KERR MINES INC

# Kerr Mines Inc.

***CONSOLIDATED FINANCIAL STATEMENTS***

**YEARS ENDED JUNE 30, 2016 AND 2015**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of
**Kerr Mines Inc.**

We have audited the accompanying consolidated financial statements of Kerr Mines Inc., which comprise the consolidated statements of financial position as at June 30, 2016 and 2015 and the consolidated statements of operations and comprehensive income (loss), changes in equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

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

**Auditors' responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kerr Mines Inc. as at June 30, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has a history of operating losses and that, as at June 30, 2016, current liabilities exceed current assets by $16,529,873 and the Company has an accumulated deficit of $135,393,612. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
September 30, 2016

# KERR MINES INC.

***CONSOLIDATED STATEMENTS OF FINANCIAL POSITION***

***AS AT JUNE 30, 2016, AND 2015***

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **412,662** | 476,136 |
| Accounts receivable and sundry assets (Note 6) | **747,467** | 96,738 |
| Marketable securities (Note 7) | **3,502,711** | 2,767 |
| Inventories | **191,141** | 184,822 |
| Prepaid expenses | **312,381** | 353,907 |
| **Current assets** | **5,166,362** | 1,114,370 |
| **Non-current** | | |
| Restricted investments (Note 5) | **1,558,656** | 1,545,309 |
| Long term receivable (Note 8) | **248,392** | - |
| Property, plant and equipment (Note 9 and 10) | **11,023,993** | 11,085,682 |
| Mineral property (Note 8 and 10) | **7,270,465** | 7,270,465 |
| **Non-current assets** | **20,101,506** | 19,901,456 |
| **TOTAL ASSETS** | **25,267,868** | 21,015,826 |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (Note 11, 12, 19, 20 and 29) | **10,733,251** | 10,551,039 |
| Convertible promissory notes (Note 13, 29) | **5,631,850** | 2,675,150 |
| Derivative in convertible promissory note (Note 13 and 29) | **-** | 40,000 |
| Loan payable (Note 12 and 29) | **5,109,763** | 4,609,763 |
| Current portion of loans and borrowings (Note 25) | **221,371** | 1,646,609 |
| **Current liabilities** | **21,696,235** | 19,522,561 |
| **Non-current** | | |
| Net Smelter return payable (Note 21) | **953,916** | 849,312 |
| Provisions (Note 14) | **2,703,334** | 2,840,044 |
| Loans and borrowings (Note 25) | **-** | 436,815 |
| **Non-current liabilities** | **3,657,250** | 4,126,171 |
| **DEFICIENCY** | | |
| Capital stock (Note 15) | **123,100,636** | 123,081,747 |
| Contributed surplus | **7,018,421** | 6,865,101 |
| Warrant reserve (Note 17) | **3,513,367** | 3,667,000 |
| Currency translation reserve | **1,675,571** | 1,021,740 |
| Deficit | **(135,393,612)** | (137,268,494) |
| **Total deficiency** | **(85,617)** | (2,632,906) |
| **TOTAL LIABILITIES AND DEFICIENCY** | **25,267,868** | 21,015,826 |

Nature of operations and going concern uncertainty (Note 1)
Commitments and contingencies (Note 8 and 21)

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.

***CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)***

***YEARS ENDED JUNE 30, 2016 AND 2015***

| | | **2016** | | 2015 |
|---|---|---|---|---|
| OPERATING EXPENSES | | | | |
| Professional fees (Note 19) | **$** | **570,957** | $ | 536,761 |
| Consulting fees (Note 19) | | **139,442** | | 370,898 |
| Depreciation (Note 9) | | **238,452** | | 985,353 |
| Salaries and wages | | **-** | | 601,682 |
| General and administrative | | **550,310** | | 465,347 |
| Promotion and travel | | **7,520** | | 121,295 |
| Shareholder relations | | **126,290** | | 388,451 |
| Exploration, evaluation and care and maintenance expenditures (Note 8) | | **1,901,762** | | 2,733,060 |
| Impairment charge (Note 10) | | **-** | | 13,103,092 |
| | | **(3,534,733)** | | (19,305,939) |
| Gain on sale of property (Note 8) | | **5,213,120** | | - |
| Realized loss on marketable securities (Note 7) | | **-** | | (1,664,860) |
| Gain (loss) on disposal of other assets (Note 9) | | **222,432** | | (1,274,843) |
| Unrealized loss on marketable securities (Note 7) | | **(299,986)** | | (5,918) |
| Finance charges (Note 27) | | **(2,377,454)** | | (1,529,163) |
| Gain on settlement of debts (Note 20) | | **2,492,839** | | 359,233 |
| Gain on revaluation of derivative liability (Note 13) | | **40,000** | | 167,000 |
| Costs related to termination of merger (Note 24) | | **-** | | (1,705,537) |
| Interest and other income | | **138,357** | | 30,492 |
| Loss on foreign exchange | | **(19,693)** | | (355,933) |
| **NET INCOME (LOSS)** | | **1,874,882** | | (25,285,468) |
| **Other Comprehensive Income - items that may subsequently reclassify into income** | | | | |
| **Foreign exchange differences** | | **653,831** | | 1,021,740 |
| **COMPREHENSIVE INCOME (LOSS)** | | **2,528,713** | | (24,263,728) |
| Weighted average number of common shares outstanding (Note 15) | | **128,463,996** | | 112,425,831 |
| Diluted weighted average shares outstanding (Note 15) | | **128,463,996** | | 112,425,831 |
| BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE | **$** | **0.01** | $ | (0.22) |

