

## **FIRST MEXICAN GOLD CORP.**

**Annual Consolidated Financial Statements  
Years ended December 31, 2016 and 2015  
(Stated in Canadian Dollars)**

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of First Mexican Gold Corp. have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and within the framework of the summary of significant accounting policies in these consolidated financial statements.

A system of accounting control is maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

The Audit Committee of the Board of Directors meets periodically with management and the Company's independent auditors to review the scope and results of their annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by Morgan & Company LLP, Chartered Professional Accountants on behalf of the shareholders and their report follows.

*"Jim Voisin"*

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Jim Voisin  
President & Chief Executive Officer

*"Gregg Roberts"*

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Gregg Roberts  
Director

May 2, 2017

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
First Mexican Gold Corp.

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of First Mexican Gold Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of First Mexican Gold Corp. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada

"Morgan & Company LLP"

May 2, 2017

Chartered Professional Accountants

**FIRST MEXICAN GOLD CORP.**  
**Consolidated Statements of Financial Position**  
**(Stated in Canadian Dollars)**

	Note	December 31, 2016	December 31, 2015
<b>Assets</b>			
<b>Current</b>			
Cash		\$ 186	\$ -
GST receivable (net)		55,397	43,301
Prepaid expenses		592	736
Total current assets		56,175	44,037
<b>Non-current</b>			
Exploration and evaluation assets	4	1,663,953	1,603,091
Building and equipment	5	73,003	78,106
Total non-current assets		1,736,956	1,681,197
<b>TOTAL ASSETS</b>		<b>\$ 1,793,131</b>	<b>\$ 1,725,234</b>
<b>Liabilities</b>			
<b>Current</b>			
Bank indebtedness		\$ -	\$ 80
Accounts payable and accrued liabilities	6	321,376	368,199
Due to related parties	8	495,520	286,795
Total liabilities		816,896	655,074
<b>Equity</b>			
Share Capital	7	11,042,998	10,899,331
Reserves		1,460,021	1,460,021
Share Subscriptions Receivable		(112,500)	(125,953)
Deficit		(11,414,284)	(11,163,239)
Total equity		976,235	1,070,160
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 1,793,131</b>	<b>\$ 1,725,234</b>

Nature of Operations and Going Concern (Note 1)  
Commitments (Note 4)

These consolidated financial statements were authorized for issue by the Board of Directors on May 2, 2017. They are signed on behalf of the Board of Directors by:

<u>“Jim Voisin”</u> Director	<u>“Gregg Roberts”</u> Director
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The accompanying notes are an integral part of these consolidated financial statements.

**FIRST MEXICAN GOLD CORP.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**(Stated in Canadian Dollars)**

	Note	YEAR ENDED DECEMBER 31 2016	YEAR ENDED DECEMBER 31 2015
<b>Expenses</b>			
Consulting fees		\$ 60,000	\$ 14,786
Management fees	8	183,000	183,000
Professional fees		28,163	60,637
Office and administration	8	87,173	20,567
Regulatory and transfer agent fees		14,734	15,503
Shareholder communication		6,943	5,781
Share-based compensation		-	94,253
Travel		4,778	7,097
<b>Loss Before Other Income (Expenses)</b>		<b>(384,791)</b>	<b>(401,624)</b>
<b>Other Income (Expenses)</b>			
Gain on debt settlement	7	51,329	45,829
Write down of value added taxes receivable		-	(1,040)
Foreign exchange gain (loss)		82,417	(7,793)
<b>Total Other Income</b>		<b>133,746</b>	<b>36,996</b>
<b>Net Loss and Comprehensive Loss for the Year</b>		<b>\$ (251,045)</b>	<b>\$ (364,628)</b>
<b>Basic and Diluted Loss Per Common Share</b>	<b>10</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>
<b>Basic and Diluted Weighted Average Number of Common Shares Outstanding</b>		<b>79,415,545</b>	<b>70,077,395</b>

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

**FIRST MEXICAN GOLD CORP.**  
**Consolidated Statements of Changes in Equity**  
**Years Ended December 31, 2016 and 2015**  
**(Stated in Canadian Dollars)**

	SHARE CAPITAL		SHARE SUBSCRIPTIONS (RECEIVABLE) ADVANCED	RESERVES				
	NUMBER	AMOUNT		SHARE-BASED COMPENSATION	WARRANTS	TOTAL	DEFICIT	TOTAL
Balance, December 31, 2014	65,544,365	\$ 10,511,331	\$ 76,318	\$ 1,305,617	\$ 60,151	\$ 1,365,768	\$ (10,798,611)	\$ 1,154,806
Shares Issued for:								
Cash – private placements	11,666,663	350,000	(202,271)	-	-	-	-	147,729
Debt settlement	760,000	38,000	-	-	-	-	-	38,000
Fair value of options issued	-	-	-	94,253	-	94,253	-	94,253
Net loss for the year	-	-	-	-	-	-	(364,628)	(364,628)
Balance, December 31, 2015	77,971,028	10,899,331	(125,953)	1,399,870	60,151	1,460,021	(11,163,239)	1,070,160
Warrants exercised	2,873,332	143,667	-	-	-	-	-	143,667
Share subscriptions received	-	-	13,453	-	-	-	-	13,453
Net loss for the year	-	-	-	-	-	-	(251,045)	(251,045)
<b>Balance, December 31, 2016</b>	<b>80,844,360</b>	<b>\$ 11,042,998</b>	<b>\$ (112,500)</b>	<b>\$ 1,399,870</b>	<b>\$ 60,151</b>	<b>\$ 1,460,021</b>	<b>\$ (11,414,284)</b>	<b>\$ 976,235</b>

