

# **Dundee Sustainable Technologies Inc.**

Management's Discussion and Analysis

Years ended December 31, 2016 and 2015

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# DUNDEE SUSTAINABLE TECHNOLOGIES INC.

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# DUNDEE SUSTAINABLE TECHNOLOGIES INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### BACKGROUND

This Management's Discussion and Analysis ("MD&A") of Dundee Sustainable Technologies Inc. ("DST" or the "Corporation") constitutes management's review of the factors that affected the Corporation's financial and operating performance for the years ended December 31, 2016 and 2015. This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements for the years ended December 2016 and 2015, prepared in accordance with the International Financial Reporting Standards ("IFRS"). Unless otherwise noted, all figures are in Canadian dollars, the presentation and functional currency.

### INCORPORATION AND NATURE OF OPERATIONS

#### Incorporation

The Corporation was incorporated under the Canada Business Corporations Act on July 22, 1997. The Corporation's head office is located at 1002 Sherbrooke West, Suite 2060, Montréal, Quebec, Canada, H3A 3L6.

The authorized capital of the Corporation consists of an unlimited number of subordinate voting shares and multiple voting shares, each multiple voting share having 10 votes.

Dundee Corporation ("Dundee") retains multiple voting shares of the Corporation, which are convertible, at the option of Dundee, into subordinate voting shares of the Corporation, for no additional consideration. The multiple voting shares of the Corporation are not listed on a stock exchange.

At December 31, 2016, Dundee owned 178.1 million subordinate voting shares and 50.0 million multiple voting shares of the Corporation giving Dundee a 66% equity interest and an 85% voting interest in the Corporation.

#### Nature of Operations

The Corporation is engaged in the development and commercialization of environment-friendly technologies for the treatment of materials in the mining industry. Through the development of patented, proprietary processes, DST extracts precious and base metals from ores, concentrates and tailings, while stabilizing contaminants such as arsenic, which could not otherwise be extracted or stabilized with conventional processes because of metallurgical issues or environmental considerations. Currently, the Corporation is focused on two primary processes:

#### *Gold Extraction by Chlorination*

At present, DST's most advanced proprietary process is associated with the extraction of precious metals using chlorination to provide a cyanide-free alternative for the exploitation of gold deposits. The primary benefits of this innovative technology are shorter processing times, and a closed-loop operation, eliminating the need for costly tailing ponds and reducing the environmental footprint of the inert and stable cyanide-free tailings.

The chlorination process developed by DST is a recognized "green technology" for which it was awarded a \$5 million grant by the Government of Canada, through its Sustainable Development Technology Fund ("SDTC"), for the construction and operation of a demonstration plant. The plant serves as a demonstration platform for the chlorination process on an industrial scale and under continuous operating conditions.

The Corporation has received, from Environment Canada, through the Canadian Environmental Technology Verification Program ("ETV"), an independent certification of the performance of its cyanide-free gold extraction process.

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### *Arsenic Stabilization by Vitrification*

In 2015, DST completed the construction of a pilot plant designed to demonstrate its arsenic stabilization process, which is designed for the sequestration of this contaminant in a stable glass form. This process involves a technique to segregate arsenic and therefore provides opportunities to process materials considered too toxic to be exploited or stabilized using conventional mining methods.

These processes are subject to all risks inherent in their development and may require significant additional development, testing and investment prior to final commercialization. There can be no assurance that such technologies will be successfully developed, or that output from any use of the Corporation's processes could be produced at a commercial level at reasonable costs or successfully marketed. To date, the Corporation has not earned significant revenues and is considered to be in the development stage.

## CORPORATE OVERVIEW

### *Metallurgy Processes Development*

Cyanidation, a commonly used process for gold extraction, typically produces large amounts of highly contaminated tailings. DST has developed a cyanide-free alternative for the recovery of precious metals applicable to both oxide (metals combined with oxygen) and sulfide (metals combined with sulfur) ores. In addition to environmental benefits, the cyanide-free chlorination process allows the exploitation of gold deposits that face metallurgical constraints or environmental permitting issues associated with the use of cyanide.

The DST hydrometallurgical process applied to sulfide ores commences with an oxidation stage in order to remove the sulfur and other impurities such as arsenic in the ore. The completion of this oxidation step transforms the sulfide into an oxide with the removal of the sulfur from the metal and its replacement by oxygen. When this transformation is complete, the newly formed oxide is subjected to the DST treatment, using acid leaching to collect base metals (Copper and Zinc) and hypochlorite to collect the precious metals (Gold and Silver).

The arsenic collected during the oxidation stage is then stabilized and rendered inert in a glass form, using DST's second patented novel methodology. The DST method has a more stable outcome and is less costly than current industrial practices. This approach to stabilize arsenic in glass is a technique to segregate arsenic in the extraction process and therefore provides opportunities for deposits or concentrates considered too toxic with arsenic to be exploited using conventional methods. It also represents an opportunity for existing copper smelting operators who are looking for a technology to stabilize the arsenic bearing flue dust, which are inherent in such operations.

Arsenical flue dust is produced through the smelting of arsenic bearing copper ores. During the copper smelting-converting process, most of the arsenic is vaporized and appears in the flue dust as arsenic trioxide along with fine particles of metal or metallic compounds. The arsenic trioxide in the flue dust is then captured in the filters of the smelter and converted into a stabilized inert glass form.

Few facilities in the world are capable of treating material containing high levels of arsenic. For this reason, DST has developed various approaches, which allow the removal of arsenic contained in the ore and the sequestration of the removed arsenical product. This implies that contaminated material can be subject to an arsenic removal pre-treatment generating a stable insoluble arsenic product prior to being sent to traditional smelters.

### *Intellectual Property*

DST has protected its intellectual property by filing patents during the development of its technologies. To date, DST has patents granted, published or pending on 13 different processes for its technologies. The Corporation has 57 patents granted, published, pending or filed in 16 countries. The patents to which the Corporation currently has rights expire between 2022 and 2034.

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### Green Technology and Government Support

DST's chlorination process has been recognized as a "green technology", for which it has been awarded a \$5 million grant by SDTC, for the construction and operation of the demonstration plant.

