



Kerr Mines Inc.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

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.

"Chris Hopkins" (signed)
Chris Hopkins, Interim CEO and CFO

"Chris Irwin" (signed)
Chris Irwin, Corporate Secretary

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 and six months ended December 31, 2016 and 2015 have not been reviewed by the Company's auditors.

KERR MINES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION****AS AT DECEMBER 31, 2016 AND JUNE 30, 2016****(UNAUDITED)**

	December 31, 2016	June 30, 2016
ASSETS		
Current		
Cash and cash equivalents	634,336	412,662
Accounts receivable and sundry assets (Note 6)	897,123	747,467
Marketable securities (Note 7)	582,711	3,502,711
Inventories	198,688	191,141
Prepaid expenses	187,027	312,381
Current assets	2,499,885	5,166,362
Non-current		
Restricted investments (Note 5)	1,601,990	1,558,656
Long term receivable (Note 8)	-	248,392
Property, plant and equipment (Note 9 and 10)	11,364,210	11,023,993
Mineral property (Note 8 and 10)	7,270,465	7,270,465
Non-current assets	20,236,665	20,101,506
TOTAL ASSETS	22,736,550	25,267,868
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 11, 23)	4,074,312	10,733,251
Convertible promissory notes (Note 12)	-	5,631,850
Loan payable (Note 13)	-	5,109,763
Loans and borrowings (Note 14)	221,371	221,371
Current liabilities	4,295,683	21,696,235
Non-current		
Long term promissory note payable (Note 15)	2,068,822	-
Long term convertible promissory notes payable (Note 16)	4,008,490	-
Derivative in convertible promissory note payable (Note 16)	92,881	-
Long term loan payable (Note 17)	3,609,763	-
Net Smelter return payable (Note 25)	1,006,875	953,916
Other long term payables	239,262	-
Provisions (Note 18)	2,703,261	2,703,334
Non-current liabilities	13,729,354	3,657,250
DEFICIENCY		
Capital stock (Note 19)	128,382,884	123,100,636
Contributed surplus	8,243,421	7,018,421
Warrant reserve (Note 21)	2,288,367	3,513,367
Currency translation reserve	1,928,479	1,675,571
Deficit	(136,131,638)	(135,393,612)
Total deficiency	4,711,513	(85,617)
TOTAL LIABILITIES AND DEFICIENCY	22,736,550	25,267,868

Nature of operations and going concern uncertainty (Note 1)

Commitments and contingencies (Note 8 and 25)

ON BEHALF OF THE BOARD:

"Fahad Al Tamimi"

DIRECTOR

"Greg Smith"

DIRECTOR

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

KERR MINES INC.

Condensed Consolidated Interim Statements of (Loss) and Comprehensive Income (Loss)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

(UNAUDITED)

	Three Months ended December 31,		Six Months ended December 31,	
	2016	2015	2016	2015
OPERATING EXPENSES				
Professional fees (Note 23)	\$ 96,267	\$ 64,421	\$ 251,133	\$ 156,969
Consulting fees (Note 23)	146,073	21,664	242,256	29,996
Depreciation (Note 9)	8,207	50,323	51,984	101,167
General and administrative	137,730	145,167	277,503	352,188
Promotion and travel	22,972	-	40,640	3,055
Shareholder relations	29,710	9,709	101,962	28,838
Exploration, evaluation and care and maintenance expenditures (Note 8)	999,627	15,055	1,238,642	909,657
	(1,440,586)	(306,339)	(2,204,120)	(1,581,870)
Gain (loss) on disposal of other assets	-	(200,365)	-	183,903
Unrealized loss on marketable securities (Note 7)	(220,000)	-	(120,000)	-
Loss on sale of marketable securities (Note 7)	(800,000)	-	(800,000)	-
Finance charges (Note 29)	(53,393)	(218,808)	(1,052,283)	(483,997)
Net gain on settlement of debts (Note 24)	23,776	76,850	3,699,525	76,850
Gain on revaluation of derivative liability (Note 16)	(5,476)	-	(10,952)	-
Accretion of long term receivable (Note 8)	-	-	8,906	-
Interest and other income	15,866	-	16,718	-
(Gain) loss on foreign exchange	(291,069)	(40,567)	(275,820)	(447,115)
NET LOSS	(2,770,882)	(689,229)	(738,026)	(2,252,229)
Other Comprehensive Income - items that may subsequently reclassify into income				
Foreign exchange differences	356,761	715,167	252,909	3,835,796
COMPREHENSIVE INCOME (LOSS)	(2,414,121)	25,938	(485,117)	1,583,567
Weighted average number of common shares outstanding (Note 19)	190,968,865	128,485,236	164,892,903	128,485,236
Diluted weighted average shares outstanding (Note 19)	190,968,865	128,485,236	164,892,903	128,485,236
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE	\$ (0.01)	\$ 0.00	\$ (0.00)	\$ 0.01