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

**FIRST MEXICAN GOLD CORP.**  
**Consolidated Statements of Cash Flows**  
**(Stated in Canadian Dollars)**

	YEAR ENDED DECEMBER 31 2016	YEAR ENDED DECEMBER 31 2015
<b>Operating Activities</b>		
Net loss for the year	\$ (251,045)	\$ (364,628)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	-	94,253
Gain on debt settlement	(51,329)	(45,829)
Changes in non-cash working capital:		
GST receivable (net)	(12,096)	(21,814)
Prepaid expenses	144	4,671
Accounts payable and accrued liabilities	(32,955)	304,853
Due to related parties	208,725	(127,104)
<b>Cash used in operating activities</b>	<b>(138,556)</b>	<b>(155,598)</b>
<b>Investing Activity</b>		
Exploration and evaluation asset expenditures	(18,298)	(11,274)
<b>Cash used in investing activity</b>	<b>(18,298)</b>	<b>(11,274)</b>
<b>Financing Activities</b>		
Shares issued for cash	143,667	147,729
Share subscriptions received	13,453	-
<b>Cash provided by financing activities</b>	<b>157,120</b>	<b>147,729</b>
<b>Increase (Decrease) in Cash</b>	<b>266</b>	<b>(19,143)</b>
<b>(Bank indebtedness) cash, Beginning of Year</b>	<b>(80)</b>	<b>19,063</b>
<b>Cash (bank indebtedness), End of Year</b>	<b>\$ 186</b>	<b>\$ (80)</b>

**SUPPLEMENTAL CASH FLOW DISCLOSURE AND  
NON-CASH FINANCING AND INVESTING ACTIVITIES:**

Non-cash items capitalized to exploration and evaluation assets	\$ 5,103	\$ 45,548
Shares issued for settlement of debt	\$ -	\$ 38,000

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

**FIRST MEXICAN GOLD CORP.**  
**Notes to Consolidated Financial Statements**  
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**1. NATURE OF OPERATIONS AND GOING CONCERN**

First Mexican Gold Corp, ("FMG" or the "Company"), was incorporated under the Business Corporations Act (British Columbia) on August 9, 2007. The Company is engaged principally in the acquisition, exploration and development of mineral properties through its wholly owned subsidiary, Cornelius exploration S. de R.L. de C.V., in Mexico. The Company's head office is located at 1000-355 Burrard Street, Vancouver, BC, Canada, V6C 2G8 and registered and records office is located at 10<sup>th</sup> Floor, 595 Howe Street, Vancouver, BC, V6C 2T5.

The Company is in the process of exploring and evaluating its exploration and evaluation assets. The underlying value of the exploration and evaluation assets is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. The amounts shown as exploration and evaluation assets do not necessarily represent present or future values.

At December 31, 2016, the Company had working capital deficiency of \$760,721 (2015 - \$611,037) and an accumulated deficit of \$11,414,284 (2015 - 11,163,239). The Company will require additional financing or outside participation to undertake further exploration and subsequent development of its mineral property interests. The Company's ability to continue as a going-concern is dependent on the ability of the Company to raise equity financing in the future to fund further exploration work and to fund continuing operating losses, and ultimately on the attainment of profitable operations to meet the Company's liabilities as they become payable.

These financial statements have been prepared on a going-concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. As at December 31, 2016, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its business plan. The Company plans on raising sufficient funds in order to finance ongoing exploration and administrative expenses through additional equity financing; however, there can be no assurance that such financing will be available or be available on favorable terms. All of these factors may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments for the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going-concern.

**2. BASIS OF PREPARATION**

**a) Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Accounting Standards as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") issued and outstanding as of December 31, 2016.

**b) Basis of Measurement**

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale that have been measured at fair value.

These consolidated financial statements have also been prepared using the accrual basis of accounting, except for cash flow information.

**c) Functional Currency**

The presentation currency and the functional currency of the Company and each of its subsidiaries is the Canadian dollar.

**FIRST MEXICAN GOLD CORP.**  
**Notes to Consolidated Financial Statements**  
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**2. BASIS OF PREPARATION (Continued)**

**d) Critical Accounting Judgments and Estimates**

The preparation of these consolidated financial statements requires management to make judgments and estimates 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 judgments and estimates. The consolidated financial statements include judgments and estimates, which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the 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 the revision may affect both the period of revision and future periods.

