



Kerr Mines Inc.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

(In Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Kerr Mines Inc., are the responsibility of the management and Board of Directors of the Company.

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim condensed consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim condensed consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"*Claudio Ciavarella*" (signed)
Claudio Ciavarella, Chief Executive Officer

"*Chris Hopkins*" (signed)
Chris Hopkins, Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of

Kerr Mines Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kerr Mines Inc., which comprise the consolidated statement of financial position as at June 30, 2017, and the consolidated statement of operations, comprehensive loss and deficit, changes in equity (deficiency) and cash flow for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kerr mines Inc. as at June 30, 2017, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

(Continued)



Emphasis of Matter

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

Other Matter

The consolidated financial statements for the year ended June 30, 2016 were audited by another auditor who expressed an unqualified opinion on these consolidated financial statements dated September 30, 2016.

Kreston GTA LLP

Licensed Public Accountants

October 8, 2017

Markham, Canada

KERR MINES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2017 AND 2016
(In Canadian dollars)

	2017	2016
ASSETS		
Current		
Cash	\$ 5,065,452	\$ 412,662
Accounts receivable and sundry assets (Note 6)	172,179	747,467
Marketable securities (Note 7)	2,519	3,502,711
Inventories	198,081	191,141
Prepaid expenses	500,973	312,381
Current assets	5,939,204	5,166,362
Non-current		
Restricted investments (Note 5)	1,567,133	1,558,656
Long term receivable	-	248,392
Property, plant and equipment (Note 9 and 10)	10,886,188	11,023,993
Mineral properties (Note 8 and 10)	7,270,465	7,270,465
Non-current assets	19,723,786	20,101,506
TOTAL ASSETS	25,662,990	25,267,868
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 11, 24)	2,933,760	10,733,251
Convertible promissory notes (Note 12)	-	5,631,850
Loan payable (Note 13)	-	5,109,763
Loans and borrowings (Note 14)	221,371	221,371
Current liabilities	3,155,131	21,696,235
Non-current		
Long term promissory note payable (Note 15)	2,000,000	-
Long term convertible promissory notes payable (Note 16)	3,777,362	-
Derivative in convertible promissory note payable (Note 16)	279,014	-
Long term loan payable (Note 17)	3,609,763	-
Net Smelter return payable (Note 26)	-	953,916
Other long term payables (Note 18)	239,262	-
Provisions (Note 19)	2,691,269	2,703,334
Non-current liabilities	12,596,670	3,657,250
SHAREHOLDERS' EQUITY (DEFICIENCY) IN ASSETS		
Capital stock (Note 20)	132,264,928	123,100,636
Contributed surplus	10,531,788	7,018,421
Share-based payment reserve (Note 21)	178,496	-
Warrant reserve (Note 22)	2,379,100	3,513,367
Currency translation	1,286,626	1,675,571
Deficit	(136,729,749)	(135,393,612)
Total equity (deficiency)	9,911,189	(85,617)
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)	\$ 25,662,990	\$ 25,267,868

Nature of operations and going concern uncertainty (Note 1)
Commitments and contingencies (Note 8 and 26)

ON BEHALF OF THE BOARD:

"Fahad Al Tamimi"
DIRECTOR

"Claudio Ciavarella"
DIRECTOR

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

KERR MINES INC.

Consolidated Statements of Income (Loss) and Comprehensive (Loss) Income YEARS ENDED JUNE 30, 2017 and 2016

(In Canadian dollars)

	2017	2016
OPERATING EXPENSES		
Professional fees	\$ 291,100	\$ 570,957
Consulting fees	212,636	139,442
Depreciation (Note 9)	194,072	238,452
Salaries and wages	93,773	-
General and administrative	352,307	550,310
Promotion and travel	60,198	7,520
Shareholder relations	199,297	126,290
Exploration, evaluation and care and maintenance expenditures (Note 8)	4,444,518	1,901,762
	(5,847,901)	(3,534,733)
Gain on sale of property (Note 8)	-	5,213,120
Gain on disposal of other assets	-	222,432
Unrealized loss on marketable securities (Note 7)	(192)	(299,986)
Realized loss on sale of marketable securities (Note 7)	(1,000,000)	-
Finance charges (Note 30)	(176,343)	(2,377,454)
Net gain on settlement of debts (Note 25)	5,820,839	2,492,839
(Loss) gain on revaluation of derivative liability (Note 16)	(20,709)	40,000
Stock based compensation	(178,496)	-
Interest and other revenue	70,189	138,357
Loss on foreign exchange	(3,524)	(19,693)
NET (LOSS) INCOME	(1,336,137)	1,874,882
Other Comprehensive (Loss) Income		
Foreign currency translation	(388,945)	653,831
COMPREHENSIVE (LOSS) INCOME	(1,725,082)	2,528,713
Weighted average number of common shares outstanding	177,921,368	128,463,996
Diluted weighted average shares outstanding	177,921,368	128,485,236
BASIC AND DILUTED (LOSS) INCOME PER COMMON SHARE	\$ (0.01)	\$ 0.01

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

KERR MINES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016
(In Canadian dollars)

	2017	2016
OPERATING ACTIVITIES		
NET (LOSS) INCOME	\$ (1,336,137)	\$ 1,874,882
ADD (DEDUCT) ITEMS NOT REQUIRING CASH		
Depreciation (Note 9)	194,072	238,452
Non cash finance charges and accretion expense	80,396	616,072
Unrealized loss on marketable securities (Note 7)	192	299,986
Stock-based compensation	178,496	-
Loss on disposal of assets	-	(5,013,120)
Realized loss on marketable securities (Note 7)	1,000,000	-
Net gain on settlement of debt (Note 25)	(5,820,839)	(2,492,839)
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Accounts receivable and sundry assets	823,680	(729)
Prepaid expenses and other	(188,592)	41,526
Inventories	(6,940)	-
Accounts payable and accrued liabilities	(558,966)	2,675,051
CASH FROM OPERATING ACTIVITIES	(5,634,637)	(1,760,719)
INVESTING ACTIVITIES		
Proceeds from sale of marketable securities (Note 7)	2,500,000	-
Proceeds from sale of property, plant and equipment	-	635,193
Increase in restricted investments	(8,477)	-
CASH FROM INVESTING ACTIVITIES	2,491,523	635,193
FINANCING ACTIVITIES		
Shares issued, net of costs	6,261,194	18,576
Long term loans advanced	2,000,000	1,361,190
Loans (repaid) advanced	-	(454,475)
CASH FROM FINANCING ACTIVITIES	8,261,194	925,291
Effect of exchange rate changes on cash	(465,290)	136,761
CHANGE IN CASH DURING THE PERIOD	4,652,790	(63,474)
CASH, beginning of period	412,662	476,136
CASH, end of period	\$ 5,065,452	\$ 412,662

Supplementary cash flow information (Note 28)

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

KERR MINES INC.**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)****YEARS ENDED JUNE 30, 2017 AND 2016**

(In Canadian dollars)

