

**HUDSON RESOURCES INC.**

**Management Discussion and Analysis**

**(Form 51-102F1)**

**For the six months ended September 30, 2019**

## **Management's Discussion and Analysis – For the six months ended September 30, 2019**

This management's discussion and analysis ("MD&A") focuses on significant factors that affected Hudson Resources Inc. ("Hudson" or the "Company") during the six months ended September 30, 2019 and to the date of this report. The MD&A supplements, but does not form part of, the unaudited condensed consolidated interim financial statements of the Company and the notes thereto for the six months ended September 30, 2019. Consequently, the following discussion of performance and financial condition should be read in conjunction with the unaudited condensed consolidated interim financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts presented in this MD&A are in Canadian dollars unless otherwise indicated.

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

This MD&A contains information up to and including November 28, 2019.

### **FORWARD-LOOKING INFORMATION**

Statements in this MD&A that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements. For more information on forward-looking information, please refer to page 21 of this MD&A.

### **THE COMPANY**

As at September 30, 2019, the Company is a pre-commercial production stage mineral company listed on the TSX Venture Exchange, and is engaged in the acquisition, exploration and development of mineral properties in Greenland. On July 17, 2017, the Company entered the development phase of its White Mountain Project ("Qaqortorsuaq" in Greenlandic) located on the Naajat anorthosite (calcium feldspar) mineral resource for which the company received an Exploitation License in 2016. The Company has completed construction of its White Mountain Project and has since begun production and shipping of its anorthosite product.

### **HIGHLIGHTS**

- Completed two tranches of additional debt financing for total gross proceeds of US\$8 million and extended maturity and principal payment terms of its debt.
- First shipment of 14,400 metric tonnes of the Company's GreenSpar product to the United States in August 2019.
- Received first purchase order for 5,000 metric tonnes of the Company's GreenSpar anorthosite product in accordance with the Company's 10-year supply contract.

### **OVERVIEW OF MARKETS**

The White Mountain Project processing plant produces a finely ground anorthosite that is being sold under the name "GreenSpar". Anorthosite is a deep-seated igneous rock dominated by the mineral plagioclase, a sodium-calcium aluminum silicate and one of the common rock-forming minerals. Although anorthosite is found in several parts of the world, the White Mountain anorthosite is relatively unique because of the high calcium content of its plagioclase. It is this high calcium content that enables superior performance in production of E-glass, the primary market identified for "GreenSpar". Testing of material from White Mountain was undertaken by established E-glass producers. They found that the use of White Mountain "GreenSpar" compared to currently used raw material reduced energy consumption by 10% and melt times by 33%, both being critical factors in lowering production costs.

E-glass is so named because of its initial use in electrical applications as an insulator. It is made by first melting a mixture of minerals, extruding the molten material through a die which forms fine glass fibres that are used in large quantities in the building and construction industry as a glass fibre or mineral wool insulation. These glass fibres can be woven into mats or fabrics to make a vast range of products including boats, swimming pools, silos and tanks, sporting goods, and a wide range of construction materials. The value of the E-glass market in the major economies of Asia, Europe, and North America is forecast to reach US\$17.4 billion by 2024.

### **Supply contract**

In July 2014, Hudson reported that a successful trial of its GreenSpar had been undertaken in an E-glass production furnace operated by a major international producer of E-glass. On July 30, 2015, the Company announced the signing of a 10-year supply agreement with that E-glass producer, that contains significant, although not guaranteed, annual purchases to be used in a number of production furnaces in various countries, following approval of a first delivery from the new White Mountain processing plant. The Company has also advanced discussions with at least two other major producers who are expressing strong interest in purchases from Greenland. Sales to these potential customers could only begin following a 6-month exclusivity period that starts upon delivery and approval of "GreenSpar" by the customer with the supply agreement. Strong interest has also been expressed from producers in China where production facilities are very large and frequently very modern.

### **Competition**

The most commonly used raw material in the production of E-glass is the clay mineral kaolin and the GreenSpar product has garnered interest as a replacement because of its better production economics and also because in many areas the supply of kaolin is becoming less reliable, either through quality issues or political uncertainty in some cases. Both GreenSpar and kaolin are relatively low value bulk materials where the costs of transportation by ship, rail or road, or often by a combination of these, can be very significant and therefore the logistics of available distribution routes is a primary factor in commercial success.

The United States Geological Survey ("USGS") stated in its 2017 review of clay minerals production that the major producers of kaolin are: USA, Germany, Brazil, Turkey and the Ukraine. Although kaolin is mined in 8 states, 90% of the US output is from Georgia with a further 6% from South Carolina, although only 6% of the combined total is used in fiberglass and mineral wool (insulation) production. Major purchasers are Japan, Mexico and China. In addition to kaolin, relatively small quantities of nepheline syenite sourced in the US and Ontario, Canada is also used in E-glass production.

The mineral supply industry has many small or regional companies; however, the dominant positions are held by two European multinationals: Imerys S.A. a French company with operations in 50 countries and Sibelco a Belgian company with operations in 40 countries.

### **Additional markets**

The Company believes that based on the quality of GreenSpar, it will be in a competitive position to penetrate the market for fillers (extenders) that are widely used in the production of paints, coatings and polymers. These are markets with higher unit value products than E-Glass, and are projected to grow from US\$160 billion in 2017 to US\$209 billion by 2022. (Source: <https://home.kpmg.com/xx/en/home/insights/2018/03/industry-update-2018.html>).

In September 2016, Hudson announced the results of a market prospects study by Industrial Mineral Management Consultants in Ontario which took the GreenSpar product and ran a series of technical tests after grinding it to a very fine minus 45 micron particle size (a micron is a thousandth of a millimeter). The GreenSpar45, as that product is referred to, proved to have excellent technical properties that would make it attractive for these additional markets. More recently in August 2018, the Company announced that it received very favourable test results when using GreenSpar45 in paint and clear coating formulations. The test work

completed by Marschall Labs Inc, of Clearwater, Florida, indicated that GreenSpar45 performs very well in paint and clear coating applications.

The paints and coatings market is very large, and the Company has established that major producers in the paint and coatings industry have demonstrated a strong interest in Greenspar45. However, in order to supply these potential new markets, an investment in a fine grinding (“micronizing”) plant will be required. It is estimated that C\$6-8M is required to build a micronizing facility capable of producing 20,000 tonnes per year of paint and coating grade material.

Hudson has been asked to quote on the delivery of a coarse grade anorthosite for the use in the manufacturing of rock wool insulation. This material would not need to go through Hudson’s process plant and would only require one stage of crushing prior to shipping from site.