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

KERR MINES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015
(UNAUDITED)**

	2016	2015
OPERATING ACTIVITIES		
NET LOSS FOR THE PERIOD	\$ (738,026)	\$ (2,252,229)
ADD (DEDUCT) ITEMS NOT REQUIRING CASH		
Depreciation (Note 9)	51,984	101,167
Impairment (Note 10)	-	
Accretion expense	52,886	23,962
Unrealized gain on marketable securities (Note 7)	120,000	70
Realized loss on marketable securities (Note 7)	800,000	
Accretion on convertible promissory note	-	3,357
Net gain on settlement of debt (Note 24)	(3,699,525)	-
Gain on revaluation of derivative liability	10,952	-
Accretion on long term receivable	248,392	-
Foreign exchange	(139,293)	(478,891)
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Accounts receivable and sundry assets	(149,656)	(43,303)
Prepaid expenses and other	125,354	212,253
Inventories	(7,547)	-
Accounts payable and accrued liabilities	(500,884)	1,716,958
CASH FROM OPERATING ACTIVITIES	<u>(3,825,363)</u>	<u>(716,656)</u>
INVESTING ACTIVITIES		
Proceeds from sale of marketable securities (Note 7)	2,000,000	-
Proceeds from sale of property, plant and equipment	-	264,900
Increase in restricted investments	(43,334)	-
Purchase of property, plant and equipment	-	-
CASH FROM INVESTING ACTIVITIES	<u>1,956,666</u>	<u>264,900</u>
FINANCING ACTIVITIES		
Long term loans advanced	2,000,000	-
Loans advanced	90,371	12,924
CASH FROM FINANCING ACTIVITIES	<u>2,090,371</u>	<u>12,924</u>
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	221,674	(438,832)
CASH AND CASH EQUIVALENTS, beginning of period	412,662	476,136
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 634,336</u>	<u>\$ 37,304</u>

Supplementary cash flow information (Note 27)

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

KERR MINES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)****THREE AND SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015****(UNAUDITED)**

	Capital Stock	Contributed Surplus	Options	Warrants	Currency Translation	Deficit	TOTAL
Balance, June 30, 2016	\$ 123,100,686	\$ 7,018,421	\$ -	\$ 3,513,367	\$ 1,675,570	\$ (135,393,612)	\$ (85,568)
Net loss for the period	-	-	-	-	-	(738,026)	(738,026)
Other comprehensive income					252,909		252,909
Comprehensive loss							(485,117)
Shares issued for debt settlements	3,932,198		-	-	-	-	3,932,198
Conversion of promissory note (Note 12)	1,350,000	-	-	-	-	-	1,350,000
Warrants expired	-	1,225,000	-	(1,225,000)	-	-	-
Balance, December 31, 2016	\$ 128,382,884	\$ 8,243,421	\$ -	\$ 2,288,367	\$ 1,928,479	\$ (136,131,638)	\$ 4,711,513
Balance, June 30, 2015	\$ 123,081,747	\$ 6,865,101	\$ -	\$ 3,667,000	\$ 1,021,740	\$ (137,268,494)	\$ (2,632,906)
Net loss for the period	-	-	-	-	-	(1,582,866)	(1,582,866)
Other comprehensive income	-	-	-	-	3,120,629	-	3,120,629
Comprehensive income							1,537,763
Balance, December 31, 2015	\$ 123,081,747	\$ 6,865,101	\$ -	\$ 3,667,000	\$ 4,142,369	\$ (138,851,360)	\$ (1,095,143)

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

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

1. NATURE OF OPERATIONS AND GOING CONCERN

Kerr Mines Inc. ("Kerr" or the "Company") is incorporated under the laws of the Province of Ontario, and was formed by articles of amalgamation on December 1, 1998. 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 400-365 Bay Street, Toronto, Ontario, M5H 2V1, Canada.

As at December 31, 2016, the Company had working capital deficit of \$1,795,798 (June 30, 2016 – a deficit of \$16,529,873), had not yet achieved profitable operations, has a deficit of \$136,131,638 (June 30, 2016 - \$135,393,612), and expects to incur future losses in the development of its business and requires additional financing to continue to be able to operate, retain rights to its properties and carry out exploration and development of its properties, all of which casts significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements have been prepared on a going-concern basis and do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material. While the Company expects to be able to obtain sufficient financing to continue as a going concern, it is not possible to predict whether financing efforts will be successful.

