



**Kerr Mines Inc.**

***UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***

***THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016***

(In Canadian dollars)

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

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

The unaudited interim condensed 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

## **NOTICE TO READER**

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of management. The unaudited interim condensed consolidated financial statements for the three months ended September 30, 2017 and 2016 have not been reviewed by the Company's auditors.

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

	September 30, 2017	June 30, 2017
<b>ASSETS</b>		
<b>Current</b>		
Cash	2,726,563	5,065,452
Accounts receivable and sundry assets (Note 6)	175,055	172,179
Marketable securities	2,519	2,519
Inventories	184,674	198,081
Prepaid expenses	271,969	500,973
<b>Current assets</b>	<b>3,360,780</b>	<b>5,939,204</b>
<b>Non-current</b>		
Restricted investments (Note 5)	1,515,078	1,567,133
Property, plant and equipment (Note 8 and 9)	10,200,420	10,886,188
Mineral properties (Note 7 and 9)	7,270,465	7,270,465
<b>Non-current assets</b>	<b>18,985,963</b>	<b>19,723,786</b>
<b>TOTAL ASSETS</b>	<b>22,346,743</b>	<b>25,662,990</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 10)	1,057,445	2,933,760
Loans and borrowings	-	221,371
<b>Current liabilities</b>	<b>1,057,445</b>	<b>3,155,131</b>
<b>Non-current</b>		
Long term promissory note payable (Note 13)	2,013,333	2,000,000
Long term convertible promissory notes payable (Note 14)	3,708,898	3,777,362
Derivative in convertible promissory note payable (Note 14)	567,722	279,014
Long term loan payable (Note 15)	3,633,828	3,609,763
Other long term payable	-	239,262
Provisions (Note 16)	2,491,918	2,691,269
<b>Non-current liabilities</b>	<b>12,415,699</b>	<b>12,596,670</b>
<b>SHAREHOLDERS' EQUITY/DEFICIENCY IN ASSETS</b>		
Capital stock (Note 17)	133,275,729	132,264,928
Contributed surplus	10,531,788	10,531,788
Share-based payment reserve (Note 18)	513,304	178,496
Warrant reserve (Note 19)	2,953,000	2,379,100
Currency translation	1,246,886	1,286,626
Deficit	(139,647,108)	(136,729,749)
<b>Total equity / (deficit)</b>	<b>8,873,599</b>	<b>9,911,189</b>
<b>TOTAL LIABILITIES AND DEFICIENCY</b>	<b>22,346,743</b>	<b>25,662,990</b>

Nature of operations and going concern uncertainty (Note 1)  
Commitments and contingencies (Note 23)

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.****Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)****THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016**

(Unaudited) (In Canadian dollars)

	2017	2016
<b>OPERATING EXPENSES</b>		
Professional fees	\$ 25,660	\$ 154,866
Consulting fees	50,000	96,183
Depreciation (Note 8)	44,750	43,777
Salaries and wages	58,849	-
General and administrative	10,827	139,773
Promotion and travel	17,191	17,668
Shareholder relations	344,274	72,252
Exploration, evaluation and care and maintenance expenditures (Note 7)	2,049,820	239,015
	<b>(2,601,371)</b>	<b>(763,534)</b>
Gain (loss) on disposal of other assets	<b>(398,851)</b>	-
Unrealized gain (loss) on marketable securities	-	100,000
Finance charges (Note 27)	<b>(68,553)</b>	(998,890)
Net gain on settlement of debts (Note 22)	1,062,651	3,675,749
Loss on revaluation of derivative liability (Note 14)	<b>(99,461)</b>	(5,476)
Accretion of long term receivable	-	8,906
Stock based compensation	<b>(334,808)</b>	-
Interest and other revenue	-	852
Loss on foreign exchange	<b>(476,967)</b>	15,249
<b>NET INCOME (LOSS)</b>	<b>(2,917,360)</b>	2,032,856
<b>Other Comprehensive (Loss) Income</b>		
Foreign exchange differences	<b>(39,740)</b>	(103,852)
<b>COMPREHENSIVE LOSS</b>	<b>(2,957,100)</b>	1,929,004
Weighted average number of common shares outstanding	235,413,299	138,816,941
Diluted weighted average shares outstanding	235,413,299	138,816,941
<b>BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE</b>	<b>\$ (0.01)</b>	\$ 0.01

