Condensed Consolidated Interim Financial Statements

June 30, 2016

(Unaudited)

(Stated in Canadian Dollars)

PREMIER

Gold Mines Limited

## NOTICE TO SHAREHOLDERS

## FOR THE THREE AND SIX MONTHS ENDED June 30, 2016

## PREMIER GOLD MINES LIMITED

### MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited condensed consolidated interim financial statements of Premier Gold Mines Limited were prepared by management in accordance with International Financial Reporting Standards ("IFRS"). Only changes in accounting policies have been disclosed in these unaudited condensed consolidated interim financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited condensed consolidated interim financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Corporation's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited condensed consolidated interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed consolidated interim financial statements and (ii) the unaudited condensed consolidated interim financial statements fairly present in all material respects the financial position, results of operations and cash flows of the Corporation, as of the date of and for the periods presented by the unaudited condensed consolidated interim financial statements.

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

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

PREMIER
Gold Mines Limited

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Stated in Canadian Dollars)
(Unaudited)

| | Note | **June 30, 2016 $** | December 31, 2015 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | *5* | **46,858,971** | 73,056,817 |
| Accounts receivable | | **893,742** | 1,167,199 |
| Prepaid and deposits | | **2,124,251** | 861,546 |
| Other assets | *6* | **5,697,473** | 5,932,812 |
| **Total current assets** | | **55,574,437** | 81,018,374 |
| **Non-current assets** | | | |
| Restricted cash and cash equivalents | *7* | **4,131,418** | 4,244,632 |
| Property, plant and equipment | *8* | **254,798,880** | 227,919,564 |
| **Total non-current assets** | | **258,930,298** | 232,164,196 |
| **Total assets** | | **314,504,735** | 313,182,570 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | **5,675,308** | 5,859,702 |
| Current portion of long term debt | *9* | **7,813,705** | 8,237,115 |
| Deferred premium on flow-through shares | | **333,425** | 876,689 |
| **Total current liabilities** | | **13,822,438** | 14,973,506 |
| **Non-current liabilities** | | | |
| Deferred taxes | | **7,661,549** | 7,661,549 |
| Long term debt | *9* | **8,630,475** | 112,500 |
| Provision for environmental rehabilitation | *10* | **10,106,780** | 10,119,557 |
| **Total non-current liabilities** | | **26,398,804** | 17,893,606 |
| **Total liabilities** | | **40,221,242** | 32,867,112 |
| | | | |
| **EQUITY** | | | |
| Share capital | *11* | **501,820,393** | 477,146,257 |
| Reserves | *11* | **47,768,730** | 55,786,311 |
| Deficit | | **(275,305,630)** | (252,617,110) |
| **Total equity** | | **274,283,493** | 280,315,458 |
| **Total liabilities and equity** | | **314,504,735** | 313,182,570 |

*Commitments [note 18]*
*Contingencies [note 21]*
*Subsequent events [note 22]*

See accompanying notes to the condensed consolidated interim financial statements
Approved by the Board of Directors and authorized for issue on August 10, 2016

*"John Seaman"*
*Director*

*"Ewan Downie"*
*Director*

PREMIER
Gold Mines Limited

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME / (LOSS) AND COMPREHENSIVE INCOME / (LOSS)

(Stated in Canadian Dollars)
(Unaudited)