Given the significant economic benefits of its technologies, the Corporation has attracted strong government support. In addition to the Government of Canada's support, during 2015, Investissement Quebec ("IQ") completed a \$5 million private placement of equity and debt.

Since June 2016, the performance claims of DST's "*Cyanide-Free Gold Extraction Process*" has been verified by ETV. ETV provides an independent evaluation of new technologies with a view to validate environmental claims so that users, developers, regulators, and other parties can make informed decisions about purchasing, applying and regulating innovative technologies. Verification builds vendor credibility and buyer confidence by providing assurance that environmental performance claims are valid, credible and supported by high quality, independent test data and information. ETV was introduced in Canada in 1997 to support the implementation of innovative environmental technologies. ETV is delivered by GLOBE Performance Solutions under a license agreement from Environment Canada.

### **DEMONSTRATION PLANT AND PROCESSING FOR THE CHLORINATION TECHNOLOGY**

The current stage of DST's chlorination process is the result of 17 years of efforts in combined laboratory development and pilot scale validation. The results obtained at a laboratory scale led to the construction and operation of a pilot plant between 2010 and 2012 in order to pursue the development of DST's chlorination extraction technology. With successful piloting results, the next stage was the development of the technology at an industrial scale. This required the construction of a demonstration plant which could operate on a continuous basis.

Construction of the plant commenced in 2013, and commissioning was successfully completed in late 2015 enabling the Corporation to proceed with the demonstration phase of the project. When operating at full capacity, the demonstration plant can process approximately 5,000 tonnes of concentrate per year.

#### Construction phase

The demonstration plant has a nominal capacity of 15 tonnes per day of concentrate in order to assess DST's chlorination extraction technology under continuous operating conditions. The demonstration plant offers the first test of DST's chlorination extraction technology in an operating environment with industrial conditions. The scale-up factor is in the order of 15:1 compared to the pilot installation. Although the size of the demonstration plant seems modest according to references in the mining industry, it is large enough to establish the credibility of the process on an industrial scale. This demonstration plant serves as a reference for the establishment of full-scale plants operating with the same technology.

The construction and operation of the demonstration plant, which commenced in June 2013, was budgeted at \$25 million. This budget included a contingency of approximately 15%. The construction has been completed on budget and its construction plan, with no major issues and the contingency has not been used. The construction and commissioning of the plant were completed in June 2015 and October 2015 respectively.

#### Processing phase

In order to establish the proof of concept of the Corporation's chlorination technology, the Corporation established a consortium agreement with SDTC and Dundee Precious Metals Inc. ("DPM") in June 2013. SDTC agreed to financially assist the Corporation in developing and demonstrating its technology by contributing up to \$5 million upon meeting certain conditions.

DPM agreed to supply concentrate, from its Bulgarian mining operations for processing. Processing commenced at the demonstration plant in November 2015 and was completed in March 2016. Under the terms of the arrangement with DPM, costs associated with providing the concentrate to the Corporation were absorbed by DPM, and all extracted metals from the concentrate will be returned to DPM.

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DST processed 170 tonnes of a gold and copper bearing refractory concentrate and the extraction yield obtained by the DST technology was 14% higher on average than cyanidation. The Corporation has also submitted these results to the ETV external validation program, in order to obtain an independent review. ETV issued its certification in June 2016.

The certification confirms that the DST *Cyanide-Free Gold Extraction Process* successfully extracted an average of 81%, with a maximum of 90%, of the gold content from a refractory gold bearing pyrite concentrate, while the cyanide extraction process achieved an average of 71% on the same material. This material is from a jurisdiction which has restricted the use of cyanide within its territory. This refractory concentrate was chosen due to the difficulty of extracting its gold using conventional processes, hence demonstrating the effectiveness of the DST gold process.

The processing of concentrate also allowed the Corporation to confirm the efficiencies of the components of the demonstration plant which responded well and according to the expectations. In that regards, the oxidation circuit successfully removed 99% of the sulfide content while keeping full control over the gases. The chlorination circuit delivered the anticipated copper and gold recoveries which were 14% higher on average than cyanide yields on same samples. Finally, the process successfully demonstrated its closed circuit operation with the recycling and regeneration of the reagents and all solid residues met or exceeded environmental norms.

The performance test sampling was conducted at DST's demonstration plant according to the test protocol developed by STS Canada Inc. and under its supervision. Samples were submitted for analysis to SGS Canada – Mineral Services – Lakefield, an accredited laboratory.

In addition to the processing of concentrate received from DPM, in September 2015, the Corporation announced that it had entered into an agreement with Empresa Nacional de Minería, Chile (ENAMI) for the processing of two tonnes of gold concentrate using the chlorination process. In March 2016, the Corporation announced that through the chlorination process, it achieved a gold recovery of 98.8% from its piloting campaign on the ENAMI concentrate. These results enabled DST to move forward on to the next stage of the arrangement with ENAMI, which involved the processing of a larger quantity of material at the demonstration plant starting August 2016.

In December 2016, the Corporation completed the processing of 40 tons of this complex material which contained an estimated 110 g/tonne of gold, copper grades of 9.0% and mercury content in excess of 700 g/tonne.

The complex material is difficult to process using conventional processing methods without the associated environmental liabilities and metallurgical challenges (Refer to September 23, 2015, March 1, 2016 and May 31, 2016 press releases).

A gold extraction yield of 97.3% has been achieved at the outlet of the chlorination reactor with full environmental controls over the sulfur and mercury content, which were both effectively removed during processing to a level of 99%.

The Corporation is in the final stages of completing the technical report related to this demonstration campaign. Management looks forward to beginning the technological economic study for the location of the first commercial Dundee Technologies plant.

Up to December 31, 2016, the Corporation has expended \$18.9 million towards the construction and operation of the demonstration plant.

#### **PILOT PLANT FOR THE ARSENIC STABILIZATION TECHNOLOGY**

During 2015, DST constructed a pilot plant for its proprietary arsenic stabilization process, which calls for the sequestration of the contaminants in a stable glass form.

