

European Metals Corp.  
Management's Discussion and Analysis  
For the three months ended March 31, 2016  
At December 20, 2016

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**Management's Discussion and Analysis at December 20, 2016**

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This Management Discussion and Analysis ("MD&A") of European Metals Corp. ("EMC" or the "Company" or "Gondwana") is dated December 20th, 2016, and provides an analysis of the Company's performance and financial condition for the three month period ended March 31, 2016 as well as an analysis of future prospects. The Board of Directors carries out its responsibility for review of this disclosure principally through its audit committee, comprised of independent directors. The audit committee reviews this disclosure and recommends its approval by the Board of Directors.

This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 F1- Continuous Disclosure Obligations. This MD&A should be read in conjunction with our audited financial statements and related notes for the years ended December 31, 2015, prepared in accordance with International Financial Reporting Standards. All figures are in Canadian dollars unless stated otherwise. The financial statements and additional information, including the Company's Certifications of Annual and Interim Filings and press releases, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

This MD&A may contain forward-looking statements that are based on the Company's expectations, estimates and projections regarding its business and the economic environment in which it operates. These statements speak only as of the date on which they are made, are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Examples of some of the specific risks associated with the operations of the Company are set out below under "Risk Factors". Actual outcomes and results may differ materially from those expressed in these forward-looking statements and readers should not place undue reliance on such statements.

**Overall Performance**

**Principal Business and Corporate History**

EMC is carrying on the business of the acquisition and exploration of properties for mining of precious and base metals. EMC has not earned any revenue to date from its mining operations and is therefore considered to be in the exploration ("exploration") stage.

The public trading in the shares of the Company was halted on May 5, 2016 due to the inability of the Company to file the year ended December 31 2015 financial statements and MD & A for 2015 by the required regulatory deadline. Funds were not available at the required time to complete the filings. Funds became available in November 2016 and thus enabling the Company to complete its statutory filing requirements by the end of December 2016 and, therefore, resume trading.

The financial statements, references to notes and discussion presented within this report make reference to the audited consolidated financial statements for the year ended December 31, 2015 of European Metals Corp. and its wholly-owned subsidiaries: Mantis Explorations Inc., Mantis Explorations Ltd., Avenue Bancorp Ltd., and University Avenue Management Ltd. On consolidation, all intercompany transactions and balances have been eliminated.

The consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, as described in the following paragraphs.

The Company is in the exploration stage and is subject to the risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration results and the ability to secure adequate financing to meet the minimum capital required to successfully advance the projects and continue as a going concern.

The address of the head office is at 131 Bloor Street West, Suite 606, Toronto, Ontario, M5S 3L7.

The Company has incurred losses in previous years, with a current net loss for the three months ended March 31, 2016 of \$7,397 (December 31, 2015 - \$20,262,967) and has an accumulated deficit of \$20,270,364 (December 31, 2015 – accumulated deficit \$20,262,967). In addition, the Company had a working capital deficit of \$860,847 at March 31, 2016 (December 31, 2015– deficit, \$853,450).

Funds were raised in the Business Combination that enabled the Company to fund its budgeted expenditures up to the end of the twelve months ended December 31, 2014. However, funding had been difficult to access during 2015 and the ability of the Company to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing or

monetizing assets. The timing and availability of additional financing will be determined largely by market conditions, legal restrictions, and the results of the Company's ongoing exploration programs. There is no certainty that the Company will be able to raise funds as they are required in the future.

Funds became available for the Company in November 2016 from the sale of investments to fund its ongoing operations.

The consolidated financial statements attached do not reflect the adjustments that would be necessary if the going concern assumptions were not appropriate. If the going concern basis was not appropriate, then adjustments would be necessary to the carrying value of the assets, the reported revenues and expenses, and the statement of financial position classifications used.

This discussion contains forward-looking statements that involve risks and uncertainties. Exploration expenditures are deferred and included on the balance sheet unless the value is impaired or the projects are abandoned which results in such expenditures being written off.

## **BASIS OF PRESENTATION**

### **Adoption of International Financial Reporting Standards ("IFRS")**

#### **(a) Statement of Compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the period ended March 31, 2016 and year ended December 31, 2015.

#### **(b) Basis of Presentation**

The financial statements have been prepared on the historical cost basis. Current assets are recorded at fair value. The comparative figures presented in these financial statements are in accordance with IFRS and have been audited.

These financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. The ability of the Company to continue operations is dependent upon obtaining the necessary financing to complete the development of its property. These financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

### **Future Outlook**

European Metals Corp. was in the exploration stage prior to 2014. In 2014, it became engaged principally in the identification, acquisition and development of petroleum and natural gas licenses in the Republic of Ghana. In addition to the oil and gas operations that the Company had intended to be the main focus of operations in 2014, the Company acquired an option to acquire an 80% interest in the Berehaven Copper Mines located in the Allihies Mining District, County Cork, Ireland. The Company has returned to being in the exploration stage and is now engaged principally in the acquisition and exploration of mineral properties. Previous properties which the Company had acquired in prior years in which an interest had been maintained have been written off in the financial statements. Since these properties were sold during 2015, the direction of management has been to open negotiations with Eurogas AG (see below) and also to work to raise funding to re-list its shares on the Canadian Stock Exchange ("CSE") by enabling the filing of the audited year-end financial statements at December 31, 2015 and updating the 2016 quarterly financial statements. Funds were raised in November 2016 to facilitate the filing of the required regulatory filings and expenses to reinstate the Company on the CSE. Concurrent with the relisting the Company is working to find new properties for investment to revitalize the company.

