# NEVADA CLEAN MAGNESIUM INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Period Ended April 30, 2016

(Expressed in Canadian Dollars)

(Unaudited)

## NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# NEVADA CLEAN MAGNESIUM INC.

Consolidated Statements of Financial Position
As at April 30, 2016 and October 31, 2015
(Expressed in Canadian Dollars)

| | Notes | April 30, 2016 | October 31, 2015 |
|---|---|---|---|
| | | *(Unaudited)* | *(Audited)* |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | **$ 145,538** | $ 17,112 |
| GST receivable | | **14,650** | 7,876 |
| Marketable securities | **4** | **1,914** | 2,121 |
| Prepaid expenses | **7** | **35,000** | - |
| | | **197,102** | 27,109 |
| **Non-current assets** | | | |
| Exploration and evaluation assets | **5** | **1,333,796** | 1,390,392 |
| Reclamation deposit | | **3,500** | 3,500 |
| **TOTAL ASSETS** | | **$ 1,534,398** | $ 1,421,001 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable | **6** | **$ 910,142** | $ 852,371 |
| Provision for flow through share issuances | **10** | **288,900** | 288,900 |
| Promissory Note | **8** | **14,125** | - |
| | | **1,213,167** | 1,141,271 |
| **Non-current liabilities** | | | |
| Convertible Debenture | **9** | **257,288** | - |
| **Total liabilities** | | **1,470,455** | 1,141,271 |
| **Shareholders' equity** | | | |
| Share capital | **11** | **15,966,143** | 15,834,143 |
| Reserves | **11** | **2,438,175** | 2,361,551 |
| Accumulated other comprehensive income | | **392,345** | 447,367 |
| Deficit | | **(18,732,720)** | (18,363,331) |
| **Total shareholders' equity** | | **63,943** | 279,730 |
| **TOTAL LIABILITIES AND EQUITY** | | **$ 1,534,398** | $ 1,421,001 |

| | |
|---|---|
| **Nature of operations and going concern** | **1** |
| **Commitments** | **7** |

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

Approved on behalf of the directors on June, 2016

*"Edward Lee"* Director *"Jim Sever"* Director

# NEVADA CLEAN MAGNESIUM INC.

Condensed Interim Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

| | Notes | Three months ended April 30, 2016 | 2015 | Six months ended April 30, 2016 | 2015 |
|---|---|---|---|---|---|
| **Expenses (recovery)** | | | | | |
| Bank charges | | **$ 612** | $ 239 | **$ 845** | $ 404 |
| Consulting and management fees | **7** | **(11,674)** | 51,617 | **124,551** | 96,318 |
| Foreign exchange loss (gain) | | **(98)** | - | **1,086** | - |
| Interest and penalties | **8** | **7,413** | - | **7,413** | - |
| Office and miscellaneous | | **8,118** | 4,826 | **12,265** | 10,465 |
| Professional fees | | **60,535** | 9,606 | **61,967** | 24,355 |
| Salaries | **7** | **24,310** | 33,615 | **49,468** | 58,046 |
| Shareholder communications | | **17,678** | 39,000 | **22,491** | 55,750 |
| Stock based compensation | **9** | **76,624** | - | **76,624** | - |
| Transfer agent and filing fees | | **10,332** | 9,171 | **12,550** | 21,684 |
| Travel | | **129** | - | **129** | (576) |
| **Loss from operations** | | **193,979** | 148,074 | **369,389** | **266,446** |
| **Net loss for the period** | | **193,979** | 148,074 | **369,389** | **266,446** |
| **Other comprehensive loss (income)** | | | | | |
| Foreign currency loss (gain) on translation of subsidiary | | **123,330** | 100,612 | **54,815** | (135,500) |
| Realized loss (gain) on marketable securities | **4** | **207** | 1,707 | **207** | 1,707 |
| **Other comprehensive loss (gain) for the period** | | **123,537** | 102,319 | **55,022** | **(133,793)** |
| **Total comprehensive loss for the period** | | **$ 317,516** | $ 250,393 | **$ 424,411** | **$ 132,653** |
| Basic and diluted loss per share | | **$ 0.00** | $ 0.00 | **$ 0.00** | $ 0.00 |
| Weighted average number of common shares outstanding | | **152,511,450** | 146,662,574 | **151,742,659** | 145,365,428 |