	Capital Stock	Contributed Surplus	Options	Warrants	Currency Translation	Deficit	TOTAL
Balance, June 30, 2016	\$ 123,100,636	\$ 7,018,421	\$ -	\$ 3,513,367	\$ 1,675,571	\$ (135,393,612)	\$ (85,617)
Net loss for the period	-	-	-	-	-	(1,336,137)	(1,336,137)
Other comprehensive loss					(388,945)		(388,945)
Shares issued for debt settlements	3,932,198		-	-	-	-	3,932,198
Conversion of promissory note (Note 12)	1,350,000	-	-	-	-	-	1,350,000
Share issuance on private placement, net of costs	6,261,194	-	-	-	-	-	6,261,194
Stock based compensation	-	-	178,496	-	-	-	178,496
Warrants issued	(2,379,100)	-	-	2,379,100	-	-	-
Warrants expired	-	3,513,367	-	(3,513,367)	-	-	-
Balance, June 30, 2017	\$ 132,264,928	\$ 10,531,788	\$ 178,496	\$ 2,379,100	\$ 1,286,626	\$ (136,729,749)	\$ 9,911,189
Balance, June 30, 2015	\$ 123,081,747	\$ 6,865,101	\$ -	\$ 3,667,000	\$ 1,021,740	\$ (137,268,494)	\$ (2,632,906)
Net income for the period	-	-	-	-	-	1,874,882	1,874,882
Other comprehensive income	-	-	-	-	653,831	-	653,831
Shares issued net of costs	18,889	153,320	-	(153,633)	-	-	18,576
Balance, June 30, 2016	\$ 123,100,636	\$ 7,018,421	\$ -	\$ 3,513,367	\$ 1,675,571	\$ (135,393,612)	\$ (85,617)

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

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 and 2016

(In Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Kerr Mines Inc. ("Kerr" or the "Company") is incorporated under the laws of the Province of Ontario. The principal business activities are directed towards exploring and developing the Copperstone gold property in La Paz County, Arizona, United States. To date, the Company has not earned significant revenue as all properties are pre-production.

The Company is listed on the Toronto Stock Exchange, trading under the symbol KER. The Company's corporate office and principal place of business is located at 806-390 Bay Street, Toronto, Ontario, M5H 2Y2, Canada.

As at June 30, 2017, the Company had working capital \$2,784,073 (June 30, 2016 – a deficit of \$16,529,873), had not yet achieved profitable operations, has a deficit of \$136,729,749 (June 30, 2016 - \$135,393,612), and expects to incur future losses in the development of its business and requires additional financing to continue to be able to operate, retain rights to its properties and carry out exploration and development of its properties, all of which casts significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements have been prepared on a going-concern basis and do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material. While the Company expects to be able to obtain sufficient financing to continue as a going concern, it is not possible to predict whether financing efforts will be successful.

The Company is in the process of exploring its properties and has not yet determined whether these properties contain economically recoverable reserves. The continued operations of the Company and the amounts recoverable on these properties are dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the financing to complete the necessary exploration and development of such property and upon attaining future profitable production or proceeds from disposition of the properties.

2. BASIS OF PRESENTATION

(a) Statement of Compliance with International Financial Reporting Standards

The Company's consolidated financial statements, including comparatives, have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors on September 29, 2017.

(b) Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements are presented in Canadian dollars.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

(c) New Standards and interpretations adopted

On December 18, 2014 the IASB issued amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1") as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). Effective January 1, 2016, the Company adopted the IASB issued amendments to IAS 1 "Presentation of Financial Statements." The adoption of these amendments had no significant impact on the financial statements.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 and 2016

(In Canadian dollars)

2. BASIS OF PRESENTATION (Continued)

(d) Standards issued but not yet effective

IFRS 2 - Share-based Payment. IFRS 2 was amended in June 2016, clarifying the accounting for certain types of share-based payment transactions. The amendments provide requirements on accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments, withholding tax obligations for share-based payments with a net settlement feature, and when a modification to the terms of a share-based payment changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for year ends beginning on or after January 1, 2018. Earlier adoption is permitted. The Company does not expect this amendment to have a significant impact on its consolidated financial statements.

IFRS 9 Financial Instruments. IFRS 9 covers the classification and measurement, impairment and hedge accounting of financial assets and financial liabilities and the effective date is for annual periods on or after January 1, 2018, with earlier application permitted. Amendments to IFRS 9 also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Company is still assessing the impact of adopting IFRS 9.

IFRS 10 Consolidated Financial Statements. IFRS 10 and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

IFRS 16 Leases. IFRS 16 was issued on January 13, 2016. The new standard brings most leases onto the balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

IAS 7 Statement of Cash Flows. IAS 7 was amended in January 2016 to clarify that disclosures shall be provided that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 12 Income Taxes. IAS 12 was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 and 2016

(In Canadian dollars)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates.

Judgments:

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next year are discussed below:

(a) *Exploration and evaluation stage*

In management's judgement, the Company's operations are in the exploration and evaluation stage.

(b) *Mineral properties*

Operating levels intended by management for the Copperstone mine

Prior to a mine being capable of operating at levels intended by management, costs incurred are either expensed or capitalized based on the type of costs incurred. Costs related to developing the property are generally capitalized, while care and maintenance costs and costs related to exploration and evaluating new ore bodies are expensed. Management considers the Copperstone mine is capable of operating at levels intended by management once it reached consistent production of no less than 60% of planned volume for a period of 30 consecutive days. As of June 30, 2017 the Copperstone mine had not met this target.

(c) *Functional currency*

The functional currency for the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Corporation reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

(d) *Impairment of property, plant and equipment*

Assets or cash generating units are evaluated at each reporting date to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash-generating group of assets is measured at the higher of fair value less costs to sell and value in use.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal.

Present values are determined using a risk-adjusted pre-tax discount rate appropriate for the risks inherent to the asset. Future cash flow estimates are based on expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, restoration and rehabilitation costs and future capital expenditure. The Company's management is required to make these estimates and assumptions which are subject to risk and uncertainty; hence, there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the asset may be impaired and the impairment would be charged against profit or loss.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 and 2016

(In Canadian dollars)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Estimates:

The following are some of the more significant estimates made in the preparation of these consolidated financial statements:

(a) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

The Company's mining activities are subject to various laws and regulations governing the protection of the environment. The Company recognizes management's best estimate for asset retirement obligations in the period in which they occur. Actual costs incurred in future periods could differ materially from the estimates. The ultimate cost of environmental remediation can vary in response to many factors including future changes to environmental laws and regulations, the emergence of new restoration techniques, changes in the life of mine estimates and in discount rates, which could affect the carrying amount of this provision. Refer to Note 19 for more details.

(b) Derivatives and Debt Valuation

The valuation of debt and embedded derivatives for convertible instruments is based on the application of a recognized option valuation formula, which is highly dependent on, amongst other things, the expected volatility of the Company's registered shares and the expected life of the options. The Company uses an expected volatility rate for its shares based on past stock trading data, adjusted for future expectations, and actual volatility may be significantly different.

The resulting value calculated is not necessarily the value that the holder of the instrument could receive in an arm's length transaction. It is management's view that the value derived is highly subjective and dependent entirely upon the input assumptions made.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements are prepared by consolidating the financial statements of the Company and its wholly-owned subsidiaries. This includes American Bonanza Gold Corp. and its subsidiary, Bonanza Explorations Inc., and Bear Lake Gold Ltd. and its subsidiary, Maximus Ventures Ltd.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all inter-company balances and transactions between entities in the Company, including any unrealized profits or losses, have been eliminated.

(b) Exploration, evaluation and care and maintenance expenditures

All exploration and evaluation costs (including the cost of acquiring exploration rights), net of incidental revenue, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop the property are capitalized to mineral properties.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 and 2016

(In Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Mineral properties

Mine development costs, including acquisition costs and reclassified exploration and evaluation assets are recorded at cost less accumulated amortization and accumulated impairment losses. Costs associated with commissioning new assets, net of incidental revenue, are capitalized as mineral property costs until commercial production has commenced. The Copperstone project had not reached commercial production as at June 30, 2017.

Mine development and stope access incurred during the development of a mine are capitalized into mineral property. Mine development and stope access incurred during the commercial production phase are production costs that are included in the costs of inventories produced during the period that these costs are incurred, unless the mine development and stope access activity can be shown to give rise to future benefits from the mineral property such as increased reserves, in which case the costs would be capitalized to mineral property.