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

# KERR MINES INC.

***CONSOLIDATED STATEMENTS OF CASH FLOWS***

***YEARS ENDED JUNE 30, 2016 AND 2015***

| | | **2016** | | 2015 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| NET INCOME (LOSS) FOR THE PERIOD | **$** | **1,874,882** | $ | (25,285,468) |
| ADD (DEDUCT) ITEMS NOT REQUIRING CASH | | | | |
| Depreciation (Note 9) | | **238,452** | | 985,353 |
| Impairment (Note 10) | | **-** | | 13,103,092 |
| Non-cash finance charges and accretion expense | | **656,072** | | 328,835 |
| Unrealized loss on marketable securities (Note 7) | | **299,986** | | 5,918 |
| Gain (loss) on disposal of assets (Note 8 and 9) | | **(5,013,120)** | | 1,274,843 |
| Realized loss on marketable securities (Note 7) | | **-** | | 1,664,860 |
| San Gold bad debt provision (Note 24) | | **-** | | 1,600,000 |
| Gain on settlement of debt (Note 20) | | **(2,492,839)** | | (359,233) |
| Gain on revaluation of derivative liability (Note 13) | | **(40,000)** | | (167,000) |
| Foreign exchange | | **136,761** | | (142,329) |
| CHANGES IN NON-CASH WORKING CAPITAL ITEMS | | | | |
| Accounts receivable and sundry assets | | **(729)** | | 172,436 |
| Prepaid expenses and other | | **41,526** | | (136,242) |
| Accounts payable and accrued liabilities | | **2,675,051** | | 844,858 |
| CASH FROM OPERATING ACTIVITIES | | **(1,623,958)** | | (6,110,077) |
| **INVESTING ACTIVITIES** | | | | |
| Proceeds from sale of marketable securities (Note 7) | | **-** | | 1,002,140 |
| Proceeds from sale of property, plant and equipment | | **635,193** | | 24,000 |
| Proceeds from redemption of restricted investments | | **-** | | 20,021 |
| Loan advance to San Gold (Note 24) | | **-** | | (1,600,000) |
| Purchase of property, plant and equipment | | **-** | | (16,218) |
| CASH FROM INVESTING ACTIVITIES | | **635,193** | | (570,057) |
| **FINANCING ACTIVITIES** | | | | |
| Proceeds from issue of capital stock, net of issue costs | | **18,576** | | 6,400,680 |
| Loans advanced | | **1,361,190** | | 1,103,945 |
| Loans repaid | | **(454,475)** | | (441,946) |
| CASH FROM FINANCING ACTIVITIES | | **925,291** | | 7,062,679 |
| | | | | |
| CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR | | **(63,474)** | | 382,545 |
| CASH AND CASH EQUIVALENTS, beginning of period | | **476,136** | | 93,591 |
| **CASH AND CASH EQUIVALENTS, end of period** | **$** | **412,662** | $ | 476,136 |

Supplementary cash flow information (Note 23)

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

# KERR MINES INC.

## *CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)*

## *YEARS ENDED JUNE 30, 2016 AND 2015*

| | Capital Stock | Contributed Surplus | Options | Warrants | Currency Translation | Deficit | TOTAL |
|---|---|---|---|---|---|---|---|
| **Balance, June 30, 2015** | **$ 123,081,747** | **$ 6,865,101** | **$ -** | **$ 3,667,000** | **$ 1,021,740** | **$ (137,268,494)** | **$ (2,632,906)** |
| Net income for the year | - | - | - | - | - | 1,874,882 | **1,874,882** |
| Other comprehensive income | | | | | 653,831 | | **653,831** |
| Comprehensive income | | | | | | | **2,528,713** |
| Shares issued net of cost | 18,889 | 153,320 | - | (153,633) | - | - | **18,576** |
| **Balance, June 30, 2016** | **$ 123,100,636** | **$ 7,018,421** | **$ -** | **$ 3,513,367** | **$ 1,675,571** | **$ (135,393,612)** | **$ (85,617)** |
| | | | | | | | |
| **Balance, June 30, 2014** | **$ 114,307,359** | **$ 4,613,399** | **$ 126,811** | **$ 4,731,891** | **$ -** | **$ (111,983,026)** | **$ 11,796,434** |
| Net loss for the year | - | - | - | - | - | (25,285,468) | **(25,285,468)** |
| Other comprehensive income | - | - | - | - | 1,021,740 | - | **1,021,740** |
| Comprehensive loss | | | | | | | **(24,263,728)** |
| Shares issued net of costs | 9,217,680 | - | - | - | - | - | **9,217,680** |
| Shares issued for debt settlement | 616,708 | - | - | - | - | - | **616,708** |
| Warrants issued | (1,002,000) | - | - | 1,002,000 | - | - | **-** |
| Broker warrants issued | (58,000) | - | - | 58,000 | - | - | **-** |
| Warrants forfeited/expired | - | 2,124,891 | - | (2,124,891) | - | - | **-** |
| Stock options forfeited/expired | - | 126,811 | (126,811) | - | - | - | **-** |
| **Balance, June 30, 2015** | **$ 123,081,747** | **$ 6,865,101** | **$ -** | **$ 3,667,000** | **$ 1,021,740** | **$ (137,268,494)** | **$ (2,632,906)** |

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

## 1. NATURE OF OPERATONS 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 June 30, 2016, the Company had an excess of current liabilities over current assets of $16,529,873 (June 30, 2015 – $18,408,191), had not yet achieved profitable operations, has a deficit of $135,393,612 (June 30, 2015 - $137,268,494), 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. Refer to Note 18 and 29 for more details.

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.

## 2. BASIS OF PRESENTATION

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

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

These consolidated financial statements were authorized by the Board of Directors of the Company on September 30, 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) New standards and interpretations adopted

The Company has adopted the following new standard that became effective January 1, 2015, and there was no material impact on the Company's consolidated financial statements.

IAS 24 Related Party Disclosures ("IAS 24") - IAS 24 was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity.