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

# NEVADA CLEAN MAGNESIUM INC.

Condensed Consolidated Statements of Changes in Equity
For the Periods Ended April 30, 2015 and Year Ended October 31, 2015
(Expressed in Canadian Dollars)
(Unaudited)

| | Common shares | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Share based payments reserve | Obligation to issue shares | Deficit | Accumulated other comprehensive income (loss) | Total shareholders' equity |
| Balance, October 31, 2014 | 143,651,450 | $ 15,526,143 | $ 2,221,717 | $ - | $ (17,063,944) | $ 215,114 | $ 899,030 |
| Private placements | 3,450,000 | 171,000 | - | - | - | - | 171,000 |
| Obligation to issue shares | - | - | - | 67,000 | - | - | 67,000 |
| Total comprehensive income (loss) for the period | - | - | - | - | (266,446) | 133,793 | (132,653) |
| **Balance, April 30, 2015** | 147,101,450 | 15,697,143 | 2,221,717 | 67,000 | (17,330,390) | 348,907 | 1,004,377 |
| Private placements | 2,770,000 | 137,000 | - | - | - | - | 137,000 |
| Obligation to issue shares | - | - | - | (67,000) | - | - | (67,000) |
| Options granted | - | - | 139,834 | - | - | - | 139,834 |
| Total comprehensive income (loss) for the period | - | - | - | - | (1,032,941) | 98,460 | (934,481) |
| **Balance, October 31, 2015** | **149,871,450** | **15,834,143** | **2,361,551** | **-** | **(18,363,331)** | **447,367** | **279,730** |
| Private placements | 1,640,000 | 82,000 | - | - | - | - | 82,000 |
| Shares issued for services | 1,000,000 | 50,000 | - | - | - | - | 50,000 |
| Obligation to issue shares | - | - | - | - | - | - | - |
| Options granted | - | - | 76,624 | - | - | - | 76,624 |
| Total comprehensive income (loss) for the period | - | - | - | - | (369,389) | (55,022) | (424,411) |
| **Balance, April 30, 2016** | **152,511,450** | **$ 15,966,143** | **$ 2,438,175** | **$ -** | **$ (18,732,720)** | **$ 392,345** | **$ 63,943** |

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

# NEVADA CLEAN MAGNESIUM INC.

Condensed Consolidated Statements of Cash Flows
For the Period Ended April 30, 2016 and 2015
(Expressed in Canadian Dollars)

| | Six months ended April 30, 2016 | 2015 |
|---|---|---|
| Cash provided by (used in): | | |
| **Operating activities** | | |
| Net loss for the period | $ (369,389) | $ (266,446) |
| Items not affecting cash: | | |
| Accrued interest | 7,413 | - |
| Increase (decrease) in obligation to issue shares | - | 67,000 |
| Shares issued for services | 50,000 | - |
| Stock-based compensation | 76,624 | - |
| Foreign exchange translation | 1,574 | (2,682) |
| Changes in non-cash working capital items: | | |
| GST receivable | (6,774) | (7,887) |
| Receivable from / payable to related parties | - | 23,804 |
| Prepaid expenses | (35,000) | (15,428) |
| Accounts payable and accrued liabilities | 57,771 | 42,265 |
| **Net cash (used in) provided by operating activities** | (217,781) | (159,374) |
| **Financing activities** | | |
| Proceeds from issuance of shares, net of share issuance costs | 82,000 | 171,000 |
| Other comprehensive loss on marketable securities | 207 | - |
| Proceeds from promissory note | 14,000 | - |
| Proceeds from convertible debenture | 250,000 | - |
| **Net cash (used in) provided by financing activities** | 346,207 | 171,000 |
| **Net increase (decrease) in cash** | 128,426 | 11,626 |
| **Cash, beginning of the period** | 17,112 | 36,306 |
| **Cash, end of the period** | **$ 145,538** | **$ 47,932** |
| Interest paid | $ - | $ - |
| Taxes paid | $ - | $ - |

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

## 1. Nature of operations and going concern

Nevada Clean Magnesium Inc. (the "Company") was incorporated under the laws of British Columbia on March 24, 1966, and is a publicly traded company with its shares listed on the TSX Venture Exchange. The name of the Company was changed from Molycor Gold Corp. to Nevada Clean Magnesium Inc. on April 16, 2012. The Company is principally engaged in the acquisition, exploration and development of interests in mineral resource projects in British Columbia, Canada and Nevada, USA. To date, the Company has not generated any revenues and is considered to be in the exploration stage.