| | Note | **Three months ended June 30, 2016** | Three months ended June 30, 2015 | **Six months ended June 30, 2016** | Six months ended June 30, 2015 (restated - Note 2(e)) |
|---|---|---|---|---|---|
| | | **$** | $ | **$** | $ |
| **EXPENSES** | | | | | |
| Depreciation on property, plant and equipment | *8* | **205,156** | 26,499 | **267,143** | 56,317 |
| Share-based payments | | **624,336** | 145,760 | **3,498,815** | 238,805 |
| General and administrative | *14* | **2,596,965** | 1,170,422 | **5,242,416** | 2,335,039 |
| Exploration, evaluation, and pre-development | *15* | **9,809,112** | 6,440,896 | **14,611,358** | 11,205,638 |
| Property maintenance | | **281,578** | 195,918 | **528,660** | 384,361 |
| Long term debt accretion | *9* | **49,661** | 145,167 | **177,810** | 291,721 |
| Environmental rehabilitation accretion | *10* | **50,480** | 14,028 | **103,238** | 39,398 |
| **Loss before the following** | | **(13,617,288)** | (8,138,690) | **(24,429,440)** | (14,551,279) |
| Investment and other income | | **48,239** | 194,174 | **163,610** | 304,909 |
| Loss on derivatives | *6* | **(160,312)** | - | **(160,312)** | - |
| Unrealized net gain on investments | *6* | **2,214,710** | 649,312 | **5,947,616** | 705,972 |
| Unrealized foreign exchange gain / (loss) | | **345,586** | 191,778 | **(818,759)** | 168,352 |
| Realized foreign exchange gain / (loss) | | **(197,705)** | 1,430,863 | **(249,895)** | 1,430,863 |
| Net loss on sale of investments | *6* | **(2,886,965)** | (1,047,564) | **(8,178,264)** | (1,047,564) |
| Gain on disposal of equipment | *8* | **17,198** | - | **17,198** | - |
| Gain on divestment of mineral property interests | *8* | **-** | 2,848,261 | **-** | 34,900,539 |
| Gain attributable to Greenstone Gold development commitment | *8* | **5,464,586** | 4,020,786 | **7,449,601** | 5,873,265 |
| **Other income** | | **4,845,337** | 8,287,610 | **4,170,795** | 42,336,336 |
| **Income / (loss) before income taxes** | | **(8,771,951)** | 148,920 | **(20,258,645)** | 27,785,057 |
| Current tax expense | | **-** | (1,032,091) | **-** | (1,032,091) |
| Deferred tax recovery / (expense) | | **(662,149)** | (93,383) | **(2,429,875)** | 2,621,203 |
| **Income / (loss) for the period** | | **(9,434,100)** | (976,554) | **(22,688,520)** | 29,374,169 |
| **Other comprehensive income / (loss)** | | | | | |
| Exchange difference on translation of foreign operations | | **(1,079,555)** | (424,335) | **(12,552,465)** | 4,261,773 |
| Deferred tax expense / (recovery) | | **920,416** | 411,494 | **2,973,139** | (2,213,932) |
| **Total comprehensive income / (loss) for the period** | | **(9,593,239)** | (989,395) | **(32,267,846)** | 31,422,010 |
| **Basic and diluted income / (loss) per share** | *12* | **(0.06)** | (0.01) | **(0.13)** | **0.18** |

*See accompanying notes to the condensed consolidated interim financial statements*

PREMIER Gold Mines Limited

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Stated in Canadian Dollars)
(Unaudited)

| | | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 (restated - Note 2(e)) |
| | Note | **$** | $ | **$** | $ |
| **OPERATING ACTIVITIES** | | | | | |
| Income / (loss) for the period | | **(9,434,100)** | (976,554) | **(22,688,520)** | 29,374,169 |
| **Items not affecting cash** | | | | | |
| Depreciation on property, plant and equipment | *8* | **205,156** | 26,499 | **267,143** | 56,317 |
| Greenstone Gold non-cash operating expenses | *8* | **5,464,586** | 4,020,786 | **7,449,601** | 5,873,265 |
| Environmental rehabilitation accretion | *10* | **50,480** | 14,028 | **103,238** | 39,398 |
| Long term debt accretion | *9* | **49,661** | 145,167 | **177,810** | 291,721 |
| Share-based payments | | **624,336** | 145,760 | **3,498,815** | 238,805 |
| Loss on derivatives | *6* | **160,312** | - | **160,312** | - |
| Unrealized net gain on investments | *6* | **(2,214,710)** | (649,312) | **(5,947,616)** | (705,972) |
| Unrealized foreign exchange gain / (loss) | | **(345,586)** | (191,778) | **818,759** | (168,352) |
| Net loss on sale of investments | | **2,886,965** | 1,047,564 | **8,178,264** | 1,047,564 |
| Deferred tax expense / (recovery) | | **662,149** | 93,383 | **2,429,875** | (2,621,203) |
| Gain on disposal of equipment | *8* | **(17,198)** | - | **(17,198)** | - |
| Gain on divestment of mineral property interests | *8* | **-** | (2,848,261) | **-** | (34,900,539) |
| Gain attributable to Greenstone Gold development commitment | *8* | **(5,464,586)** | (4,020,786) | **(7,449,601)** | (5,873,265) |
| **Change in non-cash working capital balances related to operations** | | | | | |
| Accounts receivable | | **(56,275)** | 1,106,022 | **273,457** | (936,763) |
| Prepaids and deposits | | **(63,486)** | (479,461) | **(1,262,705)** | 112,310 |
| Accounts payable | | **(3,091,797)** | 751,554 | **(557,663)** | 855,633 |
| Taxes payable | | **-** | 1,032,091 | **-** | 1,032,091 |
| Cash used in operating activities | | **(10,584,093)** | (783,298) | **(14,566,029)** | (6,284,821) |
| **INVESTMENT ACTIVITIES** | | | | | |
| Proceeds from the sale of investments | | **2,263,334** | 27,989 | **4,430,549** | 27,989 |
| Purchase of derivative investments | | **-** | - | **(2,440,601)** | - |
| Acquisition and development of property, plant and equipment | *8* | **(19,648,594)** | (37,942,852) | **(39,443,298)** | (37,972,534) |
| Deposit on mine development expenditures | *8* | **-** | (13,729,828) | **-** | (13,729,828) |
| Purchase of investments | | **(1,282,500)** | - | **(1,282,500)** | - |
| Proceeds from divestment of 50% interest in Greenstone Gold assets | *8* | **-** | - | **-** | 85,000,000 |
| Transaction costs on divestment | *8* | **-** | (74,432) | **-** | (3,080,088) |
| Reclamation expenditures charged to asset retirement obligation | | **89,965** | - | **(103,502)** | - |
| Cash provided by / (used in) investment activities | | **(18,577,795)** | (51,719,123) | **(38,839,352)** | 30,245,539 |

Supplemental cash flow information [Note 13]
*See accompanying notes to the consolidated financial statements*

(Incorporated under the laws of Ontario)

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Stated in Canadian Dollars)
(Unaudited)

| | Note | **Three months ended June 30, 2016** | Three months ended June 30, 2015 | **Six months ended June 30, 2016** | Six months ended June 30, 2015 *(restated- Note 2(e))* |
|---|---|---|---|---|---|
| | | **$** | $ | **$** | $ |
| **FINANCING ACTIVITIES** | | | | | |
| Net proceeds from the issue of long term debt | | **5,539,971** | - | **5,539,971** | - |
| Proceeds from the exercise of stock options | | **2,117,372** | - | **3,670,888** | 17,900 |
| Share issue costs | | **(553,822)** | (482,500) | **(553,822)** | (482,500) |
| Shares issued in private placements | *11* | **19,620,000** | 27,130,677 | **19,620,000** | 27,130,677 |
| Cash provided by financing activities | | **26,723,521** | 26,648,177 | **28,277,037** | 26,666,077 |
| Increase / (decrease) in cash during period | | **(2,438,367)** | (25,854,244) | **(25,128,344)** | 50,626,795 |
| Cash and cash equivalents, beginning of the period | | **48,749,508** | 108,500,758 | **73,056,817** | 32,141,013 |
| Effect of exchange rate changes on cash held | | **547,830** | 461,033 | **(1,069,502)** | 339,739 |
| Cash and cash equivalents, for the period | | **46,858,971** | 83,107,547 | **46,858,971** | 83,107,547 |

*Supplemental cash flow information [Note 13]*
*See accompanying notes to the condensed consolidated interim financial statements*

