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**KERR MINES INC.**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL**  
**STATEMENTS**  
**THREE AND SIX MONTHS ENDED**  
**DECEMBER 31, 2017**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**(UNAUDITED)**

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**Notice To Reader**

The accompanying unaudited condensed interim consolidated financial statements of Kerr Mines Inc. (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

# Kerr Mines Inc.

## Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

Unaudited

	As at December 31, 2017	As at June 30, 2017
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 4,447,985	\$ 5,065,452
Marketable securities	2,519	2,519
Accounts receivable and sundry assets (note 4)	618,640	172,179
Prepaid expenses	538,236	500,973
Inventories	185,680	198,081
<b>Total current assets</b>	<b>5,793,060</b>	<b>5,939,204</b>
<b>Non-current assets</b>		
Restricted investments (note 3)	1,515,078	1,567,133
Property, plant and equipment (note 5)	10,150,659	10,886,188
Mining properties (note 6)	7,270,465	7,270,465
<b>Total assets</b>	<b>\$ 24,729,262</b>	<b>\$ 25,662,990</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 8)	\$ 576,318	\$ 2,933,760
Loans and borrowings	-	221,371
<b>Total current liabilities</b>	<b>576,318</b>	<b>3,155,131</b>
<b>Non-current liabilities</b>		
Long term promissory note payable (note 9)	2,053,480	2,000,000
Long term convertible promissory notes payable (note 10)	3,946,374	3,777,362
Derivative in convertible promissory note payable (note 10)	271,020	279,014
Long term loan payable (note 11)	3,706,287	3,609,763
Other long term payable	-	239,262
Provisions	2,502,898	2,691,269
<b>Total liabilities</b>	<b>13,056,377</b>	<b>15,751,801</b>
<b>Equity</b>		
Share capital (note 13)	139,088,865	132,264,928
Contributed surplus	10,531,788	10,531,788
Warrants (note 15)	2,953,000	2,379,100
Share-based payments (note 14)	1,080,913	178,496
Accumulated other comprehensive income	2,623,619	1,286,626
Deficit	(144,605,300)	(136,729,749)
<b>Total equity</b>	<b>11,672,885</b>	<b>9,911,189</b>
<b>Total equity and liabilities</b>	<b>\$ 24,729,262</b>	<b>\$ 25,662,990</b>

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

Nature of operations and going concern (note 1)

Commitments and contingencies (note 20)

### Approved on behalf of the Board:

(Signed) "Fahad Al Tamimi" Director

(Signed) "Claudio Ciavarella" Director

## Kerr Mines Inc.

### Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

Unaudited

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
<b>Operating expenses</b>				
Exploration and evaluation expenditures (note 16)	\$ 2,838,280	\$ 999,627	\$ 4,888,100	\$ 1,238,642
General and administrative	15,796	137,730	26,623	277,503
Depreciation (note 5)	124,265	8,207	169,015	51,984
Salaries and benefits	44,458	-	103,307	-
Consulting fees	170,000	146,073	220,000	242,256
Professional fees	8,761	96,267	34,421	251,133
Promotion and travel	64,611	22,972	81,802	40,640
Shareholder relations	542,834	29,710	887,108	101,962
	<b>(3,809,005)</b>	<b>(1,440,586)</b>	<b>(6,410,376)</b>	<b>(2,204,120)</b>
Gain (loss) on disposal of other assets	(2,929)	-	(401,780)	-
Unrealized (loss) on marketable securities	-	(220,000)	-	(120,000)
Finance charges	(204,979)	(53,393)	(273,532)	(1,052,283)
Net gain on settlement of debts	206,684	23,776	1,269,335	3,699,525
Gain (loss) on revaluation of derivative liability	56,264	(5,476)	(43,197)	(10,952)
Accretion of long term receivable	-	-	-	8,906
Interest and other revenue	1,657	15,866	1,657	16,718
Loss on foreign exchange	(638,274)	(291,069)	(1,115,241)	(275,820)
Share-based payments (note 14)	(567,609)	-	(902,417)	-
Loss on sale of marketable securities	-	(800,000)	-	(800,000)
<b>Loss before income taxes</b>	<b>(4,958,191)</b>	<b>(2,770,882)</b>	<b>(7,875,551)</b>	<b>(738,026)</b>
<b>Net loss for the period</b>	<b>\$ (4,958,191)</b>	<b>\$ (2,770,882)</b>	<b>\$ (7,875,551)</b>	<b>\$ (738,026)</b>
<b>Other comprehensive income</b>				
Foreign exchange difference	\$ 1,376,733	\$ 356,761	\$ 1,336,993	\$ 252,909
<b>Other comprehensive income for the period</b>	<b>1,376,733</b>	<b>356,761</b>	<b>1,336,993</b>	<b>252,909</b>
<b>Total comprehensive loss for the period</b>	<b>\$ (3,581,458)</b>	<b>\$ (2,414,121)</b>	<b>\$ (6,538,558)</b>	<b>\$ (485,117)</b>
<b>Basic and diluted net loss per share (note 18)</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.03)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares outstanding</b>	<b>239,177,666</b>	<b>190,968,865</b>	<b>236,817,010</b>	<b>164,892,903</b>