The address of the Company's corporate office and principal place of business is #602 – 15216 North Bluff Road, White Rock, British Columbia, Canada, V4B 0A7.

These condensed interim consolidated financial statements comprise the financial statements of Nevada Clean Magnesium Inc. and its wholly owned subsidiary, Nevada Moray Inc., incorporated in the state of Nevada, USA.

The business of exploring and developing mineral resource properties involves a high degree of risk, and there can be no assurance that planned exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for capitalized exploration and development costs is dependent on the ability of the Company to obtain necessary financing to complete the development and future profitable production or, alternatively, upon disposition of such properties at a profit. Changes in future conditions could require material write-downs of the carrying values of exploration and evaluation interests.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

At April 30, 2016, the Company had working capital deficiency of $1,016,065 (October 31, 2015 – $1,114,162). It has not yet achieved profitable operations and expects to incur further losses in the development of its business. For the period ended April 30, 2016, the Company reported a comprehensive loss of $424,411 (2015 – $ 132,653). As at April 30, 2016, the Company had an accumulated deficit of $18,732,720 (October 31, 2015 – $18,363,331).

The Company has financed its exploration activities and operations through equity issuances and expects to continue to do so to the extent such instruments are issuable under terms acceptable to the Company until such time as its operations provide positive cash flows. Accordingly, the Company's financial statements are presented on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. Management believes that the going concern assumption is appropriate for these financial statements based on their continuing ability to raise financing through share issuances. If future financing is unavailable, the Company may not be able to meet its ongoing obligations, in which case the realizable value of its assets may decline materially from current estimates. If the going concern assumption was not appropriate for these financial statements, then potentially material adjustments may be necessary to the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used.

**2. Basis of presentation**

**a) Statement of compliance**

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the IASB have been condensed or omitted.

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended October 31, 2015, which have been prepared in accordance with IFRS.

The accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended October 31, 2015. The Company's interim results are not necessarily indicative of its results for a full year.

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

**b) Functional and presentation currency**

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's subsidiary is the United States dollar ("USD"). The accounts of the subsidiary have been translated to the Canadian dollar.

**c) Critical accounting estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and contingent liabilities as at the date of the consolidated financial statements, and the reported amount of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

**3. Principles of consolidation**

(Expressed in Canadian Dollars)

These consolidated financial statements include the accounts of the Company and its wholly owned and controlled subsidiary as described in note 1 above. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions and balances have been eliminated upon consolidation.

## 4. Marketable securities

The Company holds the following marketable securities, which are classified as available for sale:

(i) 70,690 shares of American Manganese Inc., acquired during the year ended October 31, 2007 at $0.10 per share; and

(ii) 100,000 shares of MillenMin Ventures Inc., acquired during the year ended October 31, 2012 at $0.10 per share.

| | April 30, 2016 | October 31, 2015 |
|---|---|---|
| American Manganese Inc - 70,690 common shares at cost | **$ 7,069** | $ 7,069 |
| MillenMin Ventures Inc. - 100,000 common shares at cost | **10,000** | 10,000 |
| Decrease in fair value | **(15,155)** | (14,948) |
| **Balance, at fair value** | **$ 1,914** | $ 2,121 |

## 5. Exploration and evaluation assets

| | British Columbia, Canada | Nevada, United States | Total |
|---|---|---|---|
| Balance, October 31, 2014 | $ 256,823 | $ 1,882,412 | $ 2,139,235 |
| Acquisition costs | - | 16,337 | 16,337 |
| Exploration costs | - | 2,032 | 2,032 |
| Impairment | (256,820) | (773,605) | (1,030,425) |
| Foreign currency translation | - | 263,213 | 263,213 |
| **Balance, October 31, 2015** | 3 | 1,390,389 | 1,390,392 |
| Foreign currency translation | - | (56,596) | (56,596) |
| **Balance, April 30, 2016** | **$ 3** | **$ 1,333,793** | **$ 1,333,796** |