The carrying values of mineral properties, plant and equipment are depreciated to their estimated residual values over their estimated useful lives or the estimated useful life of the associated mine, if shorter.

Mineral property acquisition and development costs and certain plant and equipment are depreciated on a unit of production basis based upon proven and probable reserves. Depreciation related to production activities is initially recorded in inventories when ore is extracted from the mine. As the Company is in the commissioning stage, the depreciation is recorded in mineral property in the same period as the capitalized revenue from the sale of the inventories.

Other equipment is amortized on a straight-line basis over their estimated life of four to seven years.

(d) Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The presentation currency of the Company is the Canadian dollar. The functional currency of the Company and all its subsidiaries is the Canadian dollar except for its United States subsidiaries which has a functional currency of the United States dollar ("US\$").

An operation whose functional currency is not the Canadian dollar, the operation's assets and liabilities are translated to the presentation currency at the closing rate as at the date of the consolidated statements of financial position, and revenue and expenses are translated using the rate as at the time of the transaction. All exchange differences resulting from the translation are recognized in other comprehensive income (loss).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net income (loss).

(e) Cash

Restricted cash and investments are excluded from cash.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 and 2016

(In Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Taxation

Income tax expense represents the sum of current and deferred income taxes.

Current income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the consolidated statements of financial position.

Deferred income taxes

Deferred income taxes are provided using the liability method on temporary differences at the date of the consolidated statements of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

(g) Income (loss) per share

The basic income or loss per share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during the period. The diluted income or loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive.

(h) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises their purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated close down and restoration costs associated with the asset.

Depreciation is recorded over the shorter of the useful life of the asset or the remaining life of the mine. Depreciation for the major categories of property, plant and equipment is as follows;

Straight-line Basis

Assets within operations for which usage is not expected to fluctuate significantly from one year to another are depreciated on a straight-line basis as follows:

Buildings	15 years
Computer equipment	1 - 5 years
Motor vehicles	10 years
Mine and mill equipment	3 - 15 years

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost

of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 and 2016

(In Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL"). The Company initially recognizes loans and receivables on the date they are originated. All other financial assets are recognized on the trade date at which the Company becomes party to the contractual provisions of the instruments.

Subsequent to initial recognition, financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's marketable securities are classified as FVTPL.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost. The Company's cash, accounts receivable, long term receivable and restricted investments are classified as loans and receivables.

Subsequent to initial recognition, financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. During the periods presented, the Company has not classified any financial assets as available-for-sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the rights and rewards of ownership of the financial asset are transferred.

(j) Financial liabilities

All financial liabilities are initially recorded at fair value and designated as FVTPL or other financial liabilities on the trade date at which the Company becomes party to the contractual provisions of the instrument.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities, promissory note payable, loans and borrowings and convertible promissory note payable debt are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the consolidated statements of operations and comprehensive loss. The Company's derivative in convertible promissory note payable is classified as financial liabilities at FVTPL.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 and 2016

(In Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of financial assets

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

(l) Impairment of non-financial assets

At each date of the consolidated statements of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss or when annual impairment testing for an asset is required. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statements of operations and comprehensive loss, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

(m) Inventories

Supplies inventory includes the cost of consumables used in operations and is valued at the lower of average cost and net realizable value. Replacement cost is being used to estimate net realizable value.

KERR MINES INC.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Product inventories comprise ore concentrate, ore in stockpiles and work-in-progress. Product inventories are recorded at the lower of average cost and net realizable value. Stockpiled ore is coarse ore that has been extracted from the mine and is available for further processing. Stockpiled ore is valued at the lower of average production cost and net realizable value. The cost of stockpiled ore includes the cost of mining the ore and associated amortization and depletion and other overhead allocations. Costs based on the average cost per tonne stockpiled are removed from stockpiled ore and added to work in process inventory when crushed.

Work-in-progress includes crushed ore, materials, direct labour, other direct costs, production overheads, depletion and amortization of plant, equipment and mineral properties directly involved in the mining and production processes. Waste removal costs related to production are inventoried as incurred. When inventories have been written down to net realizable value, a new assessment of net realizable value is made in each subsequent period. When the circumstances that caused the write-down no longer exist, the amount of the write-down is reversed.

(n) Provisions

Reclamation and remediation

Costs for reclamation and remediation are a normal consequence of mining, and the majority of these costs are incurred at the end of the life of the mine. A provision is made for estimated close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of the affected areas) in the financial period when the related environmental obligation occurs, based on the estimated future costs using information available at the statement of financial position date. The costs are estimated on the basis of a closure plan which represents management's best estimate of the costs.

The provision is discounted using a risk-free rate. At the time of establishing the provision, a corresponding asset is capitalized within mineral property for amounts carried on the consolidated statements of financial position and expensed as the mineral property is analyzed.

The provision is reviewed on an annual basis to reflect known developments, such as revisions to cost estimates and to the estimated lives of operations, and for changes to legislation or discount rates. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively.

Other provisions

Provisions are recognised when the Company has a present obligation (legal or constructive), as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted to the net present value using an appropriate current market-based pre-tax discount rate.

(o) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed by way of note unless the likelihood of them crystallizing is considered remote.

Contingent assets are not recognised in the consolidated financial statements but are disclosed by way of note if they are deemed probable.

(p) Share-based compensation

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity settled share-based transactions are set out in note 21.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value is determined at the grant date of the equity-settled share-based payments and is recognized on a graded-vesting basis over the period during which the employee becomes unconditionally entitled to the equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. Upon exercise of the stock options, the consideration paid, together with the amount previously recognized in share-based payment reserve, is recorded as an increase in common shares. Unexercised stock options and warrants are transferred to deficit.

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

The Company may also issue broker warrants, as part of private placements. The warrants are also accounted for in accordance with the requirements of IFRS 2, following the same principles as outlined above for the transactions with non-employees.

(q) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(r) Convertible promissory notes

The Company's convertible promissory notes are segregated into their debt and equity components or derivative liability components at the date of issue, in accordance with the substance of the contractual agreements.

The conversion feature of the convertible promissory notes is presumed to be classified as a derivative financial liability unless it meets all the criteria to recognize as equity instrument. One of criteria is that the conversion option exchanges a fixed amount of shares for a fixed amount of cash ("fixed for fixed").

If the conversion feature meets the fixed for fixed criteria, the conversion option will be classified as equity components. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of the convertible promissory notes is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognizing the components of the instrument separately.

If the conversion feature does not meet the fixed for fixed criteria, the conversion option will be recorded as derivative financial liability, which must be separately accounted for at fair value on initial recognition. The carrying amount of the debt component, on initial recognition, is recalculated as the difference between the proceeds of the convertible promissory notes as a whole and the fair value of the derivative financial liabilities. Subsequent to initial recognition, the derivative financial liability is re-measured at fair value at the end of each reporting period with changes in fair value recognized in the statement of operation for each reporting period, while the debt component is accreted to the face value of the debt using the effective interest method.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Convertible promissory notes (Continued)

Transaction costs are allocated to the debt and equity components or derivative liability components in proportion to the allocation of the proceeds on initial recognition. Transaction costs allocated to equity components will be accounted for as a deduction from equity, net of any related income tax benefit; cost allocated to the derivative financial liability component are expensed; and cost allocated to the debt component are offset against the carrying amount of the liability and included in the determination of the effective interest rate.