For long term consideration, two possibilities for new markets for the anorthosite have been identified although both would represent a scale of investment that is orders of magnitude higher than the White Mountain operation: (1) as a new source for the production of alumina that would be an environmentally friendly alternative to the major bauxite route used today that generates a by-product waste known as red mud that has significant disposal issues, and; (2) research by the University of British Columbia’s Ceramics and Refractories Research and Testing Laboratories has established that a carbon dioxide (CO<sub>2</sub>) free white cement can be manufactured from the anorthosite with good heat resistant and strength characteristics.

## **WHITE MOUNTAIN PROJECT**

The Company announced on November 26, 2018 that it had completed the construction of the Project and had initiated commissioning activities. On February 4, 2019, the Company announced that it had completed the testing of all major equipment components under load and the production of GreenSpar had commenced. All equipment had been performing as expected with the exception of the secondary High-Pressure Grinding Rolls (HPGR) crusher, which was operating at 55% capacity due to mechanical issues involving the drive system and material feed arrangement. These are being corrected at the manufacturer’s expense but the situation contributed to an overall delay of approximately four months for the first GreenSpar shipment. This caused the Company to seek additional working capital to support the first commercial shipments. Commissioning the plant during the cold winter period also revealed the need for a dryer to be installed in the feed circuit into the plant. An order was subsequently placed for a rotary drum dryer manufactured in North America that will be installed early in 2020.

Mining at the White Mountain site consists of a simple drill and blast operation in an open pit where there is no overburden that needs to be removed prior to extraction. Mining is done with 10m benches. After blasting, the ‘shot rock’ is loaded into 40 tonne articulated haul trucks that carry the ore 11 kilometres down to the waterside processing plant where it is fed in to a mobile jaw crusher followed by mobile cone crushing before being fed in to the processing plant. The haul trucks are operating downhill when loaded, which represents a considerable fuel saving that, together with the absence of overburden on the mineral resource, means a very cost-effective open pit mining operation.

Hudson’s workforce, including sub contractors, fluctuated between 30 and 45 personnel over the course of construction, reducing to a workforce of between 18 and 24 for production.

The Company announced on August 20, 2019 that that the bulk carrier, MV Happy Dragon, had been loaded and departed August 20th for a port facility in Charleston, South Carolina. The ship carried approximately 14,400 tonnes of GreenSpar 250 anorthosite product and 56 tonnes of GreenSpar 90 (98% finer than 90 microns) which is a high quality air separated product from the low iron process plant dust collection system. The GreenSpar 90 material will be used in further development of the paints and coatings markets and CO<sub>2</sub> free cement applications. The ship also transported two Terex all terrain cranes (80 tonnes and 55 tonnes) and three manlifts which were no longer required after the construction period and will be sold in North America.

On August 30, 2019, the Company reported that the unloading of its first shipment in Charleston was terminated before completion for reasons outside the Company's control. The heavy equipment and GreenSpar 90 was unloaded, but the dry bulk anorthosite was not due to the receiver not being properly set up to deal with the dust associated with the dry product despite being well aware of the requirements in advance. The impending arrival of Hurricane Dorian caused the emergency closure of the port forcing the MV Happy Dragon to put to sea for safety.

The Company identified a suitable temporary facility in Savannah, one with which the Company previously announced an agreement in 2017 (see news release NR2017-09), and the MV Happy Dragon proceeded there as soon as weather permitted to discharge its cargo. The disruption caused by hurricane Dorian impacted the logistical arrangements for this first shipment and further delayed the timing of the first sales of product. The Company has been bagging the GreenSpar at this alternate facility into 1,360 kg super sacs to allow for transshipment to its contracted customer in the Americas. Hudson is exploring avenues to recover any potential additional costs that may be incurred from the change in port and storage facilities.

On November 20, 2019, the Company received a purchase order for 5,000 metric tonnes of GreenSpar, and the Company has initiated deliveries from the Savannah warehouse. The Company also announced that as winter approaches, a decision was made to place the Greenland operations into temporary care and maintenance for technical production reasons. As previously reported, cold rock entering the plant can influence iron extraction and product quality. As such, the Company ordered a rotary drum dryer which will be installed in the process plant. The dryer fabrication is nearing completion and will be shipped to the site shortly for installation early in the new year. In November and December, a number of site activities are being undertaken including preparations for the installation of the dryer, firefighter training, haul road improvements and accommodation complex upgrades. It is anticipated the introduction of the new rotary drum dryer will enable the Company to make its GreenSpar anorthosite to specifications on a very consistent basis year-round.

The initial bulk shipment of product has taken longer than anticipated due to previously disclosed plant start-up issues that were compounded by the late arrival of the MV Happy Dragon at the mine due to ice conditions at its last port of call and the hurricane that hit the southeast US in late August/early September. These delays have impacted working capital, and the Company is consequently reviewing its business strategy. Given the interest in our material expressed by many companies in the industrial minerals sector worldwide, the Company is considering strategic alternatives to help advance the product lines and customer base.

The Company continues to work with the Greenland government to encourage local employment and ensure all operating conditions under the mining licence and the Impact Benefits Agreement (IBA) are met.

### **Mineral resource**

The Company filed an Amended and Restated Technical Report dated December 15, 2015 that disclosed the White Mountain project area on the Najaat mineral claim contains an Indicated Resource of 27.4 million tonnes and an Inferred Resource of 32.7 million tonnes. At the Company's anticipated rate of extraction, which includes a second phase expansion of the White Mountain processing plant, these resources are considerably more than sufficient for the 50 years provided under the Najaat Exploitation License. The Company has not published a feasibility study for this development that might have enabled a reclassification to a reserve through demonstrated economic viability. The markets in which the GreenSpar product is being sold are highly competitive and a full feasibility study would have required the disclosure of sales and cost data that would have been prejudicial to the Company's competitive position. The Amended and Restated Technical Report is available on the SEDAR website.

### **Project costs**

As of July 17, 2017, the Company had transitioned to the development stage for the Naajat mineral claim; as a result of the transition, all expenditures going forward were capitalized as development assets. On November 26, 2018, the Company announced that it had completed construction of its White Mountain Project and

commenced commissioning at the site. The Company announced in February 2019 that it has commenced production at the site.

The Company also holds a 100% interest in the Sarfartoq Rare Earth Project. Further development of the Sarfartoq Project is dependent upon the improvement in world market prices for rare earths. In December 2015, the Greenland government granted the Company a 2-year exploration commitment holiday. In December 2017, the Greenland government extended the exploration commitment holiday for an additional year. As a result, the Company will be able to carry accrued work commitments into 2020.

