# FIRST ENERGY METALS LIMITED

(formerly Agave Silver Corp.)

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

**NOTICE TO READER**

These condensed interim financial statements have been prepared by the management of First Energy Metals Limited and have not been reviewed by the auditors of First Energy Metals Limited

# FIRST ENERGY METALS LIMITED
(formerly Agave Silver Corp.)
**Condensed Interim Statements of Financial Position**
(Expressed in Canadian dollars)
(Unaudited)

| | | **December 31, 2016** | | March 31, 2016 (Audited) |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash | **$** | **103,236** | $ | 774 |
| Amounts receivable and prepaid expenses (Note 5) | | **26,861** | | 13,889 |
| **Total Current Assets** | | **130,097** | | 14,663 |
| **Non-current Assets** | | | | |
| Deferred charge | | **10,938** | | 15,625 |
| Reclamation deposits | | **18,000** | | 18,000 |
| Exploration and evaluation assets (Note 6) | | **513,600** | | - |
| **Total Non-current Assets** | | **542,538** | | 33,625 |
| **Total Assets** | **$** | **672,635** | $ | 48,288 |
| **Liabilities** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable and accrued liabilities (Note 7) | **$** | **67,820** | $ | 23,371 |
| Due to related parties (Note 8) | | **358,635** | | 228,431 |
| Share subscription payable (Note 14b) | | **101,200** | | - |
| **Total Liabilities** | | **527,655** | | 251,802 |
| **Shareholders' Equity (Deficiency)** | | | | |
| Share capital (Note 10) | | **34,493,061** | | 33,973,547 |
| Warrants reserve | | **54,688** | | 54,688 |
| Share-based payments reserve | | **201,407** | | 71,009 |
| Deficit | | **(34,604,176)** | | (34,302,758) |
| **Total Shareholders' Equity (Deficiency)** | | **144,980** | | (203,514) |
| **Total Liabilities and Shareholders' Equity (Deficiency)** | **$** | **672,635** | $ | 48,288 |

**Nature of Operations and Going Concern** (Note 1)
**Subsequent Events** (Note 14)

Approved and authorized for issue on behalf of the board of directors on March 1, 2017 by:

/s/*Ronald M. Lang* — Director

/s/*Robert Paul* — Director

The accompanying notes are an integral part of these condensed interim financial statements.

# FIRST ENERGY METALS LIMITED

(formerly Agave Silver Corp.)

**Condensed Interim Statements of Operations and Comprehensive Loss**

(Expressed in Canadian dollars)

(Unaudited)

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Expenses** | | | | |
| Exploration costs(recovery) (Note 6) | **$ -** | $ - | **$ 260** | $ (3,017) |
| Finance fees | **-** | 25,000 | **-** | 25,000 |
| Foreign exchange | **-** | - | **-** | (336) |
| General and administrative (Note 9) | **10,583** | 10,025 | **26,182** | 37,626 |
| Professional fees | **48,549** | 12,569 | **79,651** | 38,786 |
| Consulting fees and benefits | **5,650** | 15,000 | **35,805** | 69,712 |
| Shareholder communications | **20,452** | 4,815 | **28,143** | 15,488 |
| Stock-based compensation (Note 10) | **-** | - | **131,412** | 25,873 |
| **Loss Before Other Income** | **(85,234)** | (67,409) | **(301,453)** | (209,132) |
| **Other Income** | | | | |
| Gain on settlement of debt (Note 10) | **-** | - | **-** | 129,121 |
| Interest | **-** | - | **35** | 707 |
| **Total Other Income** | **-** | - | **35** | 129,828 |
| **Net Loss and Comprehensive Loss for the Period** | **(85,234)** | (67,409) | **(301,418)** | (79,304) |
| **Loss per Common Share, Basic and Diluted** | **$ (0.00)** | $ (0.00) | **$ (0.00)** | $ (0.00) |
| **Weighted Average Number of Shares Outstanding – Basic and Diluted** | **36,587,429** | 31,981,559 | **33,531,392** | 30,235,223 |

The accompanying notes are an integral part of these condensed interim financial statements.