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

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.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

2. BASIS OF PRESENTATION

(a) Statement of Compliance with International Financial Reporting Standards

These unaudited interim condensed consolidated financial statements for the three and six month periods ended December 31, 2016 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, 2016. 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 February 13, 2016.

(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) Standards issued but not yet effective

IFRS 15 Revenue from Contracts with Customers. 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 consolidated financial statements.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

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 judgment the Company's Canadian operations are in the exploration and evaluation stage.

(b) *Mineral properties*

Operating levels intended by management for the Copperstone mine:

Prior to a mine being capable of operating at levels intended by management, costs incurred are either expensed or capitalized based on the type of costs incurred. Costs related to developing the property are generally capitalized, while care and maintenance costs and costs related to exploration and evaluating new ore bodies are expensed. Management considers the Copperstone mine is capable of operating at levels intended by management once it reached consistent production of no less than 60% of planned volume for a period of 30 consecutive days. As of June 30, 2016 and June 30, 2015, the Copperstone mine had not met this target.

(c) *Functional currency*

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

(d) *Impairment of property, plant and equipment (Note 10)*

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

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

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

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

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 14 for more details.

(b) Estimated reserves, resources and exploration potential

Reserves are estimates of the amount of product that can be extracted from the Company's mineral properties, considering both economic and legal factors. Calculating reserves, resources and exploration potential estimates requires decisions on assumptions about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, prices and exchange rates.

Estimating the quantity and/or grade of reserves, resources and exploration potential require the analysis of drilling samples and other geological data. Estimates may change from period to period as the economic assumptions used to estimate reserves, resources and exploration potential change from period to period, and because additional geological data is generated during the course of operations. Changes in reported reserves may affect the Company's financial position.

The effect of a change in an accounting estimate is recognized prospectively by including it in the consolidated statement of operations and comprehensive loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

(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.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

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 acquisition of a business is accounted for using the acquisition method. The cost of the acquisition is measured based on the fair value of the consideration provided and allocated to the identified assets and liabilities of the acquiree. The goodwill arising, if any, is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the fair value of net identifiable assets acquired and the liabilities assumed.

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 property. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated reserves as the depletion base. Care and maintenance costs related to a property are expensed as incurred.

(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 December 31, 2016.

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

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

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

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

Amortization methods and useful lives are reviewed at each annual reporting date.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

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

(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 is 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.

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 and cash equivalents

The Company considers unrestricted short-term debt securities purchased with a remaining maturity at the date of acquisition of three months or less to be cash equivalents. Restricted cash and investments are excluded from cash and cash equivalents.

(f) Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged net income (loss) over the period of the lease and is calculated using the effective interest rate method. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statements of operations and comprehensive loss on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

(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.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

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

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.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the

deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the consolidated statements of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the consolidated statements of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the consolidated statements of financial position.

Deferred income taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statements of operations and comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

(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.

(i) Property, plant and equipment

Property, plant and equipment other than land are carried at cost less accumulated depreciation and accumulated impairment losses. Land is carried at cost less 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 and accounts receivable and sundry assets and restricted investments are classified as loans and receivables.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

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

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

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

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

(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.

(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.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

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

(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 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.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each cash generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

(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.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

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

(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.

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

The Company has a share-based compensation plan described in Note 16 which is accounted for in accordance with the requirements of IFRS 2. Under the plan, the Company can grant options to directors, senior officers and employees of or consultants to the Company or employees of a corporation providing management services to the Company.

For transactions with directors, senior officers, employees and others providing similar services (collectively referred to hereinafter as employees), the fair value of the equity-settled awards is measured at the initial grant date and is recognized as assets for the portion that qualifies for recognition as assets and the balance as an expense with a corresponding amount credited to equity, on a straight-line basis over the vesting period after adjusting for the estimated number of awards that are expected to vest.

For transactions with non-employees, the fair value of the equity-settled awards is measured at the fair value of the goods or services received, at the date the goods or services are received by the Company. In cases where the fair value of goods or services received cannot be reliably estimated, the Company estimates the fair value of the awards at the date of grant.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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 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.

