

# **PHOENIX METALS CORPORATION**

**Consolidated Financial Statements**

**Year Ended December 31, 2016 and 2015**

**(Expressed in Canadian Dollars)**

## **Management's Responsibility**

To the Shareholders of Phoenix Metals Corporation (the "Company"):

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

**April 27, 2017**

*"Brian Leeners"*

Brian Leeners  
Director

*"Lewis Dillman"*

Lewis Dillman  
Director

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Phoenix Metals Corporation:

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

### *Management's Responsibility for the 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.

### *Auditors' 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 auditors' 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 financial statements.

We believe that the audit evidence we have obtained 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 Phoenix Metals Corporation as at December 31, 2016 and December 31, 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 of these consolidated financial statements, which states that Phoenix Metals Corporation incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the ability of Phoenix Metals Corporation to continue as a going concern.

Vancouver, British Columbia



April 27, 2017

Chartered Professional Accountants

# PHOENIX METALS CORPORATION

## Consolidated Statements of Financial Position

As at December 31, 2016 and 2015

	Notes	December 31, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 283,356	\$ 8,813
Amounts receivable		46,127	-
Prepaid expenses	9	1,200	-
		<b>330,683</b>	<b>8,813</b>
Exploration and evaluation assets	6	1	1
<b>TOTAL ASSETS</b>		<b>\$ 330,684</b>	<b>\$ 8,814</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	7	\$ 1,405,038	\$ 1,321,315
Demand loan payable	8	86,623	81,171
		<b>1,491,661</b>	<b>1,402,486</b>
Shareholders' deficiency			
Share capital	9	22,159,424	22,159,424
Share subscriptions received	9	853,041	40,688
Contributed surplus		1,724,224	1,724,224
Deficit		(25,897,666)	(25,318,008)
		<b>(1,160,977)</b>	<b>(1,393,672)</b>
		<b>\$ 330,684</b>	<b>\$ 8,814</b>

Nature of operations and going concern (Note 1)

Subsequent events (Note 15)

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

Approved on behalf of the directors on April 27, 2017

*"Brian Leeners"*

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Director

*"Gregory Pearson"*

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Director

# PHOENIX METALS CORPORATION

## Consolidated Statements of Comprehensive Loss For the Years Ended December 31, 2016 and 2015

		For the Years ended December 31	
	Notes	2016	2015
<b>Expenses</b>			
Consulting and management fees	7	\$ 510,499	\$ 402,206
Foreign exchange loss (gain)		(19,561)	54,345
Impairment of property costs		2,105	41,545
Office and miscellaneous	7	11,882	13,651
Professional fees	7	151,134	7,731
Transfer agent and filing fees		21,257	23,932
<b>Total Expenses</b>		<b>677,316</b>	<b>543,410</b>
<b>Loss before other income (expenses)</b>		<b>(677,316)</b>	<b>(543,410)</b>
<b>Other income (expense)</b>			
Gain on settlement of debt	12	97,658	-
<b>Total other income (expense)</b>		<b>97,658</b>	<b>-</b>
<b>Net loss for the year</b>		<b>(579,658)</b>	<b>(543,410)</b>
<b>Comprehensive loss for the year</b>		<b>\$ (579,658)</b>	<b>(543,410)</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.05)</b>	<b>(0.05)</b>
<b>Weighted average number of common shares outstanding</b>		<b>11,878,381</b>	<b>10,964,861</b>

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

# PHOENIX METALS CORPORATION

## Consolidated Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	For the Years ended December 31,	
	2016	2015
Cash provided by (used in):		
<b>Operating activities</b>		
Comprehensive loss for the period	\$ (579,658)	\$ (543,410)
Items not affecting cash:		
Accrued Interest	8,086	6,818
Gain on settlement of debt	(97,658)	-
Impairment	-	46,933
Foreign exchange	(2,323)	12,499
Changes in non-cash working capital items:		
Accounts payable and accrued liabilities	181,070	429,708
Prepaid expenses	(1,200)	
Amounts receivable	(46,127)	33,125
<b>Net cash provided by (used in) operating activities</b>	<b>(537,810)</b>	<b>(14,327)</b>
<b>Investing activities</b>		
Exploration and evaluation expenditures	-	(12,400)
<b>Net cash (used in) provided by investing activities</b>	<b>-</b>	<b>(12,400)</b>
<b>Financing activities</b>		
Share subscriptions received	812,353	-
Shares issued for cash	-	34,601
<b>Net cash provided by (used in) financing activities</b>	<b>812,353</b>	<b>34,601</b>
Net increase (decrease) in cash	274,543	7,874
Cash, beginning of the year	8,813	939
Cash, end of the year	\$ 283,356	\$ 8,813

