquisition of land for real estate development on December 27, 2017. The loan bore interest at the Canadian Western Bank (“CWB”) prime rate of 3.45% plus 2.8% per annum up to June 20, 2018; currently bears interest at the CWB prime rate plus 4.8% per annum until December 20, 2018 and will bear interest at 29.0% per annum thereafter to the maturity date of March 20, 2019. Interest on the loan is payable monthly. The loan is secured by a first charge security on the acquired land, all the current securities, shares, units and the equity interests owned by Nexst. The individual directors of Nexst are also guarantors of the loan.

On January 29, 2018, the Company advanced a first mortgage loan of \$8,905,000 to 1148114 B.C. Ltd. (“1148114 BC”), an unrelated company, for acquisition of real estate property. The loan bore interest at 8.0% per annum to April 30, 2018, and at 18.0% per annum until July 29, 2018. Interest is payable monthly. The loan is secured by a first charge security on the acquired property, all the current securities, shares, units and other equity interests owned by 1148114 BC, and the individual shareholders of 1148114 BC as guarantors. On July 20, 2018, principal of \$3,905,000 was repaid to the Company. In addition, the maturity date of the loan was extended from July 29, 2018 to July 30, 2019, with interest at 8% per annum to August 31, 2018, interest at 12% per annum from September 1, 2018 to April 29, 2019, and 18% per annum thereafter.

On March 28, 2018, the Company advanced a first mortgage loan of \$3,000,000 to 0942388 B.C. Ltd. (“0942388 BC”), an unrelated company, for real estate development related activity. The loan bore interest at 10% per annum to September 28, 2018, and currently bears interest at 20% per annum until the maturity date of December 28, 2019. Interest is accrued daily and payable quarterly. The loan is secured by a first ranking security interest in a real estate property located in Vancouver, a first ranking security interest over the property in 0942388 BC, and the chairman of 0942388 BC provided personal guarantee for the loan.

The Company also advanced a loan of \$2,500,000 with a 6% interest per annum to NextPacific Development Group Ltd. (“NextPacific”), an unrelated company, for acquisition of land for real estate development on December 21, 2017. The principal and interest were repaid in full to the Company in February 2018.

## Additional Disclosures

### *Segmented Information:*

The Company operates in two reportable operating segments, being the acquisition, exploration and development of mineral properties in Canada and the investment in real estate projects in Canada. Segmented information is as follows:

| <b>Year Ended September 30, 2018</b> | <b>Real Estate</b> | <b>Mineral Properties</b> | <b>Total</b> |
|--------------------------------------|--------------------|---------------------------|--------------|
| Interest and other income            | \$ 3,399,170       | \$ 905,175                | \$ 4,304,345 |
| Operating expenses                   | 61,017             | 2,291,400                 | 2,352,417    |
| Net Income (loss)                    | 3,338,153          | (1,386,225)               | 1,951,928    |
| Total assets                         | 53,360,165         | 98,343,554                | 151,703,719  |
| Non current assets                   | 20,761,979         | 88,568,692                | 109,330,671  |
| Current assets                       | 32,598,186         | 9,774,862                 | 42,373,048   |
| Total liabilities                    | (205,200)          | (1,266,808)               | (1,472,008)  |
| Additions to non-current assets      | 14,902,588         | 6,557,008                 | 21,459,596   |

| <b>Year Ended September 30, 2017</b> | <b>Real Estate</b> | <b>Mineral Properties</b> | <b>Total</b> |
|--------------------------------------|--------------------|---------------------------|--------------|
| Interest and other income            | \$ 37,810          | \$ 1,131,938              | \$ 1,169,748 |
| Operating expenses                   | 48,876             | 2,186,966                 | 2,235,842    |
| Net Income (loss)                    | (11,066)           | (1,187,499)               | (1,198,565)  |
| Investment in Associates             | 5,859,391          | -                         | 5,859,391    |
| Total assets                         | 9,851,475          | 138,589,999               | 148,441,474  |
| Total liabilities                    | -                  | (161,691)                 | (161,691)    |
| Additions to non-current assets      | 5,859,391          | 4,028,171                 | 9,887,562    |

