



## **FIRST ENERGY METALS LIMITED**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**SIX MONTHS ENDED SEPTEMBER 30, 2017**

# **First Energy Metals Limited**

## **Management's Discussion & Analysis Six months ended September 30, 2017**

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This document constitutes Management's Discussion and Analysis ("MD&A") of the financial and operational results of First Energy Metals Limited. ("First Energy" or the "Company") for the six months ended September 30, 2017. This MD&A supplements, but does not form part of the unaudited condensed interim financial statements of the Company for the six months ended September 30, 2017, and should be read in conjunction with the annual audited consolidated financial statements of the Company for the years ended March 31, 2017 and 2016 and the related notes thereto. All dollar figures stated herein are expressed in Canadian dollars, unless otherwise specified.

Unless indicated otherwise, all financial data in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

### **FORWARD LOOKING STATEMENTS**

Certain statements in this MD&A, other than statements of historical fact, constitute "forward-looking information" within the meaning of Canadian securities legislation, and the United States Private Securities Litigation Reform Act of 1995. "Forward-looking information" includes, but is not limited to, statements with respect to potential mineralization and geological merits of the Company's exploration projects the Company's future plans, exploration and drilling programs, objectives, business strategy, budgets, projected costs, financial results, expected cash runway and liquidity, and requirements for additional capital. In certain cases, forward-looking information can be identified by the use of words such as "plans", "expects", "contemplates", "budget", "possible", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "believes", or variations of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

Forward-looking information is based on assumptions regarding future events and other matters and involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Assumptions on which forward-looking information in this MD&A is based include the assumption that strategic alternatives are available to the Company, the assumption the Company will continue as a going concern and will continue to be able to access the capital required to advance its projects and continue operations. Risks and uncertainties include, among others: inherent risks involved in the exploration and development of mineral properties; uncertainties involved in interpreting drill results and other exploration data; potential for delays in exploration activities; geology, grade and continuity of mineral deposits; possibility that future exploration results may not be consistent with the Company's current expectations; reduction in future prices of precious metals; currency fluctuations; accidents, labor disputes and other risks associated with the mining industry; delays in obtaining governmental approvals; uncertainties relating to the availability and costs of financing required in the future; events adversely affecting the cash resources and estimated cash availability; and competition and loss of key employees. Other risks and uncertainties are discussed throughout this MD&A and, in particular, in the section below entitled "Risks and Uncertainties".

In making the statements in this MD&A containing forward-looking information, the Company has applied several material assumptions, including but not limited to, assumptions regarding the ability of the Company to obtain, on reasonable terms, the necessary financing to complete the exploration and

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development of its property interests, as well as the future profitable production or proceeds from the disposition of the Company's exploration and evaluation assets.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements.

The Company disclaims any intention or obligation to update or revise the forward-looking information in this MD&A, whether as a result of new information, events or otherwise, except as required by applicable securities legislation. Accordingly, readers are cautioned not to put undue reliance on forward-looking information.

### **1.1 DATE OF THE MD&A**

The MD&A was approved by the Board of Directors on November 29, 2017.

### **1.2 OVERVIEW**

First Energy is a junior resource company engaged in the exploration and development of mineral properties. It currently maintains an early stage exploration property in Canada. First Energy was incorporated on October 12, 1966 in the Province of British Columbia under the Business Corporations Act of British Columbia. The Company's name change from Agave Silver Corp. to First Energy Metals Limited was approved on December 16, 2016, at the Company's Annual General Meeting.

The Company maintains its corporate office at Suite 900 - 580 Hornby Street, in Vancouver, BC.

The Company's common shares trade on the TSX Venture Exchange (AGV), the OTCBB Exchange (Pink) (ASKDF) and the Frankfurt Exchange (DFL).

Over the past two years, the Company has been able to secure equity and debt financings that allowed it to carry out its operations, meet its short-term obligations and acquire the Kootenay Lithium Property (please see Section 1.2.2 of this MD&A).