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In February 2016, the Corporation entered into an agreement with an international gold mining and smelting company (the "Customer") to evaluate the feasibility of integrating DST stabilization process onsite at its smelter for arsenical matter produced by the Customer.

The first stage of the agreement, completed during the third quarter of 2016, confirmed, on a pilot plant scale, that the technology can be successfully implemented for stabilization of arsenic trioxide targeted by the Customer. During the course of the piloting program, DST reached optimal processing conditions for the successful vitrification of arsenical matter provided by the Customer. Several piloting runs allowed for arsenical material to be processed and to generate 670 kg of vitrified arsenical matter. This program demonstrated the stability of the produced glass, which contained up to 20% arsenic, by passing the United States Environmental Protection Agency's (EPA) toxicity characterization leaching procedure (TCLP, Method 1311) with 2.09 mg of arsenic per litre (limit of 5 mg/L).

DST is currently completing the advanced engineering for a small onsite industrial plant and is in discussions with the Customer to evaluate the installation of an arsenic vitrification plant.

In addition to the use of this process in stabilization activities, DST has developed expertise for the processing of arsenical concentrates. Arsenic, contained in the arsenopyrite, is removed by pyrolysis and combined with DST's proprietary stabilization process. This pre-treatment will allow for the level of arsenic in the mineral concentrate to be acceptable for traditional smelters without the need for costly penalties currently imposed.

In February 2017, DST entered into a contract with a Canadian exploration company to conduct a pilot scale program on samples from their gold project located in the Abitibi region of Quebec. Under the terms of this contract, DST has received a five-tonne sample of representative material from the project. The goal is to confirm that complex refractory gold concentrates can undergo a pre-treatment to remove arsenic and create a mineral concentrate as well as undergo gold and base metals using DST's chlorination process. This test program will be overseen by an independent consulting firm with the view of including the results from the test program in the company's updated Preliminary Economic Assessment.

### **BUSINESS STRATEGY**

The growing pressure from communities and government authorities over the use of cyanide in various jurisdictions around the world is forcing developing gold projects to seek alternative processes that can extract the gold without the environmental liabilities associated with cyanide, while maintaining control over the deleterious elements such as mercury, antimony and arsenic.

DST offers a competitive alternative to the cyanidation process. The technology is at the forefront of the mining industry's innovative extraction processes and caters to the worldwide growing need for extractive technologies capable of processing refractory and arsenic bearing material. This alternative provides DST leverage to access quality material including material from metallurgical or environmentally constrained deposits.

DST's business plan is focused on controlling both of its technologies and leveraging them to become a major player in the industry. The Corporation has a unique opportunity to emerge as a major stakeholder in multiple mining projects. In the immediate term, DST is focused on advancing its discussions with major gold and copper producing companies on building alternative processing and stabilization processes. The Corporation is currently processing test material for a number of customers. Assuming successful results, the next step is to negotiate the business terms with those customers for commercializing its technologies.

The technology that the Corporation has developed with respect to complex deposits will allow for the development and or advancement of mining projects that would not be viable without its patented technology. DST has identified over 100 gold projects that could face significant concerns due to cyanide use, environmental and/or metallurgical constraints. These include some of the largest gold projects on the planet. The commercialization of the Corporation's technology would enable mining companies to advance

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those projects which are currently constrained because of the toxic nature of their deposits and discussions have commenced with a number of mining companies to help advance these otherwise stranded deposits.

### INFORMATION ON EQUITY

The authorized capital of the Corporation consists of an unlimited number of subordinate voting shares and multiple voting shares, without nominal or par value. The holders of subordinate voting shares are entitled to one vote for each subordinate voting share and the holders of multiple voting shares are entitled to ten votes for each multiple voting share. The holders of subordinate voting shares and multiple voting shares shall be entitled to receive and to participate equally as to dividends, share for share, in an equal amount on all the subordinate voting shares and multiple voting shares at the time outstanding. The holder of multiple voting shares shall be entitled at any time and from time-to-time to have any or all of the multiple voting shares converted into subordinate voting shares based on one subordinate voting share for each multiple voting share. In all other respects, the holders of subordinate voting shares and multiple voting shares shall rank equally and the same rights and restrictions.

	<b>March 23, 2017</b>
Subordinate voting shares issued	297,090,816
Options	23,902,500
<b>Total – fully diluted subordinate voting shares</b>	<b>320,993,316</b>

  

<b>Multiple voting shares issued</b> (each multiple voting shares have 10 votes)	<b>50,000,000</b>
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- (1) At March 23, 2017, Dundee owned 178,068,497 subordinate voting shares of the Corporation (60%) and all of the outstanding multiple voting shares.

### STOCK OPTION PLAN

The Board of Directors of the Corporation has full and final discretion to designate the persons who are to be granted options and to determine such number of options as well as their exercise price and vesting period. The exercise price shall not be less than that permitted under the rules of any stock exchange on which the subordinate voting shares are listed. The purpose of the stock option plan is to serve as an incentive for the directors, officers, employees and service providers who will be motivated by the Corporation's success as well as to promote ownership of common shares of the Corporation by these people. There is no performance indicator relating to profitability or risk attached to the plan.

### FINANCING ACTIVITIES

#### Year ended December 31, 2016

##### *IQ loan*

As part of the convertible debenture loan ("IQ Loan") approved in an amount of up to \$4,000,000, IQ advanced \$1,500,000 to the Corporation in April 2016 and \$600,000 in September 2016 bringing the total loan to \$4,000,000 as at December 31, 2016. During 2016, the Corporation paid \$167,835 in interest and capitalized an additional amount of \$80,568.

This loan was advanced to the Corporation during the construction and operation of its demonstration plant, based on the Corporation's liquidity needs, subject to a number of conditions.

The IQ Loan, which is evidenced by a secured convertible debenture, will mature in five years, bears interest at a rate of 8% per annum, payable quarterly, and can be converted after one year at the holder's option into subordinate voting shares of the Corporation at a conversion price equal to the closing market price of the shares on the day prior to conversion. After the first anniversary of the IQ Loan, the Corporation has the right to redeem the IQ Loan subject to a 10% premium. Starting October 1, 2016, interest is capitalized.