### (d) Standards issued but not yet effective

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

IFRS 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, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted. The Company has not yet determined the impact of the amendments on the Company's financial statements

## 2. BASIS OF PRESENTATION, (continued)

IFRS 16 – Leases – The standard was issued by the IASB on January 13, 2016, and will replace IAS 17, “Leases”. IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The Company is assessing the impact of this standard.

Amendments to IFRS 11 Joint Arrangements - The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company is in the process of assessing the impact of these amendments on its consolidated financial statements.

## 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.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)***

*(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.

**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.

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

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.

## 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.

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

### (c) Mineral properties

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

### (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.

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

**(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.

***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.

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

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.

**(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.

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

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.

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.

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

### (l) Impairment of financial assets

***Assets carried at amortized cost***

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

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

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

***Available-for-sale***

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

### (m) Impairment of non-financial assets

At each date of the consolidated statements of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss or when annual impairment testing for an asset is required. If any such indication exists, the 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.

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

### (n) Inventories

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

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

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

### (o) Provisions

***Reclamation and remediation***

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

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

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.

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

### (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.

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 | | June 30, 2016 | | June 30, 2015 |
|---|---|---|---|---|---|
| **Restricted investments:** | | | | | |
| GIC bearing interest of 0.75% (June 30, 2015 - 1.30%), matures on July 13, 2016 (June 30, 2015 – July 14, 2015) | (a) | **$** | **451,569** | $ | 447,864 |
| Short-term cashable account | (b) | | **1,054,027** | | 1,019,184 |
| | | **$** | **1,505,596** | $ | 1,467,048 |
| **Reclamation bonds:** | | | | | |
| US Bureau of Land Management | (b) | | **-** | | 25,201 |
| Ministry of Northern Development and Mines | (c) | | **53,060** | | 53,060 |
| | | **$** | **53,060** | $ | 78,261 |
| **Total:** | | **$** | **1,558,656** | $ | 1,545,309 |

(a) Letters of credit are secured by the GIC investment as disclosed in Note 21 and relate to the reclamation obligation on the McGarry property.

(b) Pursuant to the term of the surety bond disclosed in Note 21, the Company provided cash collateral of $1,054,027 or US$816,000 (June 30, 2015 - $1,019,184 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. As at June 30, 2016 no cash collateral (June 30, 2015 - $25,201) is held by the US Bureau of Land Management relating to the Copperstone project reclamation bond.

(c) 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.

## 6. ACCOUNTS RECEIVABLE AND SUNDRY ASSETS

| | | June 30, 2016 | | June 30, 2015 |
|---|---|---|---|---|
| Bonterra Resources Inc. (Note 8) | $ | 650,000 | $ | - |
| HST receivable | | 63,519 | | 20,748 |
| Hydro deposit | | - | | 60,990 |
| Other receivables | | 33,948 | | 15,000 |
| Total accounts receivable and sundry assets | $ | 747,467 | $ | 96,738 |

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

$300,000 on or before December 2016
$350,000 on or before April 2017
$300,000 on or before October 2017 (non-current)

As at June 30, 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 June 30, 2016 and 2015.

## 7. MARKETABLE SECURITIES

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

| | | 30-Jun-16 | | 30-Jun-15 |
|---|---|---|---|---|
| Bonterra Resources Inc. (Note 8) | $ | **3,500,000** | $ | - |
| Other | | **2,711** | | 2,767 |
| | **$** | **3,502,711** | $ | 2,767 |

As of June 30, 2016, these investments were measured at their fair value of $3,502,711 (June 30, 2015 - $2,767). The impact to the consolidated financial statements of the revaluation to market value for the year ended June 30, 2016 resulted in an unrealized loss of $299,986 (2015 – $5,918) as the values of these securities decreased. During the year ended June 30, 2016 the Company received consideration of 10,000,000 common shares in Bonterra Resources Inc. relating to the sale of certain northern Ontario assets as described in Note 8, measured at their market value of $3,500,000 as at June 30, 2016. During the year ended June 30, 2015, the Company sold 6,666,667 shares in Pinetree Capital Ltd. it had acquired through the private placement described in note 15(a), for proceeds of $1,002,140, which resulted in a realized loss of $1,664,860.

## 8. MINERAL PROPERTIES

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

| **Mineral properties (statement of financial position):** | | **June 30, 2016** | | June 30, 2015 |
|---|---|---|---|---|
| Copperstone Property | **$** | **7,270,465** | $ | 9,701,569 |
| Impairment | | - | | (2,431,104) |
| Total | **$** | **7,270,465** | **$** | **7,270,465** |

| **Exploration, evaluation and care and maintenance expenditures (statement of operations and comprehensive loss):** | | **Year ended June 30, 2016** | | **Year ended June 30, 2015** |
|---|---|---|---|---|
| Bear Lake Property | **$** | **57,033** | $ | 6,451 |
| McGarry Property | | **362,708** | | 840,745 |
| Copperstone Property | | **1,482,021** | | 1,885,864 |
| Total | **$** | **1,901,762** | $ | 2,733,060 |

### 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. The Company pays a minimum advance royalty per year of US$30,000 to The Patch Living Trust.

All required property payments were made with respect to the Copperstone Project as of June 30, 2016, and all claims are in good standing.

**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 ha 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.

## 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 Virginaitown (the **"Bonterra Transaction")** for the purchase price of:

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

The Company received $200,000 in cash and the 10,000,000 Bonterra Shares and has recorded the remaining amounts as a current receivable of $650,000 and a long term receivable of $248,392 using a discount rate of 15%. In the event Bonterra completes an equity financing for gross proceeds of not less than $4,000,000 the third and fourth payments become immediately due and payable on the tenth day following the closing of the financing and the fifth payment becomes due and payable on May 5, 2017. As security for the receivable, the property is held as collateral until the final payment is made.