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

**KERR MINES INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS****THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016**

(Unaudited) (In Canadian dollars)

	2017	2016
<b>OPERATING ACTIVITIES</b>		
NET LOSS FOR THE PERIOD	\$ (2,917,359)	\$ 2,032,856
ADD (DEDUCT) ITEMS NOT REQUIRING CASH		
Depreciation (Note 8)	44,750	43,777
Non cash charges and accretion expense	44,626	(29,145)
Unrealized gain on marketable securities	-	(100,000)
Stock-based compensation	334,808	-
Loss on disposal of assets	398,851	-
Net gain on settlement of debt (Note 22)	(1,062,651)	(3,675,749)
Gain on revaluation of derivative liability	-	5,476
Accretion of long term receivable	-	(8,906)
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Accounts receivable and sundry assets	(2,876)	(26,306)
Prepaid expenses and other	229,004	59,468
Inventories	13,407	(2,959)
Accounts payable and accrued liabilities	(1,008,577)	402,924
CASH FROM OPERATING ACTIVITIES	<u>(3,926,017)</u>	<u>(1,298,564)</u>
<b>INVESTING ACTIVITIES</b>		
Increase in restricted investments	-	(17,172)
CASH FROM INVESTING ACTIVITIES	<u>-</u>	<u>(17,172)</u>
<b>FINANCING ACTIVITIES</b>		
Shares issued, net of costs	1,584,701	-
Long term loans advanced	-	2,000,000
Loans (repaid) advanced	(200,000)	-
CASH FROM FINANCING ACTIVITIES	<u>1,384,701</u>	<u>2,000,000</u>
Effect of exchange rate changes on cash	202,427	(146,926)
CHANGE IN CASH DURING THE PERIOD	<u>(2,338,889)</u>	537,338
CASH, beginning of period	5,065,452	412,662
<b>CASH, end of period</b>	<u>\$ 2,726,563</u>	<u>\$ 950,000</u>

Supplementary cash flow information (Note 25)

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

# KERR MINES INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

### THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

(Unaudited) (In Canadian dollars)

	Capital Stock	Contributed Surplus	Options	Warrants	Currency Translation	Deficit	TOTAL
<b>Balance, June 30, 2017</b>	<b>\$ 132,264,928</b>	<b>\$ 10,531,788</b>	<b>\$ 178,496</b>	<b>\$ 2,379,100</b>	<b>\$ 1,286,626</b>	<b>\$ (136,729,749)</b>	<b>\$ 9,911,189</b>
Net loss for the period	-	-	-	-	-	(2,917,360)	(2,917,360)
Other comprehensive income					(39,740)		(39,740)
Comprehensive loss							(2,957,100)
Share issuance on private placement, net of costs	1,584,701	-	-	-	-	-	1,584,701
Stock based compensation	-	-	334,808	-	-	-	334,808
Warrants issued	(573,900)	-	-	573,900	-	-	-
<b>Balance, September 30, 2017</b>	<b>\$ 133,275,729</b>	<b>\$ 10,531,788</b>	<b>\$ 513,304</b>	<b>\$ 2,953,000</b>	<b>\$ 1,246,886</b>	<b>\$ (139,647,108)</b>	<b>\$ 8,873,599</b>
<b>Balance, June 30, 2016</b>	<b>\$ 123,100,636</b>	<b>\$ 7,018,421</b>	<b>\$ -</b>	<b>\$ 3,513,367</b>	<b>\$ 1,675,571</b>	<b>\$ (135,393,612)</b>	<b>\$ (85,617)</b>
Net loss for the period	-	-	-	-	-	2,032,856	2,032,856
Other comprehensive income	-	-	-	-	(103,852)	-	(103,852)
Comprehensive income							1,929,004
Shares issued for debt settlement	3,932,198	-	-	-	-	-	3,932,198
Conversion of promissory note	1,350,000	-	-	-	-	-	1,350,000
Warrants forfeited/expired	-	58,000	-	(58,000)	-	-	-
<b>Balance, September 30, 2016</b>	<b>\$ 128,382,834</b>	<b>\$ 7,076,421</b>	<b>\$ -</b>	<b>\$ 3,455,367</b>	<b>\$ 1,571,719</b>	<b>\$ (133,360,756)</b>	<b>\$ 7,125,585</b>

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

# **KERR MINES INC.**

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016**

(Unaudited) (In Canadian dollars)

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#### **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 September 30, 2017, the Company had working capital of \$2,303,335 (June 30, 2017 – \$2,784,074), had not yet achieved profitable operations, has a deficit of \$139,647,108 (June 30, 2017 - \$136,729,749), 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.