# PHOENIX METALS CORPORATION

## Consolidated Statements of Changes in Shareholder's Equity For the Years Ended December 31, 2016 and 2015

	Number of common shares outstanding	Share capital	Subscriptions received	Contributed surplus	Deficit	Total Shareholders' Equity (deficit)
<b>Balance, December 31, 2015</b>	11,878,381	\$ 22,159,424	\$ 40,688	\$ 1,724,224	\$ (25,318,008)	\$ (1,393,672)
Finders' fee	-	-	-	-	-	-
Subscription funds received	-	-	812,353	-	-	812,353
Loss for the year	-	-	-	-	(579,658)	(579,658)
<b>Balance, December 31, 2016</b>	<b>11,878,381</b>	<b>\$ 22,159,424</b>	<b>\$ 853,041</b>	<b>\$ 1,724,224</b>	<b>\$ (25,897,666)</b>	<b>\$ (1,160,977)</b>
<b>Balance, December 31, 2014</b>	10,964,871	\$ 22,068,073	\$ 97,438	\$ 1,724,224	\$ (24,774,598)	\$ (884,863)
Shares issued for cash	913,510	91,351	(56,750)	-	-	34,601
Loss for the year	-	-	-	-	(543,410)	(543,410)
<b>Balance, December 31, 2015</b>	<b>11,878,381</b>	<b>\$ 22,159,424</b>	<b>\$ 40,688</b>	<b>\$ 1,724,224</b>	<b>\$ (25,318,008)</b>	<b>\$ (1,393,672)</b>

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

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### 1. Nature of operations and going concern

Phoenix Metals Corporation (“the Company”) was incorporated in British Columbia on October 21, 1980 and is a public company listed on the TSX Venture Exchange (“TSX-V”). Previously, the principal business activity of the Company was the exploration and evaluation of mineral property interests in North America. The corporate head office of the Company is located at 14<sup>th</sup> Floor, 1040 West Georgia Street, Vancouver, B.C., V6E 4H8.

On June 16, 2016, the Company has acquired, through an assignment agreement with Nexvu Capital Corp., related by a common director and officer, an option to purchase all of the issued and outstanding shares of F4 Environmental Solutions Ltd. from its parent company, F4 Environmental Inc. (the “Vendor”). In consideration, the Company is required to pay in total of \$1,500,000 and issue 5,500,000 common shares of the Company at a minimum deemed price of \$0.20 per shares. In addition, the Company is required to pay four annual royalty payment of \$250,000 to the Vendor. Upon closing of the transaction, F4 will be granted the exclusive worldwide license (the “**Technology License**”) to use, license and exploit certain systems, formulas and processes for the remediation of petroleum hydrocarbon contamination (the “**Technology**”) by the Vendor. Upon completing acquisition of F4, the Technology will be transferred to F4 from the Vendor for the sum of \$1. Upon the Company completing the acquisition of F4, it will also have the option of purchase all of the issued and outstanding shares of the Vendor for \$1. As a result of the option to acquire F4, the Company will be submitting an application to the TSX-Venture Exchange for a change of business. Subsequent to the year ended December 31, 2016, the terms of agreement was revised(Note 15).

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) applicable to a going concern which contemplates that the Company will be able to realize its assets and settle its liabilities in the normal course as they come due for the foreseeable future. As at December 31, 2016, the Company had no source of operating cash flows and reported a comprehensive loss for the year of \$579,658 (2015 - \$543,410), working capital deficit of \$1,160,978 (2015 - \$1,393,673), and has an accumulated deficit of \$25,897,666 (2015 - \$25,318,008), and the Company expects to incur further losses in the development of its business. These factors cast substantial doubt about the Company’s ability to continue as a going concern. Management has estimated that the Company will require additional financing to meet its obligations for the next fiscal year. Continued operations are dependent on the Company’s ability to complete equity financings and secure project debt financing.

These consolidated financial statements do not include adjustments or disclosures that may result should the Company not be able to continue as a going concern.