Significant assumptions about the future and other sources of judgments and estimates that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

**Critical Judgments**

- The assessment of the Company's ability to raise sufficient funds to finance its exploration and administrative expenses involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
- Management's capitalization of exploration and evaluation costs and assumptions regarding the future recoverability of such costs are based on, among other things, the Company's estimate of current mineral reserves and resources which are based on engineering and geological estimates, estimated gold and silver prices, and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future and this could affect the carrying value and the ultimate recoverability of the amounts recorded for mineral properties.
- The analysis of the functional currency for each entity of the Company involves judgment. In concluding that the Canadian dollar is the functional currency of the parent and its subsidiary companies, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant, the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.
- Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management is not aware of any tax liabilities outstanding as of the year end date; however, the final tax filings and assessments could result in tax liabilities that have not been recognized.

**FIRST MEXICAN GOLD CORP.**  
**Notes to Consolidated Financial Statements**  
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**2. BASIS OF PREPARATION**

**d) Critical Accounting Judgments and Estimates (Continued)**

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped. Management's assessment is that the ability of the taxable entities to generate sufficient taxable income in the foreseeable future is uncertain and accordingly, no deferred income tax assets have been recognized in the consolidated statements of financial position.

**Estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from management's best estimates, as additional information becomes available. The most sensitive estimates affecting the financial statements were the identification and capitalization of exploration costs, determination of impairment in the carrying values for long-lived assets, the existence of contingent assets and liabilities, the valuation of share-based compensation and the valuation of deferred income tax assets.

Areas where estimates are significant to the consolidated financial statements were as follows:

- carrying values of exploration and evaluation assets;
- the inputs used in accounting for share purchase option expense in the consolidated statements of loss and comprehensive loss; and
- the determination of income taxes and the valuation of deferred income tax assets.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: First Mexican Resources Ltd., a company incorporated under the laws of the Province of British Columbia, Canada and Cornelius Exploration S. de R.L. de C.V. ("Cornelius"), a company incorporated under the laws of Mexico, hereinafter collectively referred to as the "Company". A wholly owned subsidiary is an entity in which the Company has control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. All significant inter-company balances and transactions have been eliminated upon consolidation.

**Cash and Cash Equivalents**

Cash consists of cash on hand and demand deposits. Cash equivalents include highly-liquid investments with initial maturities of less than three months. The Company has no cash equivalents at December 31, 2016 and 2015.

**FIRST MEXICAN GOLD CORP.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Exploration and Evaluation Assets**

General exploration and evaluation (“E&E”) expenditures incurred prior to acquiring the legal right to explore are charged to the statements of loss and comprehensive loss as incurred.

Once legal right to explore has been acquired, the Company capitalizes all costs related to mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company’s mineral rights are allowed to lapse. The amounts shown for exploration and evaluation assets represent costs incurred to date and do not necessarily reflect present or future values.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

Deferred mineral property expenditures are depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims are allowed to lapse.

**Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is recognized using the declining balance method at the following annual rates:

Computer equipment	55%
Office equipment	20%
Machinery and equipment	10%
Transportation equipment	25%
Construction	5%

**Loss Per Share**

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. Under this method, the weighted average number of common shares used to calculate the dilutive effect on earnings assumes that the proceeds that could be obtained upon exercise of options, warrants and similar instruments would be used to purchase common shares at the average market price during the period. In periods where a net loss is incurred, basic and diluted loss per share is the same as the effect of outstanding stock options and warrants would be anti-dilutive.

**Share Capital**

- i) Share consideration and share based payments - Warrants, stock options and other equity instruments issued as purchase consideration in non-cash transactions, other than as consideration for exploration and evaluation assets, are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as purchase consideration for mineral properties is based upon the trading price of those shares on the date of the agreement to issue shares as determined by the Board of Directors. Proceeds from unit placements are allocated between shares and warrants issued using the residual method.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Share Capital (Continued)**

All share-based awards made to employees and non-employees are measured and recognized using the Black-Scholes option pricing model. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. Stock options that vest over time are recorded over the vesting period using the graded vesting method. At each financial reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Share based compensation is recognized as expense or, if applicable, capitalized to exploration and evaluation assets with a corresponding increase in reserves. In situations where equity instruments are issued to non-employees and some or all the goods or services received by the Company as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received. If and when the stock options are ultimately exercised, the applicable amounts of reserves are transferred to share capital.

- ii) Share issuance costs - Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.

**Foreign Currency Translation**

The functional currency of the Company and its subsidiaries is the Canadian dollars. Foreign currency balances are translated at the rate of exchange in effect at the statement of financial position date. Foreign currency transactions are translated at the exchange rates approximating those in effect at the time of the transactions. Translation gains and losses are included in the results of operations for the period. All non-monetary items are translated at historical exchange rates.

**Restoration Provision**

The Company records a liability based on the best estimate of costs for restoration activities that the Company is legally or constructively required to remediate and recognizes the liability when those obligations result from the acquisition, construction, development or normal operations of assets. Restoration provisions are measured at the present value of the expected expenditures required to settle the obligation using a pre-tax discount rate reflecting the time value of money and risks specific to the liability. The liability is increased for the passage of time and adjusted for changes to the current market-based risk-free discount rate, and the amount of or timing of the underlying cash flows needed to settle the obligation. The associated restoration costs are capitalized as part of the carrying amount of the related property, plant and equipment and amortized on a systematic basis over the expected useful life of the asset.

**Comprehensive Income**

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. The Company had no other comprehensive income or loss transactions during the years ended December 31, 2016 and 2015 and as a result, comprehensive loss was equal to net loss.