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

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### 2. BASIS OF PRESENTATION

#### (a) Statement of Compliance with International Financial Reporting Standards

These unaudited interim condensed consolidated financial statements for the three month period ended September 30, 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These unaudited interim condensed consolidated financial statements do not contain all the disclosures required for annual financial statements and thus should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended June 30, 2017. The Company follows all the accounting policies disclosed in the year-end financial statements.

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 10, 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.

#### (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.



# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

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### 2. BASIS OF PRESENTATION, (continued)

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.

### 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 September 30, 2017 the Copperstone mine had not met this target.

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

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### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS, (continued)

#### (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.

#### **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.

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

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### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS, (continued)

#### (c) *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

#### (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 September 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.

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

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### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and functional currency of the Company and all of 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 and cash equivalents.

#### (g) 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.

#### (h) 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.

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

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### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

#### (i) 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.

#### (j) 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 and cash equivalents, 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.

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

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### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *(continued)*

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.

#### **(k) 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.

#### **(l) 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.

#### **(m) 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

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited) (In Canadian dollars)

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### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *(continued)*

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.

#### **(n) 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.

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.

#### **(o) 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.

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

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### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *(continued)*

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.

#### **(p) 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.

#### **(q) 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.

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 recognised 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.

#### **(r) Revenue recognition**

The principal product from the mining operations of the Company is expected to be the sale of gold doré bars. The doré bars are a low-purity gold metal which is sent to a refiner that will further purify the doré bars to produce tradable gold bars of high purity (gold bullion).

Revenue associated with the sale of the doré bars is recognized when all significant risks and rewards of ownership of the asset sold are transferred to the refiner, which is when the commodity has been received by the refiner (Time



# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

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### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *(continued)*

of Receipt). At the Time of Receipt, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the gold and the costs incurred or to be incurred in respect of the sale can be reliably measured. Revenue is recognised at fair value of the consideration receivable to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised at the Time of Receipt for the minimum determinable or agreed amount of gold at that time, with any adjustment between the preliminary and final settlement when the latter is determined.

#### **(s) 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.

#### **(t) 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.

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.

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

### 5. RESTRICTED INVESTMENTS

	Note	September 30, 2017	June 30, 2017
<b>Restricted investments:</b>			
GIC bearing interest of 1.10% (June 30, 2017 – 0.75%), matures on January 10 2018,	(a)	\$ 456,154	\$ 451,569
Short-term cashable account	(b)	1,058,924	1,054,027
		<b>\$ 1,515,078</b>	<b>\$ 1,505,596</b>
<b>Reclamation bonds:</b>			
Ministry of Northern Development and Mines	(c)	-	53,060
		<b>\$ -</b>	<b>\$ 53,060</b>
<b>Total:</b>		<b>\$ 1,515,078</b>	<b>\$ 1,558,656</b>

- (a) Letters of credit are secured by the GIC investment as disclosed in Note 26 and relate to the reclamation obligation on the McGarry property.
- (b) 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, 2017 - \$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.

### 6. ACCOUNTS RECEIVABLE AND SUNDRY ASSETS

	September 30, 2017	June 30, 2017
HST receivable	137,967	135,091
Other receivables	37,088	37,088
Total accounts receivable and sundry assets	<b>\$ 175,055</b>	<b>\$ 172,179</b>

### 7. 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:

<b>Mineral properties (statement of financial position):</b>	September 30, 2017	June 30, 2017
Copperstone Property	\$ 7,270,465	\$ 7,270,465
Total	<b>\$ 7,270,465</b>	<b>\$ 7,270,465</b>
<b>Exploration, evaluation and care and maintenance expenditures (statement of operations and comprehensive loss):</b>	<b>2017</b>	<b>2016</b>
Bear Lake Property	\$ -	\$ 17,778
McGarry Property	-	44,432
Copperstone Property	2,049,820	176,805
Total	<b>\$ 2,049,820</b>	<b>\$ 239,015</b>

# **KERR MINES INC.**

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016**

(Unaudited) (In Canadian dollars)

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### **7. MINERAL PROPERTIES, (continued)**

#### **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.

All required property payments were made with respect to the Copperstone Project as of September 30, 2017, and all claims are in good standing. Although the Company has taken steps to verify 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.

