**FORM 51-102F1**

**MANAGEMENT'S DISCUSSION & ANALYSIS**
**PURE ENERGY MINERALS LIMITED.**
**(THE "COMPANY")**

**May 26, 2016**

The following management's discussion & analysis ("MD&A") provides a review of activities, results of operations and financial condition of the Company for the three months ended March 31, 2016 in comparison with those for the three months ended March 31, 2015. These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for interim financial statements. The following discussion and analysis should be read in conjunction with the Company's unaudited consolidated interim financial statements for the nine months ended March 31, 2016 and the audited consolidated financial statements for the year ended June 30, 2015 and 2014. All monetary amounts, unless otherwise indicated, are expressed in Canadian dollars.

## Forward-Looking Statements

Except for statements of historical fact, this MD&A contains certain "forward-looking information" within the meaning of applicable securities law. Forward-looking information is frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. In particular, forward-looking information in this MD&A includes, but is not limited to, statements with respect to future events and is subject to certain risks, uncertainties and assumptions. Although we believe that the expectations reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. We cannot guarantee future results, performance or achievements. Consequently, there is no representation that the actual results achieved will be the same, in whole or in part, as those set out in the forward-looking information.

Forward-looking information is based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks, uncertainties and other factors that could cause actual events or results to differ materially from those anticipated in the forward-looking information. Some of the risks and other factors that could cause results to differ materially from those expressed in the forward-looking statements include, but are not limited to: general economic conditions in Canada, the United States and globally; industry conditions, including fluctuations in commodity prices; governmental regulation of the mining industry, including environmental regulation; geological, technical and drilling problems; unanticipated operating events; competition for and/or inability to retain drilling rigs and other services; the availability of capital on acceptable terms; the need to obtain required approvals from regulatory authorities; stock market volatility; volatility in market prices for commodities; liabilities inherent in mining operations; changes in tax laws and incentive programs relating to the mining industry; and the other factors described herein under "Risks and Uncertainties" as well as in our public filings available at www.sedar.com. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. We undertake no duty to update any of the forward-looking information to conform such

information to actual results or to changes in our expectations except as otherwise required by applicable securities legislation. Readers are cautioned not to place undue reliance on forward-looking information.

## BUSINESS OVERVIEW

The Company is a public company incorporated under the laws of British Columbia. The Company is a reporting issuer in British Columbia and Alberta and its common shares are listed and posted for trading on the TSX Venture Exchange under the trading symbol "PE". In addition, the Company trades on the OTCQB trading platform in the United States under the trading symbol “HMGLF”. The Company also trades on the Frankfurt Stock Exchange under the trading symbol “AHG1” and on the Xterra trading platform in Germany under the trading symbol “A111EG”. On October 18, 2012, the name of the Company was changed from Harmony Gold Corp. to Pure Energy Minerals Limited. The Company’s offices are located at 1780 – 355 Burrard Street, Vancouver, B.C., V6C 2G8.

The Company is a mineral resource company engaged in the exploration and development of mineral properties, with a specialized focus on lithium brines and related processing of brines into lithium compounds. Its sole material project is the Clayton Valley South Lithium Brine Project (the “Clayton Valley Project”), located in Clayton Valley, Esmeralda County, Nevada. The Clayton Valley Project is an early stage exploration project. The Company has focused its business plan on producing high value lithium compounds such as Lithium Carbonate ($Li_2CO_3$) and Lithium Hydroxide Monohydrate ($LiOH \bullet H_2O$), which are primarily used in the emerging Lithium Ion Battery market.

The Company’s primary objective is to advance the Clayton Valley Project towards production. The next phase of that process will be the completion of a preliminary economic assessment (PEA) on the Clayton Valley Project, which the Company hopes to complete later in the calendar year 2016. The results of the PEA will determine the manner in which the Company proceeds with the exploration and development of the Clayton Valley Project.

The Company is in the process of exploring its principal mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, receipt of all applicable operating permits in the relevant jurisdictions, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof.

## MARKET CONTEXT AND OUTLOOK

The market for lithium is still small compared to other metallic commodities and relatively restricted; lithium demand has grown steadily from its lows in 2009. Lithium supply and demand are often reported in terms of lithium carbonate equivalent because that is the form of lithium most often delivered into the battery market. According to Benchmark Mineral Intelligence (2016), worldwide demand for lithium in 2015 was approximately 160,000 tonnes of lithium carbonate equivalent. The lithium supply market continues to operate as an oligopoly, in which four companies control approximately 90% of global production. The rapid growth in demand is forecast to continue at a rate of at least 10% per annum over the next 4 to 8 years. In May 2016, the Wall Street Journal quoted a study by Goldman Sachs that projected lithium demand could grow to 570,000 tons of LCE by 2025. Most experts agree that the lithium battery sector is the primary driver of this rapid growth.

The rising lithium demand does appear to be affecting price in this contract-pricing environment. Both Albemarle Corporation (the world's #1 producer) and FMC (world #4) have publicly reported price increases and rising margins in their lithium businesses. Benchmark Mineral Intelligence reported in April 2016 that battery grade lithium carbonate and lithium hydroxide pricing has been rising consistently year-over-year since 2011. That trend appears to be steepening through 2015 and into 2016.

Lithium producers have not been quick to add major new production. There has been only one new lithium brine mine start-up in the last 20 years – Orocobre's operation at Olaroz Salar in Argentina. That project is working its way through its ramp-up period. Galaxy's Mt. Cattlin hard rock lithium mine has also re-started, through an operating and purchase option agreement with General Mining Corporation. News reports suggest that Chilean authorities are in the process of granting approval for expansions to certain lithium brine operations at the Salar de Atacama, but major new production has not yet appeared out of Chile. The apparent gap in demand and supply seems to be fueling investor interest in lithium and resurgence in exploration and deal making in the sector.

Lithium batteries are now the norm in almost all electronics, and they have made significant inroads in power tool applications. However, it remains electric vehicles ("EV's") that are most likely to lead the accelerating demand. The mass of lithium in the bigger batteries that power EV's is a big part of their impact, kilograms of lithium carbonate per unit as opposed to grams per unit in mobile phone batteries. The recent successful unveiling of the Model 3 from Tesla Motors was a reminder of the potential impact these vehicles may have on the lithium battery business and perhaps on the production of lithium raw materials.

Portable electronics and electric vehicles are not the only drivers of lithium demand. Large format grid storage batteries are under consideration by utilities around the world. These batteries can be used to store energy from intermittent power sources, such as wind and solar plants and stabilize the distribution of that power into the grid. Grid storage batteries are also seeing increased use by businesses and residential customers. Green Tech Media estimates that energy storage capacity in the US approached 200 megawatts in 2015, but it projects that number will exceed 1.6 gigawatts in 2020. These energy storage batteries are another potentially large consumer of lithium that is not factored into most of the projected demand curves seen in the literature and at industry conferences.

## THE CLAYTON VALLEY PROJECT

### Summary

Management is very enthusiastic about the potential of its Clayton Valley Lithium Brine Project. Work to date has documented a potentially significant volume of lithium-bearing brine beneath the northern portion of its claim block. As reported and documented below, drilling has yet to pass through lithium bearing fluids in numerous wells (CV-1, CV-2, SPD-8, and SPD-9), meaning the lithium in brine is likely to continue to greater depths. The Company believes there is considerable growth potential at depth in the Clayton Valley Basin.

In addition, the Project continues to boast excellent chemistry for potential lithium extraction. Prominent in the favourable chemistry is the low magnesium to lithium ratio (nominal 2:1). Since magnesium is a divalent cation that occurs as magnesium chloride in these salty waters, it has many properties that are similar to lithium chloride, thereby interfering with and increasing the costs of lithium extraction by evaporation or other processing methodologies. The low magnesium content of the Clayton Valley brine

is one reason that Pure Energy's technical team and consultants believe that the prospects are good for success when applying newer lithium recovery technologies that do not require evaporation ponds.

## General Geology

The Company is in the process of developing the mineral properties comprising the Clayton Valley Project (the "Project") (Figures 1 and 2). Clayton Valley, Nevada is also the site of North America's only commercial lithium producer, Albemarle Corporation's Silver Peak Lithium Mine. Pure Energy's 3,770 hectare (9,300 acre) project adjoins the Silver Peak operation to the south. Clayton Valley is located within the Basin and Range Province in southern Nevada and is an internally-drained, fault-bounded and closed basin. It is likely that the basement geology, younger volcanic rocks, and ongoing geothermal activity are sources for the lithium in this part of Nevada. Surface waters and ground waters moving through this lithium-enriched geology incorporate soluble lithium, which ultimately accumulates in the ground waters of the basin. Evaporation drives the system to concentrate lithium and other salts as fresh water is depleted. Over geologic time, these brines may become sufficiently enriched in lithium to warrant exploration and extraction. The hosting geological formations for the brine are unconsolidated basin-filling sediments that are generated by the stream and lake environments that have dominated the Clayton Valley region over the last few million years. Volcanic ash units are often inter-bedded with the gravel, sand, silt, and clay that constitute the generally flat-lying strata in the basin.