## RESOURCE PROPERTIES

### *Naaajat (White Mountain) Mineral Claim (2015/39), Greenland*

In September 2015, exploration license 2015/39 was converted to an exploitation license. A fee of 100,000 DDK was paid. Previously, the Company was required to maintain certain work commitments to retain the exploration license. Hudson now has certain non-monetary commitments, including but not limited to employing Greenlandic personnel, based on establishing a mining operation as per the exploitation agreement in order to maintain the license.

### *Sarfartoq Mineral Claim (2010/40), Greenland*

The Company must submit an annual report by April 1, of each year detailing its activities and expenditures for approval. In 2018, the Company's license was renewed to December 31, 2020. In December 2015, the Greenland government granted the Company a 2-year exploration commitment holiday. In December 2017, the Greenland government extended the exploration commitment holiday for an additional year. As a result, the Company will be able to carry accrued work commitments into 2019.

## RESULTS FROM OPERATIONS

### Selected Information

	For the six months ended		
	September 30, 2019	September 30, 2018	September 30, 2017
Interest income	\$ 1,406	\$ 42,377	\$ 17,145
Net income (loss)	(5,562,870)	(3,018,285)	(5,800,936)
Basic and diluted loss per share	\$ (0.03)	\$ (0.02)	\$ (0.05)

<i>As at:</i>	September 30, 2019	September 30, 2018	September 30, 2017
<b>Balance Sheet Data</b>			
Cash and cash equivalents	\$ 229,653	\$ 7,264,709	\$ 2,296,303
Restricted cash	1,341,144	3,874,040	5,337,736
Inventory	2,900,195	-	-
Equipment	10,155,292	13,162,570	12,201,223
Reclamation bonds	1,934,620	2,009,940	2,129,850
Resource properties	769,682	769,682	769,682
Development assets	40,025,200	29,283,865	19,241,194
Total assets	\$ 57,928,343	\$ 56,498,264	\$ 43,290,184

**Six months ended September 30, 2019 (“Q2YTD 2020”) compared with six months ended September 30, 2018 (“Q2YTD 2019”)**

The Company recorded a net loss of 5,562,870 for Q2YTD 2020 compared with a net loss of \$3,018,285 for Q2YTD 2019.

Evaluation and exploration costs were \$25,571 for Q2YTD 2020 compared to \$22,294 for Q2YTD 2019. The Company did not incur significant evaluation and exploration costs in these periods as the Company focussed on ramping up production in the current period and on completing construction at the site in the prior year.

Depreciation expense was \$24,884 for Q2YTD 2020 compared to \$3,316 for Q2YTD 2019 and relate to office equipment and right of use asset. The depreciation charged for equipment used for the Project has been capitalized as development assets since the second quarter of fiscal 2019 and in inventory in the current period.

Director fees increased from \$60,000 in Q2YTD 2019 to \$70,000 in Q2YTD 2020 due to an increase in the number of independent directors period over period.

Personnel costs increased by \$81,641 to \$499,171 for Q2YTD 2020 from \$417,530 in the comparable period. The increase is the direct result of a greater number of staff in the current period as on-site and corporate activities increased in the Company starting in Q2 of the prior year.

Professional fees have remained at comparable levels and decreased by \$27,786 to \$155,197 in the current period from \$182,983 in Q2YTD 2019.

Total net foreign exchange gain for current period was \$866,791 compared to a foreign exchange loss of \$1,315,160 in Q2YTD 2019 mainly due to the fluctuations in the exchange rates amongst the Canadian dollar, United States dollar, and Danish Krone. Much of the net loss in the current period was the result of the strength in the US Dollar since the beginning of the fiscal year against the Danish Krone, the functional currency of the Company’s subsidiary. Since the Cordiant loans are denominated in USD, the stronger USD resulted in an unrealized foreign exchange gain upon revaluation of the USD Cordiant loans with an impact of \$1,048,107

A gain of \$1,488,481 (\$Nil in the prior period) on debt refinancing was recorded in the current period as a result of modifying the terms of the original loans payable to Cordiant which included the extension of the maturity date and the deferral of the first principal payment. Under IFRS 9, the original debt was derecognized and replaced with the present value of the modified debt, and consequently, a gain was recorded from the calculation.

An inventory adjustment of \$4,978,382 (\$Nil in the prior period) was recorded in the current period in order to adjust the carrying value of the Company’s finished product inventory to its net realizable value associated with operating at below full capacity and high logistical costs.

Rent expense decreased to \$14,153 from \$40,021 for Q2YTD2020 as a result of adopting the new accounting standard, IFRS 16 – Leases, on a modified retrospective method where prior year comparatives are not restated. A portion of the company’s office lease payments is now capitalized as a Right-of-Use Asset and amortized over the life of the lease term, where in prior year, these amounts were expensed directly as rent.

Share-based payments were \$267,327 for Q2YTD 2020 compared to \$807,588 for Q2YTD 2019. This decrease in share-based payments was associated with timing of the options being granted in Q2YTD 2019, and none in the current period.

Total office related expenses and transfer agent and filing fees have remained consistent and did not significantly fluctuate year over year.

Shareholder and corporate communication costs decreased to \$20,242 from \$45,212 in Q2YTD 2020, as have travel and accommodation expenses decreased to \$27,384 from \$70,912, as the Company focussed on conserving cash by minimizing expenses in the current period.

Bank charges and interest totalled \$45,370 for Q2YTD 2020 compared to \$36,478 in Q2YTD 2019 and was higher primarily due to the recognition of interest expense from current leases that were not existent in Q2YTD 2019, but offset by an higher amount of interest recognized on the interest-bearing note payable that was outstanding in the prior period.

Other expenditures have not materially fluctuated from Q2YTD 2019 to Q2YTD 2020.

**Three months ended September 30, 2019 ("Q2 2020") compared with three months ended September 30, 2018 ("Q2 2019")**

The Company recorded a net loss of \$5,672,549 for Q2 2020 compared with a net loss of \$728,867 for Q2 2019.

Evaluation and exploration costs were \$21,014 for Q2 2020 compared to \$21,406 for Q2 2019. The Company did not incur significant evaluation and exploration costs in these periods as the Company focussed on ramping up production in the current period and on completing construction at the site in the prior year.