### **EUROGAS AG**

#### **Letter of Intent**

The Company has entered into a Letter of Intent ("LOI") with EuroGas AG as follows:

The Company ("EMC") announced that it had signed a non-binding letter of intent ("LOI") which sets out the proposed terms and conditions of a transaction (the "Transaction") whereby EMC will acquire approximately 78% of the issued and outstanding shares of EuroGas AG, a private Swiss company in the business of mining and oil and gas exploration and development ("EuroGas"), from ZB Capital AG, a private Swiss company and the majority shareholder of EuroGas ("ZBC").

#### Overview of EuroGas

EuroGas was incorporated in the Swiss canton of Zurich on August 12, 2009 and currently has three wholly owned subsidiaries as well as a number of directly-held assets.

The first subsidiary, EuroGas Silver & Gold Inc. ("ESG"), is a Nevada corporation that owns approximately 150 gold/silver claims in the Banner Mining District, located 60 miles east of Boise, Idaho, USA, as well as an option to purchase an interest in the Banner Silver Mine from a private Montana, USA corporation. ESG has completed extensive preparatory work on the claims since it acquired them in 2011 and plans to undertake an ambitious exploration program on the property in the spring of 2016.

The second subsidiary, EuroGas GmbH Austria, is an Austrian corporation that serves as the administration company for EuroGas and owns a 33% interest in Rozmin s.r.o., a Slovakian mining company ("Rozmin"), which in turn formerly owned the exploration rights to the Gemerská Poloma soapstone talc mineral deposit in Roznava, Slovak Republic. These rights were revoked by the Slovak government in 2005, and EuroGas is currently involved in an arbitration case at the International Centre for Settlement of Investment Disputes (ICSID) against the Slovak Republic (No. ARB/14/14) under a pair of bilateral investment treaties to recover damages arising from this revocation. The potential award has been estimated at over \$200 million, and EuroGas is in the process of obtaining an independent evaluation report from KPMG LLP and Wardell Armstrong International to support this figure.

The initial request for arbitration was filed against the Slovak Republic by EuroGas and Belmont Resources Inc., a British Columbia corporation with its shares listed for trading on the TSX Venture Exchange, as the owners of an aggregate 90% interest in Rozmin, on June 25, 2014, and the unlawfulness of the government's actions has repeatedly been confirmed in a series of Slovakian internal court decisions.

The third EuroGas subsidiary, EuroGas Minerals Ukraine, is a Ukrainian corporation that holds rights and options to enter into several existing oil and gas joint ventures in western Ukraine. It is also in the process of carrying out an exploration program for gold, silver, uranium, rare earths, chromium spinel and related materials on a property in central Ukraine.

In addition, EuroGas holds the rights to various gold mining claims in the Yukon Territory, Canada, including a 33% interest in a placer gold mining operation.

#### The Transaction

The Transaction will take the form of a contractual share exchange pursuant to which EMC will acquire 100% of the EuroGas shares held by ZBC in exchange for the issuance to ZBC of units of the Company (each, an "EMC Unit") on a 1:1 basis. Upon the completion of the Transaction, EuroGas will become a majority-owned subsidiary of the Company.

It is expected that the Transaction will be treated as a reverse takeover within the meaning of applicable Canadian securities laws and be considered a fundamental change under the policies of the Canadian Securities Exchange (the "CSE"). As a result, it will be necessary for the Company to obtain regulatory approval from the CSE as well as approval from EMC's shareholders.

The material terms of the LOI include:

- (a) On or prior to the closing date of the Transaction (the "Closing Date"), EMC will consolidate its outstanding share capital on the basis of one (1) new common share (each, an "EMC Share") for every 10 old EMC Shares (the "Consolidation");
- (b) At the closing, EMC will allot and issue 721,250,000 post-Consolidation EMC Units to ZBC, with each EMC Unit consisting of one EMC Share and three-quarters of a warrant to purchase one EMC Share, with each whole warrant exercisable at a price of \$0.05 per EMC Share for a period of 12 months, \$0.075 per EMC Share for the next 12 months, and \$0.10 per EMC Share for a period of 12 months thereafter;
- (c) On or prior to the Closing Date, EMC will enter into binding debt settlement agreements and releases with certain of its creditors in form and substance satisfactory to EuroGas (the "Debt Settlement"), with the result that the accounts payable and accrued liabilities of EMC will be no greater than \$150,000 at the closing;
- (d) EuroGas will assign to the holders of EMC Shares as of December 8, 2015 and in proportion to their ownership of EMC Shares, the right to receive an aggregate of US\$5,000,000 in cash from any award received by EuroGas in connection with the arbitration proceeding described above;

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- (e) On or prior to the Closing Date, EMC will appoint two nominees of EuroGas to its board of directors, with an additional director agreed upon by the parties to be appointed on the Closing Date; and
- (f) Upon the completion of the Transaction and subject to the approval of the CSE, a finder's fee of a maximum of 46,250,000 post-Consolidation EMC Shares will be payable to an arm's length third party.