5. RESTRICTED INVESTMENTS

	Note	2017	2016
Restricted investments:			
GIC bearing interest of 0.75% (June 30, 2016 – 0.75%), matures on July 14, 2017 (2016 – July 14, 2017)	(a)	\$ 455,150	\$ 451,569
Short-term cashable account	(b)	1,058,923	1,054,027
		\$ 1,514,073	\$ 1,505,596
Reclamation bonds:			
Ministry of Northern Development and Mines	(c)	53,060	53,060
		\$ 53,060	\$ 53,060
Total:		\$ 1,567,133	\$ 1,558,656

- Letters of credit are secured by the GIC investment as disclosed in Note 26 and relate to the reclamation obligation on the McGarry property.
- Pursuant to the term of the surety bond disclosed in Note 26, the Company provided cash collateral of \$1,058,923 or US\$816,000 (June 30, 2016 - \$1,054,027 or US\$816,000) which is held with the Bank of New York in the name of the Company. The cash collateral is held in a short term cashable account.
- The Company has a cash deposit of \$53,060 (including accumulated interest) with the Ministry of Northern Development and Mines of the province of Ontario ("MNDM") to cover a portion of the asset retirement obligations (AROs) related to the Bear Lake property. As this property has been sold the Company has provided a liability for this amount payable (Note 19) to the purchaser when then final payment is received by the Company.

6. ACCOUNTS RECEIVABLE AND SUNDRY ASSETS

	June 30, 2017	June 30, 2016
Bonterra Resources Inc. (Note 8)	\$ -	\$ 650,000
Harmonized sales taxes receivable	135,091	63,520
Other receivables	37,088	33,947
Total accounts receivable and sundry assets	\$ 172,179	\$ 747,467

The receivable from Bonterra Resources Inc. relates to the sale of the property and was secured by the property sold to them as described in Note 8. No other collateral was held against the other receivables as at June 30, 2017 and 2016.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. MARKETABLE SECURITIES

Marketable securities are comprised of shares of publicly traded companies as per the table below:

	2017	2016
Bonterra Resources Inc. (Note 8) \$	-	\$ 3,500,000
Other	2,519	2,711
	\$ 2,519	\$ 3,502,711

As of June 30, 2017, these investments were measured at their fair value of \$2,519 (June 30, 2016 - \$3,502,711). During the year ended June 30, 2017, the Company disposed of 10,000,000 common shares in the capital of Bonterra Resources Inc. at a price of \$0.25 per Bonterra Share, being the market price at the time of transaction for gross proceeds to the Company of CDN \$2,500,000. In December 2016, Kerr agreed to sell 4,000,000 shares at a price of \$0.25 per share to each of Braydon Capital Corporation, a company controlled and owned by Claudio Ciavarella who is a director of the Company and Trans Oceanic Minerals Company Ltd., a company controlled by Fahad Al Tamimi, the Company's Chairman of the board of directors. Kerr realized \$1,000,000 loss on the sale of the Bonterra shares.

8. MINERAL PROPERTIES

The mineral property additions and evaluation, exploration and care and maintenance expenses for the Company on its properties are broken down as follows:

Mineral properties (statement of financial position):	June 30, 2017	June 30, 2016
Copperstone Property	\$ 7,270,465	\$ 7,270,465
Total	\$ 7,270,465	\$ 7,270,465

Exploration, evaluation and care and maintenance expenditures (statement of operations and comprehensive loss):	2017	2016
Bear Lake Property	\$ -	\$ 57,033
McGarry Property	181,915	362,708
Copperstone Property	4,262,603	1,482,021
Total	\$ 4,444,518	\$ 1,901,762

Although the Company has taken steps to secure title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company's ability to retain the rights to certain of its properties is dependent upon the Company continuing to make option payments and meet other commitments.

Copperstone

The Company is engaged in exploring and developing the Copperstone gold property ("Copperstone Project") in La Paz County, Arizona, United States.

The Company holds a 100% leasehold interest in the Copperstone Project. The landlord is The Patch Living Trust. The current lease expires June 12, 2026. The lease is renewable for one or more ten-year terms at the Company's option under the same terms and conditions. The Company is obligated to pay for all permitting and state lease bonding, insurance, taxes, and to pay a 1% production gross royalty with the royalty increasing to 6% if the price of gold is over US\$551 per ounce, with a 4.5% royalty payable to Trans Oceanic Minerals Company Ltd., a company controlled by Fahad Al Tamimi, the Company's Chairman of the board of directors and 1.5% payable to the Patch Living Trust. The Company pays a minimum advance royalty per year of US\$40,000 (2016 - US\$30,000).

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. MINERAL PROPERTIES (Continued)

Copperstone

All required property payments were made with respect to the Copperstone Project as of June 30, 2017, and all claims are in good standing.

Southwest Target of Copperstone Mine

The Company owns 100% interest in certain mining claims and property comprising the Southwest target at the Company's Copperstone gold mine. The claims consist of 50 claims that are outside of the Copperstone mining area and represent longer term exploration potential.

McGarry Property

The McGarry Property is located in the southwestern part of McGarry Township within the Larder Lake Mining Division of Ontario, Canada. The McGarry Property consists of 34 contiguous, patented mining claims (31) and mining licenses of occupation (3) totaling 1,112.0 acres with surface rights on a majority of the claims totaling 975.56 acres. The mining rights and surface rights are all in good standing and are maintained by the payment of annual taxes since no work requirements exist.

The McGarry property is owned 75% by Kerr Mines Inc. and 25% by Jubilee Gold Inc. All proceeds of production from the property are to the Company, subject to a royalty interest held by Jubilee Gold Inc. which provides for a net smelter royalty payable to Jubilee starting at 2% and increasing to 4% when the price of gold exceeds US\$800 per ounce. On February 28, 2017, the Company reached an agreement with Jubilee Gold Exploration Ltd. to settle the accrued advance royalty payable. The companies have also revised their existing royalty agreement to remove all future advance royalty obligations relating to the McGarry property. The Company paid \$100,000 to settle the existing liability of approximately \$1,000,000 and paid a further \$100,000 in consideration for the cancellation of all future advance royalty obligations.

The McGarry mineral property was pledged as security for a loan payable (Note 13).

Barber Larder Property

The Barber Larder Property consists of 15 patented claims and 2 mining licenses of occupation totaling 237 hectares or 585 acres. The mining claims are located contiguous to the western boundary of the Company's McGarry Property.

Property Disposition

The Company closed a transaction with Bonterra Resources Inc. ("Bonterra") on April 26, 2016 whereby the Company, sold to Bonterra a 100% interest the Larder Lake Property located in eastern Ontario in McVittie and McGarry Townships near the town of Virginiatown for the purchase price of:

1. 10,000,000 common shares in the capital of Bonterra;
2. \$200,000 on TSX-V approval received April 26, 2016;
3. \$300,000 on or before December 26, 2016;
4. \$350,000 on or before April 26, 2017; and
5. \$300,000 on or before October 26, 2017 (present value of \$248,392).