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

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

## 9. PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings | Mine and Mill Equipment | Motor Vehicles | Computer Equipment | Mill | Total |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| Balance as at July 1, 2014 | $ 2,215,754 | $ 2,698,748 | $ 2,318,775 | $ 104,405 | $ 9,240,737 | $ 16,578,419 |
| Additions | 3,829 | - | 12,389 | - | - | 16,218 |
| Disposals | - | - | (50,000) | - | (1,881,102) | (1,931,102) |
| Impairment | | | | | (3,368,013) | (3,368,013) |
| Foreign exchange | 367,791 | 65,138 | 381,422 | 8,683 | 1,262,619 | 2,085,653 |
| Balance as at June 30, 2015 | $ 2,587,374 | $ 2,763,886 | $ 2,662,586 | $ 113,088 | $ 5,254,241 | $ 13,381,175 |
| Additions | - | - | - | - | - | - |
| Disposals | - | (959,336) | (25,000) | - | - | (984,336) |
| Foreign exchange | 85,545 | 22,372 | 89,047 | 1,075 | 409,986 | 608,025 |
| Balance as at June 30, 2016 | $ 2,672,919 | $ 1,826,921 | $ 2,726,633 | $ 114,163 | $ 5,664,227 | $ 13,004,864 |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| Balance as at July 1, 2014 | $ 26,756 | $ 1,234,470 | $ 28,333 | $ 29,954 | $ - | $ 1,319,513 |
| Additions | 9,356 | 909,988 | 16,655 | 49,354 | - | 985,353 |
| Disposals | - | - | (9,373) | - | - | (9,373) |
| Balance as at June 30, 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 |
| **CARRYING AMOUNTS** | | | | | | |
| Balance as at July 1, 2014 | $ 2,188,998 | $ 1,464,278 | $ 2,290,442 | $ 74,451 | $ 9,240,737 | $ 15,258,906 |
| Balance as at June 30, 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** | **$ 10,894** | **$ 5,664,227** | **$ 11,023,993** |

Certain property plant and equipment of the Company were disposed of during the year ended June 30, 2016. The difference between the carrying amount of the specific asset and the proceeds received was recorded as a gain or loss. The Company recorded a net gain of $222,432for the year ended June 30, 2016 compared to a net gain of $1,274,843 in the previous year.

## 10. IMPAIRMENT

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Mineral properties | - | 2,431,104 |
| Property plant and equipment | - | 3,368,013 |
| Goodwill | - | 7,303,975 |
| | - | 13,103,092 |

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 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

## 10. IMPAIRMENT, (continued)

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

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Trade payables | $ 6,906,357 | $ 7,825,494 |
| Accrued liabilities | 3,705,319 | 2,708,493 |
| Payroll liabilities | 121,575 | 17,052 |
| | $ 10,733,251 | $ 10,551,039 |

## 12. LOAN PAYABLE

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Loan principal | $ 5,109,763 | $ 4,609,763 |
| Interest accrued (i) | 1,298,546 | 691,465 |
| Balance, end of the period | $ 6,408,309 | $ 5,301,228 |

This loan was a promissory note with no fixed terms of repayment and an interest rate of 12% payable to Braydon Capital Corporation, a company controlled by Claudio Ciavarella, a Director, a shareholder and creditor of Kerr. The promissory note in the amount of $4,609,763 was amended in January 2014 to a maturity date of November 20, 2020. Additionally, an existing $500,000 promissory note payable to Braydon Capital Corporation previously recorded in loans and borrowings was added to this facility. Under the terms of the amended agreement, interest payments are accrued and are payable on a quarterly basis. As of June 30, 2015, the lender extended the June 30, 2014, September 30, 2014, December 31, 2014, March 31, 2015 and June 30, 2015 interest payments to June 30, 2015. As of June 30, 2016, these interest payments have not yet been made and are due on demand which is considered a default and therefore the loan payable has been classified as current. The McGarry mineral property has been pledged as security for the loan payable (Note 8). Subsequent to the year end this loan was restructured as described in Note 29.

**(i)** Accrued interest of $1,298,546 (June 30, 2015 - $691,465) has been included in accounts payable and accrued liabilities.

## 13. CONVERTIBLE PROMISSORY NOTES

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

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Kerr Debenture | $ 2,836,475 | $ 2,675,150 |
| December 2015 Convertible Promissory Note | 1,472,648 | - |
| March 2016 Convertible Promissory Note | 1,322,726 | - |
| | **$ 5,631,850** | **$ 2,675,150** |

### 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

## 13. CONVERTIBLE PROMISSORY NOTES, (continued)

first payment due June 20, 2015 was not made and is payable on demand and represents a default and therefore **x** 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 represents 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. As at June 30, 2016, $182,587 of interest has been accrued and included in the amount owing and finance charges. Subsequent to the year end, the maturity date of the Kerr Debenture was amended to three years from the date of issuance as described in Note 29 b).

Kerr will have the option to pre-pay the Kerr Debenture in part or in whole at any time eighteen (18) months after the issuance date of June 27, 2014 on thirty (30) days' notice. The Kerr Debenture is secured by a general security interest in the property of Bonanza Explorations Inc. and all the outstanding share capital of the Company's wholly-owned subsidiary Bonanza Exploration Inc. The principal amount of the Kerr Debenture is convertible into common shares of Kerr at the holder's option at a price of $0.90 per share. As at June 30, 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. The decrease in value of the derivative in convertible promissory note resulted in a gain of $40,000 (2015 - $167,000) for the year ended June 30, 2016. As at June 30, 2015, the derivative in convertible promissory note was valued at $40,000. The assumptions used in valuing the embedded derivative at June 30, 2015 included an expected volatility of 115%, a risk free interest rate of 0.49% and an expected life of 2.5 years. The decrease in value of the derivative in convertible promissory note resulted in a gain of $167,000 for the year ended June 30, 2015.