The Company and EuroGas will use their reasonable best efforts to complete due diligence by January 8, 2016 and enter into a mutually satisfactory definitive agreement with ZBC (the "Definitive Agreement") to reflect the complete terms of the Transaction by January 29, 2016. The original terms of the LOI were that it may be terminated by either EMC or EuroGas as a result of unsatisfactory due diligence results or if the Definitive Agreement is not executed on or before January 29, 2016. The date for completion of this transaction has been extended to December 31, 2016.

The completion of the Transaction is subject to various conditions, including:

- (a) The completion by each of EMC and EuroGas of their due diligence investigation of the other party;
- (b) The delivery by EuroGas to EMC of engineering reports on its oil and gas properties in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*;
- (c) The delivery by EuroGas to EMC of audited financial statements of EuroGas for those fiscal periods required under applicable securities laws or the policies of the CSE;
- (d) The completion of the Consolidation and the Debt Settlement;
- (e) EuroGas, EMC and ZBC obtaining all required directors, regulatory, shareholder and third party approvals; and
- (f) If necessary, the receipt by EMC of a valuation and fairness opinion in respect of the Transaction that is satisfactory to EMC, which opinion has not been subsequently withdrawn.

Following the successful negotiation of the Definitive Agreement and subject to regulatory and shareholder approval, the Transaction is expected to close no later December 31, 2016.

The company has signed an extension to its letter of intent with ZB Capital AG, a private Swiss company and the majority shareholder of EuroGas (ZBC). The companies are working diligently together towards the signing of a definitive agreement which is scheduled to be completed by December 31, 2016.

## The East Lingman Lake Gold Property

### Option agreement

On October 25, 2012, European Metals Corp. ("EMC") announced that it had entered into an option agreement (the "agreement") to acquire a 100% registered undivided interest in the East Lingman Lake gold property consisting of twelve (12) staked claims, totalling 538.3-hectares and located in the Kenora district, province of Ontario, approximately 325-kilometers north of the Town of Red Lake. The twelve (12) staked claims surround the Lingman Lake gold property.

In November 2013, the Company entered into an option agreement to grant an option to acquire a 100% registered undivided interest in the East Lingman Lake to Signature Resources Ltd. (SGU: TSX-V) ("Signature"). In order to acquire the option currently held by the Company, Signature agreed to pay \$127,500 or the number of common shares in the capital of SGU equal to \$127,500, each such common share at an attributed value of \$0.085 or such value allowable under the TSXV Exchange policies on or before June 30, 2014.

As stated above payment would be made on June 30, 2014, the Company agreed to an extension for the receipt of these shares to December 31, 2015. The Company has recorded an impairment of \$257,300 in prior years.

The Company agreed to a further extension to the Option agreement to June 30, 2016 and subsequently to July 5, 2016, at which time 1,500,000 shares were issued by Signature Resources Ltd. ("SGU") at a deemed price of \$0.085 per share equalling \$127,500 satisfying the terms of the option agreement. At that date SGU acquired all of the right, title and interest in the property.

### The Berehaven Property

In March 2015, the Company received an extension to October 1, 2015 for the agreement for the option to acquire an 80% interest in the Berehaven Copper Mines located in the Allihies Mining District, County Cork, Ireland, for the

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performance of the work commitment of \$250,000 that was to have been completed, originally, on or before February 1, 2015. Except for the amendment proposed herein, all provisions in the Option Agreement shall remain in full force and effect. The Company had recorded an impairment of \$15,004,520 in 2014.

In February 2016 the Company chose to terminate the option on the property.

#### The Orphan Mine Property

The Company acquired in 2007, 100% interest in the mineral rights in the former Orphan Gold mine. In November 2007, the Company acquired the surface rights for the property, additionally; the Company increased its land holdings at the Orphan mine project by staking five contiguous claims totalling 1,280-hectares, located 3,000-meters north east of EMC's Orphan mine.

On September 30, 2014 an agreement to sell this property to an arm's length third party was completed. The sale price consisted of the following:

- (i) on closing, 983,500 common shares in Signature Resources Ltd. with a value of \$0.015 per share (received) for a total value of \$14,753. An impairment to the value of the project of \$1,780,890 had been recorded in prior years; the \$14,753 received has been recorded as a recovery against these expenses.
- (ii) on or before eighteen months (18) months following the closing date, at the purchaser's sole election:
  - (a) the transfer of an aggregate of a further one million (1,000,000) common shares of Signature Resources Ltd.
  - (b) cash payment of fifty thousand dollars (\$50,000).

The Company agreed to an extension, to the terms of the Option agreement, to March 31, 2017 which was to close on March 31, 2016.