All amounts above have been paid or settled. During the year, the Company disposed the 10,000,000 shares of Bonterra as disclosed in Note 7.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 and 2016

(In Canadian dollars)

8. MINERAL PROPERTIES (Continued)

Property Disposition (Continued)

The gain on the sale of the property was determined as follows:

10,000,000 common shares of Bonterra Resources Inc.	\$	3,800,000
Current cash consideration and receivable		850,000
Long term cash consideration receivable		248,392
Disposition of ARO liability		367,788
Provision for future reclamation bond obligation		(53,060)
	\$	<u>5,213,120</u>

9. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Mine and Mill Equipment	Motor Vehicles	Computer Equipment	Mill	Total
COST						
Balance as at July 1, 2015	\$ 2,587,374	\$ 2,763,886	\$ 2,662,586	\$ 113,088	\$ 5,254,241	\$ 13,381,175
Disposals	-	(959,336)	(25,000)	-	-	(984,336)
Foreign exchange	85,545	22,371	89,047	1,075	409,986	608,024
Balance as at June 30, 2016	\$ 2,672,919	\$ 1,826,921	\$ 2,726,633	\$ 114,163	\$ 5,664,227	\$ 13,004,863
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Foreign exchange	12,401	-	18,047	-	501,099	531,547
Balance as at June 30, 2017	\$ 2,685,320	\$ 1,826,921	\$ 2,744,680	\$ 114,163	\$ 6,165,326	\$ 13,536,410
ACCUMULATED DEPRECIATION						
Balance as at July 1, 2015	\$ 36,112	\$ 2,144,458	\$ 35,615	\$ 79,308	\$ -	\$ 2,295,493
Additions	13,405	184,050	17,035	23,962	-	238,452
Disposals	-	(536,408)	(16,667)	-	-	(553,075)
Balance as at June 30, 2016	\$ 49,517	\$ 1,792,100	\$ 35,983	\$ 103,270	\$ -	\$ 1,980,870
Additions	13,455	34,821	915,550	10,893	-	974,719
Disposals	-	-	-	-	-	-
Balance as at June 30, 2017	\$ 62,972	\$ 1,826,921	\$ 951,533	\$ 114,163	\$ -	\$ 2,955,589
CARRYING AMOUNTS						
Balance as at July 1, 2015	\$ 2,551,262	\$ 619,428	\$ 2,626,971	\$ 33,780	\$ 5,254,241	\$ 11,085,682
Balance as at June 30, 2016	\$ 2,623,402	\$ 34,821	\$ 2,690,650	\$ 10,893	\$ 5,664,227	\$ 11,023,993
Balance as at June 30, 2017	\$ 2,622,348	\$ -	\$ 1,793,147	\$ -	\$ 6,165,326	\$ 10,580,821

10. IMPAIRMENT

The Company assesses at the end of each reporting period whether there is any indication, from external and internal sources of information, that an asset or cash generating unit ("CGU") may be impaired. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of the mineral properties, property, plant and equipment. Due to the increase in metal prices during the year and no changes to the estimated resources the Company has determined that no indicators of impairment existed as of June 30, 2017 and 2016.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 and 2016

(In Canadian dollars)

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Trade payables	\$ 2,743,954	\$ 6,906,357
Accrued liabilities	183,507	3,705,319
Payroll liabilities	6,299	121,575
	<u>\$ 2,933,760</u>	<u>\$ 10,733,251</u>

12. CONVERTIBLE PROMISSORY NOTES PAYABLE

The following summarizes the amounts owing and statement of financial position classification of the above notes;

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Kerr Debenture	\$ -	\$ 2,836,475
December 2015 Convertible Promissory Note	-	1,472,648
March 2016 Convertible Promissory Note	-	1,322,726
	<u>\$ -</u>	<u>\$ 5,631,850</u>

Kerr Debenture

The Company issued a convertible promissory note in the amount of US\$2,100,000 to Northern Energy and Mining Inc. (the "Kerr Debenture"). The Kerr Debenture previously bore interest at the rate of 6% per annum. On August 27, 2015, an amending agreement was signed changing the rate of interest to 8% per annum and the principal amount owing to US\$2,054,570 payable in full by December 15, 2015. This payment was not made and represented a default. On March 4, 2016, the Kerr Debenture was purchased by Tamimi Investment & Mining Company, a company controlled by Fahad Al Tamimi, Kerr's Chairman of the Board, a shareholder and creditor of Kerr. On August 22, 2016 the terms of the note were amended (Note 16).

The Kerr Debenture is secured by a general security interest in the property of Bonanza Explorations Inc. and all the outstanding share capital of the Company's wholly-owned subsidiary Bonanza Exploration Inc. The principal amount of the Kerr Debenture is convertible into common shares of Kerr at the holder's option at a price of \$0.90 per share. As at June 30, 2017 and June 30, 2016, the derivative in convertible promissory note was determined to be nil as the conversion price is significantly higher than the current common share price.

December 2015 Convertible Promissory Note

On December 17, 2015 the Company arranged a \$1,350,000 convertible promissory note ("December 2015 Convertible Promissory Note") with Trans Oceanic Minerals Corporation Ltd a company controlled by Fahad Al Tamimi, Kerr's Chairman of the Board, a shareholder and creditor of Kerr. Funds were advanced prior to the required shareholder approval of the conversion feature and as a result was considered to be a demand advance until shareholder approval was received on June 30, 2016. The note bears interest at 15% compounded monthly and is payable on demand. The holder has the right to convert any part of the amount owing into common shares of the Company at a conversion price of \$0.05 per common share. The note is secured by a general security agreement in the Copperstone Mine. During the year, Trans Oceanic elected to convert the entire \$1,350,000 of principal outstanding pursuant the December 2015 Convertible Promissory Note into 27,000,000 common shares in the capital of the Company.

KERR MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. CONVERTIBLE PROMISSORY NOTES PAYABLE (Continued)

March 2016 Convertible Promissory Note

On March 9, 2016, the Company arranged US\$1,000,000 (CAD\$1,291,700) under a convertible grid promissory note (March 2016 Convertible Promissory Note") pursuant to which the Company can draw upon for general working capital purposes with Trans Oceanic Minerals Corporation Ltd., a company controlled by Fahad Al Tamimi, Kerr's Chairman of the Board, a shareholder and creditor of Kerr. The note bore interest at 15% compounded monthly and was payable on demand. The holder has the right to convert any part of the amount owing common shares of the Company at a conversion price of \$0.065 per common share. No value was ascribed to the conversion feature as the note was repayable on demand. The note is secured by a general security agreement in the Copperstone Mine. As at June 30, 2016 the Company had drawn the full amount available of US\$1,000,000. On August 22, 2016 the terms of the note were amended (Note 16).

13. LOAN PAYABLE

This loan was a promissory note in the amount of \$5,109,763 with no fixed terms of repayment and an interest rate of 12% payable to Braydon Capital Corporation ("Braydon"), a company controlled by Claudio Ciavarella, a Director, a shareholder and creditor of Kerr. As of June 30, 2016, interest payments had not been made which was considered a default and therefore the loan payable was classified as current. On August 22, 2016 Braydon agreed to waive interest owing pursuant to the Loan Payable outstanding as of June 30, 2016 totaling \$1,753,292. Braydon also agreed to convert \$1,500,000 of principal outstanding under the Loan Payable into 18,500,000 common shares. On August 22, 2016, Braydon agreed to amend the terms of the remaining Loan Payable (Note 17).

14. LOANS AND BORROWINGS

	June 30, 2017	June 30, 2016
The Company entered into a loan and security agreement on March 22, 2013 to fund the purchase of four pieces of heavy equipment. The loan bears interest at 16.9% per annum and is for a four-year term. Monthly blended payments of principal and interest are \$11,364, maturing in 2017. The loan is secured by the underlying asset. As the loan is in default the lender took possession of the equipment and is attempting to liquidate the equipment to cover the outstanding debt, with the Company liable for any difference between the proceeds on sale and the outstanding loan amount. As a result, the asset has been deemed to have been disposed and the liability reduced to the expected difference between the estimated liquidation value and the loan payable.	21,371	21,371
The Company entered into a non-interest bearing third party loan. There are no fixed terms of repayment and it is payable upon demand.	200,000	200,000
	221,371	221,371
Payable in the next 12 months	221,371	221,371
	\$ -	\$ -

KERR MINES INC.

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15. LONG TERM PROMISSORY NOTE PAYABLE

Braydon and Trans Oceanic have each agreed to provide the Company with a long term debt facility of C\$1,000,000 bearing interest at 8% after the first year and having a maturity date two (2) years from the date of issuance. Kerr has drawn against these facilities to meet its on-going working capital requirements, short term obligations and the payment of settlement amounts to various creditors. The note is secured by a general security agreement in the Copperstone Mine.