# FIRST ENERGY METALS LIMITED
(formerly Agave Silver Corp.)
**Condensed Interim Statements of Changes in Shareholders' Equity (Deficiency)**
**For the nine months ended December 31, 2016 and 2015**
(Expressed in Canadian dollars)
(Unaudited)

| | Common Shares Without Par Value | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Share Subscriptions | Warrant Reserve | Share-based Payments Reserve | Deficit | Total (Deficiency) Equity |
| **Balance, March 31, 2015** | 25,834,059 | $ 33,755,285 | $ 100,000 | $ 341,631 | $ 964,950 | $ (35,447,743) | $ (285,877) |
| Private Placement | 5,000,000 | 250,000 | (100,000) | -- | -- | -- | 150,000 |
| Shares issued for debt | 1,147,500 | 22,950 | -- | -- | -- | -- | 22,950 |
| Share-based payments | -- | -- | -- | -- | 25,873 | -- | 25,873 |
| Warrants expired unexercised | -- | -- | -- | (341,631) | -- | 341,631 | -- |
| Options forfeited/expired, unexercised | -- | -- | -- | -- | (427,800) | 427,800 | -- |
| Net loss for the period | -- | -- | -- | -- | -- | (79,304) | (79,304) |
| **Balance, December 31, 2015** | 31,981,559 | 34,028,235 | -- | -- | 563,023 | (34,757,616) | (166,358) |
| | | | | | | | |
| **Balance, March 31, 2016** | 31,981,559 | 33,973,547 | -- | 54,688 | 71,009 | (34,302,758) | (203,514) |
| Shares issued for mineral interests | 6,420,000 | 513,600 | -- | -- | -- | -- | 513,600 |
| Share-based payments | -- | -- | -- | -- | 131,412 | -- | 131,412 |
| Options exercised | 70,000 | 5,914 | -- | -- | (1,014) | -- | 4,900 |
| Net loss for the period | -- | -- | -- | -- | -- | (301,418) | (301,418) |
| **Balance, December 31, 2016** | **38,471,559** | **$ 34,493,061** | **$ --** | **$ 54,688** | **$ 201,407** | **$ (34,604,176)** | **$ 144,980** |

The accompanying notes are an integral part of these condensed interim financial statements.

# FIRST ENERGY METALS LIMITED

(formerly Agave Silver Corp.)

**Condensed Interim Statements of Cash Flows**

(Expressed in Canadian dollars)

(Unaudited)

| | For the nine months ended December 31, 2016 | 2015 |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operations** | | |
| Net loss for the period | **$ (301,418)** | $ (79,304) |
| Items not involving cash | | |
| Depreciation | **--** | 175 |
| Gain on settlement of debt | **--** | (129,121) |
| Share-based payments | **131,412** | 25,873 |
| Changes in non-cash operating assets and liabilities | | |
| Amounts receivable and prepaid expenses | **(12,972)** | 8,024 |
| Deferred charge | **4,687** | 4,687 |
| Deferred finance fee | **--** | 28,900 |
| Accounts payable and accrued liabilities | **44,449** | (51,713) |
| Accounts payable, related parties | **55,204** | 46,553 |
| **Cash used in operating activities** | **(78,638)** | (145,926) |
| **Financing activities** | | |
| Proceeds from financing | **--** | 250,000 |
| Proceeds from exercise of stock options | **4,900** | -- |
| Proceeds from loans from related party | **75,000** | -- |
| Share subscriptions | **101,200** | (100,000) |
| **Cash provided by financing activities** | **181,100** | 150,000 |
| **Increase in cash during the period** | **102,462** | 4,074 |
| **Cash, beginning of the period** | **774** | 2,827 |
| **Cash, end of the period** | **$ 103,236** | $ 6,901 |
| **Supplemental information** | | |
| Interest paid | **$ --** | $ -- |
| Income taxes paid | **$ --** | $ -- |
| Non-cash portion of warrants exercised | **$ --** | $ -- |
| Non-cash portion of options exercised | **$ 1,014** | $ -- |

The accompanying notes are an integral part of these condensed interim financial statements.

## 1. Nature of Operations and Going Concern

First Energy Metals Limited (the "Company") was incorporated on October 12, 1966 in the Province of British Columbia under the Business Corporations Act of British Columbia, and its principal business activity is the exploration of mineral properties in Canada. The Company's name change from Agave Silver Corp. to First Energy Metals Limited was approved on December 16, 2016, at the Company's Annual General Meeting.

The Company's head office and principal address is located at #1601-675 West Hastings Street, Vancouver, B.C., Canada, V6B 1N2. The Company's registered and records office is at 25th Floor-700 West Georgia Street, Vancouver, B.C., Canada, V7Y 1B3.