**Figure 1 - Project Location Map**

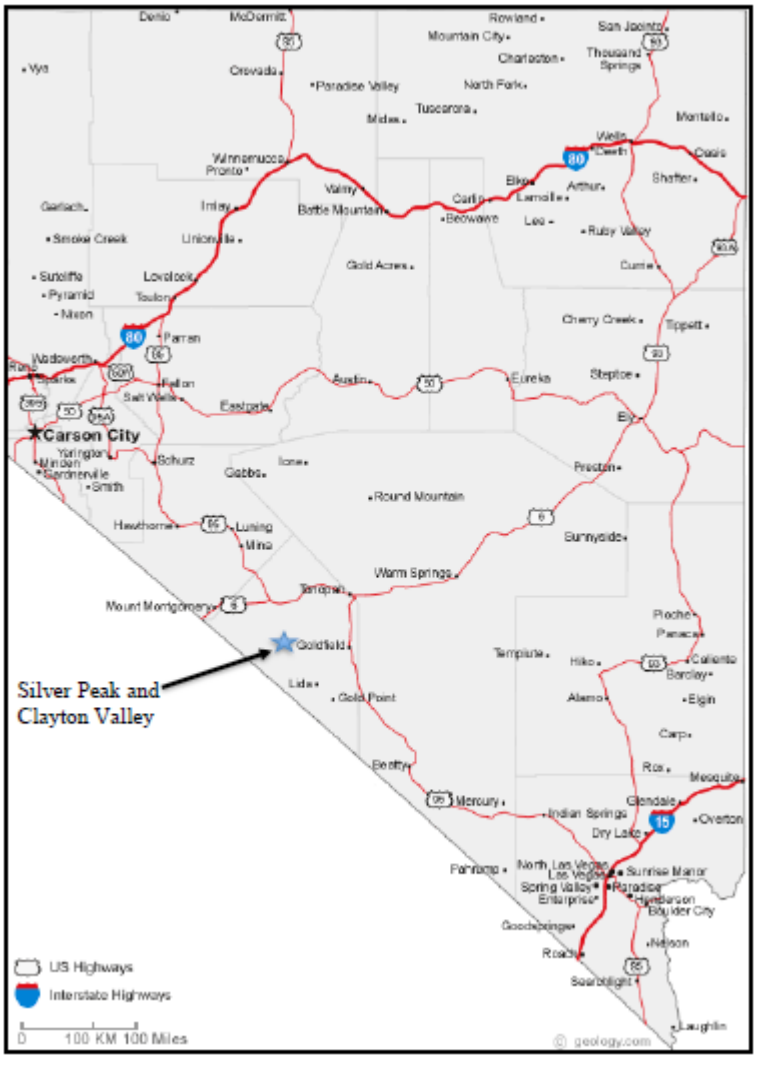
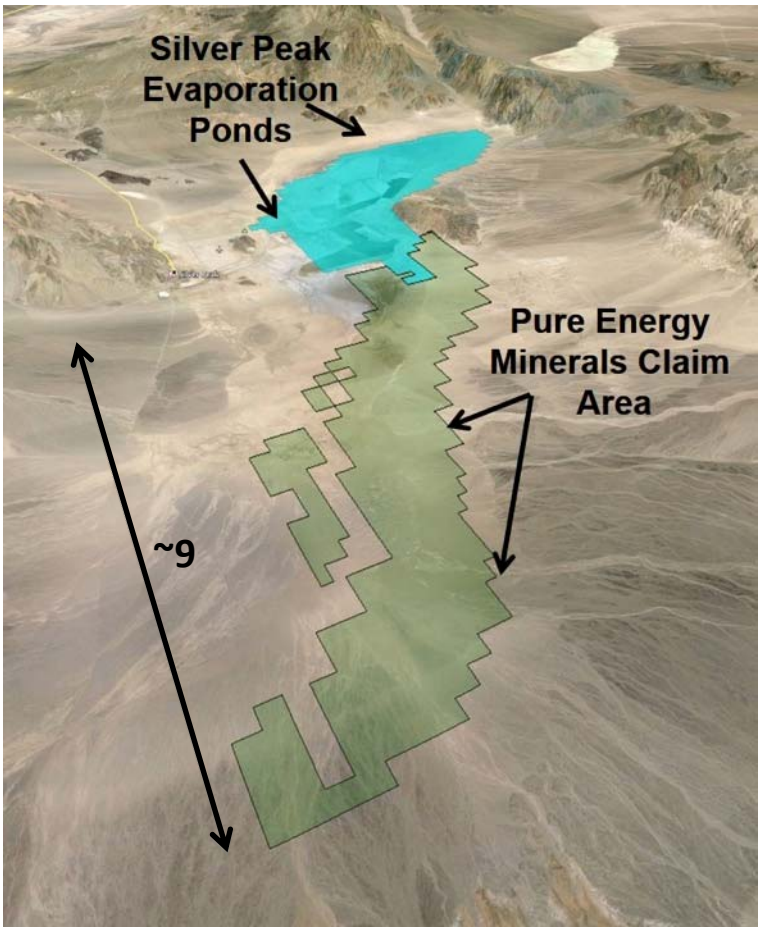


**Figure 2 - Claim Location Map**




The geological setting and processes at work are roughly similar to the well-known lithium brine deposits of the Lithium Triangle in South America (Chile, Argentina, and Bolivia). Geologists who have worked in the South American salars report similar geology, relatively recent volcanic activity, and active geothermal systems. The climate is an important factor in explaining the differences among these various deposits. In general, the climate is drier and the evaporation rate is higher in the South American deposits. Salar de Atacama is in the driest desert in the world, and Salar del Hombre Muerto is at more than, 4,000 metres elevation. In both cases, the rates of evaporation far outpace precipitation. Clayton Valley, Nevada has much higher precipitation rates. Lithium source rocks are also different among these areas, but the extreme evaporation settings result in more abundant salt bodies and sometimes more salt-saturated brines.

After a period of several years of intermittent exploration (spanning two different companies) in the form of mapping, geophysics, drilling, and preliminary pumping test work, Pure Energy Minerals announced an inferred mineral resource on July 28, 2015 for the Clayton Valley Project of 816,000 tonnes of lithium carbonate equivalent (LCE). The resource was reported in accordance with National Instrument 43-101 and is detailed below. During the quarter, the Company continued to advance work on the resource. Subsequent to the end of the quarter, the Company announced results on May 11, 2016 from three new wells that are likely to affect the inferred resource on the Clayton Valley Project. At the time of the

writing of this MD&A, Pure Energy is actively drilling in the northern portion of the resource area and plans to update the Project's mineral resource once this phase of drilling is completed, which is expected to be near the end of Q2 of calendar year 2016.

**Exploration and Resource Development Work**

According to industry literature and earlier company technical reports, there are six primary aquifers in the entire basin. The Company has drilled at least two of these aquifers in its two drill campaigns, the Main Ash Aquifer (MAA) and Lower Aquifer System (LAS). Rodinia Minerals, Inc., a previous holder of the claims, completed a geophysical survey surrounding the existing lithium operation and identified a deep northeast-southwest structural trough in southern Clayton Valley. Rodinia drilled 2 dual wall reverse circulation boreholes in the north section of its claims (now Company claims) in 2009-2010 and identified aquifers that contained up to 400 mg/L Li to a depth of up to 494 metres (1620 ft). Rodinia dropped the claims in 2013. After securing a purchase option agreement on the claims, Pure Energy completed detailed gravity and seismic reflection surveys during 2014-2015 that confirmed the deep structural trough on its claims and identified numerous reflectors from sediment layers that appear to correspond to previously identified aquifer horizons.

The Company completed its first two exploratory boreholes in the north end of the claims, CV-1 and CV-2. CV-1 "twinned" a productive Rodinia hole, SPD-9. The technical team conducted preliminary pumping tests of CV-1 for 8 hours yielding steady production rates of 9.5 L/s (150 gpm). Brine samples from CV-1 sampling averaged approximately 236 mg/L Li. The second well, CV-2, was a significant step-out to the south of approximately 1 kilometre (0.6 mile), where it was a complementary data point to Rodinia well SPD-8. The Company sampled CV-2 using a combination of air lifting with a reverse circulation drill and Hydrasleeve-type bailers. The average grade of the CV-2 fluids was lower grade, but still significant, averaging approximately 36 mg/L lithium. Figure 3 shows the location of all completed wells, plus the three wells pending in the phase 3 drilling that is underway at the time of this writing.

The data from the previously drilled Rodinia wells and the Pure Energy wells told a similar story. The brine at Clayton Valley tends to have a relatively low grade, compared with South American salars such as Salar de Atacama and Salar del Hombre Muerto. However, the chemistry is also very attractive, having very low magnesium to lithium ratios, ranging from 2.3:1 to 2.0:1.

Utilizing the geological interpretations from geophysical data (gravity and seismic), borehole sample chemistry, preliminary pumping data, and the three-dimensional interpretation of the brine-hosting aquifers, the Company prepared its maiden mineral resource in 2015. The inferred resource was reported in accordance with National Instrument 43-101 and announced on July 28, 2015. The resource included approximately 816,000 metric tonnes of contained lithium carbonate equivalent (LCE) at an average grade of 102 mg/L lithium (See Table 1).

The inferred resource is relatively early stage in nature. The technical report included a number of recommendations to increase the data density, data quality, and upgrade the confidence of the resource. Additional geophysics, triple tube core drilling, more pumping tests, and deeper exploration were all areas of recommended focus. Porosity is also a key input to the resource that will improve as geological data improves. The Company had only limited porosity data in the inferred resource, but it intends to collect more data from drill core samples and from upcoming pumping tests.

Commencing in November 2015, Pure Energy Minerals began its second phase of exploration drilling. The phase 2 drilling stepped out southwards from the Company's previous drilling to test the inferred lithium brine hosting horizons identified in the 2015 seismic reflection survey. The objective of these

wells was to increase drilling density and confirm the saturated thickness and grade of brine in the lower grade southern resource area, which averaged approximately 70 mg/L. The drillers collared the new wells at spacings of 2.8 km (1.7 mi), 3.5 km (2.2 mi), and 6.0 km (3.7 mi) from CV-2. Between November 2015 and March 2016, the Company completed three new wells (CV-4, CV-5, and CV-6) to depths ranging from 408 metres (1,340 feet) to 494 metres (1,620 feet). The purpose of this program was to provide geological, hydrogeological and geochemical information for the planning and permitting of future exploration. These data will support a Preliminary Economic Assessment expected later in 2016. The well details to date on the Project are summarized in Table 2.

The drillers completed CV-6 as the first successful core hole in the southern part of Clayton Valley. Core recovery was excellent, and the core samples presented the Company with the first opportunity to correlate a high quality geological record with the seismic data. CV-4 and CV-5, on the other hand, were completed with mud rotary methods. Given the depths involved and the potential for multiple discrete