5. RESTRICTED INVESTMENTS

	Note	December 30, 2016	June 30, 2016
Restricted investments:			
GIC bearing interest of 0.75% (June 30, 2016 – 0.75%), matures on January 13, 2017 (October 14, 2015 – January 14, 2016)	(a)	\$ 453,287	\$ 451,569
Short-term cashable account	(b)	1,095,643	1,054,027
		\$ 1,548,930	\$ 1,505,596
Reclamation bonds:			
Ministry of Northern Development and Mines	(c)	53,060	53,060
		\$ 53,060	\$ 53,060
Total:		\$ 1,601,990	\$ 1,558,656

- Letters of credit are secured by the GIC investment as disclosed in Note 21 and relate to the reclamation obligation on the McGarry property.
- Pursuant to the term of the surety bond disclosed in Note 21, the Company provided cash collateral of \$1,095,643 or US\$816,000 (June 30, 2016 - \$1,054,027 or US\$816,000) which is held with the Bank of New York in the name of the Company. The cash collateral is held in a short term cashable account.
- The Company has a cash deposit of \$53,060 (including accumulated interest) with the Ministry of Northern Development and Mines of the province of Ontario ("MNDM") to cover a portion of the asset retirement obligations (AROs) related to the Cheminis property. As this property has been sold (Note 8) the Company has provided a liability for this amount payable (Note 14) to the purchaser when then final payment is received by the Company.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

6. ACCOUNTS RECEIVABLE AND SUNDRY ASSETS

	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Bonterra Resources Inc. (Note 8)	\$ 750,000	\$ 650,000
HST receivable	131,945	63,520
Other receivables	15,178	33,947
Total accounts receivable and sundry assets	<u>\$ 897,123</u>	<u>\$ 747,467</u>

The receivable from Bonterra Resources Inc. relates to the sale of a property (Note 8) and consists of the following amounts;

- \$300,000 on or before December 2016 (received \$200,000 and subsequently \$100,000 in January 2017)
- \$350,000 on or before April 2017
- \$300,000 on or before October 2017

As at December 31, 2016, the Company anticipates full recovery of these amounts and therefore no provision has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 18.

Receivable with Bonterra Resources Inc. has been secured by the property sold to them. No other collateral is held against the other receivables as at December 31, 2016 and June 30, 2016.

7. MARKETABLE SECURITIES

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

	<u>31-Dec-16</u>	<u>30-Jun-16</u>
Bonterra Resources Inc. (Note 8)	\$ 580,000	\$ 3,500,000
Other	2,711	2,711
	<u>\$ 582,711</u>	<u>\$ 3,502,711</u>

As of December 31, 2016, these investments were measured at their fair value of \$582,711 (June 30, 2016 - \$3,502,711). During the quarter, the Company disposed of 8,000,000 common shares in the capital of Bonterra Resources Inc. at a price of \$0.25 per Bonterra Share, being the market price at the time of transaction for gross proceeds to the Company of CDN \$2,000,000. Kerr agreed to sell 4,000,000 shares to each of Braydon Capital Corporation, a company controlled and owned by Claudio Ciavarella who is a director of the Company and Trans Oceanic Minerals Company Ltd., a company controlled by Fahad Al Tamimi, the Company's Chairman of the board of directors. The impact to the consolidated financial statements of the revaluation to market value for the six month period ended December 31, 2016 resulted in an unrealized loss of \$120,000 (2015 – \$NIL) as the values of these securities decreased.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

8. MINERAL PROPERTIES

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

Mineral properties (statement of financial position):

	December 31, 2016	June 30, 2016
Copperstone Property	\$ 7,270,465	\$ 7,270,465
Total	\$ 7,270,465	\$ 7,270,465

**Exploration, evaluation and care and maintenance expenditures
(statement of operations and comprehensive loss):**

	2016	2015
Bear Lake Property	\$ 58,070	\$ 148
McGarry Property	591,644	48,149
Copperstone Property	588,927	846,305
Total	\$ 1,238,642	\$ 894,602

Copperstone

The Company is engaged in exploring and developing the Copperstone gold property ("Copperstone Project") in La Paz County, Arizona, United States. The Copperstone mine was in the commissioning stage up to October 11, 2013 when the mine was placed on care and maintenance.

The Company holds a 100% leasehold interest in the Copperstone Project. The landlord is The Patch Living Trust. The current lease expires June 12, 2025. 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\$30,000.

All required property payments were made with respect to the Copperstone Project as of December 31, 2016, and all claims are in good standing.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

8. MINERAL PROPERTIES, (continued)

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 or an advance royalty of \$21,573 payable quarterly (subject to cost of living adjustments as measured by the Consumer Price Index). The Company is in compliance with the Jubilee Agreement (Note 21).