16. LONG TERM CONVERTIBLE PROMISSORY NOTES PAYABLE

	June 30, 2017	June 30, 2016
Kerr Debenture	\$ 2,666,215	\$ -
March 2016 Convertible Promissory Note	1,111,147	-
	<u>\$ 3,777,362</u>	<u>\$ -</u>

On August 22, 2016, Trans Oceanic agreed to amend both the Kerr Debenture and the March 2016 Convertible Promissory Note (Note 12) to have a maturity date of three years from the date of issuance of these amended notes and a revised interest rate of 8% compounded monthly, payable quarterly, with no interest accrued or payable during the first year. The note is secured by a general security agreement in the Copperstone Mine. As at June 30, 2017, the derivative component in the promissory note is valued at \$279,014 (June 30, 2016 – Nil).

On August 22, 2016, the fair value of the derivative liability was estimated using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 0.56%; volatility 153% and an expected life of 3 years.

On June 30, 2017, the fair value of the derivative liability was estimated using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 1.09%; volatility 137% and an expected life of 2 years.

17. LONG TERM LOAN PAYABLE

On August 22, 2016 Braydon agreed to waive interest owing pursuant to the Loan Payable (Note 13) outstanding as of June 30, 2016 totaling \$1,753,292. Braydon also agreed to convert \$1,500,000 of principal outstanding under the Loan Payable into 18,500,000 common shares. Braydon agreed to replace its residual debt of \$3,609,763 under the Loan Payable to have a maturity date of August 22, 2019 and a revised interest rate of 8% compounded monthly, payable quarterly, with no interest accrued or payable during the first year.

18. LONG TERM PAYABLE

As part of a debt settlement agreement with an unsecured trade creditor the Company has agreed to pay \$239,262 (USD\$200,000) by July 2, 2018.

KERR MINES INC.

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19. PROVISIONS - RECLAMATION AND REMEDIATION

The Company's asset retirement obligation relates to the cost of removing and restoring of the Kerr Mine in the Township of McGarry, the Copperstone Mine in La Paz County, Arizona and the Cheminis property in Ontario. Significant reclamation and closure activities include land rehabilitation, demolition of buildings and mine facilities, ongoing care and maintenance and other costs. This estimate depends on the development of environmentally acceptable mine closure plans.

A continuity for asset retirement obligations is as follows:

Asset Retirement Obligation	McGarry	Copperstone	Cheminis	Total
Balance, June 30, 2015	\$ 422,968	\$ 2,061,898	\$ 355,178	\$ 2,840,044
Accretion expense for the year	48,230	47,732	12,610	108,572
Disposal on sale of property (note 8)	-	-	(367,788)	(367,788)
Reclamation bond transfer obligation	-	-	53,060	53,060
Foreign exchange	-	69,446	-	69,446
Balance, June 30, 2016	\$ 471,198	\$ 2,179,076	\$ 53,060	\$ 2,703,334
Accretion expense for the year	5,580	-	-	5,580
Foreign exchange	-	(17,645)	-	(17,645)
Balance, June 30, 2017	\$ 476,778	\$ 2,161,431	\$ 53,060	\$ 2,691,269

McGarry:

The mine closure provision liability is based upon the following estimates and assumptions:

- Total undiscounted amount of future retirement costs was estimated to be \$487,626 to which the Company has provided a letter of credit as disclosed in Note 26(b).
- Risk-free rate at 0.57%.
- Expected timing of cash outflows required to settle the obligation is for the full amount to be paid in 2021.
- Inflation over the period from is estimated to be 1.38% per annum.

Copperstone:

The mine closure provision liability is based upon numerous estimates and assumptions, as follows:

- Total undiscounted amount of future retirement costs was estimated to be US\$1,773,332 (Cdn\$2,290,613) to which the Company has provided cash collateral as disclosed in Note 26(d).
- Risk-free rate at 1.01%.
- Expected timing of cash outflows required to settle the obligation is for the full amount to be paid in 2021.
- Inflation over the period up to 2021 was estimated to be 1.69% per annum.

Reclamation bond transfer obligation

The Company has a cash deposit of \$53,060 (including accumulated interest) with the Ministry of Northern Development and Mines of the province of Ontario ("MNDM") to cover a portion of the asset retirement obligations (AROs) related to the Cheminis property. As this property was sold in 2015, the Company has provided for a liability of \$53,060 as this deposit will be transferred to Bonterra as part of the sale of the property.

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20. CAPITAL STOCK

The Company is authorized to issue an unlimited number of common shares. The following is a summary of changes in common share capital:

	Number of Shares		Amount
Balance, June 30, 2015	128,485,236	\$	123,081,747
Shares issued on exercise of warrants (a)	7,740		18,576
FMV assigned to warrants exercised	-		313
Fractional shares cancelled	(22,025)		-
Balance, June 30, 2016	128,470,951	\$	123,100,636
Shares issued for debt settlements	35,497,914		3,932,198
Conversion of promissory note (Note 12)	27,000,000		1,350,000
Shares issued on financing (b)	35,640,538		6,415,297
FMV of warrants issued	-		(2,379,100)
Share issue costs	-		(154,103)
Balance, June 30, 2017	226,609,403	\$	132,264,928

- (a) On May 24, 2016 7,740 warrants were exercised at a price of \$2.40 per common share.
- (b) On June 29, 2017, the Company closed the first tranche of a non-brokered private placement. There were 35,640,538 units issued at a price of \$0.18 per unit for gross proceeds of \$6,415,297. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire a common share at a price of \$0.27 per share for a period of 24 months from the date of issuance, provided, that if, at any time the common shares trade at a volume weighted average trading price of \$0.40, or greater, per share for a period of 20 consecutive trading days. The Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company. The fair value of the 17,820,269 share purchase warrants was estimated at \$2,379,100 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 1%; volatility 103% and an expected life of 24 months. Subsequent to the year end the Company closed the final tranche of the private placement, issuing 4,401,948 units for gross proceeds of \$1,584,701. The Company issued a combined total of 44,444,434 units for gross proceeds of approximately \$8 million.

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21. SHARE-BASED PAYMENT RESERVE

The purpose of the Company's stock option plan is to provide incentives to directors, officers, employees and consultants of the Company. The maximum number of common shares reserved for issuance upon exercise of the options is 10% of issued and outstanding shares. The Board of Directors may designate the recipients of options and determine the number of common shares covered by each option, its exercise price (which may not be less than closing market price of the common shares on the trading day prior to the grant) and its expiry date. The term of the options shall not exceed five years from the date of grant.

Option pricing models require the input of highly subjective assumptions noted above. Changes in the subjective input assumptions can materially affect the fair value estimate.

The changes in stock options issued during the years ended June 30, 2017 and 2016 are as follows;

	30-Jun-17		30-Jun-16	
	Options	Weighted Average Exercise price	Options	Weighted Average Exercise price
Outstanding at beginning of year	-	\$ -	-	\$ -
Issued	4,000,000	\$ 0.19	-	-
Forfeited/Expired	-	-	-	-
Outstanding at end of year	4,000,000	\$ 0.19	-	\$ -
Exercisable at end of year	-	\$ 0.19	-	\$ -

On May 2, 2017, the Company issued 4,000,000 stock options to two directors of the Company with an exercise price of \$0.19. These options vest as follows: 500,000 ninety (90) days after the grant date; 250,000 on May 2, 2018; 250,000 on May 2, 2019; 500,000 upon the completion of a Feasibility Study, 250,000 one year following the completion of a Feasibility Study and 250,000 two years following the completion of a Feasibility Study. The target date for the completion of a Feasibility Study is during the first quarter of 2018.