**Figure 3 - Clayton Valley Drill Hole Location Map**

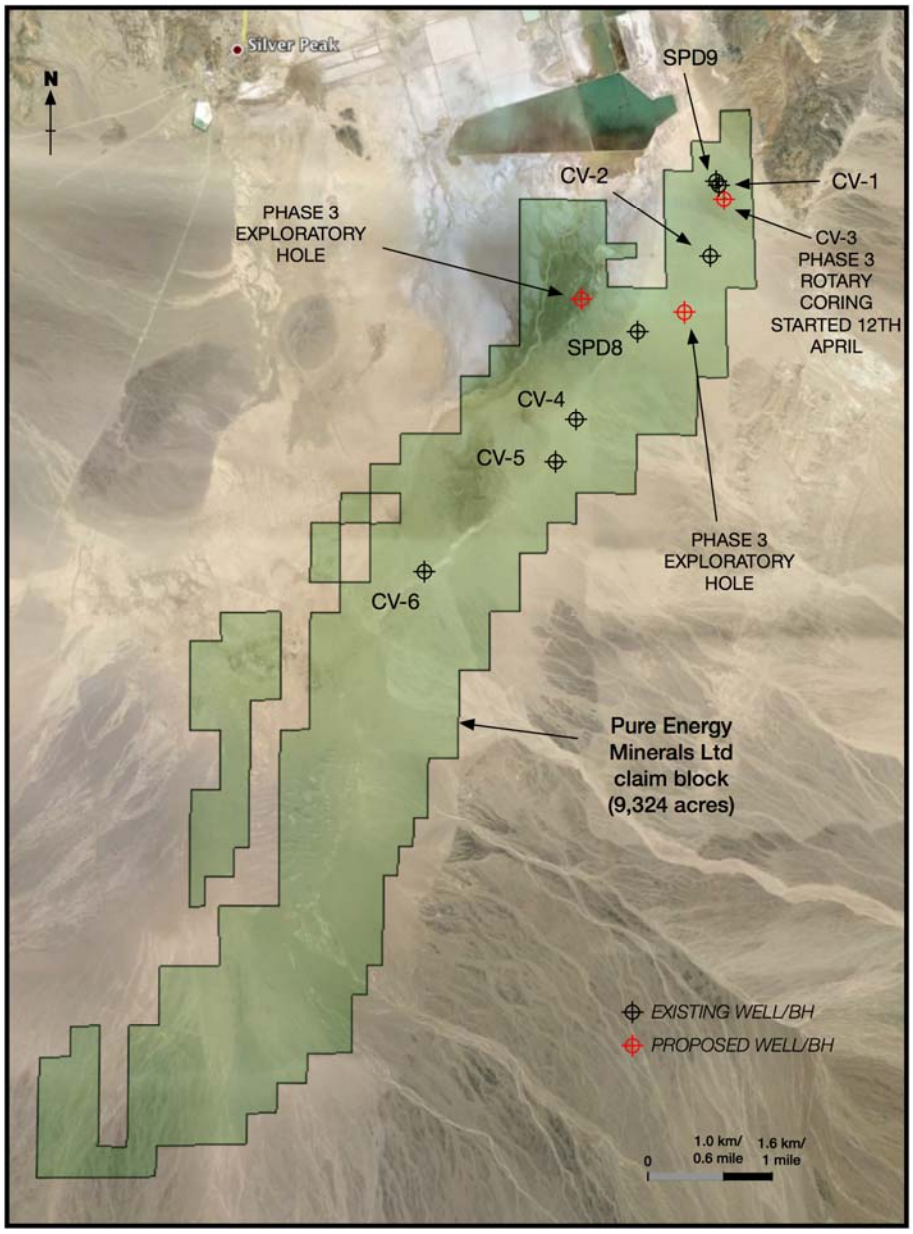


**Table 1 - Summary of Inferred Mineral Resources**

| Zone | Saturated Thickness (m) | Li Grade mg/L | Lithium Resource LCE (metric tonnes) |
|---|---|---|---|
| Northern Zone Upper Transitional Part of MAA | 36 [1] | 102 [6] | 10,300 |
| Northern Zone MAA | 31 [2] | 370 [7] | 31,700 |
| Northern Zone LAS | 299 [3] | 194 [8] | 163,000 |
| Southern Zone MAA | 43 [4] | 102 [9] | 245,000 |
| Southern Zone LAS | 177 [5] | 37 [10] | 366,000 |
| **Total** | | | **816,000** |

**Notes:**

**[1] Based on 128 m to 165 m (420ft to 540 ft) bgl section from SPD-9 and CV-1; [2] 165 m to 195m (540ft to 640ft) bgl section of MAA in SPD-9 and CV-1; [3] Based on 195 m to 494 m (640ft to 1,620ft) of LAS in SPD-9 and CV-1. Seismic shows that this could likely be extended significantly deeper; [4] Based on 140 m to 183 m (460ft to 600ft) bgl section of MAA in SPD-8 and CV-2; [5] Based on 207 m to 384 m (680ft to 1,260ft) bgl section intersected in CV-2 and SPD-8. Seismic shows that this could likely be extended significantly deeper; [6] Average of SPD-9 samples from this interval; [7] Average of SPD-9 samples from this interval; [8] Average of SPD-9 samples from this interval; [9] Average of SPD-8 samples from this interval (better sample density relative to CV-2); [10] Average of combined SPD-8 and CV-2 samples from this interval.**

**Table 2 – Summary of Drill Hole Details**

| Well ID | Company | Date Completed | Drilling Method | Total Depth |
|---|---|---|---|---|
| SPD-8 | Rodinia Minerals | Feb 2010 | RC | 1,280 ft (390 m) |
| SPD-9 | Rodinia Minerals | Feb 2010 | RC | 1,620 ft (494 m) |
| CV-1 | Pure Energy | Mar 2015 | RC/mud rotary | 900 ft (274 m) |
| CV-2 | Pure Energy | Apr 2015 | RC/mud rotary | 970 ft (296 m) |
| CV-4 | Pure Energy | Feb 2016 | RC/mud rotary | 1,340 ft (408 m) |
| CV-5 | Pure Energy | Feb 2016 | Mud rotary | 1,620 ft (494 m) |
| CV-6 | Pure Energy | Jan 2016 | Rotary coring | 1,500 ft (457 m) |

aquifers in the basin, generating high quality fluid samples was a challenge for all of the wells, no matter the drilling method.

During early 2016, the Pure Energy technical team developed a sampling system that is optimized for the relatively deep and stacked aquifers of Clayton Valley South. It is desirable to target discrete aquifer horizons for brine sampling in these wells. Therefore, bailer-based systems may have limited value. Instead, Pure Energy employed a submersible pump system with an in-line data logger to capture data on conductivity and temperature. The submersible pump allows targeted sampling based on the depth and formational data acquired from geophysical well logging. During March and April, hydrogeologists collected samples from multiple intervals in all of the wells, including re-sampling of CV-1 and CV-2. The procedure calls for purging the pump line between sample intervals and then extracting several liters of fluid from the target zones. Applying low-flow sampling techniques, the pump operates at a low setting and gently extracts fluid from the geological unit adjacent to its position.

The sampling program includes field duplicates, analytical control samples (blanks and standards), and check assays at an independent lab. The resulting quality control summary indicates that field samples and analyses are reliable. Field duplicates enjoyed very strong agreement; and the laboratories are also demonstrating consistent check analysis results.

In mid April and early May, the Company reported the results of this sampling. The new results supported the previously generated data for CV-1 and CV-2. The CV-1 well intercepted brine at approximately 165 metres (550 feet) below surface and the sediments remained saturated in that high lithium fluid over a thickness of at least 76 metres (250 feet) to the bottom of the hole. The average grade of the brine in CV-1 was approximately 209 mg/L. The data from CV-2 confirm the presence of a saline fluid from approximately 105 metres (350 feet) below surface and continuing down through at least 183 metres (600 feet) to the bottom of the hole. Just as in the first pass sampling, the fluid in CV-2 was lower grade, averaging only 28 mg/L lithium. It should be noted that all of the holes on the project prior to the phase 2 drill program had bottomed in brine (or lithium bearing saline fluid).

The southern step out holes, CV-4, 5, and 6, probed into the central and southern portions of the claim block. The surface geology, gravity, and seismic data suggest a relatively continuous basin to the south that includes many depositional events into the basin associated with fluvial (stream) and lacustrine (lake) settings. Punctuating these normal sequences of sediments are volcanic ash layers, sometimes with a significant component of pumice. The ash layers are of variable thickness and form marker beds that can be correlated over large areas. Sometimes, multiple thin ash horizons occurring in close proximity to each other form recognizable clusters. The ash units, interbedded with silty and sandy sequences, tend to define the potential brine hosting aquifer sequences that have been documented by previous workers in the basin. The ash and associated silt and clay horizons (solid phases) are often highly anomalous in lithium, accounting for a possible source of lithium in the brines. The seismic data show no major disruptions to the stratigraphy going south, so it appeared likely that these brine hosting aquifer packages would continue also.

The Company announced the analytical data from wells CV-4, 5, and 6 on May 10, 2016. The wells did not encounter lithium-enriched brine; instead, the drilling encountered an active geothermal system with warm waters containing very low lithium. Drilling and sampling down to depths of approximately 460 metres (1,506 feet) in CV-5 returned no lithium values above the inferred resource cutoff grade of 20 mg/L. The geology from drill core (CV-6) and cuttings (CV-4 and 5) indicated familiar repetitive

sequences of fluvial and lacustrine sediments, sometimes interbedded with volcanic ash and pumice. The host geology for these geothermal fluids is consistent with the brine bearing aquifers encountered further north. The temperature of the deeper waters encountered in these wells was commonly at or above 30 degrees Celsius (86 degrees F), reaching maximum values of 35 degrees C (95 degrees F). Average temperatures elsewhere in the basin, even at >200m (650 ft) depth, were 23 degrees C (73 degrees F).

The Company's interpretation of these results is that a fault or series of faults in the vicinity of these wells is controlling the plumbing of a hot spring system of some considerable scale in the subsurface. The warm, weakly mineralized waters from the hot spring system flow into the basin and rise up the fluid column based on their temperature and relatively low density (when compared to saline fluids or brines). The shallow portions of the central and south basin appear to be heavily influenced by these fluids. The same aquifers that host brine in the northern wells are interpreted in this area to host weakly mineralized low-lithium waters. These data do not preclude the potential for lithium-bearing brines at greater depth (>494 m or 1,620 ft below surface) in the basin, as well as laterally outside the influence of this geothermal system. However, since the phase 2 wells fell inside the footprint of the inferred resource, the Company expects the resource tonnage to contract in the southern resource area.

At the time of this writing, the drilling continues in the northern resource area. The latest drill hole, CV-3, is underway and has encountered favourable geology, including multiple horizons of interbedded volcanic ash, silt, and sand. The Company is targeting depths of more than 610 metres (2,000 feet) in the northern area, such that any new lithium brine encountered has the potential to add to the resource tonnage in this area. The grades in the northern resource area average over 200 mg/L lithium, so any additional tonnage in the north is likely to have a favourable impact on the average grade of the revised resource.

Pure Energy will update the mineral resource on the Clayton Valley South Project once the phase 3 drilling is completed, which is expected to occur during the summer of 2016. The anticipated new resource model will incorporate data from ten (10) wells, eight drilled by Pure Energy and two drilled by Rodinia Minerals.

**Lithium Brine Process Testing**

As discussed above, most lithium is produced from brines through the use of evaporation ponds and subsequent processing of a lithium brine concentrate. The efficacy of evaporation-based processing technology is dependent on evaporation rate, precipitation, and brine chemistry. Even in ideal climates, concentration by evaporation typically requires months. The climate at Clayton Valley, Nevada is less suited for evaporation processing than the Chilean Atacama Desert or the Argentinean Puna. Nevada has lower evaporation rates, due in large part to the higher precipitation rate. Hence, it is reasonable to expect longer lead times to lithium production and higher in-process inventory and associated costs if operating such ponds in the Nevada climate.

The Company also believes that large evaporation ponds pose other challenges due to their potentially significant environmental impacts. In addition to the visual and physical effect on the landscape of large evaporation ponds, the process of extracting and evaporating the brines may have an effect on the groundwater resources of the host basin. The process of operating an evaporation operation includes harvesting salts that precipitate on the bottom of the ponds, thus accumulating significant piles of waste salts.