Most recently, the Company closed its non-brokered private placement for total gross proceeds of \$416,200 by issuing 5,945,714 units at a price of \$0.07 per unit. Each unit is comprised of one common share of the Company and one non-transferable common share purchase warrant exercisable to purchase one additional common share of the Company at a price of \$0.08 for a period of two years expiring January 24, 2019.

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### **1.2.1 Kootenay Lithium Property, British Columbia**

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

Under the terms of the Agreement, the Company purchased a 100% interest in the Property by issuing 6,000,000 common shares of the Company. The Property is subject to a 2.0% Net Smelter Return (“NSR”) mineral royalty and a 24.0% Gross Overriding Royalty (“GOR”) on gemstones produced from the Property. The Company will have the option to reduce the NSR to 1.0% by paying \$2,500,000.00. The Company also has the option to purchase one half (50%) of the GOR for \$2,000,000. A Property vendor also reserves the exclusive right (the “Back In Right”) to produce gemstones for its own account from certain discrete zones within the Property as mutually agreed upon, in return for a 24.0% GOR payable to the Company. The Company will have the option to purchase 100% of the Back In Right for \$1,000,000.00. The Company issued finder’s fees totaling 420,000 common shares in regards to the transaction.

Expenditures incurred by the Company on the Property during the six months ended September 30, 2017 amounted to \$7,778 (September 30, 2016 –\$Nil).

On August 22, 2017, the Company announced that it has received a Mines Act Permit (the “Permit”) from the British Columbia Ministry of Energy and Mines authorizing diamond drilling and other exploration activities on the Boulder Group, part of the Company’s Kootenay Lithium Project. The Permit is valid to September 2019.

### **About the Property**

The Property consists of three groups of mineral claims. The northernmost is located 5km by road northwest of Revelstoke (the Boulder Group), 9km to the southeast is the Begbie Group, and the Laib Group is situated 25km northwest of Creston. The Boulder and Begbie Groups have been discovered to host a number of lepidolite, pink and green tourmaline, petalite, tantalite, columbite, phosphate and amblygonite-bearing mineral occurrences in pegmatite (LCT type) dyke swarms. Analysis of two grab samples with visible lepidolite-bearing pegmatite outcrop on the Begbie Group returned values of 0.77% and 1.96% Li<sub>2</sub>O. A grab sample of visible lepidolite-bearing pegmatite outcrop on the Boulder Group assayed 3.70% Li<sub>2</sub>O.\*\*

\*\*These results have not been confirmed and are of historical context only. There has been insufficient exploration to define a mineral resource, and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

Geological mapping, sampling and prospecting to further define drill targets is planned to commence shortly. The Company is awaiting receipt of a drill permit.

Mr. R. A. (Bob) Lane, M.Sc., P.Geo., a consulting geologist is a Qualified Person as defined by National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*, and has reviewed and approved the technical disclosure on the Property.

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#### **1.3 RESULTS OF OPERATIONS**

##### Six months ended September 30, 2017 compared to six months ended September 30, 2016

The net loss and comprehensive loss for the six months ended September 30, 2017 (the “Current Period”) was \$138,011, as compared to the net loss and comprehensive loss for the six months ended September 30, 2016 (the “Comparative Period”) of \$216,184. The decrease in net loss of \$78,173 was primarily due to the Company having recognized a smaller share-based compensation expense during the Current Period as less stock options with a lower fair value were granted and vested compared to the Comparative Period. All other operating expense line items were consistent with the Company’s activities and efforts to reduce costs and preserve capital.

##### Three months ended September 30, 2017 compared to three months ended September 30, 2016

The net loss and comprehensive loss for the three months ended September 30, 2017 (the “Current Quarter”) was \$105,474, as compared to the net loss and comprehensive loss for the three months ended September 30, 2016 of \$178,900. The decrease in net loss of \$73,426 was due to the same factor as discussed above where share-based compensation decreased by \$87,218 from the Comparative Quarter of \$131,412.