#### Cree Lake Property

On October 4, 2012 the Company entered into an arm's length binding letter of intent with Elcora Resources Corp. ("Elcora") for the right to acquire a 51% undivided interest in the 100% owned Cree Lake Gold Property located in Swayze Township, Ontario, consisting of 18 mining claims covering approximately 3904 hectares, which claims are subject to a 1.5% net smelter return royalty ("NSR") on mining claim numbers 4203295, 4203275, 4203296, 4209811.

On January 8, 2014 The Company agreed to amend the option agreement that was entered into in December 2012 with Elcora. The cash payment that would have been due on or before December 31, 2013 for \$25,000 was deleted and added was that the consideration for entering into the original agreement would be changed to 400,000 shares of Elcora to be received on or before January 31, 2014. The original agreement stated that the payment of 600,000 shares of Elcora would be made on December 31, 2014.

In early 2015, Elcora notified the Company that it would be terminating the option.

On June 19, 2015 an agreement to sell this property to an arm's length third party was completed. The sale price consisted of the following: on closing, 300,000 common shares in Signature Resources Ltd. with a value of \$0.02 per share (received) for a total value of \$6,000. An impairment to the value of the project of \$804,171 had been recorded in prior years; the \$6,000 received has been recorded as a recovery against these expenses.

#### Financial Overview

The Company does not earn any significant revenue from consolidated operations. Interest is derived from the investment of funds for the period between the receipt of funds from equity placements and the disbursement of exploration expenditures.

#### Results of Operations

##### Projects Overview

The mineral property acquisition costs and direct exploration expenditures are capitalized as incurred. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written down.

**(1) Berehaven Copper Property**

The Company has recorded an impairment of \$15,004,520 to the value of its Berehaven property for the year ended December 31, 2014. This impairment was based on identified indicators of impairment that resulted from a downturn in the junior mining exploration sector, in particular, unfavourable changes in the property or project economics, inability to raise financing necessary to continue exploration or development of the property and significant decreases in the current or expected future prices of mineral resources. A further significant factor was the curtailment of exploration activities for an indefinite period due to lack of finances. In February 2016 the Company chose to terminate the option on the property.

**(2) Other Projects**

The Company continues to monitor its projects that were acquired in prior years and for which a full impairment charge has been provided for in prior years:

**(i) The East Lingman Lake Gold Property**

On October 25, 2012, European Metals Corp.(Formerly as Mantis Mineral Corp.)(“EMC”) announced that it had entered into an option agreement (the “agreement”) to acquire a 100% registered undivided interest in the East Lingman Lake gold property consisting of twelve (12) staked claims, totalling 538.3-hectares and located in the Kenora district, province of Ontario, approximately 325-kilometers north of the Town of Red Lake. The twelve (12) staked claims surround the Lingman Lake gold property.

**Option agreement**

The Agreement provides that EMC may acquire a 100% registered undivided interest in the East Lingman Lake Gold Property subject to a 3% Net Smelter Royalty, by making an initial payment of 1,000,000 common shares (issued) within 10 days of the signing of the Agreement, and further paying an aggregate of \$800,000 in cash, or equivalent value in common shares of EMC over four years. Any common shares issued by EMC under the terms of the Agreement are to be priced at \$ 0.05, subject to regulatory approval and a four month regulatory hold period from date of issue. In November 2013, the Company entered into an option agreement to grant an option to acquire a 100% registered undivided interest in the East Lingman Lake to Signature Resources Ltd. (SGU: TSX-V) (“Signature”). In order to acquire the option currently held by the Company, Signature agreed to pay \$127,500 or the number of common shares in the capital of SGU equal to \$127,500, each such common share at an attributed value of \$0.085 or such value allowable under the TSXV Exchange policies on or before June 30, 2014. The original agreement stated that the payment would be made on June 30, 2014, the Company has agreed to an extension for the receipt of these shares to April 30, 2015.

The Company has recorded an impairment of \$257,300 in prior years. The Company agreed to an extension to the Option agreement to June 30, 2016 and subsequently to July 5, 2016, at which time 1,500,000 shares were issued by Signature Resources Ltd.(“SGU”) at a deemed price of \$0.085 per share equalling \$127,500 satisfying the terms of the option agreement. At that date SGU acquired all of the right, title and interest in the property.

**(ii) Orphan Gold Mine Property**

The Company acquired in 2007, 100% interest in the mineral rights in the former Orphan Gold mine. In November 2007, the Company acquired the surface rights for the property, additionally; the Company increased its land holdings at the Orphan mine project by staking five contiguous claims totalling 1,280-hectares, located 3,000-meters north east of EMC's Orphan mine.

On September 30, 2014 an agreement to sell this property to an arm's length third party was completed. The sale price consisted of the following:

(i) on closing, 983,500 common shares in Signature Resources Ltd. with a value of \$0.015 per share(received) for a total value of \$14,753. An impairment to the value of the project of \$1,780,890 had been recorded in prior years; the \$14,753 received has been recorded as a recovery against these expenses.

(ii) on or before eighteen months (18) months following the closing date, at the purchasers sole election:

- (a) the transfer of an aggregate of a further one million (1,000,000) common shares of Signature Resources Ltd.
- (b) cash payment of fifty thousand dollars (\$50,000).