The McGarry mineral property has been pledged as security for a loan payable (Note 12).

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.

In connection with the terms of the transaction, Kerr agreed, among other things, to the termination of its option agreement with Kerr Jex Corporation, but retained a 1% net smelter return royalty on the Kerr Addison claims.

Barber Larder Property

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

Bear Lake Property - Option and Joint Venture Agreement with Gold Fields

Gold Fields has the option to earn an interest of up to 60% on the Company's 100%-held Bear Lake, Cheminis and Fernland properties and on the 75%-held Swansea property (the "Projects") by sole funding \$40 million in exploration and development expenditures on the Projects. Gold Fields can earn an initial 51% interest by spending \$25 million on the Projects over a period of 36 months, including a firm commitment of \$5 million during the initial 12-month period. Gold Fields can earn an additional 9% interest by spending a further \$15 million over a period of 24 months following the initial 36-month term. If a development decision is made, the Company will have the option to finance its share of the development costs through a loan arranged by Gold Fields with it receiving an additional 5% interest. If the Company arranges its own financing, it will retain a 40% interest in the joint venture. As noted below, this property was disposed of during the year.

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

8. MINERAL PROPERTIES, (continued)

Property Disposition

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

1. 10,000,000 common shares in the capital of Bonterra (paid);
2. \$200,000 on TSX-V approval received April 26, 2016 (paid)
3. \$300,000 on or before December 26, 2016; (\$200,000 paid and subsequently \$100,000 was paid in January 2017)
4. \$350,000 on or before April 26, 2017; and
5. \$300,000 on or before October 26, 2017

The disposal of 8,000,000 shares of Bonterra as disclosed in Note 7.

9. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Mine and Mill Equipment	Motor Vehicles	Computer Equipment	Mill	Total
COST						
Balance as at July 1, 2015	\$ 2,587,374	\$ 2,763,886	\$ 2,662,586	\$ 113,088	\$ 5,254,241	\$ 13,381,175
Disposals	-	(959,336)	(25,000)	-	-	(984,336)
Foreign exchange	85,545	22,371	89,047	1,075	409,986	608,024
Balance as at June 30, 2016	\$ 2,672,919	\$ 1,826,921	\$ 2,726,633	\$ 114,163	\$ 5,664,227	\$ 13,004,863
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Foreign exchange	102,189	-	27,802	-	262,210	392,201
Balance as at December 31, 2016	\$ 2,775,108	\$ 1,826,921	\$ 2,754,435	\$ 114,163	\$ 5,926,437	\$ 13,397,064
ACCUMULATED DEPRECIATION						
Balance as at July 1, 2015	\$ 36,112	\$ 2,144,458	\$ 35,615	\$ 79,308	\$ -	\$ 2,295,493
Additions	13,405	184,050	17,035	23,962	-	238,452
Disposals	-	(536,408)	(16,667)	-	-	(553,075)
Balance as at June 30, 2016	\$ 49,517	\$ 1,792,100	\$ 35,983	\$ 103,270	\$ -	\$ 1,980,870
Additions	4,756	34,821	1,514	10,893	-	51,984
Disposals	-	-	-	-	-	-
Balance as at December 31, 2016	\$ 54,273	\$ 1,826,921	\$ 37,497	\$ 114,163	\$ -	\$ 2,032,854
CARRYING AMOUNTS						
Balance as at July 1, 2015	\$ 2,551,262	\$ 619,428	\$ 2,626,971	\$ 33,780	\$ 5,254,241	\$ 11,085,682
Balance as at June 30, 2016	\$ 2,623,402	\$ 34,821	\$ 2,690,650	\$ 10,893	\$ 5,664,227	\$ 11,023,993
Balance as at December 31, 2016	\$ 2,720,835	\$ -	\$ 2,716,938	\$ -	\$ 5,926,437	\$ 11,364,210

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

10. IMPAIRMENT

The Company assesses at the end of each reporting period whether there is any indication, from external and internal sources of information, that an asset or cash generating unit (“CGU”) and goodwill 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 and goodwill. 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 December 31, 2016 and June 30, 2016. As at June 30, 2015, the Company recorded a full impairment of goodwill. As at June 30, 2015, the recoverable amount of the Company’s Copperstone Mine (i.e. the U.S. CGU) was determined based on the after-tax discounted cash flows expected to be derived from this property’s fair-market value less estimated costs to sell. The after-tax discounted cash flows were determined based on life-of-mine cash flow projections which incorporate management’s best estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size, grade and recovery of the ore bodies. The fair value models are considered to be Level 3 within the fair value hierarchy. Key assumptions used in the fair value models used as at June 30, 2015 include a discount rate of 8% based on risk adjusted comparable discount rates for mining projects, estimated long-term gold price of US\$1,225 based on observable market data including spot price and industry analyst consensus, and a mine life of up to 5 years.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>31-Dec-16</u>	<u>30-Jun-16</u>
Trade payables	\$ 2,501,464	\$ 6,906,357
Accrued liabilities	1,440,890	3,705,319
Payroll liabilities	131,957	121,575
	<u>\$ 4,074,312</u>	<u>\$ 10,733,251</u>