### 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. Subsequent to the year end the full amount of the note was converted into common shares as described in Note 29 a). No value was ascribed to the conversion feature as the note is repayable on demand.

### 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 bears interest at 15% compounded monthly and is 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 is 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. Subsequent to the year end the maturity date of the March 2016 Convertible Promissory Note was amended to March 9, 2019 and the rate amended to 8% as described in Note 29.

## 14. 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, 2014 | $ | 408,180 | $ | 1,721,427 | $ | 343,000 | $ | 2,472,607 |
| Accretion expense for the year | | 14,788 | | 42,619 | | 12,178 | | 69,585 |
| Foreign exchange | | - | | 297,852 | | - | | 297,852 |
| Balance, June 30, 2015 | $ | 422,968 | $ | 2,061,898 | $ | 355,178 | $ | 2,840,044 |
| Accretion expense for the year | | 48,230 | | 47,732 | | 12,610 | | 108,572 |
| Disposition on sale of property (Note 8) | | | | | | (367,788) | | (367,788) |
| Foreign exchange | | - | | 69,446 | | - | | 69,446 |
| **Balance, June 30, 2016** | **$** | **471,198** | **$** | **2,179,076** | **$** | **-** | **$** | **2,650,274** |
| **Reclamation bond transfer obligation** | | | | | | **53,060** | | **53,060** |
| **Total Provisions** | **$** | **471,198** | **$** | **2,179,076** | **$** | **53,060** | **$** | **2,703,334** |

### McGarry:

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

a) 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).
b) Risk-free rate at 0.57%.
c) Expected timing of cash outflows required to settle the obligation is for the full amount to be paid in 2021.
d) 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:

a) 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).
b) Risk-free rate at 1.01%.
c) Expected timing of cash outflows required to settle the obligation is for the full amount to be paid in 2021.
d) 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:

a) 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).
b) Risk-free rate at 3.504%.
c) Expected timing of cash outflows required to settle the obligation is for the full amount to be paid in 2022.
d) Inflation over the period up to 2022 was estimated to be 2% per annum.

### Reclamation bond transfer obligation

The Company has a cash deposit of $53,060 (including accumulated interest) with the Ministry of Northern Development and Mines of the province of Ontario (“MNDM”) to cover a portion of the asset retirement obligations (AROs) related to the Cheminis property. As this property 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.

## 15. CAPITAL STOCK

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

| | Number of Shares | | Amount |
|---|---|---|---|
| Balance, June 30, 2014 | 88,238,330 | $ | 114,307,359 |
| Shares issued in financing (a) | 6,666,667 | | 2,667,000 |
| Shares issued in financing (a) | 333,333 | | 150,000 |
| Shares issued in financing (b) | 14,573,334 | | 4,372,000 |
| Debt conversion to equity (c) | 1,260,710 | | 100,857 |
| Debt conversion to equity (d) | 4,912,862 | | 515,851 |
| Shares issued in financing (e) | 12,500,000 | | 2,500,000 |
| Share issue costs | - | | (471,320) |
| Stock proceeds allocated to warrants (b), (e) | - | | (1,002,000) |
| Stock proceeds allocated to broker warrants (a) | - | | (58,000) |
| Balance, June 30, 2015 | **128,485,236** | **$** | **123,081,747** |
| Shares issued on exercise of warrants (f) | 7,740 | | 18,576 |
| FMV assigned to warrants exercised | - | | 313 |
| Fractional shares cancelled (g) | (22,025) | | - |
| Balance, June 30, 2016 | **128,470,951** | **$** | **123,100,636** |

**Diluted weighted average number of shares outstanding**

| | Year ended June 30, | |
|---|---|---|
| | **2016** | 2015 |
| Basic weighted average shares outstanding | **128,463,996** | 112,425,831 |

(a) On July 31, 2014, the Company closed a $3,000,000 offering. Pursuant to the terms of a share purchase agreement dated July 28, 2014 between the Company, Pinetree Resource Partnership ("Pinetree Partnership") and Pinetree Capital Inc. ("Pinetree"), Kerr issued 6,666,667 common shares to the Pinetree Partnership in exchange for 6,666,667 common shares of Pinetree at a price for accounting purposes of $0.40 per share resulting in a value of $2,667,000. Kerr paid finder's fees consisting of a cash commission equal to 5% of the gross proceeds of the offering paid through the issuance of 333,333 Kerr common shares and issued broker warrants to acquire up to 333,333 Kerr common shares at a price of $0.60 per Kerr common share until July 31, 2016.

The fair value of the 333,333 share purchase warrants was estimated at $58,000 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 1.10%; volatility 86% and an expected life of 24 months.

(b) On October 1, 2014, the Company closed a non-brokered private placement. The Company issued 14,573,334 units of the Company at a price of $0.30 per unit for gross proceeds of $4,372,000. Each unit was comprised of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to acquire a common share at a price of $0.39 per share for a period of two years from the date of issuance.

The fair value of the 7,286,668 share purchase warrants was estimated at $627,000 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 1.13%; volatility 86% and an expected life of 24 months.

## 15. CAPITAL STOCK, (continued)

(c) On December 10, 2014, the Company entered into a conversion agreement whereby $551,991 of accounts payable were extinguished by the issuance of 1,260,710 common shares. The common shares were valued at $100,857 based on the stock market price on the date of settlement. As a result, the Company recorded a gain on settlement of debt of $451,134 for the year ended June 30, 2015.