The Company agreed to an extension, to the terms of the Option agreement, to March 31, 2017 which was to close on March 31, 2016.

**(iii) Cree Lake Property**

On October 4, 2012 the Company entered into an arm's length binding letter of intent with Elcora Resources Corp. ("Elcora") for the right to acquire a 51% undivided interest in the 100% owned Cree Lake Gold Property located in Swayze Township, Ontario, consisting of 18 mining claims covering approximately 3904 hectares, which claims are subject to a 1.5% net smelter return royalty ("NSR") on mining claim numbers 4203295, 4203275, 4203296, 4209811.

Under the terms of the Letter of Intent, Elcora has the exclusive right to earn up to a 51% undivided interest in the Cree Lake Claims by making cash payments, issuing common shares of Elcora and conducting work programs on the Cree Lake Claims. Elcora may earn a 51% interest in the Cree Lake Claims by making cash payments totaling \$50,000, issuing 3,000,000 common shares and completing work programs on the Cree Lake Claims with a total value of a minimum of \$1,000,000 over a four year period.

| Date                               | Common Shares | Work commitment/Expenditures   |
|------------------------------------|---------------|--|
| Within 10 days of the closing date | 300,000       | \$ 25,000 cash payment to Mantis                                       |
| On or before December 31,2013      | 400,000       | \$200,000 exploration expenditures and \$25,000 cash payment to Mantis |
| On or before December 31,2014      | 600,000       | \$250,000 exploration expenditures                                     |
| On or before December 31,2015      | 700,000       | \$250,000 exploration expenditures                                     |
| On or before December 31,2016      | 1,000,000     | \$300,000 exploration expenditures                                     |

In March 2013, 300,000 shares of Elcora and \$25,000 in cash were received pursuant to the agreement.

The original agreement stated that the payment of 600,000 shares of Elcora would be made on December 31, 2014, these shares were not issued, in early 2015, Elcora notified the Company that it would be terminating the option.

On June 19, 2015 an agreement to sell this property to an arm's length third party was completed. The sale price consisted of the following: on closing, 300,000 common shares in Signature Resources Ltd. with a value of \$0.02 per share (received) for a total value of \$6,000. An impairment to the value of the project of \$804,171 had been recorded in prior years; the \$6,000 received has been recorded as a recovery against these expenses.

**Selected Annual Information**



## Management's Discussion and Analysis at December 20, 2016

|  | December 31 |              |
|--|-------------|--------------|
|  | 2015        | 2014         |
|  | \$          | \$           |
| <b>Total revenues</b>  |             |              |
| <b>Net Income(Loss) and comprehensive income(loss) before income taxes</b> |             |              |
| Total  | (228,381)   | (16,834,991) |
| Per share basis  | (0.000)     | (0.014)      |
| <b>Net Income(Loss) and comprehensive income(loss)</b>                     |             |              |
| Total  | (228,381)   | (16,834,991) |
| Per share basis  | (0.000)     | (0.014)      |
| Diluted - per share basis (i)  |             |              |
| <b>Total assets</b>  | 20,350      | 87,553       |
| <b>Total long term financial liabilities</b>                               | -           | -            |

(i) Fully diluted loss per common share has not been provided as the effect would be anti-dilutive.

## Summary of quarterly results

Quarterly variances occur mainly due to seasonal factors, administrative costs and fees related to new property acquisitions, business partnerships and combinations and levels of exploration activities.

The information presented below highlights the Company's unaudited quarterly results for the past eight quarters. The financial information referenced below has been prepared in accordance with IFRS.

| Quarter ended | Net Earnings(Loss) and Comprehensive Earnings (Loss) |  |  |               | Total assets | Working Capital(Deficiency) |
|---------------|--|--|--|---------------|--------------|-----------------------------|
|               | Total  | Write down and impairment of evaluation and exploration assets | Income(Loss) before income taxes and write down of exploration and evaluation assets | Per Share (i) |              |                             |
|               | \$   | \$   | \$   | \$            | \$           | \$                          |
| March 31,2016 | (7,397)  | -  | (7,397)  | (0.00001)     | 28,605       | (863,538)                   |
| Dec 31,2015   | (20,273)   | -  | (20,273)   | (0.00002)     | 20,350       | (855,746)                   |
| Sept 30,2015  | (39,689)   | -  | (39,689)   | (0.00003)     | 20,552       | (836,347)                   |
| June 30,2015  | (52,848)   | -  | (52,848)   | (0.0004)      | 78,931       | (816,926)                   |
| March 31,2015 | (115,571)  | -  | (115,571)  | (0.0001)      | 49,651       | (744,323)                   |
| Dec 31,2014   | (1,714,419)  | 1,504,520  | (209,899)  | (0.001)       | 87,553       | (628,886)                   |
| Sept 30,2014  | (13,617,612)   | 13,500,000   | (117,612)  | (0.012)       | 1,540,778    | (577,594)                   |
| June 30,2014  | (132,217)  | -  | (132,217)  | (0.000)       | 90,768       | (476,019)                   |

(i) On a non-diluted basis

**First Quarter Financial Review – Results of Operations**

**Factors Affecting Quarterly Results:**

The Company has no revenue. As a result of its activities, the Company continues to incur net losses.