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

## Kerr Mines Inc.

### Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

Unaudited

	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
<b>Operating activities</b>		
Net loss for the period	\$ (7,875,551)	\$ (738,026)
Adjustments for:		
Depreciation	169,015	51,984
Share-based payments	902,417	-
Accretion expenses	144,516	52,886
Unrealized (loss) on marketable securities	-	120,000
Realised loss on sale of marketable securities	-	800,000
Net gain on settlement of debts	(1,269,335)	(3,699,525)
Gain on revaluation of derivative liability	43,197	10,952
Accretion on long term receivable	-	248,392
Foreign exchange	1,224,503	(139,293)
Gain (loss) on disposal of other assets	401,780	-
Changes in non-cash working capital items:		
Amounts receivable and other assets	(446,461)	(149,656)
Prepaid expenses	(37,263)	125,354
Inventories	12,401	(7,547)
Amounts payable and other liabilities	(1,084,520)	(500,884)
<b>Net cash used in operating activities</b>	<b>(7,815,301)</b>	<b>(3,825,363)</b>
<b>Investing activities</b>		
Proceeds from sale of marketable securities	-	2,000,000
Increase in restricted cash	-	(43,334)
<b>Net cash provided by investing activities</b>	<b>-</b>	<b>1,956,666</b>
<b>Financing activities</b>		
Issue of units, net of costs	1,584,701	-
Issue of shares, net of costs	5,813,133	-
Long term loans advanced	-	2,000,000
Loans (repaid) advanced	(200,000)	90,371
<b>Net cash provided by financing activities</b>	<b>7,197,834</b>	<b>2,090,371</b>
<b>Net change in cash</b>	<b>(617,467)</b>	<b>221,674</b>
<b>Cash, beginning of period</b>	<b>5,065,452</b>	<b>412,662</b>
<b>Cash, end of period</b>	<b>\$ 4,447,985</b>	<b>\$ 634,336</b>

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

**Kerr Mines Inc.****Condensed Interim Consolidated Statements of Changes in Equity****(Expressed in Canadian Dollars)****Unaudited**

