

# **Dundee Sustainable Technologies Inc.**

Management's Discussion and Analysis

For the three months ended March 31, 2017

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# DUNDEE SUSTAINABLE TECHNOLOGIES INC.

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# DUNDEE SUSTAINABLE TECHNOLOGIES INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2017

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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 three months ended March 31, 2017.

This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements, including the notes thereto, as at and for the year ended December 31, 2016 (the "2016 Audited Consolidated Financial Statements"), together with the accompanying MD&A for the year then ended, and with the unaudited condensed interim consolidated financial statements of the Corporation as at and for the three months ended March 31, 2017 (the "March 2017 Interim Consolidated Financial Statements"), all of which have been prepared using 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 March 31, 2017, 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 complex 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, cost 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*

DST has constructed 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 is an attractive technique to permanently segregate arsenic and presents therefore opportunities to process materials considered too toxic to be exploited or stabilized using conventional mining methods.

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

Inherent in the commercialization of these processes is significant technology development risk. Each of these processes 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.

## **OPERATIONS DURING THE FIRST QUARTER OF 2017**

### Gold Chlorination Technology

During the first quarter of 2017, the Corporation completed the technical report for the processing of 40 tonnes of a complex gold concentrate containing an estimated 110 g/tonne of gold, copper grades of 9.0% and mercury content in excess of 700 g/tonne. A gold extraction yield of 97.3% was achieved at the outlet of the chlorination reactor, with full environmental controls over the sulfur and mercury content, with mercury effectively removed during processing to a level of 99%. The intention is to initiate an independent technical-economic study, designed with the objective of building DST' first commercial plant in partnership with a strategic partner.

At March 31, 2017, Dundee Technologies had expended \$19.1 million towards the construction and operation of its demonstration plant.

### Arsenic Stabilization Technology

The Corporation is in the final stages of completing the engineering of an onsite industrial scale demonstration plant to be delivered to a customer. DST anticipates that the construction will commence in the second quarter of 2017. This plant will be financed by the customer and will provide proof of the arsenic technology in an industrial environment.

### Arsenopyrite Process

In February 2017, Dundee Technologies 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, the Corporation received a five tonne sample of representative material. The objective of the program is to confirm that complex refractory gold concentrates can undergo a pre-treatment to create an arsenic depleted mineral concentrate, and subsequently undergo gold and base metals extraction using DST's chlorination process, or be sold on the concentrate market. This test program will be overseen by an independent consulting firm, with the view of providing the necessary data to the Canadian exploration company to update its 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.

# DUNDEE SUSTAINABLE TECHNOLOGIES INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 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>May 4, 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 (each multiple voting shares have 10 votes)</b>	<b>50,000,000</b>

(1) At May 4, 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.

## **DUNDEE SUSTAINABLE TECHNOLOGIES INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE THREE MONTHS ENDED MARCH 31, 2017

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On February 3, 2017, the Corporation granted a total of 13,500,000 stock options to its directors, officers, employees and a consultant. These options are exercisable at \$0.05 per share, vested at the grant date and expire on the fifth anniversary of their date of issuance. The fair value of options awarded is \$0.04 per share for a total based payment expenses of \$540,000.

#### **FINANCING ACTIVITIES**

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

###### *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 the three months ended March 31, 2017, an amount of \$200,000 was advanced bringing the total advance to \$8,150,000 as at March 31, 2017.

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.

###### *Bridge Loan*

In October 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. The outstanding bridge loan of \$140,000 and accrued interest of \$4,613 was reimbursed in January 2017.

##### Three months ended March 31, 2016

The Corporation did not complete a financing during the three months period ending March 31, 2016.

#### **LIQUIDITY AND WORKING CAPITAL**

On March 31, 2017, the working capital of the Corporation was at negative \$10,775,716 (at negative \$9,693,799 as at December 31, 2016). This working capital deficiency includes a \$10,754,935 (\$10,299,685 as at December 31, 2016) 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 March 31, 2018. 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 \$1,678,010 during the three months ended March 31, 2017 compared with a loss of \$1,759,069 in the same period of the prior year.

The Corporation reported revenues starting in the second quarter of 2016. Revenues totalled \$211,195 during the three months ended March 31, 2017 with related cost of \$269,707 recorded under other operating expenses.

The Corporation's total operating expenses amounted to \$1,514,554 during the three months ended March 31, 2017 as compared to \$1,461,062 in the same period of 2016.

# DUNDEE SUSTAINABLE TECHNOLOGIES INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2017

### Revenues

During the first quarter of 2017, the Corporation has processed test material for a number of customers including major gold 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:

### Research and development

During the first three months of 2017, the Corporation incurred \$379,695 (\$1,065,011 in the same period of 2016) 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.

Since 2013, the Corporation has spent a total of \$19,136,955 for the construction and operation of the demonstration plant of which a total of \$230,783 was incurred during the three months ended March 31, 2017. 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 \$261,499 (\$938,766 during the same period in 2016).