### *Related Party Transactions*

#### (a) Payments to key management personnel

The Company's key management personnel include the Company's Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and members of the Board of Directors. Payments to key management personnel included in consulting fees in the consolidated statement of income (loss) and comprehensive income (loss) and mineral property and development costs are as follows:

|                       | For The Twelve Months Ended |                     |
|-----------------------|-----------------------------|---------------------|
|                       | September 30, 2018          | September 30, 2017  |
| Consulting Fees       |                             |                     |
| Salaries and wages    | \$ 658,000                  | \$ 620,750          |
| Bonus                 | -                           | 3,500               |
| Termination fees      | -                           | 84,000              |
|                       | <b>658,000</b>              | <b>708,250</b>      |
| Capitalized payments: |                             |                     |
| Salaries and wages    | 192,000                     | 346,250             |
| Bonus                 | -                           | 10,500              |
|                       | <b>192,000</b>              | <b>356,750</b>      |
|                       | <b>\$ 850,000</b>           | <b>\$ 1,065,000</b> |

(b) Other related party transactions

In addition to the sale of 500,000 Class A units of FB Burrard LP to WGEP, the Company has the following related party transactions:

- i. The Company charged rent totaling \$Nil (September 30, 2017 - \$50,775) to companies related by common directors for shared office space.
- ii. Accounts payable at September 30, 2018 include amounts outstanding to directors in the amount of \$35,750 (September 30, 2017 - \$20,000).
- iii. Accounts receivable at September 30, 2018 include \$17,977 outstanding from investment in associates (September 30, 2017 - \$69,892) for expenses paid in advance by the Company.

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

***Commitments and Contractual Obligations***

- (a) The Company has entered into a lease for office premises which expires on June 30, 2019. The minimum annual lease payments are \$442,144 per year.
- (b) The Company entered into a water supply agreement with respect to the Milestone Project dated November 15, 2012 with the City of Regina with a term of 44 years and which would have required fixed payment for water usage at a rate of \$0.25/cubic meter (increasing by 1% annually) multiplied by a fixed annual volume as prescribed in the agreement. Upon signing of the agreement, the Company paid \$500,000 which are creditable against future usage charges should usage had begun by January 1, 2017. If usage had not commenced by that date, the Company would have been required to pay an additional \$200,000 annually until usage commenced. On December 21, 2017, the agreements were amended to stipulate that the City of Regina will provide Western Potash a preferential right to access a maximum of up to 25,000 cubic meters of water at a rate of \$0.2628/cubic meter (increasing by a multiplier every year) per day of recycled water for an agreed term of 40 years from the start of water flow. As of September 30, 2018, the Company has paid a one-time Commitment fee of \$200,000 upon signing of the amended agreement and has paid an additional annual standby fee of \$101,370 in February 2018. Half of the commitment fee and standby fee will be credited against the annual water usage fees if water usage commences on or before December 31, 2025. All standby fee payments and credits will be inflated annually by a multiplier.

If the Company does not commence usage on or before December 31, 2025, all credits accrued until that date will no longer be creditable against the annual usage fees. Furthermore, the Company will be required to pay a standby fee of \$500,000 annually after December 31, 2025 until the earlier of the date water usage commences and the term of the agreement which is defined in the agreement as 40 years after connection to the Regina water system is completed. Both the City of Regina and the Company have the option to terminate the contract on or after December 31, 2025 if usage has not commenced by that date.

- (c) During the year ended September 30, 2018, the Company had four separate financial advisory agreements, two of which are with directors of the Company, to seek out and introduce potential investors to the Company. Pursuant to each of these agreements, the Company is required to pay a success fee upon the completion of an equity financing equal to 4% of the amount raised up to \$100,000,000 and 2% of any amounts in excess of \$100,000,000. In the event the financing is in the form of debt that is subsequently converted to equity, the Company is required to pay a success fee of 1% of the amount raised up to \$100,000,000 and 2% on amounts in excess of \$100,000,000. The maximum amount of success fee payable is \$4,200,000 under each agreement. All four financial advisory agreements have expired on or before August 15, 2018, and the Company has no other financial advisory agreements as of September 30, 2018. However, for a period of one year from expiration, the Company may be required to pay a success fee to the advisor if the Company closes a transaction with a party introduced by the advisor during the period in which the agreement was in effect.

### ***Contingencies***

The Company is involved in various claims and other matters in the ordinary course of business.

- a) Lockwood Financial Ltd.