The costs for 2016, in this first quarter, are at an absolute minimum, only those costs that were required to maintain the company were incurred until funds are realized to reinstate the company.

(a) The largest category in 2015 was amounts paid to consultants for \$82,232 and consisted of the following:

(i) Consulting fees of \$23,000; these fees were paid to consultants in 2014 and recorded as a prepayment in 2014. They were expensed in this quarter in 2015.

(ii) Consulting fees accrued but not paid of \$45,000; \$30,000 to an arm's length consultant and \$15,000 to the prior CEO of the Company to complete a contract that expired on March 31, 2015.

(iii) Consulting fees paid to the current CEO/CFO of \$14,000.

(b) Insurance costs of \$18,711 were for the Directors and Officers Liability policy. This policy was cancelled in May 2015 due to non-payment.

(c) All other costs have been reduced to a bare minimum while retaining the costs associated with the parallel need to manage a compliant public company and the maintenance of its assets in good standing. The office premises for the Company have been downsized, administration costs for telephone, investor relations and as many other costs as possible have been reduced to their absolute minimum in the first quarter of 2015 and going forward.

**Course of Business Transactions**

**Related Party Transactions**

(a) The Company incurred the following related party transactions during the three month period March 31, 2016 and the year ended December 31, 2015:

Included in accounts payable is an amount of \$443,914 (2015 - \$443,914) owing to the former Chairman and Chief Executive Officer of the Company for wages earned in prior years and current year's consulting fees. These transactions are in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the parties. An amount of \$5,711(2015 - \$3,811) is included in loans payable owing to the current Chairman and Chief Executive Officer.

(b) In accordance with IAS 24, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key management of the Company was as follows:

|                       | Three months<br>ended March 31,<br>2016 | Year ended<br>December 31,<br>2015 |
|-----------------------|---|------------------------------------|
|                       |   | \$                                 |
| Consulting fees (i)   | -                                       | 90,000                             |
| Consulting fees (ii)  | 2,500                                   | 36,000                             |
| Consulting fees (iii) | -                                       | 15,000                             |

(i) Former Chairman and Chief Executive Officer

(ii) Current Chairman and Chief Executive Officer/Chief Financial Officer

(iii) Former Chairman and Chief Executive Officer- resigned August 1, 2014

Outstanding Share Data

Share Capital

|  | Note | Number of shares<br># | Amount<br>\$      |
|--|------|-----------------------|-------------------|
| Balance of issued shares at January 1, 2015            |      | 1,392,762,564         | 17,666,271        |
| Balance of issued shares at March 31, 2015             |      | 1,392,762,564         | 17,666,271        |
| <b>Balance of issued shares at December 31, 2015</b>   |      | <b>1,392,762,564</b>  | <b>17,666,271</b> |
| Balance of issued shares at March 31, 2016             |      | 1,392,762,564         | 17,666,271        |
| Shares to be issued                                    |      | 10,000,000            | 50,000            |
| <b>Balance at March 31, 2016 and December 31, 2015</b> |      | <b>1,402,762,564</b>  | <b>17,716,271</b> |

\$50,000 was received in 2014 for 10,000,000 shares yet to be issued.

Stock options

European Metals Options may be granted under the European Metals Plan only to directors, officers, employees and other service providers subject to the rules and regulations of applicable regulatory authorities and any Canadian stock exchange upon which the European Metals shares may be listed or may trade from time to time. The number of European Metals shares reserved for issue to any one person pursuant to the European Metals Plan within any one year period may not exceed 5% of the issued and outstanding European Metals Shares.

The maximum number of European Metals shares which may be reserved for issuance to insiders under the European Metals Plan, any other employer stock option plans or options for services, shall be 10% of the total number of European Metals shares issued and outstanding at the time of the grant (on a non-diluted basis). The maximum number of European Metals options which may be granted to any one consultant under the European Metals Plan, any other employer stock options plans or options for services, within any 12 month period, must not exceed 2% of the total number of European Metals shares issued and outstanding at the time of the grant (on a non-diluted basis). The maximum number of European Metals options which may be granted to investor relations persons under the European Metals Plan, any other employer stock options plans or options for services, within any 12 month period must not exceed, in the aggregate, 2% of the total number of European Metals shares issued and outstanding at the time of the grant (on a non-diluted basis). The exercise price of European Metals options issued under the European Metals Plan may not be less than the fair market value of the European Metals shares at the time the option is granted, subject to any discounts permitted by applicable legislative and regulatory requirements.