#### **1.4 SUMMARY OF QUARTERLY RESULTS**

The Company’s selected quarterly results for the eight most recently completed interim financial periods are below. The tables below provide the total exploration costs incurred in the eight quarters in the past two years on a project-by-project basis and administration costs and other income or expenses for the eight quarters in the previous two years:

|                    | <b>Kaslo</b>                              | <b>Kootenay</b>                           |               |
|--------------------|---|---|---------------|
|                    | <b>Silver</b>                             | <b>Lithium</b>                            |               |
|                    | <b>Property,<br/>British<br/>Columbia</b> | <b>Property,<br/>British<br/>Columbia</b> | <b>Totals</b> |
| <b>Fiscal 2016</b> |   |   |               |
| Third Quarter      | --  | --  | --            |
| Fourth Quarter     | 1,127                                     | --  | 1,127         |
| <b>Fiscal 2017</b> |   |   |               |
| First Quarter      | 260                                       | --  | 260           |
| Second Quarter     | --  | --  | --            |
| Third Quarter      | --  | --  | --            |
| Fourth Quarter     | --  | 6,892                                     | 6,892         |
| <b>Fiscal 2018</b> |   |   |               |
| First Quarter      | 260                                       | 868                                       | 1,128         |
| Second Quarter     | --  | 6,910                                     | 6,910         |

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Selected quarterly information for the eight quarters to September 30, 2017, is summarized as follows:

| <b>Statement of Operations Data</b>               | Three months ended<br>December 31,<br>2016 | Three months<br>ended March 31,<br>2017 | Three months<br>ended June 30,<br>2017 | Three months ended<br>September 30,<br>2017 |
|---|--|---|--|---|
| Operating expenses and other income               | 85,234                                     | 48,551                                  | 31,408                                 | 98,596                                      |
| Exploration and evaluation costs                  | --   | 6,892                                   | 1,128                                  | 6,910                                       |
| Net loss (income) and comprehensive loss (income) | 85,234                                     | 55,443                                  | 32,536                                 | 105,474                                     |
| Net loss (income) per common share                | 0.00                                       | 0.00                                    | 0.00                                   | 0.00  |

  

| <b>Statement of Operations Data</b>               | Three months ended<br>December 31,<br>2015 | Three months<br>ended March 31,<br>2016 | Three months<br>ended June 30,<br>2016 | Three months ended<br>September 30,<br>2016 |
|---|--|---|--|---|
| Operating expenses and other income               | 67,409                                     | 28,563                                  | 37,024                                 | 178,900                                     |
| Exploration and evaluation costs                  | --   | 1,127                                   | 260                                    | --  |
| Net loss (income) and comprehensive loss (income) | 67,409                                     | 32,287                                  | 37,284                                 | 178,900                                     |
| Net loss (income) per common share                | 0.00                                       | 0.00                                    | 0.00                                   | 0.01  |

### **1.5 LIQUIDITY AND CAPITAL RESOURCES**

The Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements to accredited investors and institutions. The Company has issued common shares in each of the past few years, pursuant to private placement financings and the exercise of warrants and options.

At September 30, 2017, First Energy had a working capital deficiency of \$124,762 compared to a working capital deficiency of \$31,069 at March 31, 2017, and an accumulated deficit of \$34,797,630 at September 30, 2017 compared to \$34,659,619 at March 31, 2017.

Current assets decreased by \$46,141 to \$14,993 as at September 30, 2017 from \$61,134 as at March 31, 2017 primarily due to the use of cash to settle its current liabilities. Total liabilities increased by \$47,552 to \$139,755 at September 30, 2017 from \$92,203 at March 31, 2017. The increase was primarily a result of the deferral of payment of amounts owed to related parties.

On January 24, 2017, the Company closed a non-brokered private placement with the issuance of 5,945,714 units at a price of \$0.07 per unit for gross proceeds of \$416,200. Each unit is comprised of one common share of the Company and one non-transferable common share purchase warrant exercisable to purchase one additional common share of the Company at a price of \$0.08 for a period of two years expiring January 24, 2019.

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### **Liquidity Outlook**

Based on the Company's financial position as at September 30, 2017, the Company will need to complete additional external financing either through equity, debt or other forms of financing. As other opportunities become available to the Company and subject to the exploration work on the Company's project and results from such exploration program is determined, management may be required to complete additional financing.