By an agreement dated September 1, 2010, the Company retained Lockwood Financial Ltd. ("Lockwood") to provide certain services. That agreement provided for various potential payments from the Company to Lockwood if specific triggering events occurred. A Notice of civil claim has been filed by Lockwood seeking a payment in an amount of \$1,439,056 for a success fee and additional service fee owing. It is the position of the Company that none of the triggering events occurred and that no amount is currently payable to Lockwood. The Company, in consultation with legal counsel, assesses that it is not probable at September 30, 2018 that the claim of Lockwood will be successful and that the Company will be required to pay any amounts and no provision for possible loss has been included in these consolidated financial statements.

- b) Amarillo Gold Corporation

In May 2018, the Company received a demand letter from Amarillo Gold Corporation ("Amarillo") with respect to a services agreement between Amarillo and the Company's subsidiary, Western Potash dated April 28, 2008. Amarillo is seeking to recover \$2,136,000 in taxes and penalties related to certain exploration permits Amarillo has become liable to pay as a result of Amarillo's Brazilian subsidiary staking potash claims in Brazil during 2008 on behalf of Western Potash. The Company, in consultation with legal counsel, is in the process of determining the validity of Amarillo's claim and has entered into an arbitration process. The Company believes that more evidence will become available as a result of the arbitration process which will enable it to better assess the merits of the claim. The arbitration process is in its early stage and it is not currently possible for the Company to conclude whether it has a present obligation and if so, whether it is probable that a cash outflow will be required to settle the obligation.

### ***Off-Balance Sheet Arrangements***

The Company has no off-balance sheet arrangements.

### ***Subsequent Events***

On October 25, 2018, the Company signed an off-take agreement with a North American company in the business of selling agricultural fertilizers to purchase an annual production of 146,000 metric tons of product from the Company once production at the Milestone Project reached the designed capacity, for a duration of 10 years.

On November 12, 2018, the Company's 100% owned subsidiary, Western Potash Corp. entered into a Limited Notice to Proceed Agreement ("LNTP") with SNC-Lavalin Inc. for commencement of certain procurement services and construction execution preparation activities for the construction of the Milestone Phase I Plant. Western Potash is in the process of negotiating a form of Procurement and Construction Management Agreement for the Phase I Plant; in order to meet the Company's schedule requirements, certain procurement and construction preparation services will be promptly commenced prior to completion of such negotiations. The LNTP enables SNCL to proceed with the commencement of procurement services, orders for 6 initial packages for construction of the Phase I Plant, and construction execution preparation activities while negotiating final Procurement and Construction Management Agreement. Per signed LNTP agreement, the Company is committed to make advance payment of \$930,000 plus applicable sales tax to SNCL. Furthermore, SNCL will also submit advance invoices to the Company for the initial packages. A total of \$985,800 has been paid to SNCL since September 30, 2018.

On December 4, 2018, Western Garden entered into an arrangement with Alabaster Holdings Corp. ("Alabaster") and Invesca Holdings Inc. ("Invesca"), together as limited partners of Alabaster (Spires 2) Limited Partnership ("Alabaster LP") to develop a real estate project in Richmond, British Columbia. Alabaster (Spires 2) G.P. Ltd. ("Alabaster GP") is the general partner of Alabaster LP, in which Western Garden has a 50% interest, 1091970 B.C. Ltd. ("109", a related party of Alabaster) has a 25% interest and Kensington Homes Ltd. ("Kensington" related party of Invesca) has a 25% interest. Western Garden jointly controls Alabaster GP with 109 and Kensington and Alabaster GP controls decisions related to all relevant activities of Alabaster LP. Western Garden and all limited partners will advance capital to Alabaster LP by way of additional capital contributions to fund the costs of the acquisition of the lands and the development cost of the project proportionate to its respective ownership interest in Alabaster LP. The aggregate amount which the limited partners are required to contribute to Alabaster LP in the form of capital contributions will not exceed \$8,075,000 of which Western Garden's share is \$6,460,000, representing its 80% interest in Alabaster LP. If Alabaster LP needs further funding, the limited partners, have the right but not the obligation to loan funds to Alabaster LP. Cash flow and allocation of net income and losses from Alabaster LP will be distributed firstly to Western Garden until profit yields 15% internal rate of return, and secondly to Alabaster and Invesca until profit yields 15% internal rate of return. Western Garden has made total capital contributions of \$534,000 to Alabaster LP since September 30, 2018.