### a) British Columbia, Canada

(Expressed in Canadian Dollars)

| | Windpass Sweethome | Crowrea Empress | Beaverdell | Total |
|---|---|---|---|---|
| **Balance, October 31, 2014** | $ 1 | $ 256,821 | $ 1 | $ 256,823 |
| Acquisition costs | - | - | - | - |
| Impairment | - | (256,820) | - | (256,820) |
| **Balance, October 31, 2015 and April 30, 2016** | **$ 1** | **$ 1** | **$ 1** | **$ 3** |

### i) Windpass Sweethome Property, Kamloops Mining Division

The Windpass Sweethome property is located 50 kilometres northeast of Barriere in the Thompson Plateau area of Central British Columbia and is owned 100% by the Company. In March 2012, the Company entered into an option agreement whereby MillenMin Ventures Inc. ("MillenMin") may earn up to 70% of the Company's interest in the Windpass Sweethome property by paying $120,000 to the Company, incurring $750,000 in aggregate exploration expenditures, and issuing 400,000 common shares over a period of four years. Upon MillenMin earning the 70% interest, MillenMin and the Company will form a joint venture to further explore and develop the property. The original vendors of the property will retain a 3% net smelter royalty. On July 25, 2013, this agreement was terminated by mutual agreement. During the year ended October 31, 2014, the Company decided to discontinue exploration on this property and an impairment of $625,951 was recognized in the statement of comprehensive loss, bringing the carrying value to $1.

### ii) Crowrea Empress Property, Osoyoos and Similkameen Mining Division

The Crowrea Empress property is located near Summerland, British Columbia, and is a jointly controlled venture with Goldrea Resources Corp. During the year ended October 31, 2015, an impairment allowance was recorded on the property in the amount of $256,820, reducing the carrying value to $1.

### iii) Beaverdell Property, Greenwood Mining Division

The Beaverdell property is located 3 kilometres southeast of Beaverdell, British Columbia, and is owned 100% by the Company.

## b) Nevada, United States

(Expressed in Canadian Dollars)

| | Silverado | Tami-Mosi | BCS Davis | Total |
|---|---|---|---|---|
| **Balance, October 31, 2014** | $ 1 | $ 1,181,542 | $ 700,869 | $ 1,882,412 |
| Acquisition costs | - | 16,337 | - | 16,337 |
| Exploration costs | - | 2,032 | - | 2,032 |
| Foreign currency translation | - | 190,477 | 72,736 | 263,213 |
| Impairment | - | - | (773,605) | (773,605) |
| **Balance, October 31, 2015** | 1 | 1,390,388 | - | 1,390,389 |
| Foreign currency translation | - | (56,596) | - | (56,596) |
| **Balance, April 30, 2016** | **$ 1** | **$ 1,333,792** | **$ -** | **$ 1,333,793** |

**i) Silverado Property**

The Silverado property is located in the Pinto mining district of Nevada, consists of 3 patented mining claims totalling approximately 120 hectares, and is a 100% owned by the Company.

**ii) Tami-Mosi Property**

The Tami-Mosi property is located approximately 8 miles southeast of Ely, Nevada in the Tamerlaine district, consists of 81 unpatented mining claims totalling approximately 677 hectares and 4 quartz unpatented claims totalling approximately 33 hectares, is 100% owned by the Company, and is subject to a 2% net smelter royalty in favour of the originating vendors.

The Company entered into an agreement with ScanMag AS ("ScanMag") on May 9, 2014 to form a joint venture whereby the Company will own 60% and ScanMag would purchase 40% of the Company's Tami-Mosi property in exchange for $5,000,000 USD in cash ($150,000 USD paid) and a 7% equity stake in ScanMag. Further, the Company was to issue to ScanMag shares of its common stock equal to 19% of the total issued and outstanding common stock at the time the monies are received.

On January 6, 2015, the Company announced that it has renegotiated its agreement with ScanMag. The renegotiated terms are as follows:

- $5M USD total contribution from ScanMag to the Company, payable over 4 years, commencing with the first payment of $2,000,000 within 12 months of signing, followed by 36 monthly payments of $83,333 USD;
- 10% pre-financing equity in ScanMag dilutable to 2% undiluted interest;
- Upon receipt of $5M USD total contribution, ScanMag will receive 12% of the Company's common shares;
- The Company and ScanMag will establish a separate technical development company for the purposes of testing of aspects of the magnesium processing proof of concept through to a 50-50 joint venture company to be based in Glomfjord, Norway.
- ScanMag will fund up to $500,000 with an initial $250,000 contribution to the joint venture, after which each party pays its proportional share;

(Expressed in Canadian Dollars)

- Both the Company and ScanMag will be entitled to the data and findings developed in the joint venture.