### 2. Basis of preparation

#### a) Statement of compliance

These consolidated financial statements are audited and represent the annual consolidated financial statements of the Company prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by International Accounting Standards Board (“IASB”), applicable to the preparation of consolidated financial statements. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary AKA Ventures USA Inc. All inter-company transactions have been eliminated upon consolidation.

The Board of Directors approved these consolidated financial statements on April 27, 2017.

#### b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

#### 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 contingency liabilities as at the date of the 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.

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

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The key critical judgment and sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are as follows:

### *Critical judgment in applying accounting policies:*

#### Going concern

These consolidated financial statements have been prepared on the basis of the accounting principles applicable to a going concern, which assumes the Company's ability to continue in operation for the foreseeable future and to realize its assets and discharge its liabilities in the normal course of operations. There are several adverse conditions that cast substantial doubt upon the soundness of this assumption. Refer to note 1 for more details.

### *Key sources of estimation uncertainty:*

#### Impairment of exploration and evaluation assets

In the determination of impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

#### Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

#### Share-based payments

The Company has an equity-settled share-based scheme for directors, officers, employees and consultants. Management determines values for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based non-vested share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and for stock based compensation, future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain, and any changes in these assumptions affect the fair value estimates.

### **3. Significant accounting policies**

The significant accounting policies of the Company are as follows:

#### **a) Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned and controlled subsidiary. 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.

#### **b) Foreign currency translation**

The functional and reporting currency of the Company and its subsidiary is the Canadian dollar. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Foreign exchange gains and losses are included in comprehensive loss.

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

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### c) Cash and cash equivalents

Cash is comprised of cash on hand and deposits in banks. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

### d) Exploration and evaluation assets

General exploration and evaluation expenditures incurred prior to acquiring the legal right to explore are charged to the statement of comprehensive loss as incurred.

Exploration and evaluation assets represent the costs incurred on the exploration and evaluation of potential mineral resources and include costs such as exploratory drilling, sample testing, activities in relation to evaluation of technical feasibility and commercial viability of extracting a mineral resource, surveying, geological and geotechnical expenditures, land maintenance, sampling and storage, mineral claims and permits, and general and administrative costs relating to the support of exploration and evaluation activities. If economically recoverable ore reserves are developed, capitalized costs of the exploration and evaluation assets are reclassified as mining assets and amortized using the unit of production method. No amortization charge is recognized in respect of exploration and evaluation assets. When an exploration and evaluation asset is abandoned, all related costs are written off to profit or loss.

The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. The recoverability of these assets is dependent upon successful development or sale of the undeveloped project. All capitalized exploration and evaluation expenditures are assessed for impairment if facts and circumstances indicate that impairment may exist. If a project does not prove viable or is abandoned, all unrecoverable costs associated with the project, net of any impairment provisions are recognized in comprehensive loss.

### e) Impairment of non-financial assets

Non-financial assets are evaluated at the end of each reporting period by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments to the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU 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 CGU in prior periods. A reversal of an impairment loss is recognized immediately in the statement of comprehensive loss.

### f) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date using the Black-Scholes option pricing model.

The fair value is estimated at grant date and each tranche is recognized on a graded-vesting basis over the period the options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

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### g) Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing profit or loss attributable to ordinary equity holders (numerator) by the weighted average number of ordinary shares outstanding (denominator) during the period. The denominator is calculated by adjusting the shares issued at the beginning of the period by the number of shares bought back during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating diluted EPS.

### h) Income taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in profit or loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to tax authorities.

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amount of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit or loss, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax liabilities are not recognized for taxable temporary differences arising on investments in subsidiary where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future, or on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

### i) Financial instruments

#### Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Management determines the classification of its financial assets at initial recognition.

#### *Fair value through profit or loss*

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through the statement of comprehensive loss. Cash is included in this category of financial assets.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are financial assets that are designated as available-for-sale and that are not classified in any of the other categories. Subsequent to initial recognition at fair value, they are measured at fair value and changes therein are recognized in accumulated other comprehensive income (loss) and presented within equity in accumulated other comprehensive loss. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to comprehensive loss. The Company does not have any available-for-sale financial assets.

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

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### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date, and are carried at amortized cost, using the effective interest method, less any impairment. Loans and receivables are comprised of receivable from related party..

### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, held with the intention of holding these investments to maturity and subsequently measured at amortized cost. These investments are included in non-current assets, except for those which are expected to mature within twelve months after the end of the reporting period. The Company has no financial assets classified as held-to-maturity investments.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence indicating that one or more events have had a negative impact on the estimated future cash flows of that asset. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

An impairment loss in respect of a financial assets measured at amortized cost is calculated as the difference between its carrying amount and the net present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale asset is calculated by reference to its fair value and any amounts in other comprehensive income (loss) are transferred to net loss.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

Gains or losses related to impairment or de-recognition are recognized in the statement of comprehensive loss in the period in which they occur. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

### **Financial liabilities**

The Company classifies its financial liabilities as other financial liabilities. Management determines the classification of its financial liabilities at initial recognition. Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of comprehensive loss over the period to maturity using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Other financial liabilities include accounts payable and accrued liabilities and demand loan payable.

### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issuance costs.

### **j) New accounting standards, amendments and interpretations**

#### **New accounting standards adopted:**

The following standards, amendments and interpretations have been adopted by the Company as of January 1, 2016. There was no material impact on the consolidated financial statements as a result of the adoption of these standards, amendments and interpretations:

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

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- Amendments to IAS 32 - Financial Instruments: Presentation amendment provides clarification on the application of offsetting rules. There was no impact to the Company arising from the adoption of this standard.

### Issued but not yet effective:

The IASB issued the following standards, which are not yet effective and have not been applied in the preparation of these consolidated financial statements. The Company is in the process of determining the extent of the impact on its financial statements.

- IFRS 9 Financial Statements, this new standard is a partial replacement of International Accounting Standard (“IAS”) 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The proposed effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018.
- The IASB issued IFRS 15, Revenue from Contracts with Customers, which provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related Interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. This standard is effective for reporting periods beginning on or after January 1, 2018.

The Company has not early adopted these revised standards and are currently assessing the impact that these standards will have on the financial statements.

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

### k) Comparative financial statements

Certain comparative figures have been reclassified to conform to the current year presentation.

### 4. Capital management

The Company classifies its share capital and contributed surplus as capital, which at December 31, 2016 totalled \$24,736,689 (2015 - \$23,924,336). When managing capital, the Company’s objective is to ensure the entity continues as a going concern as well as to maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide optimal returns to shareholders and benefits for other stakeholders. 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 Company is dependent upon external financing to fund its activities. In order to carry out its business activity and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company’s approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

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### 5. Financial instruments and financial risk management

#### a) 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.

#### b) 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;

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); and

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

The Company's financial instruments carried on the Statement of Financial Position are carried at amortized cost with the exception of cash and cash equivalents. These instruments have been assessed on the fair value hierarchy described above and classified as Level 1.

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

#### c) Financial risks

##### (i) Interest rate risk

The Company's interest rate risk arises primarily from the interest received on cash, which is invested on a short term basis to enable adequate liquidity for payment of operational and capital expenditures. The Company's demand loan payable have fixed rates of interest. Therefore, interest rate risk is considered minimal.

##### (ii) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, demand loan payable and accounts payable and accrued liabilities that are denominated in US dollars. The Company does not use derivative instruments to reduce its exposure to foreign exchange risk. A 10% change in the value of the US dollar against the Canadian dollar would have impact of \$19,033 on the Company's comprehensive loss.

##### (iii) Credit risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The Company's credit risk is primarily attributable to cash, and amounts receivable from related party. The Company limits its exposure to credit risk on cash as these financial instruments are held with major Canadian and international banks, from which management believes the risk of loss to be 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. Liquidity requirements are managed based on expected cash flow to ensure there is capital to meet short term and long term obligations. As at December 31, 2016, the Company did not have sufficient cash on hand to pay its short term creditors and does not generate cash from its operations. Accordingly, liquidity risk is considered high.

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

### 6. Exploration and evaluation assets

#### a) Exploration and evaluation assets - reconciliation

A reconciliation of exploration and evaluation assets is as follows:

	Copper Joe, Arizona		Total
Balance, December 31, 2014	\$	1	\$ 1
Acquisition costs		-	-
Claims maintenance fees		-	-
Balance, December 31, 2015 and 2016	\$	1	\$ 1

#### b) Copper Joe, Arizona, USA

On May 12, 2010, the Company entered into an option agreement with 0733351 BC Ltd. ("0733351"), a company controlled by current and past directors, to acquire up to a 60% interest in the Copper Joe property in Mohave County, Arizona. In order to exercise the option, the Company was required to pay 0733351 \$100,000 USD in cash, issue 6,000,000 pre-consolidation common shares, and incur \$4,500,000 USD in exploration expenditures over a four year period, as follows:

- i. on completion of financing, pay \$20,000 USD in cash (paid);
- ii. within 3 days of TSX-V approval, pay \$80,000 USD in cash (paid) and issue 500,000 shares (issued);
- iii. upon completion of a positive 43-101 report, issue 1,500,000 shares (issued);
- iv. upon first anniversary of closing, issue 1,000,000 shares (issued) and incur \$200,000 USD in exploration expenditures (incurred);
- v. upon second anniversary of closing, issue 1,000,000 shares (issued) and incur \$1,000,000 USD in exploration expenditures (contractually extended for one year and subsequently incurred);
- vi. upon third anniversary of closing, issue 1,000,000 (issued) shares and incur \$1,500,000 USD in exploration expenditures (contractually extended for one year); and
- vii. upon fourth anniversary of closing, issue 1,000,000 of shares and incur \$1,800,000 USD in exploration expenditures (contractually extended for one year).

During the year ended December 31, 2013, the Company recorded an impairment allowance on the Copper Joe property in the amount of \$1,918,901 as the Company has decided to discontinue exploration on this property, bringing the carrying value to \$1.

#### c) Alberta, Canada

In October 2014, the Company entered into a binder letter of intent with Zimtu Capital Corp. and DG Resource Management Ltd. to acquire a 100% interest in four metallic and industrial mineral permits in northwestern Alberta, collectively known as the Peace River Frac Sand Project. The agreement requires a payment of \$10,000 (paid) on signing of the letter of intent, and payment of a further \$15,000 and issuance of 2.25 million common shares on exchange approval. The vendors will retain a 2% royalty on production, 1% of which can be purchased for \$1,000,000 at the option of the Company.

In November 2014, the Company entered into a binding letter of intent with PMR to option a 60% interest in the above-noted Peace River Frac Sand permits. The agreement requires a one-time cash payment of \$50,000 and cumulative work expenditures of \$500,000 over 24 months. Prime Meridian Resources Corp. paid \$25,000 in 2015, but during the year ended December 31, 2015, decided to terminate the option.

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

### 7. Related party transactions

During the years ended December 31, 2016 and 2015, the Company entered into transactions with the related parties as below:

Name	Relationship	Nature of Transaction	Fees incurred	Fees incurred	Balance	Balance
			for the year ended	for the year ended	payable at	payable at
			December 31,	December	December	December
			2016	31,	31,	31,
				2015	2016	2015
Nexvu Services Inc.	Owned by Nexvu Capital Corporation, which Brian Leeners, Greg Pearson and Gordon Fretwell are shareholders	Rent and corporate services	\$ 120,000	\$ 120,000	\$ 339,925	\$ 279,779
Brian Leeners	Chief executive officer and director	Management services	120,000	120,000	307,450	309,300
ISG Professional Services Inc.	Annie Storey, former chief financial officer, who is a shareholder	Accounting services	10,000	60,000	141,225	139,125
KnowHowe Media	Brian Leeners is a shareholder	Advertising and promotion	-	12,000	-	27,460
Global Link Capital	Greg Pearson, director of the Company, is a shareholder	Management services	120,000	90,000	205,650	202,100
Gordon J. Fretwell, Law Corporation	Gordon Fretwell is a shareholder of Nexvu Capital Corporation.	Legal services	132,384	5,000	151,309	18,925
0733351 BC Ltd.	Owned by Nexvu Capital Corporation, which Brian Leeners, Greg Pearson and Gordon Fretwell are shareholders	Property option	-	-	10,089	10,373
AE Financial Management Ltd.	Edward Low, chief financial officer, is a shareholder	Accounting services	35,000	-	7,350	-
			\$ 537,384	\$ 407,000	\$ 1,162,998	\$ 987,062

The amounts payable to related parties summarized as below were included in accounts payable and accrued liabilities. Balances owing are unsecured, non-interest bearing and have no specified terms of repayment.

The Company advanced Prime Meridian Resources Corp., a company with officers and directors in common, \$25,000 (2015 - \$nil). The advance is interest-free and payable on demand and included in amounts receivable.

Included in accounts payable and accrued liabilities, but not included in the table above, are advances from Nexvu Capital Corporation for \$46,577 (2015 - \$10,888). The advance is interest-free and payable on demand.