### **Critical Accounting Judgments and Estimates**

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. Although management uses

historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts are as follows:

#### *Valuation of loans receivable*

The valuation of loans receivable is based on the discounted estimated future cash flows expected to be received. Such estimates are based on an evaluation of the financial condition of the counter party, security provided by the counter party and the Company's expectations about the timing of repayment. Changes in these assumptions may result in changes to the assessment of whether an impairment loss is recognized and if recognized, the amount of such loss.

#### *Economic recoverability and probability of future economic benefits of exploration and evaluation expenditures and development costs*

In assessing whether indicators of impairment exist, management uses judgement in assessing the impact of changes in commodity prices, discount rates and other economic factors related to the project. Management has determined that mineral property and mine development costs which were capitalized have future economic benefits and are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geological and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans. Changes in these assumptions could result in an impairment loss.

#### *Valuation of investment in associates*

The Company is required to assess whether there are indicators of impairment associated with investments in associates at the end of each reporting period and if such indicators exist, recognize an impairment loss. The assessment of these indicators is based on an evaluation of the business underlying the investment. Judgements and estimates are required with respect to whether there will be a sufficient return from real estate sales in order to recover the Company's investment. An impairment charge would be based on discounted estimated future cash flows expected to be received from the investments. Such estimates are based on an evaluation of the financial condition and operating results of invested associates. Changes in these assumptions may result in an impairment charge being recognized or in changes to the amount of an impairment loss recognized.

#### *IFRS 9 - Financial Instruments ("IFRS 9").*

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company will adopt IFRS 9 on October 1, 2018. Other than additional disclosure requirements, adoption of the new standard may impact the valuation of the

Company's loans and receivable. The Company is in the process of quantifying the impact that the expected credit loss model will have on the carrying values of loans to associates and loans receivable.

#### *IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”)*

IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue- Barter Transactions Involving Advertising Services. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company will adopt IFRS 15 on October 1, 2018. Adoption of IFRS 15 will not have any impact on the financial statements. However, it will affect how the Company accounts for future revenue contracts when the Milestone project commences operations.

#### *IFRS 16 - Leases (“IFRS 16”)*

In January 2016, the IASB issued IFRS 16 – Leases which replaces IAS 17 – Leases and its associated interpretative guidance. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The Company will adopt IFRS 16 on October 1, 2019. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements. The extent of the impact of adoption of the standard has not yet been determined.

## **Mineral Properties**

The Company is focused on building Canada's most efficient potash solution mine at its 100% owned Milestone property located 35 kilometers southeast of Regina Saskatchewan, a region with some of the largest producing potash solution mines in the world. The Company intends to develop a world-class potash deposit in an ecologically sustainable, economically efficient and socially responsible manner.

The Milestone Project includes 87,532 acres of Crown held Mineral Leases, and 61,182 acres of acquired Freehold Leases. The renewable, 21-year Crown lease was granted by ministerial order and provides the Company with full and exclusive power and right to mine Crown owned subsurface minerals, including potash, subject to the provisions outlined by The Saskatchewan Subsurface Mineral Regulations (1960) and The Subsurface Mineral Tenure Regulations (2015). The Company has completed the drilling of eleven potash exploration wells on the property, purchased and acquired several hundred line kilometers of 2D, and conducted a 3D seismic study during the exploration program. The leases are adjacent to potash permits held by other multinational mining companies.

The Company has significantly de-risked and advanced the full-scale Phase II and III 2.8 million-tonne per year Milestone Project by completing multiple Resource and Reserve Estimates (2010, 2011, 2012, and 2013), a Scoping Study (2011), a Prefeasibility Study (2011), and a Feasibility Study (2012) on the Milestone



Project. The Company received Environmental Assessment Approval for the Milestone Project from the Government of Saskatchewan (2013).

The initial Milestone Feasibility Studies were designed with a specific strategic perspective: one that focused on financing and project risk reduction while maximizing value, resulting in a large tonnage, long life, mining methodology similar to that used for traditionally in Saskatchewan. Finding a financial solution for the Milestone project, utilizing the 2012 feasibility work has proven to be challenging given the current potash pricing environment and the broad commodity pricing cycles inherent to the market. Consequently, a new paradigm was required to move the Milestone Project forward to effectively exploit the Milestone asset while projecting a significantly reduced CAPEX and competitive OPEX, and potentially insulating the Company from these broad commodity and market cycles.