This outlook is based on the Company's current financial position and is subject to change if opportunities become available based on exploration program results and/or external opportunities. At present, the Company's operations do not generate cash inflows and its financial success is dependent on management's ability to discover economically viable mineral deposits. The mineral exploration process can take many years and is subject to factors that are beyond the Company's control.

In order to finance the Company's future exploration programs and to cover administrative and overhead expenses, the Company will need to raise funds through equity sales, from the exercise of convertible securities, debt, deferral of payments to related parties, or other forms of raising capital. Many factors influence the Company's ability to raise funds, including the health of the resource market, the climate for mineral exploration investment, the Company's track record, and the experience and calibre of its management. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activities. Management believes it will be able to raise equity capital as required in the short and long term, but recognizes that there will be risks involved which may be beyond its control.

### **1.6 OFF STATEMENT OF FINANCIAL POSITION ARRANGEMENTS**

There are no off statements of financial position arrangements.

### **1.7 TRANSACTIONS WITH RELATED PARTIES**

Remuneration of directors and key management personnel of the Company was as follows for the six months ended September 30, 2017 and 2016:

|                             | <b>Six months ended September 30,</b> |             |
|-----------------------------|---------------------------------------|-------------|
|                             | <b>2017</b>                           | <b>2016</b> |
| Salaries, fees and benefits | \$ 42,740                             | \$ 30,000   |

Related party balances as at September 30, 2017 and March 31, 2017 were as follows:

| Balances at:                    | <b>September 30,<br/>2017</b> | <b>March 31,<br/>2017</b> |
|---------------------------------|-------------------------------|---------------------------|
| Payables:                       |                               |                           |
| Dauntless Developments Ltd. (a) | \$ 48,204                     | \$ 38,204                 |
| Directors and Officers (b)      | <b>49,542</b>                 | 18,425                    |
| Totals                          | <b>\$ 97,746</b>              | \$ 56,629                 |

(a) Dauntless Developments Ltd. ("Dauntless Developments") is a private company controlled by the Company's former President and CEO. Dauntless Developments provided the Company with non-interest bearing loans,

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with no specified terms of repayment. The Company also paid or accrued office rent of \$nil (September 30, 2016 - \$12,000) to Dauntless Developments during the period.

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

### **1.8 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. There have been no significant changes to the Company's critical accounting estimates for the six months ended September 30, 2017 from those disclosed in Note 3 of the audited consolidated financial statements for the year ended March 31, 2017.

### **1.9 CHANGES IN ACCOUNTING POLICIES**

The Company prepares its financial statements using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The accounting policies and methods of application applied by the Company in these financial statements are the same as those applied in the Company's most recent annual financial statements as at and for the six months ended September 30, 2017, except for those policies which have changed as a result of the adoption of new and amended IFRS pronouncements effective April 1, 2017.

#### New, Amended and Future IFRS Pronouncements

More detail on these new, amended and future IFRS pronouncements are provided in Note 3 of the condensed interim financial statements for the six months ended September 30, 2017.

### **1.10 INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements, and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of the date of and for the periods presented.

There was no change in the Company's internal controls over financial reporting ("ICFR") that occurred during the period ended September 30, 2017, and which materially affected, or is reasonably likely to materially affect, the Company's ICFR.

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#### **1.11 FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

##### **Fair Value**

The Company classifies its cash, amounts receivable (excluding sales tax receivable) and reclamation bonds as loans and receivables. Accounts payable and accrued liabilities, amounts due to related parties and share subscription payable are classified as borrowings and other financial liabilities. As of June 30, 2017, the statement of financial position carrying amounts of these financial instruments closely approximate their fair values, except for accounts payable and accrued liabilities, amounts due to related parties where the fair value may be less than carrying amounts due to liquidity risks (Note 1 of the interim financial statements).

