



**Management Discussion and Analysis**

**For the year ended March 31, 2018**

(Expressed in Canadian dollars)

# **Cipher Resources Inc. (formerly Dorex Minerals Inc.)**

## **Management Discussion and Analysis**

### **For the year ended March 31, 2018**

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The following management discussion and analysis (“MD&A”) of the results of operations and financial condition of Cipher Resources Inc. (formerly Dorex Minerals Inc.) (the “Company” or “Cipher”) for the year ended March 31, 2018 and up to the date of this MD&A, should be read in conjunction with the accompanying audited financial statements for the year ended March 31, 2018, together with the notes thereto (the “Financial Report”).

All financial information in this MD&A is derived from the Company’s Financial Report prepared in accordance with International Financial Reporting Standards (“IFRS”) and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

The effective date of this MD&A is July 30, 2018.

## **DESCRIPTION OF COMPANY**

Cipher is a publicly-traded company incorporated under the laws of British Columbia, Canada. The Company’s shares are listed on the TSX Venture Exchange (“TSX-V”) and trade under the symbol CIFR. The corporate office of the Company is located at Suite 3002, 1211 Melville Street, Vancouver, BC, V6E 0A7 and the registered and records office of the Company is located at Unit 1 – 15782 Marine Drive, White Rock, BC, V4B 1E6.

## **OPERATIONAL HIGHLIGHTS**

During the year ended March 31, 2018 and up to the date of this MD&A, the Company completed the following:

- On June 5, 2017, the Company consolidated its shares on 10 old for 1 new basis. All share and per share amounts in this MD&A and the Financial Report has been retroactively restated.
- On June 7, 2017, the Company closed a non-brokered private placement through the issuance of 7,000,000 common shares at a price of \$0.11 per share for gross proceeds of \$770,000.
- On September 18, 2017, the Company changed its name from Dorex Minerals Inc. to Cipher Resources Inc. and the Company’s symbol changed from DOX to CIFR.
- By June 14, 2018, the Company closed a non-brokered private placement through the issuance of 41,779,000 units at a price of \$0.10 per unit for gross proceeds of \$4,177,900. Each unit consists of one common share and one common share purchase warrant exercisable into one common share at a price of \$0.15 for a period of three years.
- On May 5, 2018, the Company entered into agreements (the “Agreements”) with each of Endeavour Financial Limited (Cayman) (“Endeavour”) and with Cipher Research Ltd. (“Cipher Research”) to provide the Company with additional financial and technical expertise.

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Pursuant to the Agreements each of Endeavour and Cipher Research have been retained to:

- Conduct due diligence in connection with potential opportunities in the resource sector, including potential streams and royalties (“Business Investments”);
- Identify, structure and negotiate transactions for possible Business Investments; and
- Develop and assist in the execution of the Business Investments.

Entering into any Business Investment remains subject to the approval of the board of directors of the Company (the “Board”).

Each Agreement is for an initial term of four years, renewable for one-year terms annually thereafter unless terminated pursuant to its terms. Each of Endeavour and Cipher Research will be paid a management fee for its services equal to one-half of one percent (0.5%) per annum of the total amount of capital invested by the Company in Business Investments during that annual period; and three and three quarters percent (3.75%) of the gross profits received by the Company from Business Investments during that annual period, subject to a minimum monthly fee of \$12,500 per month.

In addition, the Company has entered into a relationship agreement with Endeavour, that provides them with anti-dilution provisions and the right to nominate three of six directors to the Board, for so long as Endeavour has a pro-rata interest above 9.9% (currently +12%) or the IM Agreement remains in force. Endeavour’s nominee directors on the Board are Guy-Philippe Bertin, Paul Mainwaring and George Pyper.

The Company also entered into a relationship agreement with Cipher Research, that provides them with the right to nominate three of six directors to the Board, for so long the IM Agreement with Cipher Research remains in force. Cipher’s nominee directors on the Board are Elena Tanzola, Jim Mustard and Duncan Gordon.

- On June 14, 2018, Dan O’Brien was appointed Chief Financial Officer and Doris Meyer was appointed Corporate Secretary.

Following the recently completed non-brokered private placement for \$4,177,900, the Company is well financed, with no debt and has recently strengthened the management team and board of directors.

**SELECTED ANNUAL INFORMATION**

Annual information for the last three years is outlined below:

	For the years ended March 31,		
	2018	2017	2016
Revenue	-	-	-
Total Assets	\$ 971,433	\$ 18,545	\$ 131,243
Total Liabilities	\$ 1,700,954	\$ 576,139	\$ 342,989

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Loss and comprehensive loss:			
(i) Total for the year	<b>\$ (907,973)</b>	<b>\$ (294,348)</b>	\$ (487,791)
(ii) Per share - basic and diluted	<b>\$ (0.08)</b>	<b>\$ (0.06)</b>	\$ (0.12)
Cash Dividends Declared	-	-	-

**RESULTS OF OPERATIONS**

During the year ended March 31, 2018, the Company recorded a net loss of \$907,973 (2017 – \$294,348).