**FIRST MEXICAN GOLD CORP.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**Assessing Going Concern**

When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon a company's ability to continue as a going concern, those uncertainties should be disclosed. The Company has performed such an assessment and has concluded that it is appropriate to present these financial statements using the going concern assumption.

**Impairment of Long-Lived Assets**

At each reporting date the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Determining the recoverable amount requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

For the purposes of impairment testing, equipment and exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial Instruments**

The Company classifies all financial instruments as fair value through profit or loss ("FVTPL"), loans and receivables, available-for-sale investments, or other financial liabilities. The classification depends on the purpose for which the assets were acquired. Management determines the classification of financial assets and liabilities at initial recognition.

i) FVTPL

A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short-term. Although the Company does not acquire derivatives, if it were to, the derivatives would be categorized as FVTPL. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of loss. Cash is designated as FVTPL.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. They are classified as current or non-current assets based on their maturity date, and are carried at amortized cost less any impairment.

iii) Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other financial asset categories. They are included in non-current assets unless management intends to dispose of the asset within twelve months of the statement of financial position date. The Company does not have any financial assets classified as available-for-sale.

iv) Impairment of financial assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

v) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. Other financial liabilities are comprised of accounts payables and accrued liabilities and due to related parties.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Compound Instruments**

The component parts of compound instruments (convertible debt) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a variable number of the Company's own equity instruments is a financial liability.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to equity. When the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will remain in equity. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability and amortized over the lives of the convertible notes using the effective interest method.

**Recent Accounting Standards Not Yet Effective**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

IFRS 9 – Financial Instruments is intended to replace IAS 39 - Financial Instruments: Recognition and Measurement (“IAS 39”) in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments, and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. In November 2009 and October 2010, IFRS 9 (2009) and IFRS 9 (2010) were issued, respectively, which address the classification and measurement of financial assets and financial liabilities. IFRS 9 (2009) requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 (2010) requires that financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as fair value through profit or loss, financial guarantees and certain other exceptions. The Company has not yet early adopted this standard and is assessing the impact upon the implementation of this standard.

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**4. EXPLORATION AND EVALUATION ASSETS**

At December 31, 2016 and 2015, the Company's deferred exploration and acquisition costs for mineral property interests located in Mexico, were as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Balance, beginning of year	<b>\$1,603,091</b>	\$ 1,543,296
Additions during the year		
Acquisition costs	<b>55,759</b>	56,822
Exploration costs		
Amortization	<b>5,103</b>	2,973
Total additions during the year	<b>60,862</b>	59,795
Balance, end of year	<b>\$1,663,953</b>	\$ 1,603,091

The Company's mineral properties are concentrated in one area referred to as the Guadalupe Project.

**Hilda Properties, Mexico**

The Hilda Properties consist of three properties (collectively referred to as the "Hilda Properties"). The Hilda 30 property is a mining claim, containing approximately 256 hectares, and is located east of Hermosillo, near the village of Guadalupe, in the Yecora District, State of Sonora, Mexico. The Hilda 37/38 property consists of two mining exploration concessions, containing approximately 1,095 hectares, and is located east of Hermosillo, between the towns of Santa Ana and Guadalupe Tayopa, in the Yecora District, State of Sonora, Mexico. The Hilda 31/32 property consists of three mining exploration concessions, containing approximately 146 hectares, and is located east of Hermosillo, between the towns of Santa Ana and Guadalupe Tayopa, in the Yecora District, State of Sonora, Mexico.

On April 10, 2007, the Company entered into an assignment agreement with 210927 Ontario Inc., an unrelated private company, whereby 210927 Ontario Inc. agreed to assign and transfer to the Company its option to purchase up to 60% or a 40% interest in the mineral properties in Hilda 30 for a fee of \$120,000 (paid) and the issuance of 2,000,000 shares (issued) in the Company.

Pursuant to the above noted assignment agreement, on May 15, 2007, the Company entered into an option agreement with a wholly owned subsidiary of International Millennium Mining Corp. ("IMMC"), to acquire an option to purchase an undivided 60% interest (the 60% Option) in certain selected properties, and a right to acquire a 40% interest in certain selected properties (the 40% Option) (collectively the "Options"). In consideration of IMMC granting the Company the options, the Company agreed to expend an aggregate total of \$1,000,000 (completed) on expenditures upon or in relation to any one or more of the prospecting area properties.

On December 10, 2009, the Company entered into an amended and restated option agreement (the "Hilda Properties Agreement") for both the Hilda Properties. The Hilda Properties Agreement supersedes all previous option agreements. In consideration of the Company expending the sum of US \$239,808 on expenditures on the properties on or before August 31, 2010 (completed), the Company will be granted the exclusive and irrevocable right and option to acquire a 60% undivided interest in and to one of the Hilda Properties, and the exclusive and irrevocable right and option to acquire a 40% undivided interest in and to the other Hilda Properties.

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**4. EXPLORATION AND EVALUATION ASSETS (Continued)**

**Hilda Properties, Mexico (Continued)**

Upon the selection of the properties, the Company completed the following and was granted the exclusive and irrevocable right and option to acquire an 80% undivided interest in the Hilda Properties:

- expend the sum of US\$3,000,000 on expenditures on or before October 31, 2014 (completed);
- pay the sum of US\$100,000 in cash on or before October 31, 2013 (paid);
- issuing a total of 1,400,000 shares of the Company on or before October 31, 2013 (issued).