### iii) BCS Davis Property

The BCS Davis property is located in Nye County, Nevada, consists of 61 unpatented lode mining claims totalling approximately 510 hectares, is 100% owned by the Company, and is subject to a 2% net smelter royalty in favour of the originating vendors. The property was abandoned by the Company during the year ended October 31, 2015.

## 6. Related party transactions

Related party transactions incurred during the period ended April 30, 2016 and their relative balances payable to these parties are as follows:

| Individual | Relationship | Nature of Transactions | Incurred period ended April 30, 2016 | Incurred period ended April 30, 2015 | Balance payable at April 30, 2016 | Balance payable at October 31, 2015 |
|---|---|---|---|---|---|---|
| Ed Lee | Chief executive officer, director | Salaries | $ 48,000 | $ 48,000 | $ 178,872 | $ 166,447 |
| ISG Professional Services | Annie Storey, Chief financial officer, is shareholder | Fees | 31,500 | 30,000 | 141,844 | 115,594 |
| James Sever | President,Chief Operating Officer, director | Fees | 42,000 | 42,000 | 368,611 | 326,611 |
| Lisa Maxwell | Corporate secretary | Fees | 13,414 | 5,785 | 16,003 | 12,164 |
| | | | $ 134,914 | $ 125,785 | $ 705,330 | $ 620,816 |

Total compensation expense for key management personnel is as follows

| | **April 30, 2016** | April 30, 2015 |
|---|---|---|
| Fees | **$ 134,914** | $ 125,785 |
| Share-based payments | **-** | - |
| **Total** | **$ 134,914** | **$ 125,785** |

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's board of directors and the Company's executive leadership team. The executive leadership team consists of the chief executive officer, president, chief operating officer, and chief financial officer.

## 7. Commitments

- On January 6, 2015, the Company renegotiated the terms of its agreement with ScanMag and is committed under the terms of the revised agreement as noted in note 5b(ii).

- On January 13, 2015, the Company announced it signed a License and Royalty Agreement with its director, James Sever, P. Eng., to use Mr. Sever's unique knowledge and concepts on the Company's Tami Mosi and other properties for the commercial production of magnesium. In consideration for the license, the Company will pay to Mr. Sever a royalty in the amount of USD$0.003 per pound (USD$0.00661 per kilogram) of magnesium produced and sold by the Company where the condenser concept has been utilized and USD$0.0015 per pound of magnesium produced and sold from its properties without using the condenser concept. The initial term of the agreement ends on December 31, 2040, and is renewable.

- On January 13, 2016, the Company engaged the services of Zimtu Capital Corp. for corporate consulting services for $5,250 monthly for a term of 12 months. The annual amount of this contract was prepaid by the Company as of April 30,2016.

## 8. Promissory note

On February 27, 2016, the Company received an unsecured promissory note in the principal amount of $14,000. The note bears interest at $62.50 per month. If the principal amount and the accrued interest is not paid back in full after six month, the note may be converted into common shares of the Company at a price of $0.05 per share on the election of lender. As of April 30, 2016, the interest of $125 was accrued on this note.

## 9. Convertible notes

On January 8, 2016, the Company announced a non-brokered private placement of unsecured convertible notes in the principal amount of $500,000. The notes bear interest at 20% per annum, and any accrued but unpaid interest will mature on the date that is one year following the closing date. Each note will be convertible into common shares of the Company at a price of $0.05 per share, and any accrued but unpaid interest theron will be convertible into shares at the price per share which is the greater of $0.05 and the market price on the date of the conversion notice. On January 15, 2016, the Company closed the first tranche of the convertible notes for gross proceeds of $50,000, convertible into 1,000,000 shares. On March 21, 2016, the Company closed the second tranche for gross proceeds of $200,000 convertible into 4,000,000 shares. As of April 30, 2016, the interest of $7,289 was accrued on these notes.

## 10. Provision for flow through share issuances

The Company has recorded a provision in the amount of $288,900 (October 31, 2015 - $288,900) for tax and related obligations relating to flow through share issuances from prior years.