Depreciation expense was \$13,775 for Q2 2020 compared to \$1,647 for Q2 2019 and relate to office equipment and right of use asset. The depreciation charged for equipment used for the Project has been capitalized as development assets in the second quarter of fiscal 2019 and in inventory in the current period.

Director fees was consistent at \$35,000 in Q2 2019 and Q2 2020.

Personnel costs was comparable at \$266,092 in Q2 2019 as compared to \$272,744 in Q2 2019.

Professional fees decreased slightly by \$9,521 to \$95,514 in the current quarter from \$105,035 in Q2 2019 and has remained consistent.

Total net foreign exchange loss for current period was \$1,088,533 compared to a foreign exchange loss of \$135,762 in Q2 2019 mainly due to the fluctuations in the exchange rates amongst the Canadian dollar, United States dollar, and Danish Krone. Much of the net loss in the current quarter was the result of the strength in the US Dollar against the Danish Krone, the functional currency of the Company's subsidiary. Since the Cordiant loans are denominated in USD, the much stronger USD resulted in an unrealized foreign exchange loss upon revaluation of the USD Cordiant loans with an impact of \$1,650,813.

An inventory adjustment of \$3,988,297 (\$Nil in the prior period) was recorded in the current period in order to adjust the carrying value of the Company's finished product inventory to its net realizable value associated with operating at below full capacity and high logistical costs.

Rent expense decreased to \$7,302 from \$20,512 for Q2 2020 as a result of adopting the new accounting standard, IFRS 16 – Leases, on a modified retrospective method where prior year comparatives are not restated. A portion of the company's office lease payments is now capitalized as a Right-of-Use Asset and amortized over the life of the lease term, where in prior year, these amounts were expensed directly as rent.

Share-based payments were \$89,934 for Q2 2020 compared to \$72,412 for Q2 2019. The fluctuation is largely due recognition of the expense due to the timing of vesting of the options.

Total office related expenses and transfer agent and filing fees have remained consistent and did not significantly fluctuate year over year.



Shareholder and corporate communication costs decreased to \$4,833 from \$38,624 in Q2 2020, as have travel and accommodation expenses decreased to \$9,382 from \$32,893, as the Company focussed on conserving cash by minimizing expenses in the current period.

Travel and accommodation expenses decreased to \$9,382 from \$32,893 as the Company focussed on conserving cash by minimizing expenses in the current period.

Bank charges and interest totalled \$26,762 for Q2 2020 compared to \$1,203 in Q2 2019 and was higher primarily due to the recognition of interest expense from current leases that were not existent in Q2 2019.

Other expenditures have not materially fluctuated from Q2 2019 to Q2 2020.

## SUMMARY OF QUARTERLY RESULTS

	Three months ended			
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Interest income	\$ 1,406	\$ -	\$ 2,657	\$ 17,822
Net income (loss)	(5,672,549)	109,679	(2,618,963)	(929,216)
Basic and diluted loss per share	\$ (0.03)	\$ -	\$ (0.01)	\$ (0.01)

	Three months ended			
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Interest income	\$ 42,377	\$ -	\$ 8	\$ 254
Net income (loss)	(728,867)	(2,289,418)	364,065	(137,993)
Basic and diluted loss per share	\$ -	\$ (0.02)	\$ -	\$ -

The Company's net losses are historically mainly due to pre-development costs, share-based payments, foreign exchange fluctuations, and general and administrative costs that vary from quarter to quarter based on planned pre-development activities and resource constraints. During the quarter ended September 30, 2017, the Company entered the development phase of its Naajat (White Mountain) Mineral Claim; as a result of the transition, the costs incurred on the Naajat (White Mountain) Mineral Claim upon entering the development phase were capitalized as development asset instead of expense as exploration and evaluation costs. The change in accounting policy for the costs incurred on Naajat (White Mountain) Mineral Claim began to decrease the net loss (upon transition to the development phase on July 17, 2017) during the quarter ended December 31, 2017 and significantly decreased during the quarter ended March 31, 2018 and December 31, 2018. The net income in the quarter ended March 31, 2018 was primarily the result of a foreign exchange gain recognized due to the weakness of the Canadian Dollar against the Danish Krone. The net loss in the quarter ended December 31, 2018 was the combination of a large foreign exchange loss associated with the re-strengthening of the Canadian Dollar and US Dollar against the Danish Krone and the share-based payments recognized during the period. The Company prepared the financial statements for the periods indicated above in accordance with International Financial Reporting Standards ("IFRS"). Net losses in the quarters ended September 30, 2018 and December 31, 2018 were lower due to smaller foreign exchange losses recognized in those periods. Net loss for the quarter ended March 31, 2019 widened due to a combination of larger foreign exchange loss from the result of the continuing strength of the Canadian Dollar and US Dollar against the Danish Krone, share-based payments recognized from the granting of stock options, and a retiring allowance paid in the quarter. The small net income in the quarter ended June 30, 2019 was primarily the result of a gain recognized on the refinancing of debt and a net foreign exchange gain, offset by an inventory adjustment. The net loss in the quarter ended September 30, 2019 was mainly due to the write down of inventory to net realizable value and the unrealized foreign exchange loss on the Company's USD denominated debt.

## GOING CONCERN

The Company's unaudited condensed consolidated interim financial statements for the six month period ending September 30, 2019, have been prepared in accordance with IFRS requirements that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities as they come due in the normal course of business.

As at September 30, 2019, the Company had a working capital of approximately \$2.0 million, including \$2.9 million in inventory. Total cash outflow in operating and investing activities for the current year were \$7.0 million and \$1.4 million respectively; net cash inflow from financing activities was \$6.9 million.

As at September 30, 2019, the Company had a deficit of \$73.4 million, with the cumulative losses being attributable to the very long lead times required to identify and secure potential minerals resources of commercial value, to obtain all necessary permits and licenses required for development of a deposit and the complexity of construction of the processing plant and shipping facilities in a remote location. The Company negotiated with its lender in respect of the conditions under which the restricted cash funds was released and is continuing discussions in seeking additional funds and to establish an operating credit facility to address working capital needs as the Company commences commercial sales and shipments. These steps are subject to material uncertainties and the Company expects to incur further losses in the development of its business, all of which may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future cash flow from its operations and/or obtain additional financing.

These unaudited condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Realizable values may be substantially different from carrying values as shown.

As of the date of this MD&A, the Company has a working capital deficiency position of \$0.4 million and holds minimal amounts of cash. The Company is currently in discussions with its lender to increase its debt facility and as part of the arrangement, has fully drawn down on its restricted cash balance. There is no guarantee that these discussions will be successful or that it will be offered on terms acceptable to the Company.