These are some of the reasons Pure Energy is proposing to apply non-evaporation based lithium recovery technology to the potential future production from the Clayton Valley Project. To that end, the Company has conducted preliminary testing of its brine for lithium recovery by several new approaches. Given the favourable chemistry of the Clayton Valley brine, in particular, the low magnesium to lithium ratios, the Company's engineering team is optimistic about the applicability of some of these new technologies.

Tenova Bateman Technologies ("TBT"), a subsidiary of the Techint Group, has a significant track record in applying solvent extraction for metals recovery in the mining industry. Its technology is well known in the uranium, copper, and nickel industries. TBT developed several technologies that have promise for cost-effective recovery of lithium without the need for evaporation ponds. The TBT process includes the following steps:

**LiP™** – Physical removal of alkaline earth elements (Ca & Mg) using membranes;

**LiSX™** - Recovery of lithium into concentrated high-purity lithium sulphate solution utilizing proven solvent extraction process; and,

**LiEL™** - conversion of the lithium sulphate solution into a concentrated high-purity lithium hydroxide solution, using electrolysis, and subsequent crystallization into high-purity battery grade lithium hydroxide.

During 2015, Pure Energy Minerals submitted some of its brine to TBT for some preliminary tests of its LiP™ and LiSX™ processes. Commencing in January and finishing in April of 2015 the Company worked with TBT to conduct lab scale test work for the extraction of lithium from raw brine collected from the Clayton Valley South Project. The test work utilized TBT proprietary LiP™ (pre-treatment stage) and LiSX™ (Li-removal stage) processes for extraction of lithium from brine (schematically displayed in Figure 4). Note that TBT elected to use hydrochloric acid instead of sulfuric acid in the LiSX™ step during the laboratory-scale trials.

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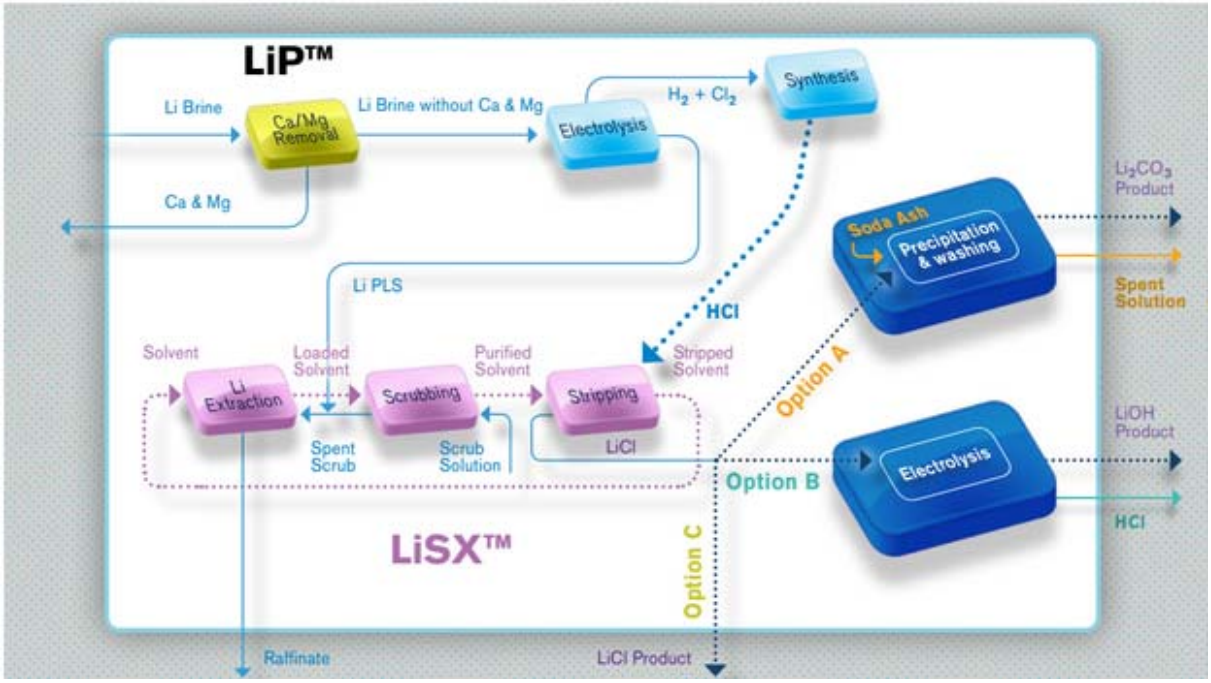
**Figure 4 - Preliminary Flow Sheet for Laboratory Scale Test Work**



The laboratory-scale trial of the LiP™ process successfully removed most of the alkaline earth elements from the raw brine solution, (practically all the Mg and Sr and 93% of Ca). As this stream would be further polished in an industrial application, the pre-treatment results indicated excellent performance. The brine from the pre-treatment step was introduced into the solvent extraction circuit, where the process targeted a LiCl solution of 99.5% purity. The LiCl solution produced during the Clayton Valley trials reached 99.9% purity, exceeding the expectations of the team. Meanwhile, the lithium concentration in the raffinate (waste stream) was below the detection limit, indicating practically 100% Li recovery. It should be noted that the mini-pilot plant process will generate a $Li_2SO_4$ solution instead of a LiCl solution, which is more consistent with the process anticipated for a commercial scale operation. The Company was pleased with these preliminary results and has proceeded to a larger-scale trial in the mini-pilot plant.

If successfully applied at a commercial scale for lithium extraction and processing, an industrial process based around TBT's LiSX™ technology would not require large-scale evaporation ponds. A solvent extraction lithium plant would draw its feed from a brine well field, just as evaporation based operations do, but the spent brine would be re-injected back into the basin once the lithium was extracted. Much lower net water usage is only one potential major advantage of this novel technology. This approach could also avoid some of the other drawbacks associated with evaporation lithium processing. For instance, a solvent extraction lithium plant would not be affected by precipitation or other weather phenomena. The processing time to extract lithium from brines through a continuous solvent extraction plant would be a matter of hours not months. The capital and operating costs associated with this technology are matters to be resolved through engineering and technical studies and stepwise advancement towards feasibility studies and commercial scale production.

Pure Energy Minerals has announced its intent to produce a preliminary economic assessment ("PEA") on the Clayton Valley South Lithium Brine Project during 2016. A major part of a successful PEA is to advance the process test work through a mini-pilot plant. The Company took the first step in November 2015 when it paid a deposit to TBT of almost $60,000 to reserve its access to the R&D facility. Pure Energy announced on May 11, 2016 that work on a mini-pilot plant has commenced at TBT's facility in Katzrin, Israel, again making a substantial payment (~50%) towards completion of the test work. The Company's engineering team is working with TBT to fully evaluate the pre-treatment, solvent extraction, and electrolysis/crystallization steps required to produce battery grade lithium hydroxide from the Clayton Valley South brine. Beginning with approximately 20 tonnes of brine, the mini-pilot plant work and related engineering is expected to require up to 4 months to generate the data necessary for input to the mine design, cost estimates, and economic modeling.

**Environmental and Permitting Developments**

As part of the pre-development activities, on March 16, 2016, the Company through its US subsidiary Esmeralda Minerals LLC, filed Application 85990 with the Office of the State Engineer of Nevada for the appropriation of groundwater for the purpose of lithium extraction. On May 16, 2016 the Company received notice that three protests had been registered with the Office of the State Engineer in regards to its Application 85990. The Company will respond to the protests in due course and expects to proceed with its campaign to advance the Project and position itself for securing the necessary water rights in time to develop the property once technical, permitting and financial milestones are achieved.

As for other environmental related matters, Pure Energy Minerals continues to operate its exploration program under a Notice of Intent ("NOI") with the Bureau of Land Management (BLM). The Company intends to back-fill and reclaim two of the Phase 2 wells in order to complete the final two wells of the Phase 3 drilling program. During April 2016, the Company was notified by the BLM through its operator, GeoXplor Corp, that backfilling and reclamation of two of the previous holes will leave the company in good standing to complete its planned drilling in Phase 3.

At the time of this writing, the Company is also in the process of retaining a consulting group to lead it through the application for a Plan of Operations ("POO") for the next phases of its exploration work program at Clayton Valley. There can be no assurance of the timing or approval of any such permit application, but management believes the Company is well positioned for a successful permitting process and is excited to proceed with more drilling and development activities upon receipt of the POO.

**Quality Control and Qualified Persons**

The liquid samples from the Clayton Valley South Project have been analyzed by Western Environmental Testing Laboratory ("WETLAB") of Sparks, Nevada. WETLAB is accredited by the Nevada State Division of Environmental Protection for determination of lithium, magnesium, and other elements in non-potable water by method EPA 200.7. WETLAB also employs its own quality assurance program to ensure accuracy and precision of its data. ALS Minerals in Vancouver, British Columbia provided systematic blind and independent check analyses on the lithium and other analytes in the well sampling program at Clayton Valley South. ALS Minerals Vancouver operates an industry leading quality management system and is accredited under ISO 17025 for provision of mineral analysis.

Consistent with industry best practice, Pure Energy inserts additional blind quality control samples with every batch of samples. The data described herein have satisfied the Company's quality criteria for release.

Patrick Highsmith, Certified Professional Geologist (AIPG CPG # 11702), is a qualified person as defined by NI 43-101, and has supervised the preparation of the scientific and technical information that forms the basis for this MD & A. Mr. Highsmith is not independent of the Company as he is an officer and director.

**Other Highlights**

On October 8, 2015 the Company engaged RB Milestone Group, LLC as corporate advisor, in exchange for compensation of US$55,000 for a period of 6 months.

On October 22, 2015 the Company granted 1,250,000 share purchase options, exercisable at $0.67 per share with an expiry date of October 22, 2020. This stock option grant is subject to regulatory approval.

On November 2, 2015 the Company issued 226,620 common shares to Nevada Alaska Mining Co. Inc. under the terms of the May 31, 2015 agreement, which received regulatory approval

On November 2, 2015 the Company through its wholly owned US subsidiary, Esmeralda Minerals, LLC, acquired 1320 acres of placer mineral claims (the "CA" claims) in Clayton Valley, Nevada. The CA claim block consists of 66 placer mining claims, (each approximately 20 acres in size) to fill in the west and southwest quadrants of the property. The claims were acquired for staking costs, and as the new claims

have been recorded and secured by a wholly-owned subsidiary of Pure Energy, there are no royalties, lease payments, work commitments or other encumbrances that apply to the claims, other than normal annual recording and payment obligations.

On November 5, 2015 the Company appointed Patrick Highsmith to the board of directors. Mr. Highsmith was granted an option to acquire 400,000 shares at an exercise price of $0.54 per share for a term of five years in accordance with the Company's stock option plan.