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the share-based payments for the stock options issued during the year ended June 30, 2017:

Expected volatility is arrived at by calculating the Company's historical share volatility for a period comparable to the expected life of the options. The Company will then adjust the historical volatility to reflect its best estimate (using comparable market corporations and indexes) of the future volatility of the stock price.

No. of options	4,000,000
Exercise price	0.19
Expected life in years	5
Volatility	115%
Risk-free interest rate	1.00%
Dividend yield	n/a
Fair value of options	\$ 612,800

The weighted average remaining contractual life of the stock options is 4.9 years (2016 – Nil). During the year ended June 30, 2017, \$178,946 (2016 - \$Nil) was recorded as stock based compensation and \$434,304 remains to be amortized in future years.

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22. WARRANTS

The changes in warrants outstanding for the period ended June 30, 2017 and 2016 are as follows:

	Number of warrants	Weighted average exercise price
Warrants outstanding – June 30, 2015	29,767,805	\$1.06
Warrants exercised (Note 20(a))	(7,740)	2.40
Expired	(6,356,730)	2.40
Warrants outstanding – June 30, 2016	23,403,335	\$0.70
Expired	(23,403,335)	0.70
Granted (Note 20 (b))	17,820,269	0.27
Warrants outstanding – June 30, 2017	17,820,269	\$0.27

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the warrants issued:

No. of warrants	17,820,269
Exercise price	\$0.27
Expected life in years	2
Volatility	103%
Risk-free interest rate	1.00%
Dividend yield	–
Fair value of warrants	\$2,379,100

23. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The Company's financial instruments consist of cash, accounts receivable, marketable securities, restricted investments, long term receivable, accounts payable and accrued liabilities, promissory note payable, loans and borrowings, loan payable, convertible promissory notes, and net smelter return payable. As at June 30, 2017 and 2016, the carrying values of cash, accounts receivable, marketable securities, restricted investments, accounts payable and accrued liabilities, convertible promissory notes, loans payable and loans and borrowings approximate their fair values since they are expected to be settled in the short-term. The derivative in the convertible promissory note is marked-to-market at each period end and so the carrying amount also represents the fair value.

Fair Value Measurements of Financial Assets and Liabilities Recognized and Disclosed in the Consolidated Statements of Financial Position

Financial assets and liabilities are characterized using a fair value hierarchy as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

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23. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

	Level 1	Level 2	Level 3
	\$	\$	\$
As at June 30, 2017			
Marketable securities	2,519	-	-
Restricted investments	1,567,133	-	-
Loans and borrowings	-	221,371	-
Convertible promissory notes	-	3,777,362	-
Promissory note payable	-	2,000,000	-
Loan payable	-	3,690,763	-
Other payables	-	239,262	-
Derivative in convertible promissory note payable	-	-	270,014
	Level 1	Level 2	Level 3
	\$	\$	\$
As at June 30, 2016			
Marketable securities	3,502,711	-	-
Restricted investments	1,558,656	-	-
Due from Bonterra Resources Inc.	-	650,000	-
Long term receivable	-	248,392	-
Loans and borrowings	-	5,331,134	-
Convertible promissory note	-	5,631,850	-
Net smelter return payable	-	-	953,916

Interest Rate and Credit Risk

The Company has cash and restricted investment balances. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal risk.

An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information when necessary. As at June 30, 2017, there were no receivables past due.

The majority of the Company's borrowings are fixed rate and therefore are not exposed to fluctuations in interest rates. Deposits held with banks may exceed the amount of insurance provided on such deposits.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2017, the Company had cash of \$5,065,452 (June 30, 2016 - \$412,662) to settle current financial liabilities of \$3,155,130 (June 30, 2016 - \$21,696,236). There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of the Company may change and shareholders may suffer additional dilution.

KERR MINES INC.

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23. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

The following table details the Company's contractual maturities for its financial liabilities as at June 30, 2017, due by year:

Payments due by year	Total	2017	2018
Accounts payable and accrued liabilities	\$ 2,933,760	\$ 2,933,760	\$ -
Loans payable	2,000,000	-	2,000,000
Other loans	221,371	221,371	-
Long term convertible promissory notes	4,056,376	-	4,056,376
Long term loan payable	3,609,763	-	3,609,763
Other long term payable			239,262
	<u>\$ 12,821,270</u>	<u>\$ 3,155,131</u>	<u>\$ 9,905,401</u>

Currency Risk

The Company's exploration activities are conducted in Ontario, Canada and Arizona, United States. Major purchases and exploration expenditures are transacted in US dollars. Administrative expenditures and cash balances are primarily transacted in Canadian dollars. The Company has exposure to foreign currency risk on its cash held in US bank and convertible promissory notes payable. As at June 30, 2017, the Company held approximately US\$500,000 of financial assets and held US\$3,078,000 in financial liabilities. A \$0.05 fluctuation in the value of the Canadian dollar would result in an increase or decrease to profit or loss of approximately \$129,000. The Company mitigates the risk of foreign currency fluctuations by converting Canadian dollars to US currency when required to fund expenditures. The Company does not currently hedge its foreign exchange risk.

Sensitivity Analysis

The carrying amount of financial instruments approximates their fair market value. The movement on cash interest rates by a plus or minus 1% change would have no material impact on the value of those items.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period:

- (i) The Company has restricted cash as at June 30, 2017 at a fixed interest rate of between 0.75% and 1.00% per annum. An increase in the interest rate of 1% would result in a \$16,000 (2016 - \$16,000) increase in the interest earned on the investment.
- (iii) The Company has loans and borrowings as at June 30, 2017 with various fixed interest rates. Therefore, a percentage change in interest rates will not have a significant impact on the Company.

24. RELATED PARTY TRANSACTIONS

Key personnel

	2017	2016
Key personnel salary and benefits expensed during the year	<u>\$ 307,000</u>	<u>\$ 397,478</u>
Key personnel amounts outstanding in accounts payable and accrued liabilities at year end.	<u>\$ 49,510</u>	<u>\$ 811,916</u>

Related vendors and consultants

The Company has entered into a series of financial transactions with related parties as detailed in Notes 12, 13, 15, 16, 17, 20, 21 and 22.

Trans Oceanic has agreed to settle certain liabilities related to the restructuring initiatives incurred by Trans Oceanic and payable by Kerr of \$1,576,318, of which \$698,818 was included in accounts payable and accrued liabilities as at June 30, 2016, in exchange for 10,000,000 Common Shares of the Company issued to Trans Oceanic.

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25. NET GAIN ON SETTLEMENT OF DEBTS

During the year ended June 30, 2017, the Company entered into debt settlement and deferral agreements with various creditors and debt holders that resulted in a net gain on debt settlements of \$5,820,839 (2016 - \$2,492,839), representing the discount from the face value of the debt.