	<b>Reserves</b>						<b>Total</b>
	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Options</b>	<b>Warrants</b>	<b>Accumulated other comprehensive loss</b>	<b>Deficit</b>	
<b>Balance, June 30, 2016</b>	<b>\$123,100,686</b>	<b>\$ 7,018,421</b>	<b>\$ -</b>	<b>\$ 3,513,367</b>	<b>\$ 1,675,570</b>	<b>\$(135,393,612)</b>	<b>\$ (85,568)</b>
Shares issued for debt settlement	3,932,198	-	-	-	-	-	3,932,198
Conversion of promissory note	1,350,000	-	-	-	-	-	1,350,000
Warrants expired	-	1,225,000	-	(1,225,000)	-	-	-
Net loss and comprehensive income for the period	-	-	-	-	252,909	(738,026)	(485,117)
<b>Balance, December 31, 2016</b>	<b>\$128,382,884</b>	<b>\$ 8,243,421</b>	<b>\$ -</b>	<b>\$ 2,288,367</b>	<b>\$ 1,928,479</b>	<b>\$(136,131,638)</b>	<b>\$ 4,711,513</b>
<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>
Units issued on private placement	1,584,701	-	-	-	-	-	1,584,701
Shares issued on private placement	6,111,561	-	-	-	-	-	6,111,561
Warrants issued in units issued	(573,900)	-	-	573,900	-	-	-
Share issue cost	(298,425)	-	-	-	-	-	(298,425)
Share-based payments	-	-	902,417	-	-	-	902,417
Net loss and comprehensive income for the period	-	-	-	-	1,336,993	(7,875,551)	(6,538,558)
<b>Balance, December 31, 2017</b>	<b>\$139,088,865</b>	<b>\$ 10,531,788</b>	<b>\$ 1,080,913</b>	<b>\$ 2,953,000</b>	<b>\$ 2,623,619</b>	<b>\$(144,605,300)</b>	<b>\$ 11,672,885</b>

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

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## **Kerr Mines Inc.**

### **Notes to Condensed Interim Consolidated Financial Statements**

**Three and Six Months Ended December 31, 2017**

**(Expressed in Canadian Dollars)**

**Unaudited**

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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 December 31, 2017, the Company had working capital \$5,216,742 (June 30, 2017 – \$2,784,073). The Company has incurred losses in previous periods and has not yet achieved profitable operations, with a current loss of \$7,875,551 for six months ended December 31, 2017 (six months ended December 31, 2016 - \$738,026) and has an accumulated deficit of \$144,605,300 as at December 31, 2017, (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 unaudited condensed interim 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. Significant accounting policies**

##### *Statement of compliance*

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRSs issued and outstanding as of February 12, 2018, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual financial statements as at and for the year ended June 30, 2017. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending June 30, 2018 could result in restatement of these unaudited condensed interim consolidated financial statements.

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## **Kerr Mines Inc.**

### **Notes to Condensed Interim Consolidated Financial Statements**

**Three and Six Months Ended December 31, 2017**

**(Expressed in Canadian Dollars)**

**Unaudited**

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## **2. Significant accounting policies (continued)**

*New standards not yet adopted and interpretations 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") was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 10 - Consolidated Financial Statements ("IFRS 10"). 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 15 - Revenue from Contracts with Customers ("IFRS 15"). In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases.

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 unaudited condensed interim consolidated financial statements.

IAS 7 Statement of Cash Flows ("IAS 7"). 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. The Company is currently evaluating the impact on its consolidated financial statements.

IAS 12 Income Taxes ("IAS 12"). 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. The Company is currently evaluating the impact on its consolidated financial statements.

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## Kerr Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

Three and Six Months Ended December 31, 2017

(Expressed in Canadian Dollars)

Unaudited

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#### 3. Restricted investments

	As at December 31, 2017	As at June 30, 2017
<b>Restricted investments</b>		
Guaranteed investment certificates <sup>(1)</sup>	\$ 456,154	\$ 455,150
Short-term cashable account <sup>(2)</sup>	1,058,924	1,058,923
	<b>1,515,078</b>	<b>1,514,073</b>
<b>Reclamation bonds</b>		
Ministry of Northern Development and Mines <sup>(3)</sup>	-	53,060
	-	53,060
<b>Total</b>	<b>\$ 1,515,078</b>	<b>\$ 1,567,133</b>

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(1) Letters of credit are secured by the GIC investment as disclosed in (note 20) and relate to the reclamation obligation on the McGarry property.

(2) Pursuant to the term of the surety bond disclosed in (note 20) the Company provided cash collateral of \$1,058,924 or US\$816,000 (June 30, 2017 - \$1,058,923 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.