The amount of the Company's administrative expenditures is related to the level of financing and development activities that are being conducted, which in turn may depend on the Company's ability to successfully commence commercial sales on a timely basis, and on general market conditions relating to the availability of funding for exploration, development, and early production stage resource companies. The Company does not acquire properties or conduct exploration work on them on a pre-determined basis and, as a result, there may not be predictable or observable trends in the Company's business activities and comparisons of financial operating results with prior years may not be meaningful.

## LIQUIDITY AND CAPITAL RESOURCES

As noted previously, the Company continues to be in a working capital deficiency position. The Company has no material income from operations and any improvement in working capital results will primarily be from the issuance of share capital and long-term debt until the Company is in commercial production.

In May 2019, the Company entered into definitive agreements with its lender, Cordiant, with respect to a loan facility increase and extension originally announced on March 29, 2019. The agreements provided for an immediate US\$5 million loan facility increase, which was received by the Company in May 2019. The additional funds were provided based on the same terms as the existing facility and the definitive agreements extend the maturity of the total loan facility from July 15, 2024 to July 15, 2025, with the first principal repayment also being deferred by one year accordingly from January 15, 2020 to January 15, 2021.

In connection with this loan facility increase, the Company issued 1,950,000 share purchase warrants, each warrant entitling Cordiant to purchase one additional share in the capital of the Company until May 23, 2024, at an exercise price of \$0.45 per share, and cancelled the 450,000 share purchase warrants issued to Cordiant in 2017 in connection with the existing facility. The securities issued, including any shares issued upon exercise of the warrants, are subject to a 4 month hold period.

The definitive agreements also provided for a further US\$3 million loan facility increase to be disbursed upon the fulfillment of certain conditions. Upon the Company receiving this further loan increase it will, at that time, issue an additional 900,000 warrants having the same terms as the warrants described above.

In August 2019, the Company announced that it has entered into definitive agreements with Cordiant and its new lender, Romeo Fund – Flexi and its affiliates (“Romeo”) with respect to the US\$3 million loan facility increase originally announced on May 24, 2019.

Pursuant to the agreements, which provide for the assignment by Cordiant to Romeo of Cordiant's commitments in respect of the third tranche, Romeo funded the US\$3 million loan facility increase. The additional funds are provided based on the same terms as the existing facility and the definitive agreements. In connection with this loan facility increase, the Company has issued 900,000 share purchase warrants, each warrant entitling Romeo to purchase one additional share in the capital of the Company until May 23, 2024. The securities issued, including any shares issued upon exercise of the warrants, are subject to a 4 month hold period.

As at September 30, 2019, restricted cash was \$1,341,144 (US\$1,012,688) (March 31, 2019 - \$Nil). Subsequent to this date, the Company entered into a short-term loan agreement for \$109,197 with its lender for direct payment of certain invoices to its vendors. The loan is due on December 13, 2019 and bears interest at a rate of LIBOR plus 9.5%. The Company is currently in discussions with Cordiant for an additional increase to its debt facility and Cordiant has agreed to allow the Company to draw down on the restricted cash for working capital purposes and replenish the balance upon closing and funding of the new facility; repayment of the short-term loan is also expected to come from proceeds of the new facility. There is no guarantee that the discussions for an increased debt facility will be successful or that it will be an increased debt facility will be offered on terms acceptable to the Company.

The continued development of the Company's operations over the next 12 months will depend on the Company's ability to bring the project into commercial production and obtain additional financing. The Company has limited financial resources and there is no assurance that additional funding will be available to allow the Company to fulfill its obligations on the other existing exploration properties beyond the anorthosite development project. Failure to obtain additional financing could result in delay or indefinite postponement of the completion of the Project and further exploration and the possible, partial or total loss of the Company's interest in the Greenland exploration licenses overseen by the Government of Greenland, Mineral Licence and Safety Authority (“MLSA”). The Company may, in the future, be unable to meet its obligations under such agreements to which it is a party and consequently, the Company's interest in the properties subject to such agreements could be jeopardized.

The Company is dependent on raising funds by the issuance of shares or disposing of interests in its mineral properties (by options, joint ventures or outright sales) or by obtaining debt financing, in order to bring the project into commercial production, finance further acquisitions, undertake exploration and development of mineral properties and meet general and administrative expenses in the immediate and long term. There can be no assurance that the Company will be successful in raising the required financing.

The Company's future financial performance is dependent on many external factors. The Company expects that any revenues it may earn from its operations in the future will be from the sale of minerals. Both prices and markets for metals and minerals are cyclical, difficult to predict, volatile, subject to government price fixing and controls and affected by changes in domestic and international, political, social and economic environments. In addition, the availability and cost of funds for exploration, development and production costs are difficult to predict. These changes in events could materially affect the financial performance of the Company.

The Company invests its cash balances in interest bearing accounts with Canadian banks.

## OUTSTANDING SHARE DATA

As at September 30, 2019 and as at the date of this MD&A, the Company had 178,392,705 common shares issued and outstanding.

- In April 2019, the Company received gross proceeds of \$136,000 for exercise of 400,000 stock options.
- 1,650,000 options with an exercise price of \$0.34 expired in April 2019 without exercise.
- In May and August 2019 in connection with the loan facility increases described above, the Company issued 1,950,000 and 900,000 share purchase warrants respectively, each warrant entitling Cordiant to purchase one additional share in the capital of the Company until May 23, 2024, at an exercise price of \$0.45 per share, and has cancelled the 450,000 share purchase warrants issued to Cordiant in 2017 in connection with the existing facility.
- 2,025,000 share purchase warrants with an exercise price of \$0.60 expired subsequent to June 30, 2019 without exercise.
- There were 43,524,669 share purchase warrants outstanding as at September 30, 2019 and as at the date of this MD&A, each of which is exercisable for one common share at prices ranging from \$0.45 to \$0.75.
- There were 11,450,000 stock options outstanding as at September 30, 2019 and as of the date of this MD&A, each of which is exercisable for one common share at prices ranging from \$0.38 to \$0.65.

## RELATED PARTY TRANSACTIONS

For the six months ended September 30, 2019 and 2018 respectively, the Company incurred the following expenses for directors and officers of the Company:

	For the six months ended	
	September 30, 2019	September 30, 2018
Short-term employee benefits - personnel costs <sup>(1)</sup>	\$ 409,000	\$ 180,250
Short-term employee benefits - professional fees <sup>(2)</sup>	-	36,400
Short-term employee benefits - directors' fees	70,000	25,000
Share-based payments	183,647	666,185
	<b>\$ 662,647</b>	<b>\$ 907,835</b>

(1) During the six months ended September 30, 2019, the Company recognized \$409,000 of salaries and wages of which \$274,000 and \$135,000 were recognized as personnel costs and inventory, respectively.