### 8. Demand loan payable

The demand loan payable in the amount of \$86,623 or US\$64,514 (2015 - \$81,171 or US\$58,649) is from a non-related party, is unsecured and payable on demand, and bears interest at 10% per annum. The loan initially matured on December 1, 2014 and became on demand upon default of repayment. During the year ended December 31, 2016, the Company accrued \$7,775 of interest (2015 - \$6,818).

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

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### 9. Share capital

Authorized: unlimited common voting shares, without par value.

#### *Private placements*

During the year ended December 31, 2015, the Company closed a private placement at \$0.025 per unit raising gross proceeds of \$91,351. Each unit consisted of one common share and one share purchase warrant enabling the holder to acquire one additional common share at a price of \$0.05 per share for one year from closing. The warrants are subject to the right of the Company to accelerate the exercise price for the warrants if the common shares of the Company trade about 10 cents for a period of 10 consecutive trading days.

As at December 31, 2016, the Company had received subscription funds in the amount of \$853,041 (2015 - \$40,688) to be applied towards a future private placement at \$0.20 per unit. Each unit consists of one common share and one share purchase warrant enabling the holder to acquire one additional common share at a price of \$0.50 per share for one year from closing of the private placement.

### 10. Options and warrants

#### a) Stock options

The Company has adopted an incentive stock option plan (the "SOP"), as amended, under the rules of the TSX-V pursuant to which it is authorized to grant options to executive officers, directors, employees and consultants, enabling them to acquire up to 5,828,186 common shares of the Company. Under the SOP, the option exercise price of any option granted shall be equal to the greater of either the amount designated by the administrator at the time of grant, or the discounted market price of the Company's common shares for the 10 trading days immediately preceding the day on which the TSX-V received notice that options have been granted under this SOP. For the purpose of the SOP, the discounted market price is calculated in accordance with the policies of the TSX-V at the time of grant of the options. The administrator may also determine that the option exercise price per common share may escalate at a specified rate or rates. The options can be granted for a maximum term of 5 years and certain options vest 25% on the date of grant and 25% every 6 months thereafter for 18 months, while others vest immediately. No individual may hold options to purchase common shares of the Company exceeding 5% of the total number of common shares outstanding from time to time. Pursuant to the policies of the TSX Venture Exchange, shares issued upon the exercise of options are restricted from trading during the 4 month period subsequent to the exercise of the options. For stock options granted to employees, officers, directors and consultants, the Company recognizes stock based compensation expense based on the estimated fair value of the stock options granted as calculated using the Black-Scholes option-pricing model on the date of the grant.

A summary of changes in options outstanding during the year is as follows:

	Number of options	Weighted average exercise price	Weighted average option life (years)
Balance, December 31, 2014	1,062,500	\$ 0.92	1.24
Expired/forfeited	(143,750)	1.00	-

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

Balance, December 31, 2015	918,750	0.92	1.24
Expired/forfeited	(425,000)	0.95	-
Balance, December 31, 2016	493,750	0.80	1.00
Options vested and exercisable	493,750	0.80	1.00

Expiry date	Number of options
November 8, 2017	331,250
November 9, 2017	37,500
June 10, 2018	125,000
Total	493,750

### b) Warrants

Concurrent with the private placement discussed in note 8, the Company issued 910,000 warrants exercisable at \$0.05, expiring on August 26, 2016 during the year ended December 31, 2015.

A summary of changes in warrants outstanding during the year is as follows:

	Number of options	Weighted average exercise price	Weighted average option life (years)
As at, December 31, 2014	-	\$ -	-
Issued	910,000	0.20	1.00
As at, December 31, 2015	910,000	0.20	1.00
Expired	(910,000)	0.20	-
As at, December 31, 2016	-	-	-

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

### 11. Financial instruments

Financial assets and financial liabilities as at December 31, 2016 and 2015 are as follows:

As at December 31, 2016	Assets at fair value through profit and loss	Loans and receivable	Other liabilities	Total
Cash	\$ 283,356	\$ -	\$ -	\$ 283,356
Amounts receivable	-	46,127	-	46,127
Accounts payable and accrued liabilities	-	-	1,405,038	1,405,038
Demand loan payable	-	-	86,623	86,623

As at December 31, 2015	Assets at fair value Through profit and loss	Loans and receivable	Other liabilities	Total
Cash	\$ 8,813	\$ -	\$ -	\$ 8,813
Accounts payable and accrued liabilities	-	-	1,321,315	1,321,315
Demand loan payable	-	-	81,171	81,171

### 12. Gain on debt settlement

During the year ended December 31, 2016, the Company settled \$161,192 (US\$122,982) of payable to its vendor with the settlement payment of \$65,535(US\$50,000). As a result, the Company recorded \$95,657 of gain on debt settlement.