12. CONVERTIBLE PROMISSORY NOTES PAYABLE

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

	<u>December 31, 2016</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 has 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, with six semi-annual payments of principal and interest of US\$410,914 (\$513,232) to commence on June 20, 2015. The first payment due June 20, 2015 was not made and is payable on demand and represents a default and therefore the entire convertible promissory note has been classified as current. 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, Trans Oceanic agreed to amend both the Kerr Debenture and the March 2016 Convertible Promissory Note (Note 16).

KERR MINES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

12. CONVERTIBLE PROMISSORY NOTES PAYABLE

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 December 31, 2016 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 quarter, 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 16).

13. LOAN PAYABLE

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

14. LOANS AND BORROWINGS

	December 31, 2016	June 30, 2016
The Company entered into a loan and security agreement on March 22, 2013 to fund the purchase of four pieces of heavy equipment. The loan bears interest at 16.9% per annum and is for a four-year term. Monthly blended payments of principal and interest are \$11,364, maturing in 2017. The loan is secured by the underlying asset. As the loan is in default the lender took possession of the equipment and is attempting to liquidate the equipment to cover the outstanding debt, with the Company liable for any difference between the proceeds on sale and the outstanding loan amount. As a result, the asset has been deemed to have been disposed and the liability reduced to the expected difference between the estimated liquidation value and the loan payable.	21,371	21,371
The Company entered into a non-interest bearing third party loan. There are no fixed terms of repayment and it is payable upon demand.	200,000	200,000
	221,371	221,371
Payable in the next 12 months	221,371	221,371
	\$ -	\$ -

15. LONG TERM PROMISSORY NOTE PAYABLE

	December 31, 2016	June 30, 2016
Loan principal	\$ 2,000,000	-
Interest accrued	68,822	-
Balance, end of the period	\$ 2,068,822	\$ -

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% and having a maturity date two (2) years from the date of issuance. Kerr has drawn against these facilities to meet its on-going working capital requirements, short term obligations and the payment of settlement amounts to various creditors. The note is secured by a general security agreement in the Copperstone Mine.

16. LONG TERM CONVERTIBLE PROMISSORY NOTES PAYABLE

	December 31, 2016	June 30, 2016
Kerr Debenture	\$ 2,758,671	\$ -
March 2016 Convertible Promissory Note	1,249,819	-
	\$ 4,008,490	\$ -

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 December 31, 2016, the derivative component in the promissory note is valued at \$92,881 (June 30, 2016 – Nil).

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17. LONG TERM LOAN PAYABLE

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

18. PROVISIONS - RECLAMATION AND REMEDIATION

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

A continuity for asset retirement obligations is as follows:

Asset Retirement Obligation	McGarry	Copperstone	Cheminis	Total
Balance, June 30, 2015	\$ 422,968	\$ 2,061,898	\$ 53,060	\$ 2,537,926
Accretion expense for the year	48,230	47,732	-	95,962
Foreign exchange	-	69,446	-	69,446
Balance, June 30, 2016	\$ 471,198	\$ 2,179,076	\$ 53,060	\$ 2,703,334
Accretion expense for the year	10,952	-	-	10,952
Foreign exchange	-	(11,025)	-	(11,025)
Balance, December 31, 2016	\$ 482,150	\$ 2,168,051	\$ 53,060	\$ 2,703,261

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 \$484,781 to which the Company has provided a letter of credit as disclosed in Note 21(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 21(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.

Cheminis:

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 \$406,500 to which the Company has provided a reclamation bond as disclosed in Note 5(c).
- Risk-free rate at 3.504%.
- Expected timing of cash outflows required to settle the obligation is for the full amount to be paid in 2022.
- Inflation over the period up to 2022 was estimated to be 2% per annum.

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Reclamation bond transfer obligation

The Company has a cash deposit of \$53,060 (including accumulated interest) with the Ministry of Northern Development and Mines of the province of Ontario ("MNDM") to cover a portion of the asset retirement obligations (AROs) related to the Cheminis property. As this property has been sold (Note 8) the Company has provided for a liability of \$53,060 as this deposit will be transferred to Bonterra as part of the sale of the property.