Effective January 23, 2012 the Company completed its 80% option earn-in on the Guadalupe property. Immediately following the completion of the "Option Agreement" the Company entered into an agreement to acquire the remaining 20% interest in the Guadalupe property in exchange for the issuance of 4 million shares (issued) and a 2% NSR to IMMC with 1% purchasable at any time for US\$1 million dollars. The 4 million shares were issued subject to a nine month hold period followed by monthly sale restrictions of between 50,000 and 250,000 unless there is a take-over bid for the Company's outstanding shares in which case, the restrictions on sale will be removed.

The above noted option agreement with IMMC is granted to the Company subject to the terms of certain option agreements (the "Sub-Option Agreements"), which terms the Company is obligated to maintain in good standing. Details of the Sub-Option Agreements are as follows:

- (i) an option agreement between IMMC and an unrelated third party (the "Rocha Agreement") dated January 31, 2008 (effective from November 30<sup>th</sup>, 2007) and as amended May 15, 2009. The terms of which provide for payment as follows:
- US \$10,000 on the effective date (paid) and on the date of execution (paid);
  - US \$20,000 on or before May 30, 2008 (paid) and on or before November 30, 2008 (paid);
  - US \$10,000, on or before May 30, 2009 (paid) and November 30, 2009 (paid);
  - US \$35,000, on or before May 30, 2010 (paid) and November 30, 2010 (paid);
  - US \$40,000, on or before May 30, 2011 (paid) and November 30, 2011 (paid);
  - US \$22,500, on or before May 30, 2012 (paid) and November 30, 2012 (paid);
  - US \$50,000, on or before May 30, 2013 (\$40,000 paid) and November 30, 2013;
  - US \$60,000, on or before May 30, 2014 and November 30, 2014;
  - US \$70,000, on or before May 30, 2015 and November 30, 2015;
  - US \$80,000, on or before May 30, 2016 and November 30, 2016;
  - US \$127,500, on or before May 30, 2017 and November 30, 2017.

In 2014, the optionor has agreed to defer all payments due until after the Company receives further equity financing

- (ii) an option agreement between IMMC and certain unrelated third parties (the "Turley Agreement") dated January 12, 2006 and as amended April 10, 2009 and May 22, 2014. The terms of which provide for payments as follows:
- US \$20,000 upon the execution (paid);
  - US \$3,000 on or before May 15, 2005 and each month thereafter until and including April 15, 2008 (paid);
  - US \$5,000, on or before May 15, 2008 and each month thereafter until and including March 15, 2009 (paid);
  - US \$3,000, on or before April 15, 2009 and each month thereafter until and including April 15, 2010 (paid);
  - US \$7,000, on or before May 15, 2010 and each month thereafter until and including April 15, 2012 (paid to April 15, 2012);

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**4. EXPLORATION AND EVALUATION ASSETS (Continued)**

**Hilda Properties, Mexico (Continued)**

- A sum equal to the lesser of US \$100,000 or the balance due, on or before April 15, 2013 (paid) and on or before April 15 of each year thereafter until the US\$1,000,000 is paid.
- (iii) an option agreement between IMMC and an unrelated third party (the “Hilda31/32” Agreement”) dated April 7, 2010 (effective from March 27, 2010). The terms of which provide for payment as follows:
- US \$10,000 on the Effective Date (paid);
  - US \$19,000 on or September 27, 2010 and every six months thereafter until and including March 27, 2015 (paid to March 27, 2013).

In 2015, the optionor has agreed to defer all payments due until after the Company receives further equity financing.

The Company, through its subsidiary, is committed to reimburse the Community of Guadalupe, Tayopa, Mexico (the “Community”) a total of \$245,000 for its occupation of the area. As of December 31, 2016, \$70,000 had been paid due to a lack of activity in the area over the past several years. The Company expects to negotiate a new agreement once exploration resumes.

**Santa Martha Claim, Sonora Mexico**

Pursuant to an agreement dated January 1, 2011, the Company acquired the Claim of Santa Martha, which consists of approximately 68 hectares in the district of Yecora, State of Sonora, Mexico in consideration for US\$50,000 (paid).

**Vianney Fraccion III, San Martin and El Panda Claims, Sonora Mexico**

Pursuant to a February 4, 2011 letter of intent (“LOI 1”), the Company has acquired the claims of Vianney Fraccion III, San Martin and El Panda, contiguous to the Hilda Properties, consisting of approximately 3,999 hectares in the district of Yecora, State of Sonora, Mexico, in consideration for US\$186,000 and 1,600,000 common shares (paid and issued). Terms of the LOI 1 also provide a 2.5% net smelter royalty (“NSR”) with the right to re-purchase 1.5% NSR at any time after the date of the LOI 1 for US\$1,000,000.

**El Hoyo and Santa Maria Claims, Sonora Mexico**

Pursuant to a February 14, 2011 letter of intent (“LOI 2”), the Company has acquired the claims of El Hoyo and Santa Maria, consisting of approximately 5,941 hectares in the district of Yecora, State of Sonora, Mexico, in consideration for US\$125,000 and 940,000 common shares (paid and issued).