(Expressed in Canadian Dollars)

## 11. Share capital, share-based payments and reserves

### a) Authorized capital

The authorized share capital consists of an unlimited number of common voting shares without nominal or par value.

### b) Issued shares

On July 14, 2015, the Company announced a non-brokered private placement to raise gross proceeds of $150,000, which is comprised of 3,000,000 units at a price of $0.05 per unit. Each unit is comprised of one common share and one share purchase warrant which expire in three years. Each warrant entitles the owner to purchase one common share at a price of $0.05 for the first two years and $0.10 for the third year from the date of issuance. On July 30, 2015, the Company closed the first tranche of the private placement for gross proceeds of $50,000 comprised of 1,000,000 units. On September 11, 2015, the Company closed the second tranche of the private placement for gross proceeds of $70,000, consisting of 1,400,000 units.
On December 23, 2015, the Company announced it has closed the third and final tranche of the non-brokered private placement, consisting of 1,640,000 units of the Company for gross proceeds of $82,000.

On December 23, 2015, the Company issued 1,000,000 common shares for the services provided at a deemed value of $50,000.

### c) Issued warrants

During the period ended April 30, 2016, the Company issued a further 1,640,000 warrants. During the year ended October 31, 2015, the Company issued 6,210,000 warrants in conjunction with the private placement noted in 11b.

A summary of the changes in the Company’s share purchase warrants during the period ended April 30, 2016 and the year ended October 31, 2015 are as follows:

| | Number of warrants | | Average exercise price |
|---|---|---|---|
| Balance, October 31, 2014 | 16,402,000 | $ | 0.05 |
| Granted | 6,210,000 | | 0.05 |
| Balance, October 31, 2015 | 22,612,000 | | 0.05 |
| Granted | 1,640,000 | | 0.05 |
| Expired / cancelled | (2,200,000) | | 0.05 |
| **Balance, April 30, 2016** | **22,052,000** | **$** | **0.05** |

(Expressed in Canadian Dollars)

As at April 30, 2016, the following common share purchase warrants were outstanding:

| Expiry date | Number of warrants | Exercise price | Weighted average remaining contractual life (years) |
|---|---|---|---|
| June 20, 2016 | 4,922,000 | $ 0.05 | 0.14 |
| June 16, 2016 | 250,000 | 0.06 | 0.13 |
| August 30, 2016 | 9,030,000 | 0.05 | 0.33 |
| December 29, 2017 | 1,280,000 | 0.05 | 1.67 |
| February 17, 2018 | 2,190,000 | 0.05 | 1.80 |
| May 8, 2018 | 1,340,000 | 0.05 | 2.02 |
| July 30, 2018 | 1,000,000 | 0.05 | 2.25 |
| September 11, 2018 | 400,000 | 0.05 | 2.37 |
| December 23, 2018 | 1,640,000 | 0.05 | 2.65 |
| **TOTAL** | **22,052,000** | | |

**d) Share-based payments**

The Company has adopted an incentive stock option plan, as amended, under the rules of the TSX-V pursuant to which it is authorized to grant stock options to executive officers, directors, employees and consultants, enabling them to acquire up to 20% of the total shares outstanding of the Company. Under the stock option plan, the option exercise price of any option granted shall not be less than the discounted market price of the Company's common shares. If options are granted within 90 days of a distribution by prospectus, the minimum exercise price per share is the greater of the discounted market price and the share price paid by investors pursuant to the distribution. For the purposes of the stock option plan, the discounted market price is calculated in accordance with the policies of the TSX-V at the time of the grant of the options. The options may be granted for a maximum term of 5 years. All options granted shall vest immediately, except for those options granted to persons performing investor relations activities for the Company. Pursuant to the policies of the TSX-V, shares issued upon the exercise of options are restricted from trading during the 4 month period subsequent to the exercise of options.

During the period ended April 30, 2016, the Company granted 1,600,000 stock options to directors, officers and consultants of the Company, exercisable at $0.05 per share, vesting immediately and expiring in five years, for total stock based compensation expense of $76,624 (2015 - $Nil).