Thus, the project was refocused on the Phase I Pilot Plant (Phase I Project) using selective solution mining of the Milestone deposit, starting with a smaller, low capital cost pilot project. Included in the study is an analysis of a selective solution mining method relying on horizontally drilled wells selectively mining initially the Esterhazy potash member. The method of selective solution mining has been proven in industry; however, the exact mining method proposed in the Phase I Project has not to date been utilized in Saskatchewan. Other examples of producing operations employ some key aspects of the Pilot Study. Selective solution mining methods include Intrepid Potash, Moab, and Utah (Potash), who employ solution mining of potash from flooded underground workings and horizontally drilled caverns.

The Phase I Project is based on a Mineral Resource (2015) in the Esterhazy member (the target mining horizon) in the study area, consisting of a Measured Resource of 7.17 million tonnes (Mt) grading 39.5% KCl, an Indicated Resource of 11.56 Mt grading 39% KCl and an Inferred Resource of 1.77 Mt grading 39% KCl. A cutoff grade of 15.8% KCl (10% K<sub>2</sub>O) was used to define the top and bottom of the target member.

The Phase I Project envisions the simultaneous operation of three pilot production caverns. The horizontally drilled wells inject a sodium chloride (NaCl) saturated brine having a temperature higher than the in-situ rock formation temperatures. Potassium Chloride (KCl) is then selectively dissolved within the potash formation, leaving a lattice of NaCl behind. KCl rich brines are then brought to surface through each production well. KCl recovery is achieved through delivery of the resultant KCl rich brine to a surface crystallization facility. It is estimated that such a production facility would deliver 146,000 tonnes of standard grade MOP per year with a 3-cavern layout as designed by AGAPITO.

Some of the advantages of the proposed methodology are:

- the capital cost on a per tonne production basis will be less than that of conventional solution mining;
- lower energy and greenhouse gas emissions (compared to conventional solution mining);
- improved environmental benefits (no salt tailings, no underground oil injection, less subsidence, less energy consumption on a per tonne production basis);
- the surface foot print will be reduced due to the absence of a salt tailings facility; and
- the Project will provide a scalable production facility that has the potential to be expanded to meet future market requirements and changing investment appetites.

In May 2018 the Company signed an agreement with SNC-Lavalin (“SNCL”) to complete the detailed engineering for the Phase I Project. The scope of the agreement with SNCL includes detailed engineering with Issued for Construction Drawings, revised CAPEX and OPEX, procurement strategy, project schedule and execution plan, and commissioning and start-up support. SNC-Lavalin expects to have all engineering

finalized by early 2019 in support of vendor engineering and procurement with plant construction to commence in 2019. The engineering study will include the addition of a compaction circuit to allow potash sales in the North American market. Western Potash continues to have discussions with utility providers (SaskPower, SaskEnergy, SaskTel) for provision of power, natural gas and site communications.

The Milestone Phase I Project requires approximately 40 cubic meters of water per hour (m<sup>3</sup>/hour) as determined by Western's mining engineering consultant AGAPITO. The water-well drilling and pump testing was completed on July 18<sup>th</sup>, the established deep water source is able to fully support the required water usage of the Phase I Project over the life of the project according to the Water Supply Well Report completed by WaterMark Consulting Ltd. The deep well aquifers (in the Viking and Mannville Formations) contain non-potable water, not suitable for agriculture and are isolated and far below local domestic or agriculture use aquifers and will therefore not interfere with local water supplies or the environment.

In September 2015, the Company received an amendment to the 2013 Environmental Assessment Approval for the Phase I Project from Saskatchewan Ministry of Environment ("SMoE"). The change in mining methodology and design proposed for the pilot plant required review under Saskatchewan's Environmental Assessment Act (EAA) as it represented a change from the original 2013 approval. A Project Description of the Phase I Project was submitted to SMoE in July 2015. Following review of the Project Description, SMoE concluded that the proposed change will not result in significant environmental impacts different from those identified in the original EIS and is satisfied that the requirements of the EAA have been met. Following the conclusion of the AMEC Phase I Pilot Study, a second EAA amendment application was submitted on March 17, 2017 to SMoE detailing the final engineering and seeking approval for the minor relocation of the pilot plant 1.6 kilometers to the East of the original location. Approval was received on June 6, 2017.