These condensed interim financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations, and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses since inception, has no recurring source of revenue, has an accumulated deficit of $34,604,176 and a working capital deficiency of $397,558 at December 31, 2016. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

The Company will need to raise sufficient funds as the Company's current assets are not sufficient to finance its operations and administrative expenses. The Company is evaluating financing options including, but not limited to, the issuance of additional equity and debt (Notes 8a and 14b). The Company has no assurance that such financing will be available or be available on favourable terms. Factors that could affect the availability of financing include the Company's performance (as measured by numerous factors including the progress and results of its projects), the state of international debt and equity markets, investor perceptions and expectations and the global financial and metals markets. In addition to evaluating financing options, the Company implemented cost savings measures.

These condensed interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

## 2. Basis of Presentation

### Statement of Compliance

These condensed interim consolidated financial statements were prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The accounting policies and methods of application applied by the Company in these condensed interim financial statements are the same as those applied in the Company's most recent annual financial statements as at and for the year ended March 31, 2016, except for those policies which have changed as a result of the adoption of new and amended IFRS pronouncements effective April 1, 2016.

These condensed interim financial statements do not include all of the information required for full annual financial statements and therefore should be read in conjunction with the Company's most recent annual financial statements as at and for the year ended March 31, 2016. The effects of the adoption of new and amended IFRS pronouncements have been disclosed in Note 3 of these condensed interim financial statements.

## 3. New, Amended and Future IFRS Pronouncements

The following standards have been published and are mandatory for the Company's annual accounting periods beginning on or after January 1, 2018.

*IFRS 9 – Financial Instruments: Classification and Measurement*

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized costs only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value with changes in fair value through profit or loss. In addition, this new standard has been updated to include guidance on financial liabilities and de-recognition of financial instruments and to include guidance on hedge accounting and allowing entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive income. This standard is effective for years beginning on or after January 1, 2018. The Company is currently evaluating the extent of the impact of the adoption of this standard.

*IFRS 16 – Leases*

On January 13, 2016, the IASB issued IFRS 16, according to which, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expense. The standard is effective for annual periods beginning on or after January 1, 2019.

## 4. Critical Accounting Judgments and Estimates

The preparation of financial statements requires management to make judgments and estimates that affect the amounts reported in the financial statements and notes. By their nature, these judgments and estimates are subject to change and the effect on the financial statements of changes in such judgments and estimates in future periods could be material. These judgments and estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these judgments and estimates. The more significant areas are as follows:

### (a) Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 10.

### (b) Going Concern

The assessment of the Company's ability to raise sufficient funds to finance its exploration and administrative expenses involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(Expressed in Canadian dollars)

## 4. Critical Accounting Judgments and Estimates

### (c) Intangible Exploration and Evaluation Assets

Management is required to assess impairment in respect of intangible exploration and evaluation assets. Note 5 discloses the carrying value of such assets. The triggering events for exploration and evaluation assets are defined in IFRS 6 *Exploration for and Evaluation of Mineral Properties* and are as follows:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

### (d) Deferred Tax Assets

Deferred income tax asset carrying amounts depend on estimates of future taxable income and the likelihood of reversal of timing differences. Where reversals are expected, estimates of future tax rates will be used in the calculation of deferred tax asset carrying amounts. Potential tax assets were deemed not to be recoverable at the current year end.

## 5. Amounts Receivable and Prepaid Expenses

| | December 31, 2016 | March 31, 2016 |
|---|---|---|
| GST/HST | **$ 11,207** | $ 7,639 |
| Prepayments and other receivable | **15,654** | 6,250 |
| **Total** | **$ 26,861** | $ 13,889 |

## 6. Exploration and Evaluation Assets

Details of mineral interests capitalized for the nine months ended December 31, 2016 and year ended March 31, 2016 are as follows:

| | Kootenay Lithium | **Total** |
|---|---|---|
| Balance – March 31, 2016 | $ -- | $ -- |
| Shares | 513,600 | 513,600 |
| **Balance – December 31, 2016** | **$ 513,600** | **$ 513,600** |

(Expressed in Canadian dollars)

**6. Exploration and Evaluation Assets** (Continued)

**(a) Kootenay Lithium, Revelstoke and Nelson Mining Division, British Columbia, Canada**

On October 7, 2016 the Company entered into an agreement to purchase (the "Agreement") a 100% interest in certain mineral claims (the "Property") covering 4,050 hectares located in the Revelstoke and Nelson Mining Divisions, southeastern British Columbia.