On November 5, 2015 the Company granted 550,000 share purchase options, exercisable at $0.54 per share with an expiry date of November 5, 2020. Of the stock options granted, 233,333 vest immediately, 158,333 vest on February 5, 2016 and 158,334 vest on May 5, 2016.

On February 4, 2016 the Company granted 400,000 stock options, 100,000 of which vest immediately, 100,000 vest on May 4, 2016, 100,000 vest on August 4, 2016 and 100,000 vest on November 4, 2016. These stock options are exercisable at $0.57 per share for a period of 5 years expiring February 4, 2021. This grant is subject to regulatory approval.

On March 3, 2016 the Company appointed Patrick Highsmith as Chief Executive Officer replacing Robert Mintak. Robert Mintak has been elected as Executive Chairman.

## Recent Developments

### Financing

During the nine months ended March 31, 2016 the Company

- issued 7,296,334 common shares pursuant to the exercise of warrants at $0.15 per share.
- issued 4,608,531 common shares pursuant to the exercise of warrants at $0.30 per share.
- issued 1,283,233 common shares pursuant to the exercise of warrants at $0.24 per share.
- issued 800,000 common shares pursuant to the exercise of warrants at $0.35 per share.
- issued 40,000 common shares pursuant to the exercise of stock options at $0.245 per share.
- issued 87,500 common shares pursuant to the exercise of stock options at $0.40 per share.
- issued 150,000 common shares pursuant to the exercise of stock options at $0.235 per share.
- issued 200,000 common shares pursuant to the exercise of stock options at $0.23 per share.
- issued 151,507 common shares in exchange for services with a value of $37,143
- issued 142,839 common shares at $0.51 per share pursuant to a private placement.
- granted 3,128,233 share purchase warrants exercisable at $0.24 per share.
- granted 800,000 share purchase warrants exercisable at $0.35 per share.
- issued 110,547 common shares for services valued at $26,999.
- issued 800,000 common shares for services valued at $224,000.
- issued 226,620 common shares to Alaska Nevada Mining at a fair value of $115,576 pursuant to a property option agreement.

Subsequent to March 31, 2016, the Company:

- issued 273,000 common shares pursuant to the exercise of warrants at $0.15 per share.
- issued 4,420,000 common shares pursuant to the exercise of warrants at $0.30 per share.
- issued 150,000 common shares pursuant to the exercise of warrants at $0.24 per share.
- issued 8,000 common shares pursuant to the exercise of stock options at $0.245 per share.
- issued 350,000 common shares pursuant to the exercise of stock options at $0.20 per share

## OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

### Three months ended March 31, 2016 compared to the three months ended March 31, 2015

During the three months ended March 31, 2016, the Company had a loss of $519,864 from operations compared to a net loss of $337,714 for the three months ended March 31, 2015. Operating expenses for the three months ended March 31, 2016 were $519,783 compared to $431,781 for the three months ended March 31, 2015.

Overall increases in operating expenses reflect increased management costs as corporate development and increasing investor awareness activities continued during the three months ended March 31, 2016. As the Company does not yet generate revenue from its operations, changes in the financial performance and financial condition of the Company are driven solely by changes in the Company's expenses. Significant items affecting expenses are noted below:

*Travel and entertainment* increased by $56,543 being costs to have consultants on site in Clayton Valley during the drilling program carried out in the current period.

*Professional fees* increased by $53,569 being costs related to securities compliance matters.

*Investor relations and regulatory expenses* increased by $41,929 during the three months ended March 31, 2016. Major contributions to this increase during the current period were mainly due to launch of new website, communications, travel and investors relation expenses in marketing to increase exposure of the Company in Canada, the USA and Europe.

*Management fees* increased by $36,449, representing costs incurred for management services provided to the Company by non-employee officers. These fees increased during the three month ended March 31, 2016 as the Company engaged the services of Andy Robinson and Alexi Zawadzki paying them $60,900 respectively and paid Patrick Highsmith a fee of $13,749 during the current period. (see "*Related Party Transactions*" below.)

*Consulting fees* decreased by $129,725 results partially from fees paid to Andy Robinson and Alexi Zawadzki being management fees in the current period whereas they were consulting fees in the prior period.

### Nine months ended March 31, 2016 compared to the nine months ended March 31, 2015

During the nine months ended March 31, 2016, the Company had a loss of $2,696,675 from operations compared to a net loss of $1,396,416 for the nine months ended March 31, 2015. Operating expenses for the nine months ended March 31, 2016 were $2,721,664 compared to $1,490,936 for the nine months ended March 31, 2015.

Overall increases in operating expenses reflect increased management costs as corporate development and increasing investor awareness activities continued during the nine months ended March 31, 2016. As the Company does not yet generate revenue from its operations, changes in the financial performance and financial condition of the Company are driven solely by changes in the Company's expenses. Significant items affecting expenses are noted below:

*Investor relations and regulatory expenses* increased by $336,832 during the nine months ended March 31, 2016. Major contributions to this increase during the current period were mainly due to new marketing and communications materials, travel and investors relation expenses in marketing to increase exposure of the Company in Canada, the USA and Europe.

*Management fees* increased by $274,385, representing costs incurred for management services provided to the Company by non-employee officers. These fees increased during the nine months ended March 31, 2016 as the Company engaged Jeremy Poirier ("Mr. Poirier") in January 2015 paying him $65,000 in the current period, the Company also engaged the services of Andy Robinson and Alexi Zawadzki paying them $122,064 (including $30,714 paid in common shares) and $97,829 (including $6,429 paid in common shares) respectively and paid LeeAnn Munk a fee of $9,954 and Patrick Highsmith a fee of $13,749 during the current period. (see "*Related Party Transactions*" below.)

*Professional fees* increased by $165,495 which represents costs incurred for a title opinion on the Company's Exploration and Evaluation asset, and costs related to securities compliance matters.

*Share-based compensation* increased by $155,123, related to the vesting of stock options issued in a prior period. This represent non-cash charges, with the value of the options being calculated using the Black-Scholes pricing model as determined at the date of grant. Substantially all share-based compensation is charged to expense at the date of issuance, and variations between periods reflect the timing of individual stock option grants. The value of stock-based compensation expensed is added to the share-based payment reserve within shareholders' equity, resulting in no net effect on total shareholders' equity.

*Travel and entertainment* increased by $127,271 being mainly due to costs to have consultants on site in Clayton Valley during the drilling program carried out in the current period.

*Consulting fees* increased by $114,010. The major contributor to this increase was the payment of 800,000 units to Haywood Securities Ltd, valued at $224,000. Haywood Securities will provide strategic advisory services to the Company for a period of eighteen months, payment of $71,855 to R B Milestone Equities under a consulting agreement and payment of $39,499 to Luscar International for ongoing services.

The fluctuation in losses for the Company on a quarter to quarter basis is due to capital availability, and the stage of exploration that the Company initiates in any particular quarter. There are quarters of intense efforts to achieve milestones followed by quarters where information is analyzed.

These expenses are itemized in the audited Consolidated Statements of Comprehensive Loss, in the Company's Financial Statements for the period ended March 31, 2016 and 2015. Refer to "Risk Factors" below for a list of risks and uncertainties which may have an effect on the Company's business.

## SELECTED ANNUAL INFORMATION

**($000's except earnings per share)**

| | Years Ended | | |
|---|---|---|---|
| | June 30, 2015 | June 30, 2014 | June 30, 2013 |
| Revenue | $ 0 | $ 0 | $ 0 |

| | | | |
|---|---|---|---|
| Operating profit (Loss) | $ (1,960) | $ (486) | $ (863) |
| Net Income (Loss) | $ (3,361) | $ (313) | $ (846) |
| Basic and diluted loss per share | $ (0.07) | $ (0.02) | $ (0.05) |
| Total assets | $ 3,876 | $ 1,784 | $ 1,642 |
| Long term debt | $ 0 | $ 0 | $ 0 |
| Dividends | $ 0.00 | $ 0.00 | $ 0.00 |

As the Company does not yet generate revenue from its operations, changes in the financial performance and financial condition of the Company are driven solely by changes in the Company's expenses. Refer to "Overall Performance and Results of Operations" above for discussion of certain key factors which cause period-to-period variations in the Company's financial condition and performance.

## SUMMARY OF QUARTERLY RESULTS

**($000's except earnings per share)**

| | Quarters Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar 31 2016 | Dec 31 2015 | Sept 30 2015 | June 30 2015 | Mar 31 2015 | Dec 31 2014 | Sept 30 2014 | June 30 2014 |
| Revenue | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Operating profit (Loss) | ($520) | ($1,327) | ($874) | ($469) | ($432) | ($896) | ($163) | ($261) |
| Net Income (Loss) | ($520) | ($1,339) | ($838) | ($1,964) | ($3385) | ($895) | ($164) | ($262) |
| Basic and diluted Profit (loss) Per Share | ($0.008) | ($0.021) | ($0.015) | ($0.042) | ($0.007) | ($0.025) | ($0.006) | ($0.014) |

As the Company does not yet generate revenue from its operations, the Company's financial results are primarily impacted by the timing and nature of exploration-related activities undertaken and the award of share-based compensation. To date, the timing of exploration activities have not been subject to significant weather impacts or seasonality. In addition, the Company's exposure to USD currency fluctuations could be significant in future periods as the Company's principal asset is US based. Refer to "Overall Performance and Results of Operations" above for discussion of certain key factors which cause period-to-period variations in the Company's financial condition and performance.

## MANAGEMENT AND STAFFING

On November 5, 2015, Patrick Highsmith was appointed to the board of directors of the Company. Mr. Highsmith, has a Bachelor of Science degree in Geological Engineering and a Master of Science in Economic Geology from the Colorado School of mines, and is a 25-year veteran of the mining industry. During his tenure as COO and CEO at Lithium One Inc. he led the discovery teams on the Sal de Vida and James Bay lithium projects. He negotiated Lithium One's strategic joint venture with LG, GS Caltex and KORES on the Sal de Vida lithium brine and potash project in Argentina before co-engineering the 2012 sale of the company for over $100 million CDN.

On February 4, 2016 Alex Rothwell was appointed to the strategic advisory board for the Company. Mr. Rothwell has 20 years of experience in Canadian capital markets, most recently as President of Macquarie Capital Markets Canada. Mr. Rothwell holds an MBA from the Ivey School of Business and a Bachelor of Chemical Engineering from McGill University.

On February 4, 2016 Paul Reinhart was appointed to the strategic advisory board for the Company. Mr. Reinhart is the President of Vanhart Capital Corporation, a company specializing in early stage businesses in the resource and life sciences industries. Mr. Reinhart has 30 years of experience providing early stage financing and shareholder management services.