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The IQ Loan is secured by a hypothec, *pari passu* with Dundee's Loans and Canada Economic Development for Quebec Regions' ("CED") contribution, over all of the Corporation's property other than its intellectual property and is guaranteed by Dundee, in an amount of up to \$1.5 million.

In connection with the IQ financing, the Corporation has entered into an agreement with IQ granting IQ the right to appoint one member of the Board of Directors of the Corporation. Consequently, at the annual general meeting of the shareholders held in July 2016, Mr. Mario Jacob was elected as new member of the Board. He is a graduate from the Faculty of Law of Laval University and a member of the Quebec Bar since 1995. Mr. Jacob has more than twenty years of corporate finance, mergers and advisory experience and has been involved as lead advisor in numerous transactions including mergers and acquisition, going public transactions, financing and governance best practices implementation. Mr. Jacob has experience as board member of several public companies.

### *Short-term Loan from a Related Party*

In 2014, Dundee Resources Limited, a wholly owned subsidiary of Dundee, agreed to loan (the "Short-term Loan") up to \$6,000,000 to the Corporation. During 2015 and 2016, the aggregate amount of the loan facility was increased by \$1,650,000 and \$500,000 respectively for a total of \$8,150,000.

During 2016, an amount of \$300,000 was advanced bringing the total advance to \$7,950,000 as at December 31, 2016.

The secured loans bear interest at the rate of 12.68% per annum and mature on the earlier of May 31, 2017 and the date at which the Corporation raises the sum of \$10 million or greater by way of debt or equity.

### *Contribution Agreement*

Under an amended agreement dated October 12, 2016, the Corporation shall receive from CED \$397,000 repayable contribution (the "CED Contribution"). The CED Contribution will be used by the Corporation for the acquisition of equipment for its demonstration plant (the "Project") in Thetford Mines. Payments by CED will be made over the term of the Project, which must be completed at the latest by March 31, 2017. The CED Contribution is non-interest bearing, secured and repayable in equal monthly installments over seven years starting three years after the end of the Project. CED advanced \$324,575 in December 2016

The CED Contribution is secured by a hypothec, *pari passu* with Dundee's and IQ's loans, over all of the Corporation's property other than its intellectual property.

### *Bridge Loan*

On October 24, 2016, an unsecured bridge loan, payable on demand, of \$300,000 was advanced to the Corporation. The loan was partially reimbursed in December 2016 for a total amount of \$160,000 including interest of \$3,360. The outstanding loan of \$140,000 as at December 31, 2016, and accrued interest of \$4,613 was reimbursed in January 2017.

In August 2016, an unsecured bridge loan, payable on demand, of \$200,000 was advanced to the Corporation. The loan was reimbursed in September 2016 including interest of \$3,000.

### Year ended December 31, 2015

#### *Private Placement*

In May 2015, the Corporation completed a \$5 million financing with IQ consisting of the IQ Loan in an amount of up to \$4 million and the issuance of 15,384,615 subordinate voting shares for proceeds to the Corporation of \$1 million. The financing was used to fund completion and operation of the demonstration plant, and for working capital purposes. Transaction costs of \$64,876 relating to the equity financing consisted mainly of legal fees.

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### *Warrants Exercise*

On July 9, 2015, all of the 50,000,000 warrants held by Dundee have been exercised for an equal number of subordinate voting shares at a price of \$0.10 per warrant, for aggregate proceeds to the Corporation of \$5,000,000.

### *IQ Loan*

IQ advanced \$1.9 million to the Corporation in 2015.

Transaction costs for \$92,201 incurred in connection with the IQ loan consist mainly of legal fees.

### *Short-term Loan from a Related Party*

During 2015, an amount of \$2 million was advanced to the Corporation bringing the total advance to \$7,650,000 as at December 31, 2015.

### *Bridge Loans*

In 2015, two unsecured bridge loans, payable on demand, of \$500,000 in aggregate, were advanced to the Corporation. The loans were reimbursed in 2015, including interest of \$10,000 in aggregate.

## LIQUIDITY AND WORKING CAPITAL

On December 31, 2016, the working capital of the Corporation was at negative \$9,693,799 (at negative \$7,454,566 as at December 31, 2015). This working capital deficiency includes a \$10,299,685 (\$9,027,586 as at December 31, 2015) short-term loan (principal and accrued interest) from Dundee. Management estimates that the Corporation will not have sufficient funds to meet its obligations and budgeted expenditures through to December 31, 2017. The Corporation will therefore periodically have to raise additional funds to continue operations. The Corporation is pursuing financing alternatives to fund its operations and to continue its activities as a going concern. Although there is no assurance that the Corporation will be successful in these actions, management believes, based on previous fund raising experience, that it will be able to secure the necessary financing through the issuance of debt or new equity in public or privately negotiated equity offering. While it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

## DISCUSSION AND ANALYSIS OF OPERATIONS

The Corporation reported a loss of \$4,430,172 in 2016 compared with a loss of \$7,648,493 in 2015.

For the first time in its history, the Corporation reported revenues starting in the second quarter of 2016. Revenues totalled \$1,198,931 during 2016 with related cost of \$612,075 recorded under other operating expenses.

The Corporation's total operating expenses amounted to \$4,313,172 in 2016 as compared to \$6,614,172 in 2015.

### Revenues

During 2016, the Corporation has processed test material for a number of customers including major gold and copper producers as well as exploration companies.

DST provided its technical expertise and its facilities to these companies to evaluate the development of their projects using the Corporation's Thetford facility including its chlorination process for precious metal extraction and/or its arsenic stabilization process. The technical services may serve to demonstrate the efficiency of the Corporation's technologies at the laboratory and/or pilot scales on specific projects in need of viable processing alternative and initiate engineering studies required for an industrial implementation.