**Link Natural Resources Joint Venture**

In October 2015, the Company executed a definitive agreement with Link Natural Resources FZC (LNR), a private entity in the United Arab Emirates (Dubai) to form a 50/50 Joint-Venture (JV) in order to further advance the Guadalupe project. LNR was to acquire a 50% working interest in exchange for a scheduled investment within the first year totaling \$8.0 million (all funds US). To date the Company has not received any funds as LNR continues to look for a reliable partner to help fund the project.

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**5. EQUIPMENT**

	Office Equipment	Computers	Machinery & Equipment	Transportation Equipment	Construction	Total
Cost at December 31, 2014	\$ 6,831	\$ 4,823	\$ 17,617	\$ 32,251	\$ 70,953	\$ 132,475
Additions	-	-	-	-	-	-
Cost at December 31, 2015	6,831	4,823	17,617	32,251	70,953	132,475
Additions	-	-	-	-	-	-
<b>Cost at December 31, 2016</b>	<b>\$ 6,831</b>	<b>\$ 4,823</b>	<b>\$ 17,617</b>	<b>\$ 32,251</b>	<b>\$ 70,953</b>	<b>\$ 132,475</b>
Accumulated amortization at December 31, 2014	\$ 4,041	\$ 4,803	\$ 6,674	\$ 22,037	\$ 13,841	\$ 51,396
Amortization	335	4	1,326	(1,381)	2,689	2,973
Accumulated amortization at December 31, 2015	4,376	4,807	8,000	20,656	16,530	54,369
Amortization	393	-	1,557	-	3,153	5,103
<b>Accumulated amortization at December 31, 2016</b>	<b>\$ 4,769</b>	<b>\$ 4,807</b>	<b>\$ 9,557</b>	<b>\$ 20,656</b>	<b>\$ 19,683</b>	<b>\$ 59,472</b>
Net book value at December 31, 2015	\$ 2,455	\$ 16	\$ 9,617	\$ 11,595	\$ 54,423	\$ 78,106
<b>Net book value at December 31, 2016</b>	<b>\$ 2,062</b>	<b>\$ 16</b>	<b>\$ 8,060</b>	<b>\$ 11,595</b>	<b>\$ 51,270</b>	<b>\$ 73,003</b>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31, 2016	December 31, 2015
Trade payables	\$ 304,486	\$ 351,269
Accrued liabilities	16,890	16,930
<b>Total</b>	<b>\$ 321,376</b>	<b>\$ 368,199</b>

**7. SHARE CAPITAL AND RESERVES**

The authorized share capital consists of unlimited common shares without par value.

**Share transactions for the year ended December 31, 2016 were as follows:**

On June 30, 2016, 2,873,332 warrants were exercised at \$0.05 per share for proceeds of \$143,667.

**Share transactions for the year ended December 31, 2015 were as follows:**

In July 2015, the Company issued 760,000 common shares in settlement of \$38,000 of amounts owing, including \$22,500 to the Company's President and CEO, and \$15,500 to a director of the Company.

In July 2015, the Company closed the first tranche of a non-brokered private placement by the sale of 3,509,998 units, at \$0.03 per unit, for total proceeds of \$105,300. Each unit is comprised of one share and a transferable common share purchase warrant, exercisable for the purchase of one additional share, at a price of \$0.05 per share for a period of two years.

In September 2015, the Company closed the second tranche of a non-brokered private placement by the sale of 8,156,665 units, at \$0.03 per unit, for total proceeds of \$244,700. Each unit is comprised of one share and a transferable common share purchase warrant, exercisable for the purchase of one additional share, at a price of \$0.05 per share for a period of two years.

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**7. SHARE CAPITAL (Continued)**

**Warrants**

Warrant transactions are summarized as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance, December 31, 2014	4,514,285	\$ 0.10
Warrants issued	11,666,663	0.10
Warrants expired	(4,514,285)	0.05
Balance, December 31, 2015	11,666,663	0.05
Warrants exercised	(2,873,332)	0.05
Warrants issued	-	0.00
<b>Balance, December 31, 2016</b>	<b>8,793,331</b>	<b>\$ 0.05</b>

As at December 31, 2016, the weighted average remaining life of warrants outstanding was 0.95 years.

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

<b>Number of Warrants</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
636,666	\$0.05	June 29, 2017
8,156,665	\$0.05	September 16, 2017
<b>8,793,331</b>		

**Special Warrants**

The Company has issued 6,000,000 special warrants that will convert to common shares of the Company at no cost in accordance with achieving certain resource based or performance milestones, with respect to all of the Company's properties:

- 1,000,000 convertible upon achieving 250,000 inferred ounces of gold (equivalent)
- 1,000,000 convertible upon achieving 500,000 inferred ounces of gold (equivalent);
- 1,000,000 convertible upon achieving 750,000 inferred ounces of gold (equivalent); and
- 1,000,000 convertible upon achieving 1,000,000 inferred ounces of gold (equivalent) and 1,000,000 convertible upon raising additional proceeds of no less than \$5,000,000; and
- 1,000,000 convertible against completion and receipt of a bankable feasibility study with respect to the Hilda 30 property.