On March 3, 2016 the Company appointed Patrick Highsmith as Chief Executive Officer replacing Robert Mintak. Robert Mintak has been elected as Executive Chairman.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position was $1,581,372 as at March 31, 2016, compared to $1,281,922 as at March 31, 2015. The Company had working capital of $1,396,742 as at March 31, 2016 compared to a working capital of $1,102,868 as at March 31, 2015. The Company's estimated cash requirements for the next 12 months are $4,000,000. In the next 12 months the Company will have property option and land maintenance cost of approximately $470,000, anticipated exploration and evaluation expenditures to be approximately $2,750,000 and we expect administration costs of the Company will be approximately $750,000. The Company does not have adequate cash on hand to meet its cash requirements for the coming year. Factors impacting the changes in cash and working capital are discussed below.

### Operating Activities

During the nine months ended March 31, 2016, the Company's activities provided $839,871 of cash compared to March 31, 2015 when activities provided $1,194,247 of cash. The cash used in operating activities reflects the Company's funding of losses of $1,113,892 (2015: $720,584) adjusted for non-cash items of stock based compensation totaling $842,916 (2015: $687,793), the payment of non-cash consulting fees of $288,142 (2015: $Nil) and other minor non-cash adjustments. Overall, the increase in operating cash outflows is due to additional administrative costs associated with the continuing ramp-up of Company operations. Going forward, the Company's working capital requirements are expected to increase substantially in connection with the development of the Clayton Valley Project.

### Investing Activities

The Company's primary investing activity is its expenditures on Exploration and Evaluation Assets. During the nine months ended March 31, 2016 the Company spent $1,310,121 (2015: $1,609,582) on the Clayton Valley Project. Details of expenditures for the nine months ended March 31, 2016 are more fully described in Note 5 to the March 31, 2016 Financial Statements "*Exploration and Evaluation Assets*".

### Financing Activities

For the nine months ended March 31, 2016, the Company received a total of $3,263,884 (2015: $3,678,320) less cash issue costs of $Nil (2015: $153,907) from private placements and warrant exercises.

## Cash Flow Considerations

As of March 31, 2016, the Company had a working capital of $1,396,742 compared to a working capital of $1,102,868 as of March31, 2015. The Company anticipates receiving cash proceeds from the exercise of warrants however the Company cannot predict the timing or amount of additional options and warrants that may be redeemed, if any. Subsequent to March 31, 2016, the Company received $1,384,910 and issued 4,901,000 common shares pursuant to warrant and stock option exercise.

The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its near-term activities. The Company may pursue debt financing in the medium term if it is able to procure same on terms more favorable than the available equity financing, however there can be no assurance the Company will be able to obtain any required financing in the future on acceptable terms.

The Company has limited financial resources compared to its proposed expenditures, no source of operating income and no assurance that additional funding will be available to it for current or future projects, although the Company has been successful in the past in financing its activities through the sale of equity securities.

The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and its exploration success. Any quoted market for the Company's shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

Historically, the Company has used net proceeds from issuances of Common Shares to provide sufficient funds to meet its near-term exploration and development plans and other contractual obligations when due. However, further development and construction of the Clayton Valley Project will require substantial additional capital resources. This includes near-term funding and, ultimately, funding for project construction and other costs.

## OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements.

## RISK FACTORS

There are a number of risks that may have a material and adverse impact on the future operating and financial performance of the Company and could cause the Company's operating and financial performance to differ materially from the estimates described in forward-looking statements relating to the Company. These include widespread risks associated with any form of business and specific risks associated with the Company's business and its involvement in the lithium exploration and development industry.

This section describes risk factors identified as being potentially significant to the Company and its material property, the Clayton Valley Project. Additional risk factors may be included in technical reports or other documents previously disclosed by the Company. In addition, other risks and uncertainties not discussed to date or not known to management could have material and adverse effects on the valuation of our securities, existing business activities, financial condition, results operations, plans and prospects.

**Chemical Testing**

The Company has completed preliminary bench scale chemical testing on the Clayton Valley Project, and will continue to complete necessary chemical testing at the bench, mini-pilot/ pilot scale as the development of the Clayton Valley Project progresses. There can be no assurance that the results of such chemical testing will be favorable or as expected by the Company. Furthermore, there can be no certainty that chemical recoveries obtained in bench scale tests will be achieved in either subsequent testing or commercial operations. In addition, testing to date has focused on representative samples of the resource, but the variability of chemical recoveries across the resource has not been established. Finally, the development of a complete chemical processing facility to produce a saleable final product from the Clayton Valley Project is a complex and resource intensive undertaking that may result in overall schedule delays and increased project costs for the Company.

**Reliance on Key Personnel**

The senior officers of the Company are critical to its success. In the event of the departure of a senior officer, the Company believes that it will be successful in attracting and retaining qualified successors but there can be no assurance of such success. Recruiting qualified personnel as the Company grows is critical to its success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, it will require additional key financial, administrative, engineering, geological and mining personnel as well as additional operations staff. If the Company is not successful in attracting and training qualified personnel, the efficiency of its operations could be affected, which could have an adverse impact on future cash flows, earnings, results of operations and the financial condition of the Company. The Company is particularly at risk at this state of its development as it relies on a small management team, the loss of any member of which could cause severe adverse consequences.

**Substantial Capital Requirements and Liquidity**

The Company anticipates that it will make substantial capital expenditures for the continued exploration and development of the Clayton Valley Project in the future. The Company currently has no revenue and may have limited ability to undertake or complete future drilling or exploration programs, chemical studies and the design of a surface plant and processing facilities. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects. Sales of substantial amounts of securities may have a highly dilutive effect on the ownership or share structure of the Company. Sales of a large number of Common Shares in the public markets, or the potential for such sales, could decrease the trading price of the Common Shares and could impair the Company's ability to raise capital through future sales of Common Shares.

The Company has not yet commenced commercial production at any of its properties and as such, it has not generated positive cash flows to date and has no reasonable prospects of doing so unless successful commercial production can be achieved at the Clayton Valley Project. The Company expects to continue to incur negative investing and operating cash flows until such time as it enters into commercial production. This will require the Company to deploy its working capital to fund such negative cash flow and to seek additional sources of financing. There is no assurance that any such financing sources will be available or sufficient to meet the Company's requirements. There is no assurance that the Company will be able to continue to raise equity capital or that the Company will not continue to incur losses.

**Property Commitments**

The Company's mining properties may be subject to various land payments, royalties and/or work commitments. Failure by the Company to meet its payment obligations or otherwise fulfill its commitments under these agreements could result in the loss of related property interests.

**Exploration and Development**

Exploring and developing natural resource projects bears a high potential for all manner of risks. Additionally, few exploration projects successfully achieve development due to factors that cannot be predicted or foreseen. Moreover, even one such factor may result in the economic viability of a project being detrimentally impacted such that it is neither feasible nor practical to proceed. Natural resource exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of natural resources, any of which could result in work stoppages, damage to property, and possible environmental damage. If any of the Company's exploration programs are successful, there is a degree of uncertainty attributable to the calculation of resources and corresponding grades being extracted or dedicated to future production. Until actually extracted and processed, the quantity of lithium brine reserves and grade must be considered as estimates only. In addition, the quantity of reserves may vary depending on commodity prices. Any material change in quantity of reserves, grade or recovery ratio, may affect the economic viability of the Company's properties. In addition, there can be no assurance that results obtained in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. The Company closely monitors its activities and those factors which could impact them, and employs experienced consulting, engineering, and legal advisors to assist in its risk management reviews where it is deemed necessary.

**Operational Risks**

The Company will be subject to a number of operational risks and may not be adequately insured for certain risks, including: environmental pollution, accidents or spills, industrial and transportation accidents, which may involve hazardous materials, labor disputes, catastrophic accidents, fires, blockades or other acts of social activism, changes in the regulatory environment, impact of non-compliance with laws and regulations, natural phenomena such as inclement weather conditions, floods, earthquakes, ground movements, cave-ins, and encountering unusual or unexpected geological conditions and technological failure of exploration methods.

There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the property of the Company, personal injury or death, environmental damage or, regarding the exploration or development activities of the Company, increased costs, monetary losses and potential legal liability and adverse governmental action, all of which could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Additionally, the Company may be subject to liability or sustain loss for certain risks and hazards against which the Company cannot insure or which the Company may elect not to insure because of the cost. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

**Environmental Risks**

All phases of mineral exploration and development businesses present environmental risks and hazards and are subject to environmental regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances used and or produced in association with natural resource exploration and production operations. The legislation also requires that

facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that the application of environmental laws to the business and operations of the Company will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

**Commodity Price Fluctuations**

The price of commodities varies on a daily basis. However, price volatility could have dramatic effects on the results of operations and the ability of the Company to execute its business plan. Lithium is a specialty chemical and is a commonly traded commodity such as copper, zinc, gold or iron ore. However the price of lithium tends to be set through a limited long term offtake market contracted between the very few suppliers and purchasers.

The world's largest suppliers of lithium are Sociedad Quimica y Minera de Chile S.A (NYSE:SQM), FMC Corporation (NYSE:FMC), Albemarle Corporation (NYSE:ALB) and Tianqi Group who collectively supply approximately 90% of the world's lithium business, and any attempt to suppress the price of lithium materials by such suppliers, or an increase in production by any supplier in excess of any increased demand, would have negative consequences on the Company The price of lithium materials may also be reduced by the discovery of new lithium deposits, which could not only increase the overall supply of lithium (causing downward pressure on its price), but could draw new firms into the lithium industry which would compete with the Company.

**Volatility of the Market Price of the Company's Common Shares**

The Company's common shares are listed on the TSX.V under the symbol "PE", on the OTCQB trading platform in the United States under the trading symbol "HMGLF", on the Frankfurt Stock Exchange under the trading symbol "AHG1", and on the Xterra trading platform in Germany under the trading symbol "A111EG". The quotation of Pure Energy Common Shares on the TSX.V may result in a less liquid market available for existing and potential stockholders to trade Common Shares, could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future.

Securities of junior companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally and market perceptions of the attractiveness of particular industries. The Company's Common Share price is also likely to be significantly affected by delays experienced in progressing our development plans, a decrease in the investor appetite for junior stocks, or in adverse changes in our financial condition or results of operations as reflected in our quarterly financial statements. Other factors unrelated to our performance that could have an effect on the price of the Company's Common Shares include the following:

(a) The trading volume and general market interest in the Company's common shares could affect a shareholder's ability to trade significant numbers of Common Shares; and

(b) The size of the public float in the Company's common shares may limit the ability of some institutions to invest in the Company's securities.

As a result of any of these factors, the market price of the Company's Common Shares at any given point in time might not accurately reflect the Company's long-term value. Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company could in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

**Future Share Issuances May Affect the Market Price of the Common Shares**

In order to finance future operations, the Company may raise funds through the issuance of additional Common Shares or the issuance of debt instruments or other securities convertible into Common Shares. The Company cannot predict the size of future issuances of Common Shares or the issuance of debt instruments or other securities convertible into Common Shares or the dilutive effect, if any, that future issuances and sales of the Company's securities will have on the market price of the Common Shares.