### Operating expenses

The major components of the operating expenses are as follows:

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### Research and development

During 2016, the Corporation incurred \$3,779,408 (2015 – \$5,726,345) in research and development expenses in respect of its chlorination and arsenic stabilization processes. These costs relate primarily to the operation of the chlorination process demonstration plant in 2016 and its construction in 2015.

Since 2013, the Corporation has spent a total of \$18,906,172 for the construction and operation of the demonstration plant of which a total of \$2,917,986 was incurred during 2016. The remaining expenses relate to research activities conducted in the pilot plant and the laboratory.

The Corporation periodically receives financial assistance under government incentive programs. Assistance that compensates DST for expenses incurred are normally recognized as a reduction to research and development expense on a systematic basis in the same periods in which the expenses are incurred. On a net-of-assistance basis, research and development costs represented \$2,311,027 (2015 – \$4,402,212).

	2016	2015
	\$	\$
Chlorination process	3,564,100	5,548,672
Arsenic stabilization process	215,308	177,673
Research and development expenses	3,779,408	5,726,345
Government subsidy on convertible debenture	(417,087)	(257,050)
Government assistance and tax credits	(1,051,294)	(1,067,083)
<b>Research and development expenses, net</b>	<b>2,311,027</b>	<b>4,402,212</b>

	2016		2015	
	Chlorination	Arsenic	Chlorination	Arsenic
	\$	\$	\$	\$
Wages and compensation	1,424,405	174,547	1,594,173	74,570
Contractors	539,157	17,025	1,228,774	57
Building maintenance	523,975	994	582,179	4,500
Equipment	452,018	13,703	1,059,629	39,346
Consumables	275,713	9,039	467,171	-
Other	348,832	-	616,746	59,200
<b>Research and development expenses</b>	<b>3,564,100</b>	<b>215,308</b>	<b>5,548,672</b>	<b>177,673</b>

### Professional and consulting fees

	2016	2015
	\$	\$
Legal	107,595	114,062
Audit, audit related work and tax compliance	126,069	182,616
Accounting	178,502	322,611
Consulting administration	229,930	240,000
Consulting geology	-	25,434
Business development	-	101,616
<b>Professional and consulting fees</b>	<b>642,096</b>	<b>986,339</b>

Accounting: the Corporation hired the Controller, paid through a consulting company until July 2015, as a full-time employee. His fees were recorded under *Professional fees - Accounting* until July 2015 as compared to *Wages and Compensation* after this date.

Consulting administration fees relates to the President and Chief Executive Officer's (CEO) compensation. Refer to the "Related Party Transaction" section for further details.

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Consulting geology consist of fees and services rendered in relation with the testing of minerals from Central America. The fees were from a company controlled by the President of Nichromet Dominicana and Nichromet Guatemala. In addition, business development expenses relate mainly to development activities in Central and South America and include fees paid to the General Manager of Nichromet Guatemala for business development in Central America.

During the fourth quarter of 2015, the Corporation sold its three foreign subsidiaries, Nichromet Guatemala, Rio Nickel and Nichromet Dominicana, for a nominal amount and the development activities of the Corporation are conducted directly by the head-office's management.

### Administrative expenses

	2016	2015
	\$	\$
Insurance	220,569	128,905
Rent	103,689	118,832
Website and technical support	70,600	68,471
Transportation and accommodation	119,846	212,504
Telecommunications and others	82,388	188,108
<b>Administrative expenses</b>	<b>597,092</b>	<b>716,820</b>

Insurance premium has increased after the start of operations at the chlorination demonstration plant and the arsenic pilot plant.

Transportation and accommodation expenses increased significantly in 2015 to conduct business development activities in South America, in particular in Chile, Argentina and Peru in order to secure feed material for the demonstration plant, and to implement the DST technology under arrangements with mine owners. In 2016, management of the Corporation focused its activities on completing the demonstration phase of the chlorination technology and the piloting of the arsenic stabilization technology.

The decrease in telecommunications and others is mainly due to the closing of the Tyranite camp on the Corporation's Shining Tree mining assets at the end of 2015.

### Wages and compensation

	2016	2015
	\$	\$
Employees	378,414	299,072
Director fees	94,500	-
<b>Administrative expenses</b>	<b>472,914</b>	<b>299,072</b>

The increase in wages and compensation is due to:

- Effective January 1<sup>st</sup>, 2016, non-executive and independent directors and chairs of committees were paid fees for an amount of \$94,500 (Nil in 2015);
- The Corporation hired a full-time Controller in August 2015.

### Reversal of impairment of exploration and evaluation assets

In October 2016, the Corporation received from a third party an offer, for an amount of \$400,000, to purchase 100% of its Shining Tree mining assets that the Corporation had previously impaired in 2014. The Corporation recorded a reversal of impairment for an equivalent amount as at December 31, 2016.

### Other Gains and Losses

During 2016, finance costs relates to interest expenses on the Dundee short-term loan (\$972,099), the IQ Loan (\$167,835 paid, \$80,568 capitalized and \$91,109 accretion expense), the CED contribution agreement (\$1,105 accretion expense), the bridge loan (\$10,973) and other (\$4,302). During 2015, finance costs relates

# DUNDEE SUSTAINABLE TECHNOLOGIES INC.

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to interest expenses on the Dundee short-term loan (\$922,114), the IQ Loan (\$71,211), the bridge loans (\$10,000) and other (\$28,287).

### SELECTED ANNUAL INFORMATION

The following table sets forth selected historical financial information for the Corporation for the years ended December 31, 2016, 2015 and 2014.

	2016	2015	2014
	\$	\$	\$
Total revenue	1,198,931	Nil	Nil
Net loss and comprehensive loss	4,430,172	7,648,493	31,178,787
Basic and diluted net loss per share	(0.01)	(0.02)	(0.12)
Total assets	6,464,003	6,863,613	5,413,918
Total non-current liabilities	3,759,256	1,578,986	Nil
Distribution cash dividend	Nil	Nil	Nil

### SELECTED QUARTERLY INFORMATION

The following table sets forth selected historical financial information for the Corporation from the last eight quarters. Such information is derived from the Corporation's interim unaudited financial statements prepared in accordance with IFRS.