(d) On January 27, 2015, the Company entered into conversion agreements whereby $353,900 of accounts payable were extinguished by the issuance of 4,912,862 common shares and cash payments of $10,000. The common shares were valued at $515,851 based on the stock market price on the date of settlement. As a result, the Company recorded a loss on settlement of debt of $171,951 for the year ended June 30, 2015.

(e) On March 4, 2015, the Company closed the first tranche of a non-brokered private placement. The Company issued 12,500,000 units of the Company at a price of $0.20 per unit for gross proceeds of $2,500,000. Each unit was comprised of one common share and one half of a common share purchase warrant. Each warrant entitles the holder to acquire a common share at a price of $0.30 per share for a period of two years from the date of issuance. The fair value of the 6,250,000 share purchase warrants was estimated at $375,000 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 0.61%; volatility 116% and an expected life of 24 months.

(f) On May 24, 2016 7,740 warrants were exercised at a price of $2.40 per common share.

(g) 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.

## 16. 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.

The changes in stock options issued during the year ended June 30, 2016 and 2015 are as follows:

| | **30-Jun-16** | | 30-Jun-15 | |
|---|---|---|---|---|
| | **Options** | **Weighted Average Exercise price** | **Options** | **Weighted Average Exercise price** |
| Outstanding at beginning of year | - | $ - | 799,734 | $ 4.46 |
| Forfeited/Expired | - | - | (799,734) | 4.46 |
| Outstanding at end of year | - | $ - | - | $ - |
| Exercisable at end of year | - | $ - | - | $ - |

## 17. WARRANTS

The following table summarizes information about warrants outstanding as at June 30, 2016:

| Exercise price | Expiry date | Warrants outstanding |
|---|---|---|
| $0.30 | 3/4/2017 | 6,250,000 |
| $1.20 | 12/31/2016 | 2,000,000 |
| $1.20 | 12/30/2016 | 5,200,000 |
| $0.39 | 10/01/2016 | 7,286,668 |
| $0.60 | 7/31/2016 | 333,333 |
| $1.20 | 1/23/2017 | 2,333,334 |
| | | 23,403,335 |

The changes in warrants outstanding for the year ended June 30, 2016 and 2015 are as follows:

| ` | Number of warrants | Weighted average exercise price |
|---|---|---|
| Warrants outstanding – June 30, 2014 | 18,297,672 | $2.19 |
| Issued (Note 15 (a), (b) and (e)) | 13,870,001 | 0.35 |
| Expired | (2,399,868) | 5.54 |
| Warrants outstanding – June 30, 2015 | **29,767,805** | **$1.06** |
| Warrants exercised (Note 15(f)) | (7,740) | 2.40 |
| Expired | (6,356,730) | 2.40 |
| | **23,403,335** | **$0.70** |

## 18. 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 June 30, 2016 and 2015, 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.

<u>Fair Value Measurements of Financial Assets and Liabilities Recognized and Disclosed in the Consolidated Statements of Financial Position</u>

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.

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

`

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **As at June 30, 2016** | **$** | **$** | **$** |
| Marketable securities | **3,502,711** | **-** | **-** |
| Restricted investments | **1,558,656** | **-** | **-** |
| Due from Bonterra Resources Inc. | | **650,000** | |
| Long term receivable | | **248,392** | |
| Loans and borrowings | **-** | **5,331,134** | **-** |
| Convertible promissory note | **-** | **5,631,850** | **-** |
| Net smelter return payable | **-** | | **953,916** |

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **As at June 30, 2015** | **$** | **$** | **$** |
| Marketable securities | 2,767 | - | - |
| Restricted investments | 1,545,309 | - | - |
| Loans and borrowings | - | 6,693,187 | - |
| Convertible promissory note | - | 2,675,150 | - |
| Derivative in convertible promissory note | - | 40,000 | - |
| Net smelter return payable | - | | 849,312 |

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 $950,000 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 June 30, 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 June 30, 2016, the Company had cash and cash equivalents of $412,662 (June 30, 2015 - $476,136) to settle current financial liabilities of $21,696,236 (June 30, 2015 - $19,522,561). 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. Subsequent to the year end the Company completed a number of financial restructuring transactions as detailed in Note 29.

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

The following table details the Company's contractual maturities for its financial liabilities as at June 30, 2016, due by year:

| Payments due by year | Total | 2017 | Thereafter |
|---|---|---|---|
| Accounts payable and accrued liabilities | $ 10,733,251 | $ 10,733,251 | $ - |
| Net smelter return payable | 953,916 | - | 953,916 |
| Convertible promissory note payable | 5,631,850 | 5,631,850 | - |
| Loans payable | 5,109,763 | 5,109,763 | - |
| Other loans | 221,371 | 221,371 | - |
| | $ 22,650,151 | $ 21,696,235 | $ 953,916 |

Currency Risk

The Company's exploration activities are conducted in Ontario, Canada and Nevada, 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 June 30, 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 $15,500 (2015 - $14,670) increase in the interest earned on the investment.

(ii) The Company has marketable securities as at June 30, 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 $4,200,000 increase in income through an unrealized gain on marketable securities.

(iii) The Company has loans and borrowings as at June 30, 2016 with various fixed interest rates. Therefore, a percentage change in interest rates will not have a significant impact on the Company.

## 19. RELATED PARTY TRANSACTIONS

**Key personnel:**

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Key personnel salary and benefits expensed during the year | **$ 397,478** | $ 914,538 |

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Key personnel amounts outstanding in accounts payable and accrued liabilities at year end. | **$ 811,916** | 1,054,486 |

## 19. RELATED PARTY TRANSACTIONS, (continued)

**Related vendors and consultants**

A director and an ex officer are partners in legal firms that provided legal services to the Company and another officer and ex officer supply services to the Company. The amounts paid or accrued to these firms relating to services provided in the normal course of business at the exchange amount agreed to by the parties during the year ended June 30, 2016 were $189,338 (2015 - $211,694). The amounts owing to these firms as at June 30, 2016 was $450,254 (June 30, 2015 - $167,362). A related party also invoiced the Company for office rental in the amount of $208,140 (2015 - $129,570).