In November 2012, the City of Regina and Western Potash entered into an agreement that allowed the City of Regina to provide Western Potash with access to recycled wastewater for a 2.8 million tonne per year ("Mtpy") conventional potash solution mine. Following the decision of the Phase I project, With the selective solution mining technology uses substantially less water than conventional solution mining techniques, Western Potash renegotiated the agreement and therefore reduced the volume of water correspondingly. Included in the terms of the new agreement, Western Potash paid a commitment fee of \$200,000, and will pay an annual 'standby' fee of \$100,000 for every year that water is not drawn. When Western Potash begins to draw water, 50% of the standby and commitment fees paid to the City will be refunded in the form of a credit against water usage charges.

In May 2015, the Rural Municipality of Lajord ("RM of Lajord") and Western Potash entered into a "Development Agreement" for the construction and operation of the original 2.8 Mtpy Primary and Secondary potash solution mining project. Given the revised technology and rescope project, an amendment to the Development Agreement with the RM of Lajord was signed in August 2017 and compliments the existing Development Agreement. The amended agreement covers the construction and operation of the Phase I Project and usage of RM of Lajord roads. In support of the Development Agreement a study of the access road options was completed and used in negotiations with the RM of Lajord. The Development Agreement allows a framework for the construction and operations logistics, as well as product transportation. The Company is currently in discussions with the RM of Lajord to incorporate changes to the Development Agreement related to a revision to the access and haul route.

Readers are cautioned that the projected mining method, potential production profile as well as plan and mine plan referred to in the Pilot Study completed by Agapito Associates Ltd. in 2016 are conceptual in nature and additional technical studies will be required in order to fully assess their viability. There is no certainty that a potential mine will be realized or that a production decision will be made. A mine production decision that is made without a feasibility study carries additional potential risks that include, but are not

limited to, the inclusion of inferred mineral resources, which are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Mine design and mining schedules, metallurgical flow sheets and process plant designs will require additional detailed work and economic analysis and internal studies to ensure satisfactory operational conditions and decisions regarding future targeted production. The Pilot Study is a preliminary economic assessment, is preliminary in nature and includes inferred mineral resources, which are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that inferred resources will be converted to the measured and indicated categories, that the measured and indicated resources will be converted to the proven and probable mineral reserve categories and there is no certainty that the Pilot Study will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability; the estimate of mineral resources in the Pilot Study may be materially affected by environmental, permitting, legal, title, taxation, social-political, marketing, or other relevant issues.

***Qualified Persons***

The in-house qualified person who has reviewed and approved the disclosure of technical and scientific information included in this MD&A is Greg Vogelsang, P.Eng., P.Geol., FGC, FEC.

**Outstanding Share Data**

The following details the share capital structure as at the date of this MD&A:

***Authorized***

Unlimited Common shares without par value.

***Issued and Fully Paid***

|   | <b>Number</b> | <b>Amount</b>  |
|---|---------------|----------------|
| Balance, September 30, 2018 and as of the date of this MD&A | 93,437,110    | \$ 219,985,801 |

***Stock Based Compensation Plan***

As at September 30, 2018 and at the date of this MD&A, the Company has no compensation and stock options outstanding. A continuity of the Company’s stock-based compensation plan is as follows:

|                                    | Options Outstanding | Weighted Average<br>Exercise Price |
|------------------------------------|---------------------|------------------------------------|
| Balance, September 30, 2015        | 3,426,000           | \$ 2.35                            |
| Expired/forfeited                  | (934,000)           | \$ (2.50)                          |
| Balance, September 30, 2016        | 2,492,000           | \$ 2.25                            |
| Expired/forfeited                  | (1,417,000)         | \$ (2.25)                          |
| Balance, September 30, 2017        | 1,075,000           | \$ 2.25                            |
| Expired/forfeited                  | (1,075,000)         | \$ (2.25)                          |
| <b>Balance, September 30, 2018</b> | -                   | -                                  |

### *Treasury Shares*

Under the terms of a Toronto Stock Exchange approved “normal course issuer bid” during the period from November 4, 2015 to November 3, 2016, the Company purchased 777,400 common shares at a cost of \$762,520. These shares have not been retired and are classified as treasury shares in shareholders’ equity.