#### ***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).

Pursuant to a mining property acquisition agreement dated February 11, 2015, Kerr Mines sold all of its rights, title and interest in and to two unpatented mining claims located in McGarry Township, in exchange for (i) an aggregate of \$225,000 which was recorded against exploration and evaluation expenditures; and (ii) a 1% net smelter royalty on these two claims.

# KERR MINES INC.

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(Unaudited) (In Canadian dollars)

### 8. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Mine and Mill Equipment	Surface vehicles	Computer Equipment	Mill	Total
<b>COST</b>						
Balance as at July 1, 2016	\$ 2,672,919	\$ 1,826,921	\$ 2,726,633	\$ 114,163	\$ 5,664,227	\$ 13,004,863
Disposals	-	-	-	-	-	-
Foreign exchange	12,137	6,644	10,830	325	26,311	56,247
Balance as at June 30, 2017	\$ 2,685,056	\$ 1,833,585	\$ 2,737,463	\$ 114,488	\$ 5,690,538	\$ 13,061,110
Additions	-	-	-	-	-	-
Disposals	-	-	(783,000)	-	-	(783,000)
Foreign exchange	(47,793)	-	(71,742)	-	(122,632)	(242,167)
Balance as at September 30, 2017	\$ 2,637,263	\$ 1,833,585	\$ 1,882,721	\$ 114,488	\$ 5,567,906	\$ 12,035,943
<b>ACCUMULATED DEPRECIATION</b>						
Balance as at July 1, 2016	\$ 49,517	\$ 1,792,100	\$ 35,983	\$ 103,270	\$ -	\$ 1,980,870
Additions	13,455	22,267	151,106	7,244	-	194,072
Disposals	-	-	-	-	-	-
Balance as at June 30, 2017	\$ 62,972	\$ 1,814,367	\$ 187,089	\$ 110,514	\$ -	\$ 2,174,922
Additions	13,203	18,791	12,756	-	-	44,750
Disposals	-	-	(384,149)	-	-	(384,149)
Balance as at September 30, 2017	\$ 76,175	\$ 1,833,158	\$ (184,304)	\$ 110,514	\$ -	\$ 1,835,523
<b>CARRYING AMOUNTS</b>						
Balance as at July 1, 2016	\$ 2,623,402	\$ 34,821	\$ 2,690,650	\$ 10,893	\$ 5,664,227	\$ 11,023,993
Balance as at June 30, 2017	\$ 2,622,084	\$ 19,218	\$ 2,550,374	\$ 3,974	\$ 5,690,538	\$ 10,886,188
Balance as at September 30, 2017	\$ 2,561,088	\$ 427	\$ 2,067,024	\$ 3,974	\$ 5,567,906	\$ 10,200,420

### 9. 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 September 30, 2017 and 2016.

### 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2017	June 30, 2017
Trade payables	\$ 863,652	\$ 2,743,954
Accrued liabilities	171,575	183,507
Payroll liabilities	22,218	6,299
	<u>\$ 1,057,445</u>	<u>\$ 2,933,760</u>

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

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### 11. CONVERTIBLE PROMISSORY NOTES PAYABLE

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

	<u>September 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 14).

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 September 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.

#### 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 14).

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited) (In Canadian dollars)

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### 12. 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 15).

### 13. 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 three (3) 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 notes are secured by a general security agreement in the Copperstone Mine. The balance include accrued interest of \$13,333.

### 14. LONG TERM CONVERTIBLE PROMISSORY NOTES PAYABLE

	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Kerr Debenture	\$ 2,666,215	\$ 2,666,215
March 2016 Convertible Promissory Note	1,014,362	1,111,147
Accrued interest	28,321	-
	<u>\$ 3,708,898</u>	<u>\$ 3,777,362</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 September 30, 2017, the derivative component in the promissory note is valued at \$567,722 (June 30, 2017 – 279,014).