(3) The Company had 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.

#### 4. Accounts receivable and sundry assets

	As at December 31, 2017	As at June 30, 2017
HST receivable	\$ 142,690	\$ 135,091
Other receivables	475,950	37,088
<b>Total</b>	<b>\$ 618,640</b>	<b>\$ 172,179</b>

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## Kerr Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

Three and Six Months Ended December 31, 2017

(Expressed in Canadian Dollars)

Unaudited

#### 5. Property and equipment

<b>Cost</b>	<b>Land and buildings</b>	<b>Mine and mill equipment</b>	<b>Surface vehicles</b>	<b>Computer equipment</b>	<b>Mill</b>	<b>Total</b>
Balance, June 30, 2016	\$ 2,672,919	\$ 1,826,921	\$ 2,726,633	\$ 114,163	\$ 5,664,227	\$13,004,863
Foreign exchange differences	12,137	6,664	10,830	325	26,311	56,267
Balance, June 30, 2017	2,685,056	1,833,585	2,737,463	114,488	5,690,538	13,061,130
Disposals	-	-	(783,000)	-	-	(783,000)
Foreign exchange differences	(64,943)	(213,225)	304,508	-	(194,003)	(167,663)
Balance, December 31, 2017	\$ 2,620,113	\$ 1,620,360	\$ 2,258,971	\$ 114,488	\$ 5,496,535	\$12,110,467

<b>Accumulated Depreciation</b>	<b>Land and buildings</b>	<b>Mine and mill equipment</b>	<b>Surface vehicles</b>	<b>Computer equipment</b>	<b>Mill</b>	<b>Total</b>
Balance, June 30, 2016	\$ 49,517	\$ 1,792,100	\$ 35,983	\$ 103,270	\$ -	\$ 1,980,870
Depreciation for the year	13,455	22,267	151,106	7,244	-	194,072
Balance, June 30, 2017	62,972	1,814,367	187,089	110,514	-	2,174,942
Depreciation for the period	31,452	106,678	30,885	-	-	169,015
Disposals	-	(384,149)	-	-	-	(384,149)
Balance, December 31, 2017	\$ 94,424	\$ 1,536,896	\$ 217,974	\$ 110,514	\$ -	\$ 1,959,808

<b>Carrying Value</b>	<b>Land and buildings</b>	<b>Mine and mill equipment</b>	<b>Surface vehicles</b>	<b>Computer equipment</b>	<b>Mill</b>	<b>Total</b>
Balance, June 30, 2017	\$ 2,622,084	\$ 19,218	\$ 2,550,374	\$ 3,974	\$ 5,690,538	\$10,886,188
Balance, December 31, 2017	\$ 2,525,689	\$ 83,464	\$ 2,040,997	\$ 3,974	\$ 5,496,535	\$10,150,659

#### 6. 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>As at December 31, 2017</b>	<b>As at June 30, 2017</b>
Copperstone Property	\$ 7,270,465	\$ 7,270,465
<b>Total</b>	<b>\$ 7,270,465</b>	<b>\$ 7,270,465</b>

#### 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.

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## **Kerr Mines Inc.**

### **Notes to Condensed Interim Consolidated Financial Statements**

**Three and Six Months Ended December 31, 2017**

**(Expressed in Canadian Dollars)**

**Unaudited**

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#### **6. 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 December 31, 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.

##### 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 9).

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.

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## Kerr Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

Three and Six Months Ended December 31, 2017

(Expressed in Canadian Dollars)

Unaudited

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#### 7. 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 for the three and six months ended December 31, 2017 and 2016.