	Q4-16	Q3-16	Q2-16	Q1-16
	\$	\$	\$	\$
Total revenue	34,499	610,680	553,752	Nil
Net loss and comprehensive loss	237,461	1,068,247	1,365,395	1,759,069
Basic and diluted net loss per share	0.001	0.003	0.004	0.005

	Q4-15	Q3-15	Q2-15	Q1-15
	\$	\$	\$	\$
Total revenue	Nil	Nil	Nil	Nil
Net loss and comprehensive loss	2,257,245	1,687,264	1,904,649	1,799,335
Basic and diluted net loss per share	0.007	0.005	0.006	0.006

For the first time in its history, the Corporation reported revenues starting in the second quarter of 2016.

The variation in net loss and comprehensive loss is mainly attributable to the level of research and development activities from one quarter to the other.

### FOURTH QUARTER

#### *Operating Activities*

The Corporation reported a loss of \$237,461 for the fourth quarter of 2016 ("Q4-2016") compared to a loss of \$2,257,245 the same period last year ("Q4-2015"). The main reasons for the variance are:

- A reversal of impairment of exploration and evaluation expenses of \$400,000 relating to the Shining Tree mining assets in Q4-2016;
- During Q4-2016, research and development expenses totalled \$739,357 (\$1,528,827 in Q4-2015) mainly for the operation of the demonstration plant and the tax credits, SDTC contribution and government subsidy amounted to \$832,958 (\$98,724 in Q4-2015).
- Revenues of \$34,499 during Q4-2016 from service contracts compared to Nil in Q4-2015.

#### *Financing Activities*

The financing activities of the Corporation during Q4-2016 were as follow:

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- a) Short-term Loan from a Related Party – During Q4-2016, an amount of \$300,000 was advanced bringing the total advance to \$7,950,000 as at December 31, 2016;
- b) Contribution Agreement – As part of the CED Contribution agreement, the Corporation received and advance of \$324,575 in December 2016;
- c) Bridge Loan – On October 24, 2016, an unsecured bridge loan, payable on demand, of \$300,000 was advanced to the Corporation. The loan was partially reimbursed in December 2016 for a total amount of \$160,000 including interest of \$3,360.

The Corporation did not complete a financing in Q4-2015.

### OUTLOOK FOR 2017

The Company is moving towards the commercialization of its technologies and seeking to maximize the value of all of its assets to accelerate this growth. The Corporation has four initiatives that it will execute to ensure success.

#### *Chlorination Process:*

The processing of materials from ENAMI was completed in December 2016 and the Corporation is finalizing the Demonstration Campaign Report. The processing of these materials continued to establish the proof of concept of the Corporation's chlorination process for different ore and concentrate streams. The Corporation is looking forward to defining the location and to secure the financing to begin the technical economic study for a 150 tonne per day concentrate processing facility.

#### *Arsenic Stabilization Process:*

The Corporation is in the final stages of completing the engineering phase of its first onsite small industrial scale arsenic vitrification plant. Assuming acceptance by the Customer during the second quarter of 2017, DST plans to deliver the plant to the Customer by late 2017 with operations to begin in early 2018.

#### *Arsenopyrite:*

The Corporation has recently signed a contract to further validate its technologies on more complex ores and is pilot testing a five tonne sample of complex refractory ore. Successful completion of this project, expected in the second quarter of 2017, will open up a number of deposits to development that were previously stranded.

#### *Technical Services:*

With the completion of the two gold chlorination demonstration campaigns, the Corporation owns a state of the art crushing, grinding, mineral processing (hydrometallurgy and pyrometallurgy) facility, available for test programs at the laboratory and up to thousands of tonnes scale Management is in discussions with numerous parties with respect to specific projects that could maximize the value of our Thetford facility.

Management estimates that the Corporation will have to raise approximately \$2 million to fund its operations and to continue its activities in 2017.

Although there is no assurance that the Corporation will be successful in these actions, management believes, based on previous fund raising experience, that it will be able to secure the necessary financing through the issuance of debt or new equity in public or privately negotiated equity offering. While it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

### OFF BALANCE SHEET ARRANGEMENTS

The Corporation did not enter into any off-balance sheet arrangements in 2016 and 2015.

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### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The contractual obligations of the Corporation include lease payments for the Thetford Mines facilities and the head office in Montreal (Refer to Note 17.2 to the annual consolidated financial statements for the years ended December 31, 2016 and 2015).

### RELATED PARTY TRANSACTIONS

In addition to the transactions discussed in the financing and investing sections, details of related party transactions with the officers and directors of the Corporation and companies they control are as follows:

	2016	2015
	\$	\$
Professional and consulting fees		
Administration <sup>(1)</sup>	229,930	240,000
Legal <sup>(2)</sup>	34,411	51,968
Accounting <sup>(3)</sup>	176,194	314,065
Geology <sup>(4)</sup>	-	15,922
Professional <sup>(5)</sup>	-	19,518
Research and development <sup>(6)</sup>	-	5,040
Wages and compensation <sup>(7)</sup>	94,500	-
	<b>535,035</b>	<b>646,513</b>

- (1) Fees from a private company controlled by Brian Howlett, President and CEO from August to December 2016, for a total amount of \$69,930, in addition to fees charged by Dundee for the compensation of John W. Mercer, former President and CEO until August 2016 for a total amount of \$160,000 (\$240,000 in 2015).
- (2) Fees paid to a private company controlled by Luce Saint-Pierre, Corporate Secretary for a total amount of \$29,896 (\$48,086 in 2015) in addition to an amount of \$4,515 in legal fees paid to a law firm of which Brahm Gelfand, a Director is a counsel (\$3,882 in 2015).
- (3) Remuneration of Vatche Tchakmakian, Chief Financial Officer, in the amount of \$144,244 from a private company controlled by him (\$179,441 in 2015). In addition, his company charged fees of \$31,950 for support staff in respect of accounting, bookkeeping and administrative services (\$134,624 in 2015).
- (4) Fees from a company controlled by Salvador Brouwer, the President of Nichromet Dominicana and Nichromet Guatemala for his services until February 2015 in relation with the testing of minerals from Central America.
- (5) Fees paid to Alfredo Galvez, the General Manager of Nichromet Guatemala, until February 2015 for business development in Central America.
- (6) Fees from a company controlled by Jean-Marc Lalancette, Director and Vice-President, Research and Development, are disclosed as a related party until February 2015, date of his resignation as Director and Officer of the Corporation.
- (7) Directors' fees.