(Expressed in Canadian Dollars)

Assumptions used in the above stock based compensation calculations are as follows:

| | April 30, 2016 | October 31, 2015 |
|---|---|---|
| Risk free rate of interest | 0.64% | 1.65% |
| Expected life of options | 5 years | 5 years |
| Exercise price of options | $ 0.05 | $ 0.05 |
| Expected annualized volatility | 228% | 129% |
| Expected dividend rate | - | - |

A summary of the changes in the Company's stock options during period ended April 30, 2016 and the year ended October 31, 2015 are as follows:

| | Number of options | Average exercise price |
|---|---|---|
| Balance, October 31, 2014 | 15,010,000 | $ 0.09 |
| Granted | 2,550,000 | 0.5 |
| Balance, October 31, 2015 | 17,560,000 | 0.07 |
| Expired / cancelled | (1,100,000) | 0.06 |
| Granted | 1,600,000 | 0.05 |
| Balance, April 30, 2016 | **18,060,000** | **$ 0.08** |

As at April 30, 2016, the following options were outstanding:

| Expiry date | Number of options | Exercise price | Weighted average remaining contractual life (years) |
|---|---|---|---|
| August 15, 2016 | 1,500,000 | $ 0.06 | 0.29 |
| August 12, 2018 | 4,510,000 | 0.05 | 2.28 |
| January 9, 2019 | 6,700,000 | 0.11 | 2.70 |
| May 9, 2019 | 400,000 | 0.08 | 3.02 |
| May 29, 2019 | 1,100,000 | 0.08 | 3.08 |
| June 3, 2020 | 2,250,000 | 0.05 | 4.10 |
| February 11, 2021 | 1,600,000 | 0.05 | 4.79 |
| **TOTAL** | **18,060,000** | | |

**e) Share-based payments reserve**

The share-based payments reserve is used to recognize the fair value of share options granted to employees, including key management personnel, as part of their remuneration. When options are subsequent exercised, the fair value of such options in share-based payments reserve is credited to share capital.

(Expressed in Canadian Dollars)

### f) Dilutive common shares

For the period ended April 30, 2016, potentially dilutive common shares (relating to warrants and options outstanding) totalling 45,112,000 (2015 – 40,172,000) were not included in the computation of loss per share as the effect would be anti-dilutive.

## 12. Gain on derecognition of debts

During the year ended October 31, 2015, the Company determined that certain old liabilities were no longer legal obligations. As a result, liabilities totalling $651,032 were written off which resulted in a gain on derecognition which has been recorded in the Statement of Comprehensive Loss. Included in the total is $372,277 of old trade payables and $278,755 relating to non-statutory accruals for flow through shares issues in 2007. The Company does not believe there are any further exposure risks to these debts.

## 13. Financial instruments and financial risk management

| As at April 30, 2016 | Loans and receivables | Assets/liabilities at fair value through profit and loss | Other liabilities | Total |
|---|---|---|---|---|
| **Cash** | $ - | $ 145,538 | $ - | $ 145,538 |
| **GST receivable** | 14,650 | - | - | 14,650 |
| **Marketable securities** | - | 1,914 | - | 1,914 |
| **Reclamation bonds** | 3,500 | - | - | 3,500 |
| **Accounts payables and accrued liabilities** | - | - | 910,142 | 910,142 |
| **Provision for flow through share issuances** | - | - | 288,900 | 288,900 |
| **Promissory Note** | - | - | 14,125 | 14,125 |
| **Convertible Debenture** | - | - | 257,288 | 257,288 |

| At October 31, 2015 | Loans and receivables | Assets/liabilities at fair value through profit and loss | Other liabilities | Total |
|---|---|---|---|---|
| Cash | $ - | $ 17,112 | $ - | $ 17,112 |
| Amounts receivable | 7,876 | - | - | 7,876 |
| Marketable securities | - | 2,121 | - | 2,121 |
| Reclamation bonds | 3,500 | - | - | 3,500 |
| Accounts payable | - | - | 852,371 | 852,371 |
| Provision for flow through share issuances | - | - | 288,900 | 288,900 |

### a) Financial assets and liabilities by category

The Company has designated cash and cash equivalents as fair value through profit or loss, measured at fair value. Changes in the fair values are recorded in net earnings. Marketable securities are designated as available-for-sale financial assets, which are initially measured at fair value with subsequent changes to other comprehensive income. GST receivable and reclamation deposits are designated as loans and receivables, and are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities and payable to related parties are designated as other financial liabilities and are measured initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Management did not identify any material embedded derivatives, which require separate recognition and measurement. The Company had no held-to-maturity financial instruments during the period.