**Economic and Financial Market Instability**

Global financial markets have been volatile and unstable at times since the global financial crisis, which started in 2007. Bank failures, the risk of sovereign defaults, other economic conditions and intervention measures have caused significant uncertainties in the markets. The resulting disruptions in credit and capital markets have negatively impacted the availability and terms of credit and capital. High levels of volatility and market turmoil could also adversely impact commodity prices, exchange rates and interest rates. In the short term, these factors, combined with the Company's financial position, may impact the Company's ability to obtain equity or debt financing in the future and, if obtained, on terms that are favorable to the Company. In the longer term these factors, combined with the Company's financial position could have important consequences, including the following:

(a) Increasing the Company's vulnerability to general adverse economic and industry conditions;

(b) Limiting the Company's ability to obtain additional financing to fund future working capital, capital expenditures, operating and exploration costs and other general corporate requirements;

(c) Limiting the Company's flexibility in planning for, or reacting to, changes in the Company's business and the industry; and

(d) Placing the Company at a disadvantage when compared to competitors that has less debt relative to their market capitalization.

**Issuance of Debt**

From time to time the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. The Company's articles do not limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise. The Company's ability to service its debt obligations will depend on the Company's future operations, which are subject to prevailing industry conditions and other factors, many of which are beyond the control of the Company.

**Industry Competition and International Trade Restrictions**

The international resource industries are highly competitive. The value of any future reserves discovered and developed by the Company may be limited by competition from other world resource mining companies, or from excess inventories. Existing international trade agreements and policies and any similar future agreements, governmental policies or trade restrictions are beyond the control of the Company and may affect the supply of and demand for minerals, including lithium, around the world.

**Governmental Regulation and Policy**

Mining operations and exploration activities are subject to extensive laws and regulations. Such regulations relate to production, development, exploration, exports, imports, taxes and royalties, labor standards, occupational health, waste disposal, protection and remediation of the environment, mine decommissioning and reclamation, mine safety, toxic and radioactive substances, transportation safety and emergency response, and other matters. Compliance with such laws and regulations increases the costs of exploring, drilling, developing, constructing, operating and closing mines and refining and other facilities. It is possible that, in the future, the costs, delays and other effects associated with such laws and regulations may impact decisions of the Company with respect to the exploration and development of properties such as the Clayton Valley Project, or any other properties in which the Company has an interest. The Company will be required to expend significant financial and managerial resources to comply with such laws and regulations. Since legal requirements change frequently, are subject to interpretation and may be enforced in varying degrees in practice, the Company is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Furthermore, future changes in governments, regulations and policies and practices, such as those affecting exploration and development of the Company's properties could materially and adversely affect the results of operations and financial condition of the Company in a particular period or in its long term business prospects.

The development of mines and related facilities is contingent upon governmental approvals, licenses and permits which are complex and time consuming to obtain and which, depending upon the location of the project, involve multiple governmental agencies. The receipt, duration and renewal of such approvals, licenses and permits are subject to many variables outside the control of the Company, including potential legal challenges from various stakeholders such as environmental groups or non-government organizations. Any significant delays in obtaining or renewing such approvals, licenses or permits could have a material adverse effect on the Company, including delays and cost increases in the advancement of the Clayton Valley Project.

**Changes to Government Laws and Regulations**

The Office of the State Engineer of Nevada (the “State Engineer”), the State of Nevada Department of Conservation and Natural Resources, Division of Water Resources recently (March 7, 2016) named the Clayton Valley Hydrographic Basin within Esmeralda County as a designated basin. Designation of a basin infers higher levels of scrutiny and protection of groundwater resources by the State Engineer, but does not preclude additional future use of groundwater resources over and above that which is currently permitted. The Company, its officers, directors, contractors and agents must comply with existing water use regulations when carrying out mineral exploration and project development work on the Clayton Valley South Project. Water use regulations, the appropriation of water and water use rights are evolving in a manner that may result in stricter standards and assessments. Now that the State Engineer has designated the Clayton Valley Hydrographic Basin, there is a risk that exploration work and project development may be subject to time delays or restrictions that could impact the project and its future development.

**Risk Related to the Cyclical Nature of the Mining Business**

The mining business and the marketability of the products that are produced are affected by worldwide economic cycles. At the present time, the significant demand for commodities such as Lithium, in many countries is driving increased prices, but it is difficult to assess how long such demand may continue. Fluctuations in supply and demand in various regions throughout the world are common.

As the Company's mining and exploration business is in the exploration stage and as the Company does not carry on production activities, its ability to fund ongoing exploration is affected by the availability of financing which is, in turn, affected by the strength of the economy and other general economic factors.

**Properties May be Subject to Defects in Title**

The Company has investigated its rights to explore and exploit the Clayton Valley Project resource and, to the best of its knowledge, its rights in relation to lands covering the Clayton Valley Project resource are in good standing. Nevertheless, no assurance can be given that such rights will not be revoked, or significantly altered, to the Company's detriment. There can also be no assurance that the Company's rights will not be challenged or impugned by third parties.

Although the Company is not aware of any existing title uncertainties with respect to lands covering material portions of the Clayton Valley Project resource, there is no assurance that such uncertainties will not result in future losses or additional expenditures, which could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

**No Revenue and Negative Cash Flow**

The Company has negative cash flow from operating activities and does not currently generate any revenue. Lack of cash flow from the Company's operating activities could impede its ability to raise capital through debt or equity financing to the extent required to fund its business operations. In addition, working capital deficiencies could negatively impact the Company's ability to satisfy its obligations promptly as they become due. The Company is currently operating under a working capital deficiency, and requires additional financing to ensure it can continue to maintain a positive working capital position. If the Company does not generate sufficient cash flow from operating activities it will remain dependent upon external financing sources. There can be no assurance that such sources of financing will be available on acceptable terms or at all.

**Legal and Litigation**

All industries, including the mining industry, are subject to legal claims, with and without merit. Defense and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Company may become subject could have a material adverse effect on the Company's business, prospects, financial condition, and operating results. Defense and settlement of costs of legal claims can be substantial. There are no current claims or litigation outstanding against the Company.

**Insurance**

The Company is also subject to a number of operational risks and may not be adequately insured for certain risks, including: accidents or spills, industrial and transportation accidents, which may involve hazardous materials, labor disputes, catastrophic accidents, fires, blockades or other acts of social activism, changes in the regulatory environment, impact of non-compliance with laws and regulations, natural phenomena such as inclement weather conditions, floods, earthquakes, tornados, thunderstorms, ground movements, cave-ins, and encountering unusual or unexpected geological conditions and technological failure of exploration methods.

There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the properties of the Company, personal injury or death, environmental damage or, regarding the exploration or development activities of the Company, increased costs, monetary losses and potential legal liability and adverse governmental action, all of which could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition. The payment of any such liabilities would reduce the funds available to the Company. If the Company is unable to fully fund the cost of remedying an environmental problem, it might be required to suspend operations or enter into costly interim compliance measures pending completion of a permanent remedy.

No assurance can be given that insurance to cover the risks to which the Company's activities are subject will be available at all or at commercially reasonable premiums. The Company is not currently covered by any form of environmental liability insurance, since insurance against environmental risks (including liability for pollution) or other hazards resulting from exploration and development activities is unavailable or prohibitively expensive. This lack of environmental liability insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

**Currency**

The Company is exposed to foreign currency fluctuations to the extent that the Company's material mineral property is located in the US and its expenditures and obligations are denominated in US dollars, yet the Company is currently headquartered in Canada, is listed on a Canadian stock exchange and typically raises funds in Canadian dollars. In addition, a number of the Company's key vendors are based in Canada, including vendors that supply geological, process engineering and chemical testing services. As such, the Company's results of operations are subject to foreign currency fluctuation risks and such fluctuations may adversely affect the financial position and operating results of the Company. On December 14, 2015 Company entered into a 60 day hedging arrangement for $750,000 US at a conversion rate of 1.3729 Management may elect to use such instruments in the future or be required to enter into such transactions as a condition of certain financing transactions.

**Conflicts of Interest**

The Company's directors and officers are or may become directors or officers of other mineral resource companies or reporting issuers or may acquire or have significant shareholdings in other mineral resource companies and, to the extent that such other companies may participate in ventures in which The Company may, or may also wish to participate, the directors and officers of the Company may have a conflict of interest with respect to such opportunities or in negotiating and concluding terms respecting the extent of such participation.

The Company and its directors and officers will attempt to minimize such conflicts. If such a conflict of interest arises at a meeting of the directors of the Company, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In appropriate cases the Company will establish a special committee of independent directors to review a matter in which several directors, or officers, may have a conflict. In determining whether or not the Company will participate in a particular program and the interest to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time. Other than as indicated, the Company has no other procedures or mechanisms to deal with conflicts of interest.

**Decommissioning and Reclamation**

Environmental regulators are increasingly requiring financial assurances to ensure that the cost of decommissioning and reclaiming sites is borne by the parties involved, and not by government. It is not

possible to predict what level of decommissioning and reclamation (and financial assurances relating thereto) may be required in the future by regulators. The Company's ability to advance the Clayton Valley Project could be adversely affected by any inability on its part to obtain or maintain the required financial assurances.

**Dividends**

The Company has never paid cash dividends on our Common Shares, and does not expect to pay any cash dividends in the future in favor of utilizing cash to support the development of our business. Any future determination relating to the Company's dividend policy will be made at the discretion of the Company's Board of Directors and will depend on a number of factors, including future operating results, capital requirements, financial condition and the terms of any credit facility or other financing arrangements the Company may obtain or enter into, future prospects and other factors the Company's Board of Directors may deem relevant at the time such payment is considered. As a result, shareholders will have to rely on capital appreciation, if any, to earn a return on their investment in the Common Shares in the foreseeable future.

**Hedging**

On December 14, 2015 Company entered into a 60 day hedging arrangement, for $750,000 US at a conversion rate of 1.3729. Management may elect to use such instruments in the future or be required to enter into such transactions as a condition of certain financing transactions. Derivative instruments may be used to manage changes in commodity prices, interest rates, foreign currency exchange rates, energy costs and the costs other consumable commodities. Common inherent risks associated with derivative transactions include (a) credit risk resulting from a counterparty failing to meet its obligation, (b) market risk associated with changes in market factors that affect fair value of the derivative instrument, (c) basic risk resulting from ineffective hedging activities and (d) legal risk associated with an action that invalidates performance by one or both parties. There is no assurance that any hedging or other derivative program will be successful.