During the six months ended September 30, 2018, the Company incurred \$398,500 of salary and wages of which \$238,500 and \$160,000 were recognized as personnel and development assets respectively.

(2) The Company incurred \$nil during the six months ended September 30, 2019 (2018 – \$76,843) for accounting and corporate secretarial services to Quantum Advisory Partners LLP whose incorporated partner was the Company's former Chief Financial Officer.

These transactions were measured by the exchange amount, which is the amount agreed upon by the transacting parties. The balance due to related parties included in accounts payable and accrued liabilities was \$103,333 as at September 30, 2019 (March 31, 2019 – \$33,333). These amounts are unsecured and non-interest bearing.

On March 13, 2019, the Company received an unsecured advance for \$500,000 from a related party. Total proceeds of the advance were used for working capital purposes and the balance as at September 30, 2019 was

fully repaid in August 2019, including accrued interest. The unsecured advance was for a term of three months bearing interest at 12% per annum.

## COMMITMENTS

	Total	2020	2021	2022	2023	2024 and thereafter
Lease from right of use asset	\$ 132,990	\$ 24,180	\$ 48,360	\$ 48,360	\$ 12,090	\$ -
Capital leases	669,811	49,646	198,583	198,583	222,999	-
Loans <sup>(1)</sup>	57,342,313	2,324,997	8,624,644	11,921,791	11,000,103	23,470,779
	<b>\$ 58,145,114</b>	<b>\$ 2,398,823</b>	<b>\$ 8,871,587</b>	<b>\$ 12,168,734</b>	<b>\$ 11,235,192</b>	<b>\$ 23,470,779</b>

(1) Represents the undiscounted cash flow.

The Company has two exploration licenses in Greenland, the Sarfartoq EL (2010/40), which was recently renewed until December 31, 2020, and the Pingasut EL (2013/01) and one exploitation license, the Naajat EL (2015/39). In 2014, Hudson was granted license renewals on the Naajat and Sarfartoq EL's. Prior to that, in 2012, Hudson was granted two license renewals. The Sarfartoq EL was amended to include portions of the Nalussivik, Sarfartuup Qulaa, Sarfartoq Valley and Arnanganeq exploration licenses as well as annex portions of the Sarfartoq EL and add additional ground that extends the license area to the fjord. The total area was reduced from 1,351 sq. km. to approximately 687 sq. km. As a result of the application, the five previous licenses were incorporated into one new Sarfartoq EL that is focused on the rare-earth project. In 2013, the license area was further reduced to 92 sq. km. This reduced the exploration burden on the area while still maintaining 100% interest in the Sarfartoq Carbonatite Complex.

The Naajat EL was renewed in 2013 for its industrial mineral potential for exploration years 11 and 12 and the license area was reduced from 190 sq. km. to approximately 96 sq. km. The Naajat EL includes the White Mountain Anorthosite Project ("White Mountain"). In 2014, Hudson began the process of converting the Naajat exploration license into an exploitation license. This was completed in September 2015.

Management had assessed that The Pingasut EL license did not have strategic value with which to supplement its White Mountain Project and allowed this license to expire on December 31, 2018 without renewal.

## FINANCIAL INSTRUMENTS

In the normal course of business, the Company is inherently exposed to certain financial risks, including market risk, credit risk and liquidity risk, through the use of financial instruments. The timeframe and manner in which the Company manages these risks varies based upon management's assessment of the risk and available alternatives for mitigating risk. The Company does not acquire or issue derivative financial instruments for trading or speculative purposes. All transactions undertaken are to support the Company's operations. These financial risks and the Company's exposure to these risks are provided in note 19 of the Company's consolidated financial statements for the six months ended September 30, 2019. For a discussion on the significant assumptions made in determining the fair value of financial instruments, refer also to note 2 of the audited consolidated financial statements for the year ended March 31, 2019.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## PROPOSED TRANSACTIONS

As at September 30, 2019 and the date of this report, the Company had no disclosable proposed transaction. It is the Company's policy not to disclose transactions until they are fully executed.

## **RISKS AND UNCERTAINTIES**

The Company is subject to a number of risk factors due to the nature of its business and the present stage of development. The following risk factors should be considered:

### **General**

The Company is a pre-commercial production stage mineral company listed on the TSX Venture Exchange and engaged in the acquisition, exploration, development and mining of mineral properties. The recoverability of the amounts shown for resource assets is dependent upon the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties. The Company's ability to continue its operations is dependent on its ability to secure additional financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. In order to continue developing its mineral properties, management is actively pursuing such additional sources of financing; however, in the event this does not occur, there is doubt about the ability of the Company to continue as a going concern. The consolidated financial statements and discussion and analysis of the financial condition, changes in financial condition and results of operations of the Company for the six months ended September 30, 2019 do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

The amount of the Company's administrative expenditures is related to the level of financing and pre-development activities that are being conducted, which in turn may depend on the Company's recent experience and prospects, as well as the general market conditions relating to the availability of funding for development-stage resource companies. Consequently, the Company does not acquire properties or conduct work programs on them on a pre-determined basis and as a result there may not be predictable or observable trends in the Company's business activities and comparisons of financial operating results with prior years may not be meaningful.

### **Trends**

The Company's financial success is dependent upon the discovery of properties which could be economically viable to develop. Such development could take years to complete and the resulting income, if any, is difficult to determine. The sales value of any mineralization discovered by the Company is largely dependent upon factors beyond the Company's control, such as the market value of the products produced. Other than as disclosed herein, the Company is not aware of any trends, uncertainties, demands, commitments or events which are reasonably likely to have a material effect on the Company's sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

### **Competitive Conditions**

The resource industry is intensively competitive in all of its phases. The Company competes with other mining companies for the acquisition of mineral claims and other mining interests as well as for the recruitment and retention of qualified employees and contractors and for mining equipment. There is significant and increasing competition for a limited number of rare earth and other resource acquisition opportunities and as a result, the Company may be unable to acquire suitable producing properties or prospects for exploration in the future on terms it considers acceptable. The Company competes with many other companies, the majority of which have substantially greater financial resources than the Company.