Under the terms of the Agreement, the Company has purchased a 100% interest in the Property by issuing 6,000,000 common shares of Agave. The Property is subject to a 2.0% Net Smelter Return ("NSR") mineral royalty and a 24.0% Gross Overriding Royalty ("GOR") on gemstones produced from the Property. The Company will have the option to reduce the NSR to 1.0% by paying $2,500,000.00. The Company also has the option to purchase one half (50%) of the GOR for $2,000,000. A Property vendor also reserves the exclusive right (the "Back In Right") to produce gemstones for its own account from certain discrete zones within the Property as mutually agreed upon, in return for a 24.0% GOR payable to Agave. The Company will have the option to purchase 100% of the Back In Right for $1,000.000.00. The Agreement was subject to customary closing conditions, including regulatory approval and satisfactory due diligence, all of which have been met and the transfer of tile has been completed.

The Company issued finder's fee totaling 420,000 common shares in regards to the transaction.

**(b) Kaslo Silver Property, Kaslo, British Columbia, Canada**

The 100% owned Kaslo Silver Property, a silver target, was written off during the year ended March 31, 2012, as there were no plans at that time to continue with exploration. During the year ended March 31, 2014, a review of geological data was completed, however, no further work was done during the year ended March 31, 2016 and for the nine months ended December 31, 2016.

Detailed exploration and evaluation expenditures incurred in respect to the Company's mineral property interests owned, leased or held under option are disclosed below"

| Kaslo Silver Property, British Columbia | **Nine months ended December 31, 2016** | **2015** |
|---|---|---|
| Geological and geophysical | **$ --** | $ (2,905) |
| Land lease and property taxes | **260** | 760 |
| Travel and conferences | **--** | (872) |
| Totals | **$ 260** | $ (3,017) |

**7. Accounts Payable and Accrued Liabilities**

| | **December 31, 2016** | **March 31, 2016** |
|---|---|---|
| Trade payables | **$ 61,276** | $ 11,725 |
| Accrued liabilities | **6,544** | 11,646 |
| **Totals** | **$ 67,820** | $ 23,371 |

(Expressed in Canadian dollars)

## 8. Related Party Transactions and Balances

Remuneration of key management personnel of the Company was as follows:

| | Nine months ended December 31, 2016 | 2015 |
|---|---|---|
| Salaries, fees and benefits | **$ 35,000** | $ 69,712 |
| Stock based compensation | **$ 26,282** | 22,304 |

Related party balances as at December 31, 2016 and March 31, 2016 were as follows:

| Balances at: | December 31, 2016 | March 31, 2016 |
|---|---|---|
| Payables: | | |
| Dauntless Developments Ltd. (a) | **$ 226,135** | $ 130,931 |
| Directors and Officers (b) | **132,500** | 97,500 |
| Totals | **$ 358,635** | $ 228,431 |

(a) Dauntless Developments Ltd. ("Dauntless Developments") is a private company controlled by the Company's President. Dauntless Developments provided the Company with non-interest bearing loans, with no specified terms of repayment.

(b) The directors' and officers' balances include fees and expenses owing to directors and officers.

## 9. General and Administrative

| | Nine months ended December 31, 2016 | 2015 |
|---|---|---|
| Depreciation | **$ --** | $ 175 |
| Office and administration | **26,182** | 37,451 |
| Totals | **$ 26,182** | $ 37,626 |

## 10. Share Capital

**Authorized -** Unlimited number of common shares without par value.

**Financings**

During August 2016, the Company issued 70,000 common shares upon the exercise of 70,000 stock options priced at $0.07 per share, by an officer of the Company, for proceeds of $4,900.

In June 2015, the Company closed the first and final tranche of a non-brokered private placements of units at a price of $0.05 per unit by issuing an aggregate of 5,000,000 units for gross proceeds of $250,000. Each unit is comprised of one common share and one common share purchase warrant, with each warrant entitling the holder thereof to purchase one additional common share at a price of $0.10 for a term of 24 months after closing. The share purchase warrants were valued using the Black-Scholes pricing model with the following assumptions: weighted average risk free interest rate of 0.56%, volatility factor of 120% and an expected life of two years.

**10. Share Capital** (Continued)

**Shares for Debt**

During the nine months ended December 31, 2015, the Company settled all debts owing to officers and directors, with the exception of a partial balance owing to the President, by making cash payments totaling $68,281 and the issuing 1,147,500 common shares at $0.02 per common share for $22,950. These settlements resulted in a gain on settlement of debt in the amount of $129,121.