	Three months ended March 31,	
	2017	2016
	\$	\$
Chlorination process	328,101	993,233
Arsenic stabilization process	51,594	71,778
Research and development expenses	379,695	1,065,011
R&D service contracts with third parties	-	(94,221)
Government assistance and tax credits	-	(32,024)
SDTC Contribution	(58,371)	-
Government subsidy on long-term debt and convertible debenture	(59,825)	-
<b>Research and development expenses, net</b>	<b>261,499</b>	<b>938,766</b>

	Three months ended March 31,			
	2017		2016	
	Chlorination	Arsenic	Chlorination	Arsenic
	\$	\$	\$	\$
Wages and compensation	157,328	50,157	416,086	42,068
Contractors	63,804	987	132,807	14,393
Building maintenance	3,896	450	139,273	994
Equipment	567	-	134,669	5,613
Consumables	64,460	-	81,007	7,469
Other	38,046	-	89,391	1,241
<b>Research and development expenses</b>	<b>328,101</b>	<b>51,594</b>	<b>993,233</b>	<b>71,778</b>

# DUNDEE SUSTAINABLE TECHNOLOGIES INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2017

### Professional and consulting fees

	Three months ended March 31,	
	2017	2016
	\$	\$
Legal	16,021	24,695
Audit, audit related work and tax compliance	90,000	102,170
Accounting	31,770	49,731
Consulting administration	37,208	60,000
<b>Professional and consulting fees</b>	<b>174,999</b>	<b>236,596</b>

Accounting: Remuneration of the Chief Financial Officer, in the amount of \$25,200 from a private company controlled by him (\$40,731 in Q1-2016). In addition, his company charged fees of \$6,570 for support staff in respect of accounting, bookkeeping and administrative services (\$9,000 in Q1-2016).

Consulting administration fees relates to the President and Chief Executive Officer's (CEO) compensation. The remuneration of the actual President and CEO is based on an hourly rate. Until August 2016, fees charged by Dundee for the compensation of the former President and CEO was a fixed amount of \$20,000 per month.

### Administrative expenses

	Three months ended March 31,	
	2017	2016
	\$	\$
Insurance	55,833	51,629
Rent	49,422	30,577
Website and technical support	15,680	14,075
Transportation and accommodation	20,821	27,540
Telecommunications and others	19,343	23,161
<b>Administrative expenses</b>	<b>161,099</b>	<b>146,982</b>

The increase in rent is due to a timing difference in property taxes.

### Wages and compensation

	Three months ended March 31,	
	2017	2016
	\$	\$
Employees	84,995	94,498
Director fees	9,000	25,875
<b>Administrative expenses</b>	<b>93,995</b>	<b>120,373</b>

The variance in wages and compensation is due to:

- Non-executive and independent directors and chairs of committees were paid fees for an amount of \$9,000 during the three months ended March 31, 2017 (\$25,875 during the same period in 2016);
- Cost-cutting measures were implemented during the first quarter of 2017 compared to the same period of last year.

### Other Gains and Losses

During the three months ended March 31, 2017, finance costs relates to interest expenses capitalized on the Dundee short-term loan (\$255,250), the IQ Loan (\$80,493 capitalized and \$28,656 accretion expense), the CED contribution agreement (\$4,418 accretion expense), the bridge loan (\$1,967) and other (\$114). During the same period of 2016, finance costs relates to interest expenses capitalized on the Dundee short-term loan (\$244,499), the IQ Loan (\$37,785 paid and \$15,223 accretion expense).

# DUNDEE SUSTAINABLE TECHNOLOGIES INC.

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### 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.

	Q1-17	Q4-16	Q3-16	Q2-16
	\$	\$	\$	\$
Total revenue	211,195	34,499	610,680	553,752
Net loss and comprehensive loss	1,678,010	237,461	1,068,247	1,365,395
Basic and diluted net loss per share	0.005	0.001	0.003	0.004

	Q1-16	Q4-15	Q3-15	Q2-15
	\$	\$	\$	\$
Total revenue	Nil	Nil	Nil	Nil
Net loss and comprehensive loss	1,759,069	2,257,245	1,687,264	1,904,649
Basic and diluted net loss per share	0.005	0.007	0.005	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.

### 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 complex concentrate from Chile was completed in December 2016 and the Corporation finalized the Demonstration Campaign Report during the first quarter of 2017. 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 intention is to initiate an independent technical-economic study, designed with the objective of building DST' first commercial plant in partnership with a strategic partner.

#### *Arsenic Stabilization Process:*

The Corporation is in the final stages of completing the engineering of an onsite industrial scale demonstration plant to be delivered to a customer. DST anticipates that the construction will commence in the second quarter of 2017. This plant will be financed by the customer and will provide proof of the arsenic technology in an industrial environment.

#### *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.

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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 during the three months ended March 31, 2017 and 2016

#### **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 15.2 to the financial statements for the three months ended March 31, 2017).

#### **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 March 31, 2017 and 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**

Except as otherwise disclosed in this MD&A, there have been no significant changes to the nature and scope of the risks faced by the Corporation from those described in the 2016 MD&A of the Corporation. These business risks should be considered by interested parties when evaluating the Corporation's performance and its outlook.

#### **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.

# DUNDEE SUSTAINABLE TECHNOLOGIES INC.

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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 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).

May 4, 2017

(s) Brian Howlett

Brian Howlett  
President and CEO

(s) Vatche Tchakmakian

Vatche Tchakmakian  
CFO