19. 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:

	<u>Number of Shares</u>		<u>Amount</u>
Balance, June 30, 2015	128,485,236	\$	123,081,747
Shares issued on exercise of warrants (a)	7,740		18,576
FMV assigned to warrants exercised	-		313
Fractional shares cancelled (b)	(22,025)		-
Balance, June 30, 2015	128,470,951	\$	123,100,636
Shares issued for debt settlements	35,497,914		3,932,248
Conversion of promissory note (Note 12)	27,000,000		1,350,000
Balance, December 31 and June 30, 2016	190,968,865	\$	128,382,884

Diluted weighted average number of shares outstanding

	<u>Period ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Basic weighted average shares outstanding	164,892,903	128,485,236
Diluted weighted average shares outstanding	164,892,903	128,485,236

- (a) On May 24, 2016 7,740 warrants were exercised at a price of \$2.40 per common share.
- (b) As a result of the July 2014 1:15 share consolidation, shareholders were not entitled to fractional shares upon consolidation. The issued and outstanding common shares were reduced by 22,025 for the elimination of these fractional shares.

20. 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 stock option will vest immediately on the date of the grant. 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.

There were no stock options outstanding as at December 31, 2016 and June 30, 2016.

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21. WARRANTS

The following table summarizes information about warrants outstanding as at December 31, 2016:

Exercise price	Expiry date	Warrants outstanding
\$0.30	3/4/2017	6,250,000
\$1.20	1/23/2017	2,333,334
		8,583,334

The changes in warrants outstanding for the period ended December 31, 2016 and 2015 are as follows:

	Number of warrants	Weighted average exercise price
Warrants outstanding – June 30, 2015	29,767,805	\$1.06
Warrants exercised (Note 15(a))	(7,740)	2.40
Expired	(6,356,730)	2.4
Warrants outstanding – June 30, 2016	23,403,335	\$0.70
Expired	(14,820,001)	0.60
Warrants outstanding – December 31, 2016	8,583,334	\$0.54

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and sundry assets, restricted investments, accounts payable and accrued liabilities, promissory note payable, loans and borrowings, loan payable, convertible promissory note, and net smelter return payable. As at December 31, 2016 and June 30, 2016, the carrying values of the cash and cash equivalents, accounts receivable and sundry assets, marketable securities, restricted investments, accounts payable and accrued liabilities, convertible promissory notes, loans payable, loans and borrowings approximate their fair values since they are expected to be settled in the short-term. The derivative in the convertible promissory note is marked-to-market at each period end and so the carrying amount also represents the fair value.

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

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

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

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

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

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22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS, (continued)

	Level 1	Level 2	Level 3
	\$	\$	\$
As at December 31, 2016			
Marketable securities	582,711	-	-
Restricted investments	1,601,990	-	-
Due from Bonterra Resources Inc.	-	750,000	-
Long term receivable	-	-	-
Loans and borrowings	-	2,290,193	-
Convertible promissory notes	-	4,008,490	-
Net smelter return payable	-	-	1,006,875

	Level 1	Level 2	Level 3
	\$	\$	\$
As at December 31, 2015			
Marketable securities	2,697	-	-
Restricted investments	1,591,906	-	-
Loans and borrowings	-	6,457,708	-
Convertible promissory note	-	2,335,375	-
Derivative in convertible promissory note	-	36,643	-
Net smelter return payable	-	-	901,813

Interest Rate and Credit Risk

The Company has cash and restricted investment balances. The Company currently invests in fixed rate Government of Canada Treasury Bills with maturity dates of approximately 90 days. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal risk.

The Company has a \$750,000 receivable from Bonterra Resources Inc. relating to the sale of a mineral property with amounts payable until October 2017. While Bonterra currently has more than sufficient resources to meet these payment obligations there is no certainty that such resources will be available for future amounts due. No provision against this receivable has been made at this time however an allowance will be made in the event circumstances change.

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 December 31, 2016, 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 December 31, 2016, the Company had cash and cash equivalents of \$634,336 (June 30, 2016 - \$412,662) to settle current financial liabilities of \$4,295,683 (June 30, 2016 - \$21,696,236). The Company is currently seeking additional financing. 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 Kerr might change and shareholders may suffer additional dilution.