#### 8. Accounts payable and accrued liabilities

	As at December 31, 2017	As at June 30, 2017
Trade payables	\$ 342,154	\$ 2,743,954
Accrued liabilities	202,932	183,507
Payroll liabilities	31,232	6,299
<b>Total</b>	<b>\$ 576,318</b>	<b>\$ 2,933,760</b>

#### 9. Long term promissory note payable

Braydon Capital Corporation and Trans Oceanic Minerals Corporation Ltd. 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 \$53,480

	December 31, 2017	June 30, 2017
Long term debt facility	\$ 2,000,000	\$ 2,000,000
Accrued interest	53,480	-
<b>Total</b>	<b>\$ 2,053,480</b>	<b>\$ 2,000,000</b>

## Kerr Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian Dollars)

Unaudited

#### 10. Long term convertible promissory notes payable

	As at December 31, 2017	As at June 30, 2017
Kerr debenture	\$ 2,577,359	\$ 2,666,215
March 2016 convertible promissory note	1,254,800	1,111,147
Accrued interest	114,215	-
<b>Total</b>	<b>\$ 3,946,374</b>	<b>\$ 3,777,362</b>

##### 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 (see below).

The Kerr Debenture was 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 December 31, 2017 and June 30, 2017, the derivative in convertible promissory note was determined to be nil as the conversion price is significantly higher than the current common share price.

##### March 2016 convertible promissory note

On March 9, 2016, the Company arranged US\$1,000,000 (CAD\$1,254,800) 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 (see below).

On August 22, 2016, the companies agreed to amend both the Kerr Debenture and the March 2016 Convertible Promissory Note 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 December 31, 2017, the derivative component in the promissory note is valued at \$271,020 (June 30, 2017 - \$279,014).

## Kerr Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

Three and Six Months Ended December 31, 2017

(Expressed in Canadian Dollars)

Unaudited

#### 11. Long term loan payable

This loan was a promissory note ("Loan Payable") 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 and shareholder of Kerr. As of June 30, 2016, interest payments had not been made which was considered a default.

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. 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 \$96,524.

	December 31, 2017	June 30, 2017
Loan Payable	\$ 3,609,763	\$ 3,609,763
Accrued interest	96,524	-
<b>Total</b>	<b>\$ 3,706,287</b>	<b>\$ 3,609,763</b>

#### 12. Provisions for 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.

A continuity for asset retirement obligations is as follows:

Asset Retirement Obligation	Cheminis	McGarry	Copperstone	Total
Balance, June 30, 2016	\$ 53,060	\$ 471,198	\$ 2,179,076	\$ 2,703,334
Accretion expense for the year	-	5,580	-	5,580
Foreign exchange differences	-	-	(17,645)	(17,645)
Balance, June 30, 2017	53,060	476,778	2,161,431	2,691,269
Disposals	(53,060)	-	-	(53,060)
Foreign exchange differences	-	-	(135,311)	(135,311)
Balance, December 31, 2017	\$ -	\$ 476,778	\$ 2,026,120	\$ 2,502,898

#### 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 20)(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.

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## Kerr Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

Three and Six Months Ended December 31, 2017

(Expressed in Canadian Dollars)

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#### 12. Provisions for reclamation and remediation (continued)

##### Copperstone:

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

- i) 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 20)(d).
- ii) Risk-free rate at 1.01%.
- iii) Expected timing of cash outflows required to settle the obligation is for the full amount to be paid in 2021.
- iv) Inflation over the period up to 2021 was estimated to be 1.69% per annum.

#### 13. Share capital

##### a) Authorized share capital

The authorized share capital consisted of unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

##### b) Common shares issued

	Number of common shares	Amount
Balance, June 30, 2016	128,470,951	\$123,100,636
Shares issued for debt settlement	35,497,914	3,932,248
Conversion of promissory note	27,000,000	1,350,000
<b>Balance, December 31, 2016</b>	<b>190,968,865</b>	<b>\$128,382,884</b>
Balance, June 30, 2017	226,609,403	\$132,264,928
Units issued on private placement (i)	8,803,896	1,555,661
Shares issued on private placement (ii)	20,371,869	5,842,176
Warrant valuation	-	(573,900)
<b>Balance, December 31, 2017</b>	<b>255,785,168</b>	<b>\$139,088,865</b>

(i) On July 10, 2017 the Company closed the final tranche of a non-brokered private placement, by issuing 8,803,896 units for gross proceeds of \$1,584,701. 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 4,401,948 share purchase warrants was estimated at \$573,900 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.