The significant changes between the current year and the comparative year are discussed below:

**Consulting fees** for the year ended March 31, 2018 were \$311,200 compared to \$94,000 in the prior year. Consulting fees in the current year included \$45,000 (2017 - \$30,000) paid to the Chief Executive Officer, \$79,000 (2017 – 64,000) paid for the services of the Chief Financial Officer, Corporate Secretary and related services, and \$187,200 (2017 - \$Nil) paid to directors of the Company related to consulting services provided.

**Professional fees** for the year ended March 31, 2018 were \$60,012 compared to \$24,976 in the prior year. The increase in professional fees is primarily attributed to increased legal work associated with the share consolidation and name change as well as the preparation of certain debt settlement agreements.

**Property investigation costs** for the year ended March 31, 2018 were \$345,880 compared to \$Nil in the prior year. The Company engaged unrelated third parties to investigate various projects for acquisition or investment.

**Share-based compensation** for the year ended March 31, 2018 were \$26,391 compared to \$Nil in the prior year. During the year ended March 31, 2018, the Company granted 225,000 stock options to a consultant.

**Travel** for the year ended March 31, 2018 was \$114,873 compared to \$Nil in the prior year. During the year ended March 31, 2018, various Officers and Directors traveled on behalf of the Company in relation to potential financing activities.

**Interest expense** for the year ended March 31, 2018 was \$6,754 compared to \$13,115 in the prior year. During the year ended March 31, 2018, the Company accrued interest expense on various loans. As at the date of this MD&A, all loans outstanding as at March 31, 2018 have been settled in full.

**SELECTED QUARTERLY INFORMATION**

The following table sets forth certain quarterly financial information of the Company for the eight most recent quarters:

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	<b>4<sup>th</sup> Quarter Ended March 31, 2018</b>	<b>3<sup>rd</sup> Quarter Ended December 31, 2017</b>	<b>2<sup>nd</sup> Quarter Ended September 30, 2017</b>	<b>1<sup>st</sup> Quarter Ended June 30, 2017</b>
(a) Net loss	\$ (7,535)	\$ (235,378)	\$ (132,861)	\$ (532,199)
(b) Per share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.06)
(c) Total assets	\$ 971,433	\$ 55,495	\$ 42,202	\$ 54,274
	<b>4<sup>th</sup> Quarter Ended March 31, 2017</b>	<b>3<sup>rd</sup> Quarter Ended December 31, 2016</b>	<b>2<sup>nd</sup> Quarter Ended September 30, 2016</b>	<b>1<sup>st</sup> Quarter Ended June 30, 2016</b>
(a) Net loss	\$ (222,992)	\$ (20,028)	\$ (25,117)	\$ (26,211)
(b) Per share	\$ (0.04)	\$ (0.00)	\$ (0.01)	\$ (0.01)
(c) Total assets	\$ 18,545	\$ 110,620	\$ 109,780	\$ 131,769

#### **FOURTH QUARTER**

The Company began the quarter with \$7,412 cash. In the fourth quarter the Company expended \$718 on operating activities, net of working capital changes, and received \$924,700 from share subscriptions to end the quarter and the year with \$931,394 cash.

#### **LIQUIDITY AND CAPITAL RESOURCES**

The Company began the fiscal year with \$28 cash. During the year ended March 31, 2018, the Company expended \$620,727 on operating activities, net of working capital changes, and received \$1,552,093 net cash from financing activities to end at March 31, 2018 with \$931,394 cash.

As at March 31, 2018, the Company had a working capital deficiency of \$729,521 however not including share subscriptions of \$924,700 the Company had working capital of \$195,179. Subsequent to March 31, 2018, the Company closed a non-brokered private placement for gross proceeds of \$4,177,900. Management estimates that these funds will provide the Company with sufficient financial resources to carry out currently planned operations through the next twelve months.

#### **RELATED PARTY TRANSACTIONS**

##### **Key management compensation**

Key management includes members of the Board of Directors, the President and Chief Executive Officer, and the Chief Financial Officer. The aggregate compensation paid, or payable, to key management personnel during the year ended March 31, 2018 was \$271,200 (2017 - \$94,000).

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**Amounts due to related parties**

As at March 31, 2018, the Company owed \$322,041 (2017 - \$81,733) to certain related parties. All amounts are unsecured and non-interest bearing.