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22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS, (continued)

The following table details the Company's contractual maturities for its financial liabilities as at December 31, 2016, due by year:

Payments due by year	Total	2017	Thereafter
Accounts payable and accrued liabilities	\$ 4,074,312	\$ 4,074,312	\$ -
Net smelter return payable	1,006,875	-	1,006,875
Other loans	221,371	221,371	-
	<u>\$ 5,302,558</u>	<u>\$ 4,295,683</u>	<u>\$ 1,006,875</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 both Canadian dollars and US dollars. Administrative expenditures and cash and cash equivalents balances are primarily transacted in Canadian dollars. The Company has exposure to foreign currency risk. The Company mitigates the risk of foreign currency fluctuations by converting US dollars to Canadian currency when required to fund expenditures.

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 December 31, 2016 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 (2015 - \$14,670) increase in the interest earned on the investment.
- (ii) The Company has marketable securities as at December 31, 2016 held primarily in Bonterra Resources Inc. a TSX-V listed mineral exploration company. A 20% increase in the market price would result in a \$11,600 increase in income through an unrealized gain on marketable securities.
- (iii) The Company has loans and borrowings as at December 31, 2016 with various fixed interest rates. Therefore, a percentage change in interest rates will not have a significant impact on the Company.

23. RELATED PARTY TRANSACTIONS

Key personnel:

	December 31, 2016	December 31, 2015
Key personnel salary and benefits expensed during the year	<u>\$ 224,123</u>	<u>\$ 167,560</u>
Key personnel amounts outstanding in accounts payable and accrued liabilities at year end.	<u>\$ 317,865</u>	<u>\$ 574,907</u>

Related vendors and consultants

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 of business at the exchange amount agreed to by the parties during the six month period ended December 31, 2016 were \$164,123 (2015 - \$142,564). The amounts owing to the firm as at December 31, 2016 was \$231,124 (June 30, 2015 - \$574,907).

The Company has entered into a series of financial transactions with related parties as detailed in Notes 11, 12, 13 and 29.

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

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24. NET GAIN ON SETTLEMENT OF DEBTS

During the six month period ended December 31, 2016, 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 \$3,699,525 (2015 - \$76,850), representing the discount from the face value of the debt.

25. 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;
 - (iii) an advance royalty payment of \$21,573 adjusted for cost of living factors payable quarterly. The current amount booked in during the six month period ended December 31, 2016 was \$52,959.

The carrying amount has been determined using the following facts and assumptions:

- a) the timing of payments is dependent on the commencement of commercial production, whereby any outstanding amounts must be paid in 18 equal monthly installments. The McGarry property is currently under care and maintenance, the timing for commercial production has not yet been defined as at December 31, 2016.
- b) any advance payments that are more than 4 years in arrears would still have to be paid but would not be deducted from the net smelter return.

Net smelter return payable

Balance at June 30, 2015	\$	849,312
Advance royalty payable		104,604
Balance at June 30, 2015		953,916
Advance royalty payable		52,959
Balance at December 31, 2016	\$	1,006,875

- c) The Company had a letter of credit outstanding as at December 31, 2016 in the amount of \$435,160 (June 30, 2016 - \$435,160) which is supported by the restricted investments (Note 5)
- d) 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 \$1,070,347 (US\$816,000) is held with the Bank of New York in the name of the Company in a short term cashable account.
- e) 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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)

26. SEGMENTED INFORMATION

As at December 31, 2016, 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 December 31, 2016	As at June 30, 2016
Total assets	\$	\$
Canada	4,106,259	7,079,663
United States	18,630,291	18,188,205
	22,736,550	25,267,868

	As at December 31, 2016	As at June 30, 2016
Non-current assets	\$	\$
Canada	1,898,376	1,175,230
United States	18,338,289	18,926,276
	20,236,665	20,101,506

	Six months ended December 31, 2016	Three months ended September 30, 2015
Net income (loss)	\$	\$
Canada	572,946	(805,164)
United States	(1,310,972)	(777,702)
	(738,026)	(1,582,866)

27 SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents comprise 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.

28 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 December 31, 2016 amount to \$9,007,196 (June 30, 2016 - \$21,610,618). The Company's capital structure is adjusted based on the funds available to the Company such that it may continue exploration and development of its properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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

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28 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 period ended December 31, 2016.

29. FINANCE CHARGES

Finance charges comprises of the following:

	Six months ended December 31,	
	2016	2015
Interest on long-term debt	\$ 106,035	\$ 116,327
Loan refinancing and restructuring charges	930,146	360,015
Interest, bank charges and other	16,102	7,655
	<u>\$ 1,052,282</u>	<u>\$ 483,997</u>