(ii) On December 14, 2017, the Company closed a non-brokered private placement, by issuing 20,371,869 common shares of the Company at a price of \$0.30 per share for total gross proceeds of \$6,111,564. In connection with the private placement, the Company paid finder fees totaling \$209,387 to certain eligible persons.

## Kerr Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

Three and Six Months Ended December 31, 2017

(Expressed in Canadian Dollars)

Unaudited

#### 14. Stock options

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 following table reflects the continuity of stock options for the six months ended December 31, 2017 and December 31, 2016:

	Number of stock options	Weighted average exercise price
Balance, June 30, 2016 and December 31, 2016	-	\$ -
Balance, June 30, 2017	4,000,000	\$ 0.19
Issued (i)	3,880,000	0.22
Balance, December 31, 2017	7,880,000	\$ 0.20

(i) 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 fair value of these options at the date of grant of \$693,498 was assigned to the stock options as estimated by using the Black-Scholes option pricing model with the following assumptions: a five year expected average life; share price of \$0.22; 115% expected volatility; risk free interest rate of 1.00%; and an expected dividend yield of 0%.

For the three and six months ended December 31, 2017, \$567,609 and \$902,417, respectively, was expensed to option-based payments (three and six months ended December 31, 2016 - \$nil)

The following table reflects the actual stock options issued and outstanding as of December 31, 2017:

Expiry date	Exercise price (\$)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
May 2, 2022	0.19		4,000,000	500,000
August 23, 2022	0.22		3,880,000	3,880,000
	0.20		7,880,000	4,380,000

## Kerr Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

Three and Six Months Ended December 31, 2017

(Expressed in Canadian Dollars)

Unaudited

#### 15. Warrants

The following table reflects the continuity of warrants for the six months ended December 31, 2017 and December 31, 2016:

	Number of warrants	Amount
Balance, June 30, 2016	23,403,335	\$ 0.70
Expired	(14,820,001)	0.60
Balance, December 31, 2016	8,583,334	\$ 0.54
Balance, June 30, 2017	17,820,269	\$ 0.70
Issued (note 13(b)(i))	4,401,948	0.27
Balance, December 31, 2017	22,222,217	\$ 0.27

The following table reflects the actual warrants issued as of December 31, 2017:

Number of warrants outstanding	Grant date fair value (\$)	Exercise price (\$)	Expiry date
17,820,269	2,379,100	0.27	June 29, 2019
4,401,948	573,900	0.27	July 10, 2019
22,222,217	2,953,000	0.27	

#### 16. Exploration and Evaluation Expenditures

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Bear Lake property	\$ -	\$ 40,292	\$ -	\$ 58,070
McGarry property	192,135	547,212	192,135	591,644
Copperstone property	2,646,145	412,123	4,695,965	588,928
	\$ 2,838,280	\$ 999,627	\$ 4,888,100	\$ 1,238,642

#### 17. Net gain on settlement of debts

During the six months ended December 31, 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 \$1,269,335 (six months ended December 31, 2016 - \$3,699,525), representing the discount from the face value of the debt.



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## **Kerr Mines Inc.**

### **Notes to Condensed Interim Consolidated Financial Statements**

**Three and Six Months Ended December 31, 2017**

**(Expressed in Canadian Dollars)**

**Unaudited**

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#### **18. Loss per share**

For the three and six months ended December 31, 2017, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of \$4,958,191 and \$7,875,551, respectively (three and six months ended December 31, 2016 - loss of \$2,770,882 and \$738,026, respectively) and the weighted average number of common shares outstanding of 239,177,666 and 236,817,010, respectively (three and six months ended December 31, 2016 - 190,968,865 and 164,892,903, respectively) for basic and diluted loss per share. Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

#### **19. Related party transactions**

Related parties include the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

The noted transactions below are in the normal course of business and are measured at the exchange amount, as agreed to by the parties, and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

(a) The Company has entered into a series of financial transactions with related parties as detailed in Notes 9, 10, and 11.