**SHARE CAPITAL**

Outstanding share data as at the date of this MD&A is as follows:

	Common Shares Issued and Outstanding	Common Share Purchase Warrants	Common Share Purchase Options
<b>Balance at March 31, 2018</b>	12,217,690	-	310,000
Private Placement *	41,779,000	41,779,000	-
Finders' warrants	-	895,920	-
<b>Balance at the date of this MD&amp;A</b>	<b>53,996,690</b>	<b>42,674,920</b>	<b>310,000</b>

\* A total of 5,150,000 units issued to Terra Capital Natural Resource Fund Pty Ltd. ("Terra Capital") as part of the private placement, and the proceeds corresponding thereto, have been placed into escrow pending receipt of approval from TSX-V with respect to personal information filed by the named controllers of Terra Capital in connection with Terra Capital becoming an insider of the Company (the "Escrow"). The units and proceeds held in the Escrow will be released on the TSX-V's approval and clearance following the completion of the review of the applicable personal information.

**USE OF ESTIMATES, JUDGMENTS AND ASSUMPTIONS**

The preparation of financial statements requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

- (i) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

- the calculation of share-based compensation;

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- fair value measurements for financial instruments; and
- the recoverability and measurement of deferred tax assets.

(ii) Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are, but are not limited to, the following:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty; and
- the classification of financial instruments.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

A number of new standards, amendments to standards and interpretations are not yet effective as at March 31, 2018 and have not been applied in preparing these financial statements. None of these are expected to have an effect on the Company's financial statements.

### *New standard IFRS 9 "Financial Instruments"*

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

### *New standard IFRS 16 "Leases"*

IFRS 16 "Leases" replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

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**FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

*Financial Instruments*

Financial instruments are classified into one of the following categories: fair value through profit and loss (“FVTPL”); held-to-maturity investments; loans and receivables; available-for-sale; or other liabilities. The carrying values of the Company’s financial instruments are classified into the following categories:

		<b>March 31,</b>	<b>March 31,</b>
		<b>2018</b>	<b>2017</b>
Cash	FVTPL	\$ 931,394	\$ 28
Receivables	Loans and receivables	40,039	18,517
Trade and other payables	Other financial liabilities	599,772	429,879
Loans payable	Other financial liabilities	176,482	146,260
Share subscriptions	Other financial liabilities	924,700	-

The Company’s financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company’s financial instruments consist of cash, other receivables, accounts payable, amounts due to related parties and loans payable. The fair value of the Company’s financial instruments approximate their fair value due to their short-term nature. Cash is recorded at fair value using Level 1 of the fair value hierarchy.

*Risk management*

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

*Credit Risk*

Credit risk is the risk of loss associated with a counter party’s inability to fulfil its payment obligations. The Company’s credit risk is primarily attributable to its cash balances. The Company manages its credit risk on bank deposits by holding deposits in high credit quality banking institutions in Canada. Management believes that the credit risk with respect to cash is low.

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*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to closely monitor cash forecasts and manage resources to ensure that there is sufficient capital in order to meet short-term business requirements. All of the company's financial liabilities are classified as current and are anticipated to be settled in the next sixty days.

*Interest Rate Risk*

The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rates on loans payable are fixed. The interest rate risks on cash and loans payable are not considered significant.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

This MD&A may include or incorporate by reference certain statements or disclosures that constitute "forward-looking information" under applicable securities laws. All information, other than statements of historical fact, included or incorporated by reference in this MD&A that addresses activities, events or developments that the Company or its management expects or anticipates will or may occur in the future constitute forward-looking information. Forward-looking information is provided through statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential" and similar expressions, or that events or conditions "will", "would", "may", "could" or "should" occur or continue. These forward-looking statements are based on certain assumptions and analyses made by the Company and its management in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances.

Although the Company believes such forward-looking information and the expectations expressed in them are based on reasonable assumptions, investors are cautioned that any such information and statements are not guarantees of future realities and actual realities or developments may differ materially from those projected in forward-looking information and statements. Whether actual results will conform to the expectations of the Company is subject to a number of risks and uncertainties, including those risk factors discussed under "Risk Management" in the above documents incorporated herein by reference. In particular, if any of the risk factors materialize, the expectations, and the predictions based on them, of the Company may need to be re-evaluated. Consequently, all of the forward-looking information in this MD&A and the documents incorporated herein by reference is expressly qualified by these cautionary statements and other cautionary statements or factors contained herein or in documents incorporated by reference herein, and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences for the Company.

Forward-looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made. Unless otherwise required by law, the Company expressly disclaims any intention and assumes no obligation to update or revise any forward-looking

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statements in the event that management's beliefs, estimates or opinions, or other factors, should change, whether as a result of new information, future events or otherwise, and the Company does not have any policies or procedures in place concerning the updating of forward-looking information other than those required under applicable securities laws. Accordingly, readers should not place undue reliance on forward-looking statements or forward-looking information.

**ADDITIONAL INFORMATION**

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