**b) Fair value**

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted market prices, as appropriate, in the most advantageous market for that instrument to which the Company has immediate access. Where quoted market prices are not available, the Company uses the closing price of the most recent transaction for that instrument. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics. The fair value of current financial instruments approximates their carrying values as long as they are short term in nature or bear interest at market rates.

**c) Fair value hierarchy**

Financial instruments that are held at fair value are categorized based on a valuation hierarchy which is determined by the valuation methodology utilized:

**Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Cash and cash equivalents, marketable securities, and obligation to issue shares are valued using a market approach based upon unadjusted quoted prices for identical assets in an active market obtained from securities exchanges.

**Level 2** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

**Level 3** – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between levels 1 and 2 during the period.

**d) Financial risk management**

The Company's board of directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Company's activities. Management regularly monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

In the normal course of operations, the Company is exposed to various risks such interest rate, foreign exchange, credit and liquidity risks. To manage these risks, management determines what activities must be undertaken to minimize potential exposure to risks. The objectives of the Company in managing risks are as follows:

- Maintaining sound financial condition:
- Financing operations; and
- Ensuring liquidity to all operations.

In order to satisfy these objectives, the Company has adopted the following policies:

- Prepare budget documents at prevailing market rates to ensure clear, corporate alignment to performance management and achievement of targets;
- Recognize and observe the extent of operating risk within the business; and
- Identify the magnitude of the impact of market risk factors on the overall risk of the business and take advantage of natural risk reductions that arise from these relationships.

There have been no changes in risks that have arisen or how the Company manages those risks during the period.

**(i) Interest rate risk**

The Company's interest rate risk arises primarily from the interest received on cash and cash equivalents, which is invested on a short term basis to enable adequate liquidity for payment of operational and capital expenditures.

**(ii) Foreign currency risk**

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, reclamation deposits and accounts payable and accruals that are denominated in US dollars. As at the period end, net liabilities denominated in US were immaterial. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net loss and comprehensive loss by an immaterial amount with all other variables remaining constant.

**(iii) Commodity price risk**

The value of the Company's exploration and evaluation assets are dependent on the price of magnesium and the outlook for this mineral. Market prices for these metals historically have fluctuated widely and are affected by numerous factors outside the Company's control, including but not limited to, levels of worldwide production short term changes in supply and demand, industrial and retail demand, as well as certain other factors related specifically to magnesium. If magnesium prices decline for a prolonged period below the cost of production, it may not be economically feasible to continue towards production.

**(iv) Credit risk**

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations and arises principally from trade receivables. The Company's credit risk is primarily attributable to cash and cash equivalents, and amounts receivable. The Company limits its exposure to credit risk on cash and cash equivalents as these financial instruments are held with major Canadian and international banks, from which management believes the risk of loss to be remote. Amounts receivable consist primarily of harmonized sales tax due from the Federal Government of Canada. Management believes the credit risk concentration with respect to amounts receivable is remote. The carrying amount of financial assets recorded in the financial statements, net of any allowances, represents the Company's maximum exposure to credit risk.

**(v) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by maintaining cash and cash equivalent. Liquidity requirements are managed based on expected cash flow to ensure there is capital to meet short term and long term obligations. As disclosed in note 1, the ability of the Company to continue as a going concern is dependent on many factors. The Company's cash is primarily invested in bank accounts and guaranteed investment certificates which are cashable on demand. The Company expects that its cash on hand, together with expected funds raised from private placements and on exercise of warrants and options, will provide sufficient financial resources to carry out its operations through the 2016 fiscal year, and also allows the Company to continue its exploration and evaluation program.

## 14. Capital Management

The Company classifies its share capital, obligation to issue shares, and reserves as capital, which at April 30, 2016 totalled $18,404,318 (October 31, 2015 - $18,195,694). When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish qualitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were changes in the Company's approach to capital management during the period. The Company is not subject to any externally imposed capital requirements.

## 15. Segmented information

The Company operates in one segment – the exploration for and development of mineral property interests. Geographic information for the Company's exploration and evaluation assets is as follows:

| | | **April 30, 2016** | | October 31, 2015 |
|---|---|---|---|---|
| Canada | $ | 3 | $ | 3 |
| United States | | 1,333,793 | | 1,390,390 |
| **Balance** | $ | 1,333,796 | $ | 1,390,393 |