The Company has not recorded a value for the special warrants because the future occurrence of the underlying contingent events was not determinable. As of December 31, 2016, no special warrants have been converted to common shares.

**Stock Options**

For stock options granted to employees, officers, directors, consultants and charitable organizations, the Company recognizes as an expense the estimated fair value of the stock options granted. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model.

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**7. SHARE CAPITAL (Continued)**

**Stock Options (Continued)**

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2014	5,800,000	\$ 0.080
Granted	1,750,000	0.060
Cancelled	(350,000)	0,250
<b>Outstanding, December 31, 2016 and 2015</b>	<b>7,200,000</b>	<b>\$ 0.085</b>

The following summarizes information about stock options outstanding and exercisable at December 31, 2016:

Number of Shares	Expiry Date	Exercise Price
1,775,000	September 4, 2017	\$0.13
1,475,000	February 18, 2018	\$0.10
2,200,000	August 14, 2019	\$0.06
1,750,000	October 15, 2020	\$0.06
<b>7,200,000</b>		

All the above options vested at the date of grant.

Share-based compensation expense for the year ended December 31, 2016 was \$Nil (2015 - \$94,253).

The fair value of stock options was determined using the Black-Scholes option pricing model based on the following assumptions:

	2016	2015
Risk-free interest rate	N/A	0.85%
Expected dividend yield	N/A	-
Expected stock price volatility	N/A	145%
Expected forfeitures	N/A	0%
Expected option life in years	N/A	5

The risk free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed option life. The expected price volatility is based on the historical volatility (based on the remaining life of the options). Expected forfeitures are based on historical forfeitures for each individually vesting tranche. The expected average option term is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche.

**Nature and Purpose of Reserves**

The "Share-Based Compensation Reserve" is used to recognize the fair value of stock option grants prior to exercise, expiry or cancellation. The Warrants Reserve issued to recognize the fair value of warrants issued in consideration for completed equity financing.

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**8. DUE TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS**

All related party transactions were measured at the amount of consideration established and agreed to by the related parties. All amounts due from/due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

**Compensation of Key Management Personnel**

The remuneration of directors and other members of key management personnel included:

	<b>Years ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Management fees	<b>\$ 183,000</b>	\$ 194,286
Salaries	<b>30,000</b>	13,500
Share based payments	-	90,214
<b>Total compensation of key management</b>	<b>\$ 213,000</b>	<b>\$ 298,000</b>

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2016 and 2015.

**Other Transactions**

At year end, the Company had the following outstanding balance payable to related parties:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2015</b>
Officers and Directors	<b>\$ 495,520</b>	\$ 286,795

**9. INCOME TAXES**

The income taxes shown in the statements of loss and comprehensive loss differ from the amounts obtained by applying statutory rates to loss before income taxes due to the following:

	<b>2016</b>	<b>2015</b>
Statutory tax rate	<b>26.0%</b>	26.0%
Expected income tax recovery	<b>\$ (70,000)</b>	\$ (95,000)
Permanent differences and other	<b>21,000</b>	83,000
Unrecognized tax losses	<b>49,000</b>	12,000
<b>Income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

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**9. INCOME TAXES (Continued)**

The significant components of the Company's deferred income tax assets are as follows:

	<u>2016</u>	<u>2015</u>
Non-capital losses carried forward	\$ 1,720,000	\$ 1,660,000
Capital losses carried forward	29,000	29,000
Capital assets and Share issue costs	(11,000)	(13,000)
Resource properties	585,000	598,000
Unrecognized deferred tax assets	(2,323,000)	(2,274,000)
	<u>\$ -</u>	<u>\$ -</u>

The Company has approximately \$3,316,000 in Mexican tax losses which will begin to expire in 2017.

The Company has approximately \$3,667,000 in Canadian non-capital losses that can be carried forward to reduce future income for tax purposes that expire as follows:

<u>Expiry Date</u>	<u>Amount</u>
2027	\$ 145,000
2028	251,000
2029	382,000
2030	291,000
2031	647,000
2032	485,000
2033	413,000
2034	341,000
2035	361,000
2036	351,000
	<u>\$ 3,667,000</u>

The Company also has Canadian resource related expenditures totaling approximately \$4,147,000 which can be used to offset future income taxes.

**10. LOSS PER SHARE**

The calculation of basic and diluted loss per share for the year ended December 31, 2016 was based on the loss attributable to common shareholders of \$251,045 (2015 – \$364,628) and a weighted average number of common shares outstanding of 79,415,545 (2015 – 70,077,395).

Diluted loss per share did not include the effect of 7,200,000 stock options, 8,793,331 warrants, and 6,000,000 special warrants (2015 – 7,200,000, 11,666,663, and 6,000,000 respectively) because they are anti-dilutive.

**11. SEGMENTED INFORMATION**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operation decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the mineral exploration sector. The Company's mining operations are centralized whereby the Company's head office is responsible for the exploration results and for providing support in addressing local and regional issues. The Company's exploration and evaluation assets are in Mexico.