### **Environmental Factors and Protection Requirements**

The Company currently conducts exploration and development activities in Greenland. All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased

finances and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. There are no assurances that regulatory and environmental approvals will be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations or to preclude entirely the economic development of a property. Environmental hazards caused by previous or existing owners or operators of the properties may exist on the properties which are unknown to the Company at present which have been caused by previous or existing owners or operators of the properties. The Company is currently engaged in exploitation with limited environmental impact.

### **Mineral Exploration and Development**

The Company's properties are in the exploration stage (Sarfartoq Mineral Claim and Pingasut Mineral Claim) and development stage (Naajat (White Mountain) Mineral Claim). Development of the Company's properties will only proceed upon obtaining satisfactory exploration results and the subsequent analysis of the technical and financial feasibility of developing such properties. Mineral exploration and development involve a high degree of risk and few properties which are explored are ultimately developed into producing mines. There is no assurance that mineral exploration and development activities will result in the discovery of a body of commercial rare earths or industrial minerals on any of the Company's properties. Several years may pass between the discovery of a deposit and its exploitation. Most exploration projects do not result in the discovery of commercially mineralized deposits.

### **Operating Hazards and Risks**

Mineral exploration and development involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of resources, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are some of the risks involved in the operation of mines and the conduct of exploration programs. Although the Company will, when appropriate, secure liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liability and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

### **Shipping and port terminal**

Distribution of the Company's products from Greenland will be by ocean-going bulk carriers that will be secured through a spot-market charter. There can be no guarantee that appropriately sized and equipped vessels will be available to meet the Company's timing requirements or that such vessels can be chartered at a cost in line with the Company's original shipping market assessment. The use of such vessels requires appropriate receiving port terminals capable of handling the GreenSpar product and transloading it into another modal form of delivery, that is road or rail. The Company does not own such facilities and there can be no guarantee that they will be available when required or at an economic rate to secure.

### **Economics of Developing Mineral Properties**

Substantial expenditures are required to establish reserves through drilling, to develop processes to commercially extract the respective ores/ commodities contained therein and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development

can be obtained on a timely basis. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Depending on the price of minerals produced, the Company may determine that it is impractical to commence or continue commercial production.

### **Commodity Prices**

The Company's revenues, if any, are expected to be in large part derived from the mining and sale of anorthosite and industrial minerals or interests related thereto. The price of these commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international economic and political conditions, expectations of inflation, international currency exchange rates, interest rates, global or regional consumptive patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and improved mining and production methods. The effect of these factors on the price of these commodities, and therefore the economic viability of the Company's operations cannot accurately be predicted and, in almost all cases, are factors which the Company cannot change or influence.

### **Title**

Although the Company believes that it has taken all reasonable legal and other actions to ensure that it has good title to the properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interests may be subject to prior unregistered agreements or transfers, and title may be affected by undetected defects.

### **Governmental Regulation**

Operations, development and exploration on the Company's properties are affected to varying degrees by:

- i. government regulations relating to such matters as environmental protection, health, safety and labour;
- ii. mining law reform;
- iii. restrictions on production, price controls, and tax increases;
- iv. maintenance of claims;
- v. tenure; and
- vi. expropriation of property.

There is no assurance that future changes in such regulations, if any, will not adversely affect the Company's operations. Changes in such regulations could result in additional expenses and capital expenditures, availability of capital, competition, reserve uncertainty, potential conflicts of interest, title risks, dilution, and restrictions and delays in operations, the extent of which cannot be predicted. If any of the Company's projects are advanced to the development stage, those operations will also be subject to various laws and regulations concerning development, production, taxes, labour standards, environmental protection, mine safety and other matters. In addition, new laws or regulations governing operations and activities of mining companies could have a material adverse impact on any project in the mine development stage that the Company may possess. The Bureau of Mines and Petroleum in Greenland currently restricts the mining of radioactive elements and there is no assurance that the ban will be lifted if the production of REE contains radioactive elements as by products to the primary metals.

### **Management and Directors**

The Company is dependent on a relatively small number of directors: Flemming Knudsen (Chairman), John McConnell, John McDonald, Herbert Wilson, Bob Shields, David Frattaroli, and James Cambon; and officers:



James Cambon and Samuel Yik. The loss of any of one of those persons could have an adverse effect on the Company. The Company does not maintain key person insurance on any of its management.

### **Conflicts of Interest**

Certain officers, directors and advisors of the Company are officers and/or directors of, or are associated with, other natural resource companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest from time to time. The directors are required by law, however, to act honestly and in good faith with a view to the best interests of the Company and its shareholders and to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction.

### **Limited Operating History: Losses**

As the Company has transitioned from the exploration phase to the development phase, it has experienced losses in all years of its operations. There can be no assurance that the Company will operate profitably in the future, if at all. As at March 31, 2019, the Company's deficit was \$67,788,316

### **Price Fluctuations: Share Price Volatility**

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many mineral exploration companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. In particular, during the past 12 months, the Company's share price fluctuated from a high of \$0.53 to a low of \$0.32. There can be no assurance that continual fluctuations in share price will not recur.

### **Indebtedness Owing Under Senior Secured Notes**

On July 17, 2017, the Company completed the debt funding arrangement from Cordiant for a Senior Loan of US\$13 million and a Subordinated Loan of US\$9.5 million, for a total of US\$22.5 million for Hudson's White Mountain Anorthosite Project in Greenland through its 100% owned Greenland subsidiary, Hudson Greenland A/S. In connection with the debt funding arrangement, the Company provided security in respect to its obligation to pay all principal and interest owing under the Subordinated Loan and the Senior Loan in the form of a charge over substantially all of the Company's assets.

The Subordinated Loan and the Senior Loan have a term of seven years, maturing on July 15, 2024. Semi-annual principal repayments start on January 15, 2020 with only interest payments required prior to that date. The Senior Loan carries an interest rate of \$US six-month LIBOR plus 6.5% until July 15, 2018 and increased to LIBOR plus 9.5% thereafter. The Subordinated Loan's rate is \$US six-month LIBOR plus 9.5%.

In May 2019, the Company entered into definitive agreements with Cordiant with respect to a loan facility increase and extension. The agreements provided for an immediate US\$5 million loan facility increase, which was received by the Company at the end of May 2019. The additional funds were provided based on the same terms as the existing facility and the definitive agreements extend the maturity of the total loan facility from July 15, 2024 to July 15, 2025, with the first principal repayment also being deferred by one year accordingly from January 15, 2020 to January 15, 2021. The definitive agreements also provided for a further US\$3 million loan facility increase to be disbursed upon the fulfillment of certain conditions.