### SUBSEQUENT EVENTS

#### Stock options:

On February 3, 2017, the Corporation granted a total of 13,500,000 stock options to its directors, officers and employees. These options are exercisable at \$0.05 per share, vested at the grant date and expire on February 3, 2022.

#### Bridge loan:

The outstanding bridge loan of \$140,000 as at December 31, 2016, and accrued interest of \$4,613 was reimbursed in January 2017.

#### Short-term loan from Dundee:

On February 2, 2017, an additional amount of \$200,000 was advanced to the Corporation.

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### **ACCOUNTING POLICY CHANGES, CRITICAL ESTIMATES, JUDGMENTS AND ASSUMPTIONS**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. There is a full disclosure and description of the Corporation's critical accounting policies, estimates, judgments, assumptions in the financial statements as at December 31, 2016 in notes 1, 2 and 3.

### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Corporation is exposed to various financial risks resulting from both its operations and its investments activities. The Corporation does not enter into financial instrument agreements including derivative financial instruments for speculative purposes. The Corporation's main financial risk exposure and its financial risk management policies are disclosed in Note 18 to the annual consolidated financial statements for the years ended December 31, 2016 and 2015.

### **RISKS AND UNCERTAINTIES**

The technology is new and the Corporation has limited history of operations that, to date has consisted primarily of research and development. The Corporation has generated no revenue from its core technologies and does not have experience in selling or marketing these technologies. The technology has not gained significant market exposure or demonstrable market acceptance yet. Whether the Corporation can successfully manage the transition to a commercial enterprise will depend upon a number of factors, including expanding the sales and marketing capabilities, as well as establishing relationships with strategic partners. Given the absence of clear market acceptance with respect to this line of products, there can be no assurance as to the achievability of projected market penetration rates and associated sales revenues.

No Independent Evaluation of the Process.

While the Corporation's research with respect to the technology has, in the opinion of management, been validated in various applications and while various third parties (without limitation, Dundee Precious Metals) have carried out due diligence procedures to their satisfaction, there has been no independent evaluation of the Process. There can be no assurance that we will be able to achieve our growth strategy and bring the Process to commercialization. Our inability to bring the process to commercialization will have a material adverse effect on our operations.

#### Intellectual Property

The Corporation relies on patents, trade secrets, trademarks and copyright laws to protect its intellectual property. The patents to which the Corporation currently has rights expire between 2022 and 2034. The Corporation's present or future-issued patents may not protect the Corporation's technological leadership, and the Corporation's patent portfolio may not continue to grow at the same rate as it has in the past. Moreover, the Corporation's patent position is subject to complex factual and legal issues that may give rise to uncertainty as to the validity, scope and enforceability of a particular patent. Accordingly, there is no assurance that: (a) any of the patents owned by the Corporation will not be invalidated, circumvented, challenged, rendered unenforceable; or (b) any of the Corporation's pending or future patent applications will be issued with the breadth of claim coverage sought by the Corporation, if issued at all. In addition, effective patent, trade secret, trademark and copyright protection may be unavailable, limited or not applied for in certain countries.

The Corporation also seeks to protect its proprietary intellectual property, including intellectual property that may not be patented or patentable, in part by confidentiality agreements and, if applicable, inventors' rights agreements with strategic partners and employees. The Corporation can provide no assurance that these agreements will not be breached, that the Corporation will have adequate remedies for any breach, or that such persons or institutions will not assert rights to intellectual property arising out of these relationships.

# **DUNDEE SUSTAINABLE TECHNOLOGIES INC.**

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Management does not believe the processes infringe on the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Corporation with respect to current or future products or processes. Dealing with any such claims, with or without merit, could be time consuming, result in costly litigation, or require the Corporation to enter into further royalty or licensing agreements, which may or may not be available on terms acceptable to the Corporation. The failure to do any of the foregoing may have a material adverse effect on the Corporation.

### Competition

The Corporation competes with other companies to develop products and services designed to extract precious and base metals. Many of these other companies have substantially greater technical and financial resources than we do. There can be no assurance that developments by others will not materially adversely affect the competitiveness of the Corporation.

The mining industry is characterized by extensive research efforts and is going through a period of rapid technological change. Competition can be expected to increase as technological advances are made and commercial applications for extraction products and services increase. Competitors of the Corporation may use different technologies or approaches to develop products and services similar to products and services which the Corporation is seeking to develop, or may develop new or enhanced products and services that may be more effective, less expensive, safer or more readily available before the Companies obtain approval of their products and services. There can be no assurance that the Corporation's products and services will compete successfully or that research and development will not render the Companies' products and services obsolete or uneconomical.

### Impact of Unfavourable Economic and Political Conditions and Other Developments and Risks.

Unfavourable global, domestic or regional economic or political conditions and other developments and risks could negatively affect the Corporation's business. For example, unfavourable changes related to interest rates, rates of economic growth, fiscal and monetary policies of governments, inflation, deflation, consumer credit availability, consumer debt levels, tax rates and policy, unemployment trends, commodity prices, oil prices, and other matters that influence, confidence and spending could adversely impact our business and results of operations. In addition, unstable political conditions or civil unrest, including terrorist activities and worldwide military and domestic disturbances and conflicts, may disrupt commerce and could have a material adverse effect on our business and results of operations.

### Key Personnel

The Corporation's management team of seasoned and committed industry veterans has achieved success in developing the Corporation's business. The Corporation's continued success and the execution of its growth strategy will depend, in part, on the continued service of this management team.