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**11. SEGMENTED INFORMATION (Continued)**

<b>December 31, 2016</b>	<b>Canada</b>	<b>Mexico</b>	<b>Consolidated</b>
Current assets	\$ 61,984	\$ (5,809)	\$ 56,175
Exploration and evaluation assets	-	1,663,953	1,663,953
Building and equipment	-	73,003	73,003
<b>Total Assets</b>	<b>\$ 61,984</b>	<b>1,731,147</b>	<b>\$ 1,793,131</b>
<b>Net Loss</b>	<b>\$(164,515)</b>	<b>\$ (86,530)</b>	<b>\$ (251,045)</b>

  

<b>December 31, 2015</b>	<b>Canada</b>	<b>Mexico</b>	<b>Consolidated</b>
Current assets	\$ 43,300	\$ 737	\$ 44,037
Exploration and evaluation assets	-	1,603,091	1,603,091
Building and equipment	-	78,106	78,106
<b>Total Assets</b>	<b>\$ 43,300</b>	<b>\$ 1,681,934</b>	<b>\$ 1,725,234</b>
<b>Net Loss</b>	<b>\$(355,960)</b>	<b>\$ (8,668)</b>	<b>\$ (364,628)</b>

**12. MANAGEMENT OF CAPITAL**

The Company's objectives when managing capital are to safeguard the Company's ability to continue its operations, so that it can bring its exploration projects to commercial production and provide returns for shareholders and benefits for other stakeholders.

The Company relies mainly on equity issuances to raise new capital. In the management of capital, the Company includes the components of shareholders' equity as well as cash. The capital structure of the Company currently consists of common shares.

The Company's investment policy is to invest its cash in highly liquid short-term deposits with terms of one year or less and which can be liquidated without interest or penalty. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or sell assets to fund operations.

There were no changes to the Company's approach to capital management during the year.

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. Cash is designated as fair value through profit or loss and measured at fair value. Accounts payable, accrued liabilities, and due to related parties are designated as other financial liabilities and measured at amortized cost.

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**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop certain of these estimates. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

Cash is recorded at fair value and the Company's other financial instruments are recorded at amortized cost, which approximate fair value due to their short term nature.

The following table sets for the Company's financial assets measured at fair value by level within the fair value hierarchy:

	LEVEL	FAIR VALUE THROUGH PROFIT OR LOSS	OTHER FINANCIAL LIABILITIES	TOTAL CARRYING VALUE
<b>Financial assets</b>				
Cash	1	\$ 186	\$ -	\$ 186
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	2	\$ -	\$ (353,919)	\$ (353,919)
Due to related parties	2		(462,977)	(462,977)
		\$ -	\$ (816,896)	\$ (816,896)

There have been no transfers between levels 1 and 2, or transfers in or out of level 3 for the years ended December 31, 2016 and 2015.

The mining industry in general is intensely competitive and there is no assurance that a profitable market may exist for any substances discovered. Commodity prices have fluctuated significantly, particularly recently, the effect of which cannot be accurately predicted.

The Company's financial instruments are exposed to certain financial risks, which include currency risk, credit risk, liquidity risk and interest rate risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies as set out herein.

a) Currency Risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Mexico, and as a result a portion of the Company's expenditures are in Mexican pesos. The risk from a significant change in the exchange rate of the Canadian dollar relative to the Mexican peso could have an effect on the Company's results of operations, financial position or cash flows. However, management believes that the Company's foreign currency exchange risk is not significant at this time. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2016, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican pesos (MP):

	MP 2016	MP 2015
Receivables and advances	617,000	617,000
Accounts payable and accrued liabilities	(4,736,000)	(4,564,000)
Net exposure	(4,119,000)	(3,947,000)

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**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

a) Currency Risk (Continued)

Based on the above net exposures, and assuming that all other variables remain constant, a 10% change in the value of the Mexican peso against the Canadian dollar would result in an increase/decrease of approximately \$37,500 in net loss for the year ended December 31, 2016 (2015 - \$36,000). As this sensitivity analysis does not take into account any variables other than foreign currency rate fluctuations, and does not reflect the exposure during the reporting period, the above information may not fully reflect the fair value of the assets and liabilities involved.

b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to fulfill an obligation and causes the other party to incur a financial loss. The Company's credit risk consists primarily of cash. The credit risk is minimized by placing cash and investing short term investments with major Canadian financial institutions. Management believes that the credit risk concentration with respect to its bank deposits is remote since all cash is held with financial institutions of reputable credit. The Company does not invest in asset-backed commercial papers.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has sufficient cash to meet its obligations and liquidity risk is therefore considered minimal. The Company manages liquidity risk through the management of its capital resources as outlined in Note 12.

d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash is limited because they are generally held to maturity. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. Interest rate risk is not significant to the Company as it has no cash equivalents at year end. As at December 31, 2016, with other variables unchanged, a 1% change in the variable interest rates would not have had an insignificant impact on the loss of the Company.

e) Environmental Risk

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation.

The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

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**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

f) Political and other Risks

The Company's mineral properties located in Mexico expose the Company to different considerations and other risks not typically associated with companies in Canada. Such risks are associated with the political, economic and legal environments. The Company's results may be adversely affected by changes in the political and social conditions in Mexico and by changes in government policies with respect to laws and regulations.