Included in accounts payable and accrued liabilities is $541,226 due to a company controlled by a former director and shareholder.

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

## 20. GAIN ON SETTLEMENT OF DEBTS

During the year ended June 30, 2016, the Company entered into debt settlements and deferral agreements with various creditors and debt holders that resulted in a gain on debt settlements of $2,492,839 (2015 - $359,233), representing the discount from face value that the creditor accepted. The debt settled during the year ended June 30, 2016 totaled $3,102,676. Subsequent to the year end the Company completed additional settlements as detailed in Note 29.

## 21. 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 the fourth quarter of 2016 is $26,336;

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 June 30, 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, 2014 | $ | 746,021 |
| Advance royalty payable | | 103,291 |
| Balance at June 30, 2015 | | 849,312 |
| Advance royalty payable | | 104,604 |
| Balance at June 30, 2016 | $ | 953,916 |

c) The Company had a letter of credit outstanding as at June 30, 2016 in the amount of $435,160 (June 30, 2015 - $435,160) which is supported by the restricted investments (Note 5)

## 21. COMMITMENTS AND CONTINGENCIES, (continued)

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 $1,054,027 (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.

## 22. SEGMENTED INFORMATION

As at June 30, 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 June 30, 2016** | As at June 30, 2015 |
|---|---|---|
| **Total assets** | **$** | $ |
| Canada | **7,079,663** | 3,259,399 |
| United States | **18,188,205** | 17,756,427 |
| | **25,267,868** | 21,015,826 |

| | **As at June 30, 2016** | As at June 30, 2015 |
|---|---|---|
| **Non-current assets** | **$** | $ |
| Canada | **1,175,230** | 2,533,402 |
| United States | **18,926,276** | 17,368,054 |
| | **20,101,506** | 19,901,456 |

| | **Year ended June 30, 2016** | Year ended June 30, 2015 |
|---|---|---|
| **Net income (loss)** | **$** | $ |
| Canada | **2,130,602** | (11,105,333) |
| United States | **(255,720)** | (14,180,135) |
| | **1,874,882** | (25,285,468) |

## 23 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.

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

**Year ended June 30, 2016:**

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

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

**Year ended June 30, 2015:**

A provision for bad debt was recorded in the amount of $1,600,000 in relation to a loan provided to San Gold Corporation (Note 24).

Debt in the amount of $551,991 was extinguished by the issue of 1,260,710 common shares valued at $0.08 per share (Note 15(c)).

Debt in the amount of $353,900 was extinguished by the issue of 4,912,862 common shares valued at $0.10 per share (Note 15(d)).

## 24. TERMINATION OF MERGER

During fiscal 2015 the Company and San Gold Corporation (“San Gold”) agreed to mutually terminate the previously announced arrangement agreement which contemplated the combination of the business and assets of Kerr with those of San Gold. As a result, $1,705,537 of related costs have been expensed in the year ended June 30, 2015. These amounts include a bad debt provision for $1,600,000 for a loan provided on October 3, 2015 by Kerr to San Gold because San Gold became bankrupt on June 22, 2015.

## 25. LOANS AND BORROWINGS

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| The Kirkland & District Community Development Corporation ("KDCDC") advanced $150,000 in July 2012 and an additional $350,000 in August 2012 for a term of 36 months. Interest only payments began on May 15, 2013 for eleven (11) months after which there will be eighteen (18) monthly payments of principal and interest in the amount of $29,348, commencing April 15, 2014. Interest is calculated at 7.0% per annum. The loan is secured by a general security agreement. As per an Intercreditor Agreement dated July 26, 2013, this loan's security ranks second to the loan payable in Note 11. This loan has been paid in full in fiscal 2016. | $ - | $ 87,023 |
| The Northern Ontario Heritage Fund Corporation ("NOHFC") advanced $219,806 on June 13, 2012 and an additional $49,498 on April 24, 2013. Interest at 2.75% is payable on the loan portion until the first day of the month following the earlier of the month in which the commitment termination date (extended to September 30, 2015 occurs and the month in which the loan is fully drawn down. There is still an amount of $273,196 to be advanced under this agreement. One half of the amount (up to $271,250) shall be conditional assistance and the other half will be a non-revolving term loan. The loan shall be repaid in blended monthly payments of $4,844 for 60 months commencing October 1, 2015. It is secured by a general security agreement. The conditional assistance portion is repayable in the event of a default by the Company. As per an Intercreditor Agreement dated July 26, 2013, this loan's security ranks third behind the loan payable in Note 11 and the KDCDC loan as described above. The balance owing represents a grant that may be repayable in the future. The loan has been paid and the grant contribution recognized during the year. | - | 269,304 |
| The Company entered into a finance lease on March 21, 2013 to purchase a piece of equipment. The lease bears interest at 13.3% per annum and is for a four year term. Monthly blended payments of principal and interest are $883, maturing in 2017. The Company has a bargain purchase option on the equipment. The finance lease is secured by the underlying asset. The lease was paid in full during the year. | - | 19,187 |
| 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 | 253,965 |
| 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 |
| The Company entered into a third party loan for principal amount of $900,000 plus a restructuring fee of $300,000 and interest of $150,000 on the note it replaced for a total amount due of $1,350,000. The loan is repayable on demand and bears interest at 15%. Upon shareholder and regulatory approval the note is convertible to common shares at $0.02 per share at the option of the holder. This loan has been converted to a convertible promissory note (Note 13). | - | 750,000 |
| The Company entered into interest bearing third party loans for principal amount of $500,000. The loans carry an interest rate of 10% and are repayable on demand. This loan has been added to a pre-existing loan (Note 12). | - | 503,945 |
| | 221,371 | 2,083,424 |
| Payable in the next 12 months | 221,371 | 1,646,609 |
| | $ - | $ 436,815 |

## 26 CAPITAL MANAGEMENT

The Company has loans payable, accounts payable and accrued liabilities and equity, and consequently defines capital as all of the components of debt and equity which as at June 30, 2016 amount to $21,610,618 (June 30, 2015 - $17,326,470). 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

## 26 CAPITAL MANAGEMENT, (continued)

that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company’s approach to capital management during the year ended June 30, 2016.