The Corporation's management team is composed of a relatively small group of senior executive officers. The loss of the technical knowledge, management expertise and knowledge of the Corporation's operations of one or more members of the team could result in a diversion of management resources, as the remaining members of management would need to cover the duties of any senior executive who leaves the Corporation and would need to spend time usually reserved for managing the Corporation's business to search for, hire and train new members of management. The loss of some or all of the Corporation's management team could negatively affect the Corporation's ability to develop and pursue its growth strategy, which could adversely affect its business and financial condition.

In addition, the market for key personnel in the industry in which the Corporation competes is highly competitive, and the Corporation may not be able to attract and retain key personnel with the skills and expertise necessary to manage its business.

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#### Ability to Attract and Retain Quality Employees

The Corporation's business is dependent upon attracting and retaining quality employees. If the Corporation were unable to hire, train and retain employees capable of developing the technology, the Corporation may not be able to maintain its competitive strength and realize on its growth strategy. The Corporation may be unable to commercialize its technology.

The Corporation's ability to meet its labour needs while controlling the costs associated with hiring and training new employees is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. Changes that adversely impact the Corporation's ability to attract and retain quality employees could adversely affect its business.

#### Material Disruption in Computer Systems

The Corporation relies extensively on its computer systems to process transactions, collect and summarize data and manage its business. Computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, acts of war or terrorism, and usage errors by our employees. If the Corporation's computer systems are damaged or cease to function properly, the Corporation may have to make a significant investment to fix or replace them, and may suffer loss of critical data and interruptions or delays in operations in the interim. Any material interruption in the computer systems could adversely affect the Corporation's business or results of operations and reputation.

#### Regulations

The Corporation is subject to customs, environmental and other laws. Although the Corporation undertakes to monitor changes in these laws, if these laws change without the Corporation's knowledge, it could be subject to fines or other penalties under the controlling regulations, any of which could adversely affect its business.

#### Insurance Related Risks

The Corporation maintains Directors and Officers Insurance, Liability Insurance, and Property Insurance. However, there is no guarantee that the insurance coverage will be sufficient, or that insurance proceeds will be timely paid to the Corporation. In addition, there are types of losses we may incur but against which the Corporation cannot be insured or which management believes are not economically reasonable to insure, such as losses due to acts of war and certain natural disasters. If the Corporation incurs these losses and they are material, the Corporation's business, operating results and financial condition may be adversely affected. In addition, certain material events may result in sizable losses for the insurance industry and materially adversely affect the availability of adequate insurance coverage or result in significant premium increases. Accordingly, the Corporation may elect to self-insure, accept higher deductibles or reduce the coverage.

#### Environment

The Corporation could be liable for environmental damages resulting from its research, development operations.

The Corporation's business is exposed to the risk of harmful substances escaping into the environment, resulting in personal injury or loss of life, damage to or destruction of property, and natural resource damage. Depending on the nature of the claim, the Corporation's current insurance policies may not adequately reimburse us for costs incurred in settling environmental damage claims, and in some instances, we may not be reimbursed at all.

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### Commodity Risk

Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The price of gold and precious metals may affect the profitability of the Corporation. Historically, such prices have fluctuated and are affected by numerous factors outside of the Corporation's control, including, but not limited to: industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities and other factors such as significant mine closures.

### Going Concern

Management estimates that the Corporation will not have sufficient funds to meet its obligations and budgeted expenditures through to December 31, 2017. The Corporation will therefore periodically have to raise additional funds to continue operations. The Corporation is pursuing financing alternatives to fund its operations and to continue its activities as a going concern. Although there is no assurance that the Corporation will be successful in these actions, management believes, based on previous fund raising experience, that it will be able to secure the necessary financing through the issuance of debt or new equity in a public or private equity offering. While it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

Although the referenced consolidated financial statements have been prepared using IFRS applicable to a going concern, the above-noted facts and circumstances cast significant doubt on the Corporation's ability to continue as a going concern.

The referenced consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, to the reported expenses and to the financial position classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material.

### FORWARD LOOKING STATEMENTS

DST's public communications may include written or oral forward looking statements. Statements of this type are included in this MD&A, and may be included in other filings with the Canadian regulators, stock exchanges or in other communications. All such statements constitute forward looking information within the meaning of securities law and are made pursuant to the "safe harbour" provisions of applicable securities laws. Forward looking statements may include, but are not limited to, statements about anticipated future events or results including comments with respect to the Corporation's objectives and priorities for 2017 and beyond, and strategies or further actions with respect to the Corporation, its products and services, business operations, financial performance and condition. Forward looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions concerning matters that are not historical facts. Such statements are based on current expectations of the Corporation's management and inherently involve numerous risks and uncertainties, known and unknown, including economic factors and those affecting the technology and resources industries generally. The forward looking information contained in this MD&A is presented for the purpose of assisting shareholders in understanding business and strategic priorities and objectives as at the periods indicated and may not be appropriate for other purposes.

A number of risks, uncertainties and other factors may cause actual results to differ materially from the forward looking statements contained in this MD&A, including, among other factors and without limitation, those referenced in the section above entitled "Risks and Uncertainties". The preceding list is not exhaustive of all possible risk factors that may influence actual results, and is compiled based upon information available as of the issuance date of this MDA.

Forward looking statements contained in this MD&A are not guarantees of future performance and, while forward looking statements are based on certain assumptions that the Corporation considers reasonable, actual events and results could differ materially from those expressed or implied by forward looking statements made by the Corporation. Prospective investors are cautioned to consider these and other

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factors carefully when making decisions with respect to the Corporation and not place undue reliance on forward looking statements. Circumstances affecting the Corporation may change rapidly. Except as may be required by applicable law, the Corporation does not undertake any obligation to update publicly or revise any such forward looking statements, whether as a result of new information, future events or otherwise.

### INFORMATION CONCERNING DUNDEE SUSTAINABLE TECHNOLOGIES

Additional information relating to Dundee Sustainable Technologies may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Corporation's website at [www.dundeetechnologies.com](http://www.dundeetechnologies.com).

March 23, 2017

*(s) Brian Howlett*

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Brian Howlett  
President and CEO

*(s) Vatche Tchakmakian*

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Vatche Tchakmakian  
CFO