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

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

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

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

The following provides the valuation method of the Company's financial instruments as at September 30, 2017 and March 31, 2017:

|                             | <b>Level</b> | <b>As at</b>              |         | <b>As at</b>          |
|-----------------------------|--------------|---------------------------|---------|-----------------------|
|                             |              | <b>September 30, 2017</b> |         | <b>March 31, 2017</b> |
| Loans and receivables       | 1            | \$                        | 21,176  | \$ 54,026             |
| Other financial liabilities | 1            | \$                        | 139,755 | \$ 92,203             |

##### **Financial Risk Management**

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

##### **Credit Risk**

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

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

#### **Liquidity Risk**

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company attempts to manage liquidity risk by maintaining a sufficient cash balance. As at September 30, 2017, the Company had cash of \$176 to settle current liabilities of \$139,755. Further information relating to liquidity risk is disclosed in Note 1 of the unaudited condensed interim financial statements for the six months ended September 30, 2017.

#### **Currency Risk**

The Company has no significant exposure at September 30, 2017 to currency risk through its financial instruments.

#### **Interest Rate Risk**

The Company has no significant exposure at September 30, 2017 to interest rate risk through its financial instruments.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. In respect of financial assets, the Company's policy is to invest cash at floating rates of interest in order to maintain liquidity while achieving a satisfactory return. Fluctuations in interest rates impact the amount of return the Company may realize but interest rate risk is not significant to the Company. The Company had no cash equivalents at September 30, 2017.

There were no transfers from levels or change in the fair value measurements of financial instruments for the six months ended September 30, 2017 and March 31, 2017.

#### **Management of capital**

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

The Company's objectives when managing capital are:

- To maintain and safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining sufficient level of funds, to support continued evaluation and

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maintenance of the Company's existing properties, and to acquire, explore and develop other precious metals, base metals and industrial mineral deposits;

- To invest cash on hand in highly liquid and highly rated financial instruments with high credit quality issuers, thereby minimizing the risk and loss of principal; and
- To obtain the necessary financing if and when it is required.

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

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

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

There were no changes in the Company's approach to capital management during the six months ended September 30, 2017 compared to the year ended to March 31, 2017. The Company is not subject to externally imposed capital requirements.

### **1.12 RISKS AND UNCERTAINTIES**

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Only investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment should undertake such investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position.

The Company's financial condition, results of operations and businesses are subject to certain risks, certain of which are described below (and elsewhere in this MD&A):

#### Property risk

None of the Company's Canadian projects have reserves or demonstrated economic viability and there is no assurance that an economic or minable deposit will be found. If the Company acquires additional mineral properties, any material adverse development affecting the new mineral properties could also have a material adverse effect on the financial condition and results of operations.

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#### Additional Funding Requirements

The Company is reliant upon additional equity financing in order to continue its business and operations, as it is in the business of mineral exploration and at present does not derive any income from its mineral assets. There is no guarantee that future sources of funding will be available to the Company. If the Company is not able to raise additional equity funding in the future, it will be unable to carry out its business.

#### Mineral Exploration

Mineral exploration involves a high degree of risk. Few properties that are explored are brought to production. Unusual or unexpected geological formations, formation pressures, structural weaknesses, fires, power outages, labour disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labour are some of the risks involved in mineral exploration and exploitation activities. The Company has relied on and will continue to rely on consultants and others for mineral exploration and exploitation expertise. Substantial expenditures are required to establish mineral reserves and resources through drilling. There can be no assurance that the funds required will be obtained on a timely basis or at all. The economics of exploiting mineral reserves and resources discovered by the Company are affected by many factors, many of which are outside the control of the Company, including the cost of operations, variations in the grade recovered, price fluctuations in the metal markets, costs of processing and other equipment, and other factors such as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. There can be no assurance that the Company's mineral exploration and exploitation activities will be successful.

#### Commodity Price Volatility

The price of various commodities that the Company is exploring for can fluctuate significantly, and is beyond the Company's control. The Company is specifically concerned with the prices of precious and base metals. While the Company would benefit from an increase in the value of precious and base metals, a decrease in the value of precious and base metals and other minerals could also adversely affect it.