## 27. FINANCE CHARGES

Finance charges comprises of the following:

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Interest on long-term debt | $ 468,397 | $ 147,494 |
| Interest on loans | 553,172 | 546,267 |
| Loan refinancing charges | 422,403 | 150,000 |
| Interest, bank charges and other | 394,231 | 356,567 |
| Interest on convertible debt | 443,145 | 259,250 |
| Accretion on provisions | 96,106 | 69,585 |
| | $ 2,377,454 | $ 1,529,163 |

## 28. TAXES

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rates for the year ended June 30, 2016 and 2015 is as follows:

| | **2016** | 2015 |
|---|---|---|
| | **$** | $ |
| Income (Loss) before income taxes | **1,874,882** | (25,285,468) |
| Combined Statutory rate | **25.00%** | 25.00% |
| Estimated recovery of income taxes | **469,000** | (6,321,000) |
| | | |
| Non-deductible expenditures | **130** | 410,000 |
| Share issue costs | **(133,000)** | (158,000) |
| Tax credits | **(1,303,280)** | - |
| Impairment of Goodwill | **-** | 1,826,000 |
| Foreign exchange differential | **143,000** | 289,000 |
| Deferred tax asset not recognized | **824,150** | 3,954,000 |
| Deferred income tax expense (recovery) | **-** | - |

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

The primary differences which give rise to the deferred income tax assets (liability) as at June 30, 2016 and 2015 are as follows:

| | **2016** | 2015 |
|---|---|---|
| | **$** | $ |
| ***Deferred income tax assets (liability)*** | | |
| Non-capital loss carryforwards | **21,338,000** | 20,406,000 |
| Pre-production investment tax credit | **2,723,000** | 2,625,000 |
| Other timing differences | **(4,209,000)** | (4,138,000) |
| Resource expenditures | **38,354,000** | 38,256,000 |
| Net capital losses | **(281,000)** | (281,000) |
| | **57,925,000** | 56,868,000 |
| Deferred tax assets not recognized | **(57,925,000)** | (56,868,000) |
| Deferred income tax assets (liabilities) | **-** | - |

As at June 30, 2016, the unamortized balance, for income tax purposes, of the share issuance fees amounts to approximately $511,000 (2015 - $1,044,000) and will be deductible over the next four years.

As at June 30, 2016, the Company has $130,023,000 (2015 - $129,654,000) of unused CEE, CDE and FED expenses available to offset future taxable income. The tax benefits pertaining to these expenses are available to carry forward indefinitely. In addition, the Company has resource pools of $66,300,000 in the United States as at June 30, 2016, which can be utilized to be deducted against future resource profits.

As at June 30, 2016, the Company has $2,413,000 (2015 - $2,413,000) of certain Investment Tax Credits that can be used to offset future taxes payable.

The Company also has Canadian loss carry-forwards of approximately $57,135,000 (2015 - $54,424,000) and US tax loss carry forwards of approximately $18,028,000 (2015 - $17,010,000) as at June 30, 2016. The non-capital losses can be used to offset future taxable income and expire between 2017 and 2036.

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

## 29. SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2016 the Company reached settlement agreements with trade creditors and certain debt holders representing $7.9 million of current liabilities outstanding. The Company has issued a total of 5,997,914 million common shares for certain debt settlement agreements at prices between $0.157 and $0.216 per common share.

On September 23, 2016 the Company reached debt-restructuring agreements with Trans Oceanic Minerals Company Ltd ("Trans Oceanic"), a company controlled by Fahad Al Tamimi, Kerr's Chairman of the Board, a shareholder and creditor of Kerr, and the Company has reached debt-restructuring agreements with Braydon Capital Corporation ("Braydon"), a company controlled by Claudio Ciavarella, a director, shareholder and creditor of Kerr. The following summarizes the agreements reached between the parties;

- Trans Oceanic has elected to convert the entire $1,350,000 of principal outstanding pursuant the December 2015 Convertible Promissory Note (Note 13) into 27,000,000 common shares in the capital of the Company;
- Trans Oceanic has agreed to amend both the Kerr Debenture (Note 13) and the March 2016 Convertible Promissory Note (Note 13) to have a maturity date of three (3) years from the date of issuance of these amended notes and a revised interest rate of 8%. As at June 30, 2016, the Kerr Debenture had a balance of $2,836,475 and the March 2016 note had a balance of $1,322,726;
- 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;
- Braydon has agreed to waive interest owing pursuant to the Loan Payable (Note 12) outstanding as of June 30, 2016 totalling $1,753,292;
- Braydon agreed to convert $1,500,000 of principal outstanding under the Loan Payable (Note 12) into 18,500,000 common shares;
- Braydon agreed to amend its residual debt of $3,609,763 under the Loan Payable (Note 12) to have a maturity date of August 22, 2019 of the amended Loan Payable and a revised interest rate of 8%;

Subsequent to the year end 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 (the "Long Term Notes"). Kerr has drawn the full C$2,000,000 against these facilities to date to meet its on-going working capital requirements, short term obligations and the payment of settlement amounts to various creditors.

Following these transactions, the Company has 190,968,865 issued and outstanding common shares.