The Company applies the fair value method of accounting for all stock-based compensation awards.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2015:

|  | March 31 , 2016                     |                                    |                          | December 31 , 2015                  |                                       |                          |
|--|-------------------------------------|------------------------------------|--------------------------|-------------------------------------|---------------------------------------|--------------------------|
|  | Number of<br>options<br>outstanding | Weighted Average<br>Exercise Price | Fair Value of<br>Options | Number of<br>options<br>outstanding | Weighted<br>Average<br>Exercise Price | Fair Value of<br>Options |
| Balance at the beginning of the period | 66,500,000                          | \$ 0.005                           | \$ 314,471               | 66,600,000                          | \$ 0.005                              | \$ 317,861               |
| Expired during the period (i)          | -                                   | -                                  | -                        | (100,000)                           | (0.05)                                | (3,390)                  |
| Outstanding, end of the period         | 66,500,000                          | 0.005                              | 314,471                  | 66,500,000                          | 0.005                                 | 314,471                  |

The number of common shares issuable under options and the average option prices per share, are as follows:

| Weighted Average<br>Remaining<br>Contractual Life | Fair Value<br>of Options | Number of options<br>and exercisable<br>options | Exercise price | Expiry Date       |
|---|--------------------------|---|----------------|-------------------|
| Years   | \$                       | #   | \$             |                   |
| 2.71  | 314,471                  | 66,500,000                                      | 0.005          | November 18, 2018 |
| 2.71  | 314,471                  | 66,500,000                                      | 0.005          |                   |

The options are valued using the Black-Scholes option pricing model with the following assumptions:

Term - 5 years; Volatility – 138%; Interest rate – 1.63%; Dividend yield- Nil

**Warrants**

The following tables summarize information about warrants outstanding at March 31:

|  | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
|--|--------------------|---------------------------------|--------------------|---------------------------------|
|  | March 31           | March 31                        | December 31        | December 31                     |
|  | 2016               | 2016                            | 2015               | 2015                            |
|  | #                  | \$                              | #                  | \$                              |
| Outstanding ,beginning of the period   | 704,958,200        | 0.05                            | 704,958,200        | 0.05                            |
| Granted during the period              | -                  | -                               | -                  | -                               |
| Cancelled or expired during the period | -                  | -                               | -                  | -                               |
| Outstanding, end of the period         | 704,958,200        | 0.05                            | 704,958,200        | 0.05                            |

| Expiry date                       | Exercise price | Number of warrants outstanding and exercisable | Black Scholes value |
|-----------------------------------|----------------|--|---------------------|
|                                   | \$             | #  | \$                  |
| February-19                       | 0.05           | 700,972,200                                    | 1,069,221           |
| March-19                          | 0.05           | 3,986,000                                      | 13,704              |
| <b>Balance, December 31, 2015</b> |                | 704,958,200                                    | 1,082,925           |
| <b>Balance, March 31, 2016</b>    |                | 704,958,200                                    | 1,082,925           |

No warrants were exercised in this period.

The warrants are valued using the Black-Scholes option pricing model with the following assumptions:  
Term - 5 years; Volatility – 138%; Interest rate – 1.63%; Dividend yield- Nil

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the three months ended March 31, 2016.

*(a) Basis of presentation*

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 12, 2016, the date the Board of Directors approved the statements. These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended December 31, 2015, except as noted below. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2016 could result in restatement of these unaudited condensed interim financial statements.

i) Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets or liabilities recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

ii) Share-based payments

Management determines costs for share-based payments using the Black-Scholes option pricing model. The fair value of the market-based and performance-based share awards are determined at the date of grant and incorporates certain input assumptions including the future volatility of the stock price, expected dividend yield, and expected life. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

**c) Principles of Consolidation**

The interim consolidated financial statements include the accounts of European Metals Corp. (the "Company") and its wholly owned subsidiaries Mantis Explorations Inc., Mantis Explorations Ltd., Avenue Bancorp Ltd., and University Avenue Management Ltd. On consolidation, all intercompany transactions and balances have been eliminated.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d) Business Combinations**

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The acquired identifiable assets and liabilities assumed, including contingent liabilities, are measured at their fair values at the date of acquisition. Associated transaction costs are expensed when incurred.

**e) Financial Instruments**

Financial assets:

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' ["FVTPL"], 'held-to-maturity investments', 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities:

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities:

Other financial liabilities including borrowings are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or [where appropriate] to the net carrying amount on initial recognition.

De-recognition of financial liabilities:

The Company derecognizes financial liabilities when the obligations are discharged, cancelled or expired.

The Company's financial instruments consist of the following:

|  |  |                             |
|--|--|-----------------------------|
| Financial assets:                        |  | Classification:             |
| Cash                                     |  | FVTPL                       |
| Marketable securities                    |  | FVTPL                       |
| Prepaid and sundry receivables           |  | Receivables                 |
|  |  |                             |
| Financial liabilities:                   |  | Classification:             |
| Accounts payable and accrued liabilities |  | Other financial liabilities |

Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) Financial Instruments (continued)**

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts or loan receivable, where the carrying amount is reduced through the use of an allowance account. When an accounts or loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the interim consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 - valuation based on quoted prices [unadjusted] in active markets for identical assets or liabilities; Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly [i.e. as prices] or indirectly [i.e. derived from prices]; and Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data [unobservable inputs]. As of March 31, 2016, cash was classified as Level 1 on the interim consolidated balance sheet.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at March 31, 2016 and December 31, 2015:

|                       | Financial assets at fair value as at March 31, 2016 |         |         |           |
|-----------------------|---|---------|---------|-----------|
|                       | Level 1   | Level 2 | Level 3 | Total     |
| Marketable securities | \$ 18,000   | \$ -    | \$ -    | \$ 18,000 |

|                       | Financial assets at fair value as at December 31, 2015 |         |         |           |
|-----------------------|--|---------|---------|-----------|
|                       | Level 1  | Level 2 | Level 3 | Total     |
| Marketable securities | \$ 10,500  | \$ -    | \$ -    | \$ 10,500 |

#### f) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment. The Company has assessed its assets and has determined that there is no impairment of its non-financial assets.