### 15. 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. The balance owing includes accrued interest of \$24,065.

### 16. 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 and the Copperstone Mine in La Paz County, Arizona. 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.

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited) (In Canadian dollars)

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### 16. PROVISIONS - RECLAMATION AND REMEDIATION (continued)

A continuity for asset retirement obligations is as follows:

<b>Asset Retirement Obligation</b>	<b>McGarry</b>	<b>Copperstone</b>	<b>Total</b>
Balance, June 30, 2016	\$ 471,198	\$ 2,179,076	\$ 2,650,274
Accretion expense for the year	5,476	-	5,476
Foreign exchange	-	(17,645)	(17,645)
Balance, June 30, 2017	\$ 476,674	\$ 2,161,431	\$ 2,638,105
Accretion expense for the period	-	-	-
Foreign exchange	-	(146,187)	(146,187)
<b>Balance, September 30, 2017</b>	<b>\$ 476,674</b>	<b>\$ 2,015,244</b>	<b>\$ 2,491,918</b>

#### **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.

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 17. 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:

	<b>Number of Shares</b>		<b>Amount</b>
Balance, June 30, 2016	<b>128,470,951</b>	<b>\$</b>	<b>123,100,636</b>
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	<b>226,609,403</b>	<b>\$</b>	<b>132,264,928</b>
Shares issued on financing (b)	<b>8,803,896</b>		1,584,701
FMV of warrants issued			(573,900)
	<b>235,413,299</b>	<b>\$</b>	<b>133,275,729</b>

- (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. On July 10, 2017 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.

### 18. 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.



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### 18. SHARE-BASED PAYMENT RESERVE (continued)

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

	30-Sep-17		30-Jun-17	
	Options	Weighted Average Exercise price	Options	Weighted Average Exercise price
Outstanding at beginning of year	4,000,000	\$ 0.19	-	\$ -
Issued	3,880,000	\$ 0.22	4,000,000	\$ 0.19
Forfeited/Expired	-	-	-	-
Outstanding at end of period	7,880,000	\$ 0.20	4,000,000	\$ 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.

On August 23, 2017 the Company issued 3,880,000 stock options to certain directors and employees of the Company with an exercise price of \$0.22. The options vest immediately.

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 September 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	3,880,000
Exercise price	0.19	0.22
Expected life in years	5	5
Volatility	115%	115%
Risk-free interest rate	1.00%	1.00%
Dividend yield	n/a	n/a
Fair value of options	\$ 612,800	\$ 693,498

The weighted average remaining contractual life of the stock options is 4.9 years (2016 – Nil). During the three months ended September 30, 2017, \$334,808 (2016 - \$Nil) was recorded as stock based compensation and \$792,994 remains to be amortized in future years.

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

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### 19. WARRANTS

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

	Number of warrants	Weighted average exercise price
Warrants outstanding – June 30, 2016	23,403,335	\$0.70
Expired	(23,403,335)	0.70
Granted (Note 17 (b))	17,820,269	0.27
Warrants outstanding – June 30, 2017	<b>17,820,269</b>	<b>\$0.70</b>
Granted (Note 17 (b))	4,401,948	0.27
Warrants outstanding – September 30, 2017	<b>22,222,217</b>	<b>\$0.27</b>

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

No. of warrants	22,222,217
Exercise price	\$0.27
Expected life in years	2
Volatility	103%
Risk-free interest rate	1.00%
Dividend yield	–
Fair value of warrants	\$2,953,000

### 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The Company's financial instruments consist of cash and cash equivalents, 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 September 30, 2017 and 2016, the carrying values of cash and cash equivalents, 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.