**Stock Options**

On September 27, 2013, the shareholders approved an amendment to the Company's stock option plan ("the Plan") to change the number of shares in respect of which options may be granted thereunder from 10% of the issued and outstanding shares of the Company to a maximum of 2,723,500 shares of the Company. The Plan provides for its directors, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date of grant. The Plan provides for immediate vesting, or vesting at the discretion of the Board at the time of the option grant and are exercisable for a period of up to 10 years. Stock options granted to investor relations' consultants vest over a twelve-month period, with one quarter of such options vesting in each three-month period.

The number of shares which may be issuable under the Plan and all of the Company's other previously established or proposed share compensation arrangements, in any 12-month period:

(a) to any one person shall not exceed 5% of the total number of issued and outstanding shares on the grant date on a non-diluted basis, unless the Company has obtained disinterested shareholder approval to exceed such limit;
(b) to insiders as a group shall not exceed 10% of the total number of issued and outstanding shares on the grant date on a non-diluted basis, unless the Company has obtained disinterested shareholder approval to exceed such limit;
(c) to any one consultant shall not exceed 2% of the total number of issued and outstanding shares on the grant date on a non-diluted basis; and
(d) to all eligible persons who undertake investor relations activities shall not exceed 2% in the aggregate of the total number of issued and outstanding shares on the grant date on a non-diluted basis.

During the year ended March 31, 2016, pursuant to the Company's stock option plan and TSXV approval, the Company granted 1,450,000 stock options to directors, officers and consultants of the Company at an exercise price of $0.07 per share, expiring on June 3, 2020. The fair value of the stock options granted has been calculated using the Black-Scholes pricing model, based on the following assumptions: weighted average risk free interest rate of 1.01%, volatility factor of 126% and an expected life of five years.

During the nine months ended December 31, 2016, pursuant to the Company's stock option plan and TSXV approval, the Company granted 1,250,000 stock options to directors, officers and consultants of the Company at an exercise price of $0.11 per share, expiring on August 1, 2021. The fair value of the stock options granted has been calculated using the Black-Scholes pricing model, based on the following assumptions: weighted average risk free interest rate of 0.68%, volatility factor of 179% and an expected life of five years.

(Expressed in Canadian dollars)

**10. Share Capital** (Continued)

**Stock Options** (Continued)

The following table summarizes information on stock options outstanding at December 31, 2016:

| Exercise Price | Number Outstanding and Exercisable | Average Remaining Contractual Life |
|---|---|---|
| $0.07 | 1,380,000 | 3.43 years |
| $0.11 | 1,250,000 | 4.59 years |
| | **2,630,000** | **4.11 years** |

A summary of the changes in stock options for the nine months ended December 31, 2016 and the year ended March 31, 2016 is presented in the following table:

| | Number of Shares | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance, fully vested and exercisable at March 31, 2015 | 377,500 | 3.31 |
| Granted | 1,450,000 | 0.07 |
| Cancelled/forfeited | (337,500) | 3.52 |
| Balance, fully vested and exercisable at March 31, 2016 | 1,490,000 | 0.11 |
| Granted | 1,250,000 | 0.11 |
| Expired, unexercised | (40,000) | 1.60 |
| Exercised | (70,000) | 0.07 |
| **Balance, fully vested and exercisable at December 31, 2016** | **2,630,000** | **0.09** |

**Warrants**

As at December 31, 2016, the following share purchase warrants issued in connection with private placements were outstanding:

| Number of Warrants | Exercise Price | Expiry Dates |
|---|---|---|
| 5,000,000 | $0.10 | June 17, 2017 |
| **5,000,000** | | |

A summary of the changes in warrants for the nine months ended December 31, 2016 and year ended March 31, 2016 is presented below:

| | Number of Warrants | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance, March 31, 2015 | 10,300,000 | 0.25 |
| Issued | 5,000,000 | 0.10 |
| Expired | (10,300,000) | 0.25 |
| **Balance, March 31, 2016 and December 31, 2016** | **5,000,000** | **0.10** |

(Expressed in Canadian dollars)

## 11. Segmented Information

**Operating Segments -** The Company has one operating segment, which is the exploration and evaluation of mineral properties.