#### Title to Mineral Properties

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed or impugned. Although the Company has investigated its title to the mineral properties for which it holds an option or concessions or mineral leases or licences, there can be no assurance that the Company has valid title to such mineral properties or that its title thereto will not be challenged or impugned. For example, mineral properties sometimes contain claims or transfer histories that examiners cannot verify; and transfers under foreign law often are complex. The Company does not carry title insurance with respect to its mineral properties. A successful claim that the Company does not have title to a mineral property could cause the Company to lose its rights to explore, develop and mine that property, perhaps without compensation for its prior expenditures relating to the property.

#### Country Risk

The Company could be at risk regarding any political developments in the country in which it operates.

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#### Uninsurable Risks

Mineral exploration activities involve numerous risks, including unexpected or unusual geological operating conditions, formation weaknesses, hydrogeological conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could negatively affect the Company's profitability and financial position and the value of its common shares.

#### Environmental Regulation and Liability

The Company's activities are subject to laws and regulations controlling not only mineral exploration and exploitation activities but also the possible effects of such activities upon the environment. Environmental legislation may change and make mining uneconomic or result in significant environmental or reclamation costs. Environmental legislation provides for restrictions and prohibitions and a breach of environmental legislation may result in the imposition of fines and penalties or the suspension or closure of operations. In addition, certain types of operations require the submission of environmental impact statements and approval thereof by government authorities. Environmental legislation is evolving in a manner that may mean stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Permits from a variety of regulatory authorities are required for many aspects of mineral exploitation activities, including closure and reclamation. Future environmental legislation could cause additional expense, capital expenditures, restrictions, liabilities and delays in the development of the Company's properties, the extent of which cannot be predicted. In the context of environmental permits, including the approval of closure and reclamation plans, the Company must comply with standards and laws and regulations that may entail costs and delays, depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. The Company does not maintain environmental liability insurance.

#### Regulations and Permits

The Company's activities are subject to a wide variety of laws and regulations governing health and worker safety, employment standards, waste disposal, protection of the environment, protection of historic and archaeological sites, mine development and protection of endangered and protected species and other matters. The Company is required to have a wide variety of permits from governmental and regulatory authorities to carry out its activities. Changes in these laws and regulations or changes in their enforcement or interpretation could result in changes in legal requirements or in the terms of the Company's permits that could have a significant adverse impact on the Company's existing or future operations or projects. Obtaining permits can be a complex, time-consuming process. There can be no assurance that the Company will be able to obtain the necessary permits on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict the Company from continuing or proceeding with existing or future operations or projects. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could result in the interruption or closure of operations or material fines, penalties or other liabilities.

# **First Energy Metals Limited**

## **Management's Discussion & Analysis Six months ended September 30, 2017**

### **Potential Dilution**

The issue of common shares of the Company upon the exercise of the options and warrants will dilute the ownership interest of the Company's current shareholders. The Company may also issue additional options and warrants or additional common shares from time to time in the future. If it does so, the ownership interest of the Company's then current shareholders could also be diluted.

### **1.13 ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

The required disclosure on general and administrative expenses is presented in the schedule expenses by nature in Note 9 of the condensed interim financial statements.

There were no research and development costs, deferred development costs or other material costs, whether capitalized, deferred or expensed, that were not referred to above.

### **1.14 OUTSTANDING SHARE DATA**

The following details the share capital structure as of November 29, 2017, the date of this MD&A:

#### **Issued and Outstanding Capital**

44,517,273 common shares are issued and outstanding

#### **Stock Options Outstanding**

| <b>Number of Options</b> | <b>Exercise Price (\$)</b> | <b>Expiry Dates</b> |
|--------------------------|----------------------------|---------------------|
| 450,000                  | 0.07                       | June 3, 2020        |
| 900,000                  | 0.11                       | August 1, 2021      |
| 900,000                  | 0.05                       | July 11, 2022       |

#### **Warrants Outstanding**

| <b>Number of Warrants</b> | <b>Exercise Price</b> | <b>Expiry Dates</b> |
|---------------------------|-----------------------|---------------------|
| 5,945,714                 | \$0.08                | January 24, 2019    |

#### **Approval**

The Board of Directors of First Energy has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it and can be located, along with additional information, on the SEDAR website at [www.sedar.com](http://www.sedar.com).