(b) The Company entered into the following transactions with related parties:

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 and six months ended December 31, 2017, \$30,000 and \$60,000, respectively, (three and six months ended December 31, 2016 - \$nil).

During the three and six months ended December 31, 2017 the Company paid professional fees and disbursements of \$3,765, (three and six months ended December 31, 2016 - \$nil) to Marrelli Support Services Inc., ("Marrelli Support"), DSA Corporate Services Inc. ("DSA Corp") and DSA Filing Services Limited ("DSA Filing"), together known as the "Marrelli Group", for:

- Carmelo Marrelli, President of Marrelli Group, to act as the Chief Financial Officer ("CFO") of the Company;
- Bookkeeping services;
- Regulatory filing services; and
- Corporate secretarial services.

These services were incurred in the normal course of operations for general accounting and financial reporting matters. As at December 31, 2017, the Marrelli Group was owed \$1,995 (June 30, 2017 - \$nil).

A director is a partner in a legal firm that provided legal services to the Company. The amounts paid or accrued to the firm relating to services provided in the normal course during the three and six months ended December 31, 2017 was \$10,504 (three and six months ended December 31, 2016 - \$nil). The amounts owing to the firm as at December 31, 2017 was \$3,988 (June 30, 2017 - \$nil).

## Kerr Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

Three and Six Months Ended December 31, 2017

(Expressed in Canadian Dollars)

Unaudited

#### 19. Related party transactions (continued)

(c) Remuneration of directors and key management personnel, other than consulting fees, of the Company was as follows:

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Salaries and benefits	\$ 47,520	\$ -	\$ 94,248	\$ -
Stock-based compensation	519,664	-	834,496	-
	\$ 567,184	\$ -	\$ 928,744	\$ -

The directors do not have employment or service contracts with the Company. Directors are entitled to director fees and stock options for their services.

#### 20. 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, June 30, 2016	\$ 953,916
Advance royalty payable	52,959
Settlement of debt	(1,006,875)
Balance, June 30, 2017 and December 31, 2017	\$ -

- (b) The Company had a letter of credit outstanding as at December 31, 2017 in the amount of \$456,154 June 30, 2017 - \$455,150) which is supported by the restricted investments (note 3).
- (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 \$1,058,924 (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 Condensed Interim Consolidated Financial Statements

Three and Six Months Ended December 31, 2017

(Expressed in Canadian Dollars)

Unaudited

#### 21. Segmented information

As at December 31, 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.

##### Six Months Ended December 31, 2017

	Canada	USA	Total
Revenues	\$ -	\$ -	\$ -
Net loss	\$ (2,030,834)	\$ (5,844,717)	\$ (7,875,551)

##### Six Months Ended December 31, 2016

	Canada	USA	Total
Revenues	\$ -	\$ -	\$ -
Net income (loss)	\$ 572,946	\$ (1,310,972)	\$ (738,026)

##### Three Months Ended December 31, 2017

	Canada	USA	Total
Revenues	\$ -	\$ -	\$ -
Net loss	\$ (3,860,197)	\$ (1,097,994)	\$ (4,958,191)

##### Three Months Ended December 31, 2016

	Canada	USA	Total
Revenues	\$ -	\$ -	\$ -
Net loss	\$ (1,715,630)	\$ (1,055,252)	\$ (2,770,882)

##### As at December 31, 2017

	Canada	USA	Total
Total assets	\$ 4,915,051	\$ 19,814,211	\$ 24,729,262
Non-current assets	\$ 171,124	\$ 18,765,078	\$ 18,936,202

##### As at June 30, 2017

	Canada	USA	Total
Total assets	\$ 6,343,770	\$ 19,319,220	\$ 25,662,990
Non-current assets	\$ -	\$ 19,723,786	\$ 19,723,786