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### 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS, (continued)

#### 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.

	Level 1	Level 2	Level 3
	\$	\$	\$
<b>As at September 30, 2017</b>			
Marketable securities	2,519		
Restricted investments	1,515,078		
Loans and borrowings		5,647,161	
Convertible promissory notes		3,708,898	
	Level 1	Level 2	Level 3
	\$	\$	\$
<b>As at June 30, 2017</b>			
Marketable securities	2,519	-	-
Restricted investments	1,515,078	-	-
Loans and borrowings	-	5,609,763	-
Convertible promissory notes	-	3,708,898	-

#### 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 September 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 September 30, 2017, the Company had cash of \$2,726,563 (June 30, 2017 - \$5,065,452) to settle current financial liabilities of \$1,057,446 (June 30, 2017 - \$3,155,130). 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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

(Unaudited) (In Canadian dollars)

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### 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS, (continued)

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

Payments due by year	Total	2017	2018
Accounts payable and accrued liabilities	\$ 1,057,445	\$ 1,057,445	\$ -
Loans payable	2,000,000	-	2,000,000
Other loans	-	-	-
Long term convertible promissory notes	4,276,620	-	4,276,620
Long term loan payable	3,633,828	-	3,633,828
Other long term payable	-	-	-
	<u>\$ 10,967,893</u>	<u>\$ 1,057,445</u>	<u>\$ 9,910,448</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 and cash equivalents balances are primarily transacted in Canadian dollars. The Company has exposure to foreign currency risk. As at September 30, 2017, the Company held US\$2,025,246 of monetary assets and held US\$591,365 in monetary liabilities. A \$0.05 decrease in the value of the Canadian dollar would increase monetary assets by \$101,262 and monetary liabilities by \$29,568 and US dollar denominated expenses would increase by \$153,900 as at September 30, 2017. 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 and cash equivalents 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 September 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 September 30, 2017 with various fixed interest rates. Therefore, a percentage change in interest rates will not have a significant impact on the Company.

### 21. RELATED PARTY TRANSACTIONS

#### Related vendors and consultants

The Company has entered into a series of financial transactions with related parties as detailed in Notes 11, 12, 13, 14, and 15.

A director is an owner of a company that provided capital markets and investor relations services to the Company. The amounts paid or accrued to the firm relating to the services provided in the normal course of business for the three month period ended September 30, 2017 totaled \$30,000.

# KERR MINES INC.

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### 22. NET GAIN ON SETTLEMENT OF DEBTS

During the three months ended September 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 \$1,062,651 (2016 - \$3,675,749), representing the discount from the face value of the debt.

### 23. 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 and September 30 , 2017	\$	<u>-</u>

- (b) The Company had a letter of credit outstanding as at September 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) 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.

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

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### 24. SEGMENTED INFORMATION

As at September 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 September 30, 2017	As at June 30, 2017
<b>Total assets</b>		
Canada	3,871,107	6,343,770
United States	18,475,636	19,319,220
	<b>22,346,743</b>	25,662,990

	As at September 30, 2017	As at June 30, 2017
<b>Non-current assets</b>	\$	\$
Canada	-	-
United States	18,985,963	19,723,786
	<b>18,985,963</b>	19,723,786

	Three months ended September 30, 2017	Three months ended September 30, 2016
<b>Net income (loss)</b>	\$	\$
Canada	1,829,363	1,055,874
United States	(4,746,724)	976,982
	<b>(2,917,360)</b>	2,032,856

### 25. 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 cash equivalents and are included as an investing activity on the consolidated statements of cash flows.

### 26. 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 September 30, 2017 amount to \$21,289,297 (June 30, 2016 - \$22,507,859). 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.

# KERR MINES INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS THREE MONTH PERIODS ENDED SEPTEMBER 30, 2017 and 2016

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### 26. CAPITAL MANAGEMENT (continued)

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 September 30, 2017.

### 27. FINANCE CHARGES

Finance charges comprises of the following:

	Qtr ended September 30,	
	2017	2016
Interest on long-term debt	\$ 65,720	\$ 90,638
Loan refinancing and restructuring charges	-	877,500
Net Interest, bank charges and other	2,833	30,752
	<u>\$ 68,553</u>	<u>\$ 998,890</u>

### 28. SUBSEQUENT EVENT

On November 10<sup>th</sup>, 2017 the Company announced that it intends to complete a proposed private placement offering of approximately 16,666,667 common shares of the Company at a price of \$0.30 per share for gross proceeds of \$5 million. The Company will use the net proceeds from the Offering to finance its ongoing exploration program at its flagship Copperstone Mine in Arizona. The Offering is scheduled to close on or about November 30, 2017.