**Geographic Segments -** The Company's principal operations are carried out in Canada:

## 12. Financial Instruments and Risk Management

### Fair Value

The Company classifies its cash, amounts receivable (excluding sales tax receivable) and reclamation bonds as loans and receivables. Accounts payable and accrued liabilities, amounts due to related parties and share subscription payable are classified as borrowings and other financial liabilities. As of December 31, 2016, the statement of financial position carrying amounts of these financial instruments closely approximate their fair values, except for accounts payable and accrued liabilities, amounts due to related parties where the fair value may be less than carrying amounts due to liquidity risks (Note 1).

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following provides the valuation method of the Company's financial instruments as at December 31, 2016 and March 31, 2016:

| | Level | **As at December 31, 2016** | As at March 31, 2016 |
|---|---|---|---|
| Loans and receivables | **1** | **$ 121,236** | $ 18,774 |
| Other financial liabilities | **1** | **$ 527,655** | $ 251,802 |

**12. Financial Instruments and Risk Management** (Continued)

**Financial Risk Management**

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash, short-term investment, reclamation bonds and amounts receivable. The carrying amount of financial assets recorded in the consolidated financial statements, net of any allowances for losses, represents the maximum exposure to credit risk.

The Company deposits its cash with a high credit quality major Canadian financial institution as determined by ratings agencies. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. To reduce credit risk, the Company regularly reviews the collectability of its amounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. The Company historically has not had difficulty collecting its amounts receivable.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company attempts to manage liquidity risk by maintaining a sufficient cash balance. As at December 31, 2016, the Company had cash of $103,236 to settle current liabilities of $527,655. Further information relating to liquidity risk is disclosed in Note 1.

Interest Rate Risk

The Company has no significant exposure at December 31, 2016 to interest rate risk through its financial instruments.

Currency Risk

The Company has no significant exposure at December 31, 2016 to currency risk through its financial instruments.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. In respect of financial assets, the Company's policy is to invest cash at floating rates of interest in order to maintain liquidity while achieving a satisfactory return. Fluctuations in interest rates impact the amount of return the Company may realize but interest rate risk is not significant to the Company. The Company had no cash equivalents at December 31, 2016.

## 13. Management of Capital

The Company primarily considers shareholders' equity in the management of its capital. The Company manages its capital structure and makes adjustments to it based on funds available to the Company, in order to support exploration and development of mineral properties. The Board of Directors has not established quantitative capital structure criteria management, but will review on a regular basis the capital structure of the Company to ensure its appropriateness to the stage of development of the business.

The Company's objectives when managing capital are:

- To maintain and safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining sufficient level of funds, to support continued evaluation and maintenance of the Company's existing properties, and to acquire, explore and develop other precious metals, base metals and industrial mineral deposits;
- To invest cash on hand in highly liquid and highly rated financial instruments with high credit quality issuers, thereby minimizing the risk and loss of principal; and
- To obtain the necessary financing if and when it is required.

The properties in which the Company currently holds an interest are in the exploration stage and the Company is dependent on external financing to explore and take the project to development. In order to carry out planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and attempt to raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

In order to facilitate the management of capital and development of its mineral properties, the Company's management informs the Board of Directors as to the quantum of expenditures for review and approval prior to commencement of work. In addition, the Company may issue new equity, incur additional debt, enter into joint venture agreements or dispose of certain assets. When applicable, the Company's investment policy is to hold cash in interest bearing accounts at high credit quality financial institutions to maximize liquidity. In order to maximize ongoing development efforts, the Company does not pay dividends. The Company expects to continue to raise funds, from time to time, to continue meeting its capital management objectives.

There were no changes in the Company's approach to capital management during the nine months ended December 31, 2016 compared to the year ended to March 31, 2016. The Company is not subject to externally imposed capital requirements. Further information relating to management of capital is disclosed in Note 1.

**14. Subsequent Events**

a) Shares for Debt

On January 4, 2017, the Company issued 100,000 common shares as part of a settlement agreement with the Company's former CFO.

b) Private Placement

On January 24, 2017, the Company closed the first tranche of its non-brokered private placement with the issuance of 5,945,714 units at a price of $0.07 per unit for gross proceeds of $416,200 of which, $101,200 was received as at December 31, 2016 and accordingly was recorded as share subscription payable. Each unit is comprised of one common share of the Company and one non-transferable common share purchase warrant exercisable to purchase one additional common share of the Company at a price of $0.08 for a period of two years expiring January 24, 2019.

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