**Time and Cost Estimates**

Time and cost estimates to develop, operate and close the Clayton Valley Project will be prepared in connection with the Preliminary Economic Assessment ("PEA"). Other estimates of time and costs are made from time to time for exploration and other business activities. Actual time and costs may vary significantly from estimates for a variety of reasons, both within and beyond the control of the Company. Failure to achieve time estimates and significant increases in costs may adversely affect the Company's ability to continue exploration, develop the Clayton Valley Project and ultimately generate sufficient cash flows. There is no assurance that the Company's estimates of time and costs will be achievable.

**Consumables Availability and Costs**

The Company's planned development activities and operations, including the profitability thereof, will continue to be affected by the availability and costs of consumables used in connection with the Company's activities. Of significance, this may include concrete, steel, copper, piping, diesel, processing reagents and electricity. Other inputs such as labor, consultant fees and equipment components are also subject to availability and cost volatility. If inputs are unavailable at reasonable costs, this may delay or indefinitely postpone planned activities. Furthermore, many of the consumables and specialized equipment used in exploration, development and operating activities are subject to significant volatility. There is no assurance that consumables will be available at all or at reasonable costs.

**Mineral Resources Uncertainties**

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty which may attach to mineral resources, there can be no assurances that mineral resources will be upgraded to mineral reserves as a result of continued exploration or during the course of operations.

There can be no assurances that any of the mineral resources stated in this MD&A or published technical reports of the Company will be realized. Until a deposit is actually extracted and processed, the quantity of mineral resources or reserves, grades, recoveries and costs must be considered as estimates only. In addition, the quantity of mineral resources or reserves may vary depending on, among other things, product prices. Any material change in the quantity of mineral resources or reserves, grades, dilution occurring during mining operations, recoveries, costs or other factors may affect the economic viability of stated mineral resources or reserves. In addition, there is no assurance that chemical recoveries in limited, small scale laboratory tests will be duplicated by larger scale tests or during production. Fluctuations in lithium/lithium products prices, results of future drilling, metallurgical testing, actual mining and operating results, and other events subsequent to the date of stated mineral resources and reserves estimates may require revision of such estimates. Any material reductions in estimates of mineral resources or reserves could have a material adverse effect on the Company.

**Taxation**

The Company is affected by the tax regimes of numerous jurisdictions. Revenues, expenditures, income, investments, land use, intercompany transactions and all other business conditions can be taxed. Tax regulations, interpretations and enforcement policies may differ from the Company's applied methods and may change over time due to circumstances beyond the Company's control. The effect of such events could have material adverse effects on the Company's anticipated tax consequences. There is no assurance regarding the nature or rate of taxation, assessments and penalties that may be imposed.

## FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables and accounts payable and accrued liabilities. The carrying value of receivables, accounts payable and accrued liabilities approximates their fair values due to their immediate or short-term maturity. Cash is carried at fair value using a level 1 fair value measurement.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous reporting periods.

## TRANSACTIONS WITH RELATED PARTIES

Related parties include the Company's Board of Directors, officers, close family members and enterprises controlled by these individuals as well as certain persons performing similar functions. Apart from those transactions detailed in the section, there were no other related party transactions.

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and senior officers. The following expenses were incurred with key management personnel:

As of March 31, 2016, the Company had the following related party transactions and balances:

(a) management fees of $90,000 (2015: $77,000) were paid to a company controlled by Mr. Mintak, a director and Executive Chairman of the Company;

(b) management fees of $6,200 (2015: $15,850) were paid to a company controlled by Mr. Dake, a director of the Company;

(c) management fees of $65,000 (2015: $46,350) and Investor Relations fees of $Nil (2015: $38,000) were paid to a company controlled by Mr. Poirier, a director of the Company;

(d) professional and accounting expenses of $45,000 (2015: $40,750) were paid to a company controlled by John Jardine, CFO of the Company;

(e) Management fees of $97,829 (2015: $70,675) were paid to a company controlled by Mr. Zawadzki, an officer of the Company;

(f) Management fees of $122,064 (2015: $70,750) were paid to a Company controlled by Dr. Robinson, an officer and director of the Company;

(g) consulting fees of $13,040 (2015: $nil) were paid to Grant Hall, a former director of the Company;

(h) consulting fees of $1,500 (2015: $750) were paid to Gerhard Jacob, a director of the Company;

(i) consulting fees of $9,954 (2015: $31,668) were paid to Lee Ann Munk, a technical advisor to the Company at the time;

(j) management fees of $13,749 (2015; $nil) were paid to Patrick Highsmith, a director and CEO of the Company.

(k) the Company incurred a total share based compensation expense of $842,916 (2015: $687,793), calculated using the Black-Scholes pricing model; and

(l) as at March 31, 2016 accounts payable included $46,214 (2015: $38,809) which was owed to related parties for travel expenses, professional and management fees.

The transactions noted above were measured at the exchange amounts which were agreed upon by the transacting parties and are on terms and conditions similar to non-related entities.

## CRITICAL ACCOUNTING ESTIMATES AND POLICIES

In applying the Company's accounting policies, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. Actual results may differ from the judgments, estimates and assumptions made by management and will seldom equal the estimated results.

The most significant critical judgment that members of management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements is the policy on exploration and evaluation assets.

In particular, management is required to assess exploration and evaluation assets for impairment. Note 5 to the consolidated financial statements discloses the carrying values of such assets. As part of this assessment, management must make an assessment as to whether there are indicators of impairment. If there are indicators, management performs an impairment test on the major assets within this balance.

The recoverability of exploration and evaluation assets is dependent on a number of factors common to the natural resource sector. These include the extent to which the Company can continue to renew its exploration and future development licenses with local authorities, establish economically recoverable reserves on its properties, the ability of the Company to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof. The Company will use the evaluation work of professional geologists, geophysicists and engineers for estimates in determining whether to commence or continue mining and processing. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether or not the deposit contains economically recoverable mineralization. If a determination is made that a deposit does not contain economically recoverable mineralization, or if other factors are present that indicate the existence of an impairment, a property is written down to net realizable value, which could have a material effect on the financial position and financial performance of the Company.

## STOCK-BASED COMPENSATION

The Company has a stock option plan, which is described in Note 8 to the financial statements. The Company applies the fair value method to all stock-based payments and to all grants that are direct awards of stock that call for settlement in cash or other assets. Compensation expense is recognized over the applicable vesting period with a corresponding increase in contributed surplus. When the options are exercised, share capital is credited for the consideration received and the related contributed surplus is decreased. The Company uses the Black Scholes option pricing model to estimate the fair value of stock based compensation.

## FINANCIAL INSTRUMENTS

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. The Company accounts for transaction costs related to the issuance of financial instruments other than those at FVTPL as a reduction of the carrying value of the related financial instruments.

Financial instruments included in the statement of financial position are comprised of amounts receivable and accounts payable and accrued liabilities. The Company is not exposed to any derivative instruments. The Company is exposed to currency exchange rate risk as certain transactions are

denominated in US dollars. The Company does not have foreign exchange hedges in place at this time. It is management's opinion that the Company is not exposed to significant interest rate or credit risks.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates are based on careful judgments and have been properly reflected in the Company's consolidated financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

## OUTSTANDING SHARE DATA

### Issued

The Company has 74,958,968 post consolidation shares issued and outstanding as at May 26, 2016.

### Share Purchase Options

As at May 26, 2016, the Company has 5,572,000 post consolidation stock options outstanding of which 5,372,000 are fully vested and exercisable. A summary of the Company's stock options is presented below.

| | Number of Options | Exercise Price | Expiry Date |
|---|---|---|---|
| Issued January 29, 2013 | 762,500 | $0.40 | January 29, 2017 |
| Issued October 3, 2014 | 1,875,000 | $0.245 | October 3, 2019 |
| Issued November 13, 2014 | 400,000 | $0.235 | November 13, 2017 |
| Issued November 14, 2014 | 400,000 | $0.235 | November 14, 2017 |
| Issued January 13, 2015 | 350,000 | $0.20 | January 13, 2020 |
| Issued March 11, 2015 | 310,000 | $0.27 | March 11, 2020 |
| Issued March 17, 2015 | 200,000 | $0.23 | March 17, 2017 |
| Issued July 21, 2015 | 210,000 | $0.235 | July 21, 2017 |
| Issued October 23, 2015 | 1,250,000 | $0.67 | October 22, 2020 |
| Issued November 5, 2015 | 550,000 | $0.54 | November 5, 2020 |
| Issued February 4, 2016 | 400,000 | $0.57 | February 4, 2021 |
| | | | |
| Expired unexercised | (150,000) | $0.40 | |
| Exercised | (87,500) | $0.40 | |
| Exercised | (150,000) | $0.245 | |
| Exercised | (48,000) | $0.245 | |
| Exercised | (150,000) | $0.235 | |
| Exercised | (200,000) | $0.23 | |
| Exercised | (350,000) | $0.20 | |
| Balance, May 26, 2016 | 5,572,000 | | |
| Fully vested and exercisable | 5,372,000 | | |

**Warrants**

The Company has 5,019,731 share purchase warrants outstanding at May 26, 2016.
A summary of the Company's warrants is presented below.

| | Number of Warrants | Weighted Average Exercise Price | Expiry Date |
|---|---|---|---|
| Issued May 30, 2014 | 3,160,000 | $0.15 | May 30, 2017 |
| Issued July 17, 2014 | 3,118,200 | $0.15 | July 17, 2017 |
| Issued July 17, 2014 (finders warrants) | 32,487 | $0.15 | July 17, 2017 |
| Issued September 5, 2014 | 9,900,000 | $0.15 | September 5, 2017 |
| Issued September 5, 2014 (finders warrants) | 6,650 | $0.15 | September 5, 2017 |
| Issued December 19, 2014 | 8,622,500 | $0.30 | June 19, 2016 |
| Issued December 29, 2014 | 2,525,000 | $0.30 | June 29, 2016 |
| Issued December 29, 2014 (finders warrants) | 152,625 | $0.30 | June 29, 2016 |
| Issued July 10, 2015 | 3,128,233 | $0.24 | December 16, 2016 |
| Issued August 4, 2015 | 800,000 | $0.35 | February 4, 2017 |
| Exercised up to March 31, 2016 | (14,891,200) | $0.15 | |
| Exercised up to March 31, 2016 | (1,283,233) | $0.24 | |
| Exercised up to March 31, 2016 | (4,608,531) | $0.30 | |
| Exercised up to March 31, 2016 | (800,000) | $0.35 | |
| Exercised subsequent to March 31, 2016 | (273,000) | $0.15 | |
| Exercised subsequent to March 31, 2016 | (150,000) | $0.24 | |
| Exercised subsequent to March 31, 2016 | (4,420,000) | $0.30 | |
| Balance, May 26, 2016 | 5,019,731 | $0.25 | |

Each share purchase warrant entitles the holder to acquire one additional share at a cost shown above per share until its expiry date.