### 13. Segmented information

The Company has one reportable operating segment, future development of new business opportunity. All of the Company's assets are located in Canada except exploration and evaluation assets, which are located in the United States.

### 14. Income taxes

The following table reconciles the expected income tax payable (recovery) at the Canadian Federal and provincial statutory income tax rates to the amounts recognized in the statements of operations and comprehensive loss for the period ended December 31, 2016 and 2015. The presentation of the prior year income tax note has been updated to conform with the current year presentation.

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

	2016	2015
Loss before income taxes	\$ (579,658)	\$ (543,410)
Statutory tax rate	26.00%	26.00%
Expected income tax expense (recovery)	(150,711)	(141,287)
Differences due to recognition of items for tax purposes:		
Non-deductible items	20	11,116
Functional currency adjustments	20,897	(54,747)
Foreign tax rate difference	-	(3,434)
Change in deferred tax asset not recognized	129,794	188,352
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The unrecognized deductible temporary differences are as follows:

<b>Canada</b>	2016	2015
Property and Equipment	\$ 16,849	\$ 25,361
Mineral Properties	6,490,727	8,485,423
Financing Costs	21,031	42,062
Capital Losses	4,350,934	4,350,934
Non-capital Losses	5,081,939	4,556,345
<b>Unrecognized deductible temporary differences</b>	<b>\$ 15,961,480</b>	<b>\$ 17,460,125</b>
<b>US</b>	2016	2015
Net operating loss	\$ 1,998,166	\$ 2,059,627
<b>Unrecognized deductible temporary differences</b>	<b>\$ 1,998,166</b>	<b>\$ 2,059,627</b>

As at December 31, 2016, the Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately \$5,081,939 (2015: \$4,556,345) which may be carried forward to apply against future income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

<b>Expiry</b>	<b>\$</b>
2026	208,383
2027	506,549
2028	357,043
2029	282,341
2030	383,947
2031	507,230
2032	646,267
2033	556,498
2034	483,891
2035	516,019
2036	633,771
<b>Total</b>	<b>5,081,939</b>

The Company has net operating loss carryforwards of \$1,998,166 (2015 - \$2,059,627) which may be carried forward to apply against future income tax for US tax purposes, as follows:

# PHOENIX METALS CORPORATION

## Notes to the Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

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Expiry	\$
2032	1,993,062
2033	5,104
Total	1,998,166

### 15. Subsequent events

- a) At February 28, 2017, the Company has received an additional \$402,608 in private placement funds subsequent to the year-end.
- b) On February 13, 2017, Nexvu Capital Corp. modified the terms of the letter of intent with F4, the Vendor and 1236969 Alberta Ltd, the sole shareholder of the Vendor.

The Company will pay i) \$750,000 ("First Payment") at the closing date; ii) \$750,000 within 6 months after the closing date ("Second Payment"), and ii) issue 8 million common shares of the Company to the Vendor at a minimum deemed price of \$0.20 per share at the closing date. Upon completion of the First Payment and share issuance to Vendor, the Company will advance \$1million with priority payback ("Initial Investments"), to F4 through purchase of preferred shares of F4 to be used for operations. On second anniversary of the First Payment, the Company will commence four annual royalty payments of \$250,000 for grant of a perpetual exclusive worldwide license of the Technology.

At closing, F4 will assign all service contracts and sell all related equipment to use the Technology to F4 for a sum of \$165,000 which will be paid from the Initial Investment ("F4 Payment").

The Company has the option to purchase all of the issued and outstanding shares of the Vendor from 1236969 Alberta Ltd. upon and subject to the Company making the First Payment, Second Payment, the F4 Payment and all royalty payments.

The founder of F4 and inventor of Technology will enter into a consulting agreement with F4 in four year term subsequent to closing at an annual base consulting fee of \$140,000 per year plus an additional annual amount calculated on a growth-index formula to be agreed by him and the Company.