In August 2019, the Company entered into definitive agreements with Cordiant and its new lender, Romeo Fund – Flexi and its affiliates ("Romeo") with respect to the US\$3 million loan facility increase originally announced on May 24, 2019. Pursuant to the agreements, which provide for the assignment by Cordiant to Romeo of Cordiant's commitments in respect of the third tranche, Romeo funded the US\$3 million loan facility increase.

The additional funds are provided based on the same terms as the existing facility and the definitive agreements.

Should the Company fail to meet its obligations to the holders of the Subordinated Loan and the Senior Loan (collectively the "Loan Holders"), such default could result in the Loan Holders' decision to realize on their security. In accordance with the Senior and Subordinate Loan agreements with Cordiant, the Company paid US\$1.1 million, US\$1.4 million, and US\$1.4 million in semi-annual interest payments in July 2018, January 2019, and July 2019 respectively.

### **Additional Capital**

Mining, processing, development and exploration may require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration, development or production or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on satisfactory terms.

### **Currency Fluctuations**

The Company presently maintains its corporate bank accounts in Canadian and US dollars. The senior and subordinated loans are denominated in US dollars. Due to the nature of its operations in Greenland, the Company also maintains accounts in Danish Krone in Greenland. The Company's operations in Greenland and its continued exploration and development expenditures in Greenland are denominated in DKK, US dollars and EURO, making it subject to foreign currency fluctuations. Such fluctuations are out of the Company's control and may materially adversely affect the Company's financial position and results.

## **CRITICAL JUDGEMENTS AND ESTIMATES**

### **JUDGEMENTS**

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustments to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below.

#### **Development stage**

Management has determined that the construction of the White Mountain project was completed in the third quarter of the prior fiscal year and was thus in the development stage until that time. Accordingly, related costs incurred have been capitalized as development assets to the extent these costs are economically recoverable. Management uses several criteria in its assessments of stage of mining including metallurgic information, scoping and feasibility studies, accessible facilities, existing permits, availability of financing, and life of mine plans.

#### **Commencement of commercial production**

As at September 30, 2019, management has determined that the White Mountain project was in pre-commercial production stage. Costs associated with the commissioning of new assets, in the pre-commercial period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues. Commercial production is deemed to have occurred when management determines that, amongst other items, the completion of operational commissioning of major well components has been reached, operating results are being achieved consistently for a period of time, and there are indicators that these operating results will continue, all of which involve management judgments. The Company has not yet reached commercial production.

### **Cash generating units (“CGU”)**

The determination of cash generating units requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

### **Deferred tax assets**

Management is required to make estimations regarding the tax basis of assets and liabilities and related deferred income tax assets and liabilities, the measurement of income tax expense, and indirect taxes. A number of these estimates require management to make estimates of future taxable profit and, if actual results are significantly different than estimates, the ability to realize the deferred tax assets recorded on the statement of financial position could be impacted. The Company is subject to assessments by tax authorities who may interpret tax law differently. These factors may affect the final amount or the timing of tax payments.

### **Impairment**

If information becomes available suggesting that the carrying amount of inventory, equipment, and resource properties may exceed its recoverable amount, or upon transition to the development stage, the Company carries out an impairment test at the cash-generating unit or group of cash-generating unit level. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future gross profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within the next financial year.

### **Reclamation Obligations**

In evaluating whether a reclamation obligation exists, management applies judgment to evaluate whether they have a constructive, or legal obligation.

### **Determination of functional currency**

In accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates”, management determined that the functional currency of the Company and its subsidiary is Canadian dollar and Danish Krone, respectively, as these are the currencies of the primary economic environments in which the entities operate.

### **ESTIMATES**

Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting our consolidated financial statements include, but are not limited to, the following:

#### **Carrying value and recoverability of non-current assets**

The carrying amount of the Company's non-current assets do not necessarily represent present or future values, and the Company's resource properties and development assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production. Additionally, there

are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's non-current assets.

### **Reclamation Obligations**

A provision is made for environmental remediation costs when the related environmental disturbance occurs, based on the net present value of estimated future costs. The ultimate cost of environmental disturbance is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example, in response to changes in ore reserves or production rates or economic conditions. As a result, there could be significant adjustments to the provision for decommissioning and site restoration, which would affect future financial results.

### **Share-based payment transactions**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock options, volatility and dividend yield and making assumptions about them.

## **CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING DEVELOPMENTS**

### ***Adoption of new and amended accounting standards***

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning before or on April 1, 2019.

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

Effective April 1, 2019, the Company adopted IFRS 16 using the modified retrospective application method, where the prior year comparatives are not restated and the cumulative effect of initially applying IFRS 16 has been recorded on January 1, 2019 for any differences identified. The Company has determined that the adoption of IFRS 16 resulted in no adjustments to the opening balance of accumulated deficit.

Readers are requested to refer to note 3 of the Company's condensed consolidated interim financial statements for the six months ended September 30, 2019 for a more detailed discussion on the impact of the adoption of the new pronouncement.

### ***New standards and interpretations not yet adopted***

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after April 1, 2019. Updates which are not applicable or are not consequential to the Company have been excluded thereof.

## **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Additional disclosure concerning the Company's general and administrative expenses and resource property expenditures is provided in the Company's consolidated financial statements for the six months ended September 30, 2019 which are available on the Company's website at [www.hudsonresourcesinc.com](http://www.hudsonresourcesinc.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

## APPROVAL

The Audit Committee of Hudson Resources Inc. has approved the disclosure contained in this MD&A on behalf of the Company's Board of Directors.

## FORWARD-LOOKING INFORMATION

Statements contained in this MD&A that are not historical facts are forward-looking statements (within the meaning of the Canadian securities legislation and the U.S. Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to the future price of metals; the estimation of mineral reserves and resources, the realization of mineral reserve estimates; the timing and amount of estimated future production, costs of production, and capital expenditures; costs and timing of the development of new deposits; success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and the timing and possible outcome of pending litigation. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such risks and other factors include, among others, risks related to the integration of acquisitions; risks related to operations; risks related to joint venture operations; actual results of current exploration activities; actual results of current reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of metals; possible variations in ore reserves, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the sections entitled "Risks and Uncertainties" in this MD&A. Although the Company has attempted to identify important factors that could affect the Company and may cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. 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.

The forward-looking statements in this MD&A speak only as of the date hereof. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof to reflect the occurrence of unanticipated events. Forward-looking statements and other information contained herein concerning the mining industry and general expectations concerning the mining industry are based on estimates prepared by the Company using data from publicly available industry sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Company is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.