26. COMMITMENTS AND CONTINGENCIES

- a) Jubilee Gold Inc., the royalty holder on the McGarry property, is entitled to the greater of:
- (i) a Net Smelter Return royalty of a percentage of the price per troy ounce as follows:
 - 2% when less than US\$500
 - 3% when greater than US\$500 and less than US\$800
 - 4% when greater than US\$800;
 - (ii) \$1.00 per short ton of ore derived from the properties;

Balance at June 30, 2015	\$	849,312
Advance royalty payable		104,604
Balance at June 30, 2015		<u>953,916</u>
Advance royalty payable		52,959
Settlement of debt		<u>(1,006,875)</u>
Balance at June 30, 2017	\$	<u>-</u>

- (b) The Company had a letter of credit outstanding as at June 30, 2017 in the amount of \$435,160 (June 30, 2016 - \$435,160) which is supported by the restricted investments (Note 5).
- (c) The Company has placed a surety bond of an insurance company in connection with the Copperstone project, as required by the US Bureau of Land Management. Cash collateral of \$1,058,923 (US\$816,000) is held with the Bank of New York in the name of the Company in a short term cashable account.
- (d) The activities of the Company are subject to environmental laws and regulations promulgated by government agencies from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions into air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, endangered species and reclamation of lands disturbed by mining operations. The Company believes it complies with all laws and regulations which currently apply to its activities. However, there may be environmental liabilities on claims held by the Company (certain tailings from the former Omega mine that are on the Company's claims), resulting from past mining operations, and these could potentially be material.
- (e) As part of a settlement agreement with a creditor, the Company issued 1,000,000 shares in September 2016. Braydon Capital Corporation, a company owned and controlled by Claudio Ciavarella the Company's CEO, and the Company have guaranteed the creditor a minimum price per share of \$0.41. Braydon Capital Corporation has the right to purchase these shares until September 2017 and has indicated its intention to do so removing all obligations of the Company. Should Braydon Capital Corporation fail to exercise that right the Company and Braydon Capital Corporation are jointly and severally liable to the creditor for the difference between \$0.41 per share and the then current share price. At current prices this obligation is approximately \$240,000.
- (f) The Company entered into a sub-lease agreement for head office space until July 31, 2018 with a monthly rental commitment of \$17,000. This space has been vacated and sublet to other tenants resulting in a monthly rental commitment of \$500.

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27. SEGMENTED INFORMATION

As at June 30, 2017, the Company's operations comprise two operating segments engaged in mineral exploration and development in Virginiatown, Ontario ("Canada") and La Paz County, Arizona ("USA") which also represent geographical location.

	As at June 30, 2017	As at June 30, 2016
Total assets	.	\$
Canada	6,343,770	7,079,663
United States	19,319,220	18,188,205
	25,662,990	25,267,868

	As at June 30, 2017	As at June 30, 2016
Non-current assets	\$	\$
Canada	-	1,175,230
United States	19,723,786	18,926,276
	19,723,786	20,101,506

	Year ended June 30, 2017	Year ended June 30, 2016
Net income (loss)	\$	\$
Canada	2,052,076	2,130,602
United States	(3,388,212)	(255,720)
	(1,336,137)	1,874,882

28. SUPPLEMENTARY CASH FLOW INFORMATION

Cash consists of cash on deposit with Canadian and U.S. chartered banks, lines of credit and treasury bills. Restricted investments are not included in cash and are included as an investing activity on the consolidated statements of cash flows.

The following are non-cash transaction excluded from the consolidated statements of cash flow:

Year ended June 30, 2017:

The Company issued 16,997,914 common shares valued at \$2,066,698 as part of trade payables debt settlement agreements. The Company paid \$2,045,919 to settle trade payable liabilities totaling \$5,948,000.

Year ended June 30, 2016:

A gain on settlement of debt was recorded in the amount of \$2,492,839 relating to the extinguishment of \$3,102,676 of amounts owing to various creditors and debt holders.

Marketable securities received from the Bonterra sale was valued at \$3,500,000 (Note 8).

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29. CAPITAL MANAGEMENT

The Company has loans payable, accounts payable and accrued liabilities and equity, and consequently defines capital as all of the components of debt and equity which as at June 30, 2017 amount to \$13,066,320 (June 30, 2016 - \$21,610,618). The Company's capital structure is adjusted based on the funds available to the Company such that it may continue exploration and development of its properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's properties are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flow. The Company intends to raise such funds as and when required to complete its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The only sources of future funds presently available to the Company are through the exercise of outstanding stock options or warrants, the sale of equity capital of the Company or the sale by the Company of an interest in any of its properties in whole or in part. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

The Company's objectives and strategies when managing capital as follows:

- (a) to safeguard the Company's ability to continue as a going concern,
- (b) to provide sufficient capital through flow-through share issues for exploration and development purposes on the McGarry and Kerr projects. All flow-through share proceeds must be spent on qualifying expenditures and by a specific point in time,
- (c) to raise sufficient non-flow through proceeds from share issues to meet general and administrative expenditures,
- (d) to provide an adequate return to shareholders by advancing the Company's projects to production while ensuring it meets the listing requirements of the Toronto Stock Exchange, and
- (e) to maintain the royalty prepayments within the limits allowed by the agreement.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended June 30, 2017.

30. FINANCE CHARGES

Finance charges comprises of the following:

	<u>2017</u>	<u>2016</u>
Interest on long-term debt	\$ 37,230	\$ 468,397
Interest on loans	-	553,172
Loan refinancing and restructuring charges	52,646	422,403
Net Interest, bank charges and other	9,135	394,231
Interest on convertible debt	-	443,145
Accretion on provisions	-	96,106
Interest accretion expense	77,332	-
	<u>\$ 176,343</u>	<u>\$ 2,377,454</u>

KERR MINES INC.

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31. TAXES

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rates for the year ended June 30, 2017 and 2016 is as follows:

	2017	2016
	\$	\$
Income (Loss) before income taxes	(1,505,032)	1,874,882
Combined Statutory rate	25.00%	25.00%
Estimated recovery of income taxes	(376,000)	469,000
Non-deductible expenditures	132,000	130
Share issue costs	39,000	(133,000)
Tax credits	-	(1,303,280)
Foreign exchange differential	217,000	143,000
Deferred tax asset not recognized	(12,000)	824,150
Deferred income tax expense (recovery)	-	-

The Canadian statutory income tax rate of 25% (2016 – 25%) is comprised of the federal income tax rate at approximately 15% (2016 – 15%) and the provincial income tax rate of approximately 10% (2015 – 10%).

The primary differences which give rise to the deferred income tax assets (liability) as at June 30, 2017 and 2016 are as follows:

	2017	2016
	\$	\$
<i>Deferred income tax assets (liability)</i>		
Non-capital loss carryforwards	17,577,000	21,338,000
Pre-production investment tax credit	2,625,000	2,723,000
Other timing differences	(2,719,000)	(4,209,000)
Resource expenditures	39,204,000	38,354,000
Net capital losses	(406,000)	(281,000)
	56,281,000	57,925,000
Deferred tax assets not recognized	(56,281,000)	(57,925,000)
Deferred income tax assets (liabilities)	-	-

As at June 30, 2017, the unamortized balance, for income tax purposes, of the share issuance fees amounts to approximately \$665,000 (2016 - \$511,000) and will be deductible over the next four years.

As at June 30, 2017, the Company has \$130,023,000 (2016 - \$130,023,000) of unused CEE, CDE and FED expenses available to offset future taxable income. The tax benefits pertaining to these expenses are available to carry forward indefinitely. In addition, the Company has resource pools of \$67,709,000 in the United States as at June 30, 2017, which can be utilized to be deducted against future resource profits.

As at June 30, 2017, the Company has \$2,413,000 (2016 - \$2,413,000) of certain Investment Tax Credits that can be used to offset future taxes payable.

The Company also has Canadian loss carry-forwards of approximately \$42,587,000 (2016 - \$57,135,000) and US tax loss carry forwards of approximately \$17,353,000 (2016 - \$18,028,000) as at June 30, 2017. The non-capital losses can be used to offset future taxable income and expire between 2018 and 2037.

The benefits of these losses, tax credits and resource expenditures, in excess of any taxable temporary differences, have not been recorded in these consolidated financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

KERR MINES INC.

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32. SUBSEQUENT EVENTS

Subsequent to the year end the Company closed the final tranche of the private placement (Note 20 (b)) issuing 4,401,948 units for gross proceeds of \$1,584,701. The Company issued a combined total of 44,444,434 units for gross proceeds of approximately \$8 million.

Subsequent to the year end stock options were issued to certain director, officers and employees. A total of 3,880,000 options were granted with a five year maturity and an exercise price of \$0.22, with various vesting periods.