## **Risks and Uncertainties**

The Company’s risk exposures and the impact on the Company’s financial instruments are summarized below:

### *Credit risk*

Credit risk is the risk of loss associated with a counter party’s inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, term deposits, accounts and other receivables and loans receivable including loans receivable from associates, the carrying value of which represents the Company’s maximum exposure to credit risk. Cash and cash equivalents and term deposits are held with reputable Canadian financial institutions, from which management believes the risk of loss to be minimal. The Company’s principal credit risks relate to its loans receivable from FB Eighth LP, FB Robinson LP, FB Third LP, Nexst, 1148114 B.C., and 0942388 B.C., and the Company seeks to mitigate such risks by registering a first charge security on the land acquired by these entities. Details regarding the loans receivable are included in the Company’s consolidated financial statements Note 7 (b) and Note 8.

### *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 September 30, 2018, the Company had a cash and cash equivalents balance of \$9,154,280 and term deposits of \$275,021 to settle current liabilities of \$1,472,008. All of the Company’s significant trade accounts receivables and liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company's operating cash requirements including amounts projected to complete its existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, available bank lines, changes in commodity prices, cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Company to pursue equity issuances, obtain project or debt financing, or enter

into joint arrangements. There is no assurance that the necessary financing will be available in a timely manner.

### ***Market risk***

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The market price of real estate projects is uncertain and could drop significantly over the project development period.

### ***Interest rate risk***

The Company has cash and cash equivalents, term deposits and loans receivable which bear interest. The Company's current policy is to invest excess cash in high yield term deposits and bankers' acceptances with fixed interest rates. The Company regularly monitors its cash management policy. The Company does not believe it is exposed to material interest rate risk on its cash and term deposits. The Company's cash and cash equivalents, loans receivable from associates and loan receivable From Nexst Clive Development Limited Partnership have variable rates of interest. A 1% increase or decrease in interest rates would increase or decrease interest income by approximately \$0.3 million based on the carrying value of these interest-bearing instruments at September 30, 2018.

### ***Foreign currency risk***

The Company's functional currency for the parent company and its subsidiaries is the Canadian dollar and major expenditures are transacted in Canadian dollars. There is no significant foreign currency risk.

### ***Commodity price risk***

The Company is exposed to commodity price risk. Commodity price risk is defined as the potential impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of potash, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company's future profitability and viability of development depends upon the world market price of potash. Potash prices have fluctuated widely in recent years. There is no assurance that, even if commercial quantities of potash are produced in the future, a profitable market will exist for them. A decline in the market price of potash may also result in the Company reducing its mineral resources, which could have a material and adverse effect on the Company's value. The Company is not a potash producer as of September 30, 2018. Therefore, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

### ***Project risks***

The Milestone Phase I Project is a demonstration plant, and as such there are a number of technical and economic risks. The most significant risk is lower than expected potash sales prices, which has the largest effect on project economics. There are exchange rate and tariff risks, but these are somewhat mitigated by the likely effect of sales price.

There are a number of technical and construction risks associated with the innovative use of selective horizontal solution mining. In particular, the risks include drilling the water well, long-term potash recovery rates, construction CAPEX costs, and sustaining and operating costs. The Company is working with a number of construction strategies to plan for strict control of the construction costs, and engaging leading

engineering firms to leverage their experience. To maintain potash recovery rates, additional well drilling is planned and drilling costs have been updated in the sustaining CAPEX. However, actual hydrodynamic conditions in the caverns may be underestimated in the cavern production model. Currently, further experimental investigations of the mechanisms of dissolution by NaCl-saturated solvents by AGAPITO are anticipated in an attempt to simulate actual mining conditions.

Weather conditions (including snow and flooding) may affect both the construction schedule and operations (in particular road restrictions may reduce the ability to ship product off-site). The Company is developing contingency plans to minimize the risk associated with weather events, including flexibility in construction schedules, contingencies, appropriate productivity factors, and product shipping plans. These include on-site storage and conducting an annual plant maintenance shutdown during the period of spring road bans.

## **Disclosures Controls & Procedures and Internal Controls over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting in the year ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.