#### g) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Equipment is amortized using the declining-balance method using the following rates: Furniture and fixtures - 20%; Mining equipment - 30% and Computer equipment - 30%.

The Company compares the carrying value of equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant. An asset's residual value, useful life and depreciation method are reviewed, and adjusted if appropriate, on an annual basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### g) Equipment (continued)

An item of equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statements of comprehensive income or loss.

Where an item of equipment consists of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

#### h) Exploration and Evaluation Assets

The Company is in the exploration stage with respect to its investment in mineral properties. Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized on a property by property basis. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farmout of the property result in a revised estimate of the recoverable amount but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

All capitalized exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditure is not expected to be recovered, it is charged to the results of operations.

Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

**i) Provisions**

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The Company had no material provisions at March 31, 2016 and December 31, 2015.

**j) Share based payment transactions**

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**k) Income taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

**(l) Restoration, rehabilitation and environmental obligations**

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon



as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

As at March 31, 2016 and December 31, 2015 the Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

**m) Loss per share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all options outstanding that may add to the total number of common shares.

**n) Significant accounting judgments and estimates**

The preparation of these interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These interim consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These 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.

Critical accounting estimates

Significant assumptions about the future, that management has made, could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made. These relate to, but are not limited to, the following:

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**n) Significant accounting judgments and estimates (continued)**

*i) Impairment of exploration and evaluation assets*

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets.

Internal sources of information include the manner in which the assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate.

Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets. For the three months ended March 31, 2016 and the year ended December 31, 2015, there were no exploration and evaluation assets.

*ii) Income taxes and recoverability of potential deferred tax assets*

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of

existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement.

Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets or liabilities recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

*iii) Share-based payments*

Management determines costs for share-based payments using the Black-Scholes option pricing model. The fair value of the market-based and performance-based share awards are determined at the date of grant and incorporates certain input assumptions including the future volatility of the stock price, expected dividend yield, and expected life. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

*iv) Provision for income taxes*

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

*v) Categorization of financial assets and liabilities*

The categorization of financial assets and liabilities is an accounting policy that requires management to make judgements or assessments.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **o) New standards not yet adopted and interpretations issued but not yet effective.**

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in July 2014 and will replace 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 and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. 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. Final amendments released in July 2014 also introduced a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

### **Environmental Liabilities**

The Company is not aware of any environmental liabilities, obligations or responsibilities associated with the Company's mining interests.

### **Liquidity and Capital Resources**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at March 31, 2016 the Company has not generated any revenues from operations, has a working capital deficit of \$863,538 (2015-\$855,746) and an accumulated deficit of \$860,847 (2014 -\$853,450) attributable to the owners of the parent.

Current funds are not sufficient to explore existing projects, and in due course, further funding will be required. In the event that the Company is unable to secure further financing it may not be able to complete the development of its projects.

Due to continuing operating losses and a working capital deficit, the Company's ability to continue as a going concern is dependent on its ability to obtain additional sources of financing to successfully explore, evaluate and develop mineral projects and ultimately, to achieve profitable operations. The success of these endeavours cannot be predicted at this time. The financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments may be material. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

The properties held by the Company are not income generating. The Company is reliant on equity markets over the long term to raise capital to fund its exploration activities. In the past, the Company has been successful in raising funds through equity offerings, and while there is no guarantee that this will continue, there is no reason either to believe that this capacity will diminish.

Accounts payable balances vary from quarter-to-quarter depending on the season and the amount of work performed during the quarter. The balance at March 31, 2016 was \$841,978 (December 31, 2015- \$833,464).

The Company does not hold, and has never held, any Asset-Backed Commercial Paper (ABCP).

The Company is in the exploration stage and is subject to risks and challenges similar to other companies in a comparable stage of exploration.

Management continues to evaluate various financing alternatives in order to fund its ongoing exploration activities as well as for general administrative costs. There is no assurance that such additional financings will be available as required, or under favourable terms. If the Company does not secure additional financing, exploration activities will be seriously curtailed and the Company may not be able to meet its ongoing commitments.

#### **Balance-Sheet Arrangements**

The Company has no off-balance-sheet arrangements.

#### **OUTLOOK**

The Company is dependent on obtaining financing for the exploration and development of its mineral properties and any new projects. Management is currently exploring various financing alternatives in order to fund its planned exploration activities. Given the current market in which junior exploration mining companies find themselves, this has been an incredibly difficult task. There is no assurance that such financing will be available when required, or under favourable terms.