PREMIER
Gold Mines Limited

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Stated in Canadian Dollars)

| | | Share Capital | | Reserves | | | | |
|---|---|---|---|---|---|---|---|---|
| Issued and outstanding: | Note | Number of shares | Share capital | Equity settled employee benefits | Contributed surplus | Foreign currency translation | Deficit | Total equity |
| **Balance as at January 1, 2015** | | 159,137,353 | 439,946,165 | 29,288,654 | 8,290,696 | 2,081,639 | (277,406,709) | 202,200,445 |
| Private placements | *11* | 11,544,969 | 27,130,677 | - | - | - | - | 27,130,677 |
| Exercise of stock options | *11* | 10,000 | 27,550 | (9,650) | - | - | - | 17,900 |
| Share issue costs | - | - | (482,500) | - | - | - | - | (482,500) |
| Share-based payments | - | - | - | 238,805 | - | - | - | 238,805 |
| Comprehensive income for the period (restated - Note 2(e)) | - | - | - | - | - | 2,047,841 | 29,374,169 | 31,422,010 |
| **Balance as at June 30, 2015 (restated - Note 2(e))** | | 170,692,322 | 466,621,892 | 29,517,809 | 8,290,696 | 4,129,480 | (248,032,540) | 260,527,337 |
| Private placements | *11* | 2,689,560 | 7,799,724 | - | - | - | - | 7,799,724 |
| Exercise of stock options | *11* | 400,000 | 1,341,983 | (470,083) | - | - | - | 871,900 |
| Shares issued for mineral property | *11* | 1,001,721 | 2,500,000 | - | - | - | - | 2,500,000 |
| Restricted share units issued | *11* | 84,308 | 210,770 | - | - | - | - | 210,770 |
| Share-based payments | - | - | - | 3,267,700 | - | - | - | 3,267,700 |
| Share issue costs | - | - | (359,870) | - | - | - | - | (359,870) |
| Deferred flow-through premium | - | - | (968,242) | - | - | - | - | (968,242) |
| Comprehensive income / (loss) for the period | - | - | - | - | - | 11,050,709 | (4,584,570) | 6,466,139 |
| **Balance as at December 31, 2015** | | 174,867,911 | 477,146,257 | 32,315,426 | 8,290,696 | 15,180,189 | (252,617,110) | 280,315,458 |
| Private placement | *11* | 6,393,443 | 19,620,000 | - | - | - | - | 19,620,000 |
| Exercise of stock options | *11* | 1,576,250 | 5,607,958 | (1,937,070) | - | - | - | 3,670,888 |
| Share issue costs | - | - | (553,822) | - | - | - | - | (553,822) |
| Share-based payments | - | - | - | 3,498,815 | - | - | - | 3,498,815 |
| Comprehensive loss for the period | | - | - | - | - | (9,579,326) | (22,688,520) | (32,267,846) |
| **Balance as at June 30, 2016** | | **182,837,604** | **501,820,393** | **33,877,171** | **8,290,696** | **5,600,863** | **(275,305,630)** | **274,283,493** |

See accompanying notes to the condensed consolidated interim financial statements

PREMIER
Gold Mines Limited

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Stated in Canadian Dollars)
(Unaudited)

**1. NATURE OF BUSINESS**

Premier Gold Mines Limited (the "Corporation") is a Canadian based company publicly listed on the Toronto Stock Exchange and is focused on exploring and developing gold deposits in Canada and the United States of America. The Corporation's principal assets in Canada include a 50% interest in the Greenstone Gold property located along the Trans-Canada highway, a 44% interest in Rahill-Bonanza and a 100% interest in the Hasaga properties in the Red Lake mining district within Northwestern Ontario. The Corporation's principal assets in the United States of America include a 40% interest in the South Arturo and a 100% interest in the McCoy-Cove properties located in Nevada.

Premier Gold Mines Limited's head office is located at Suite 200, 1100 Russell Street, Thunder Bay, Ontario, P7B 5N2.

**2. SIGNIFICANT ACCOUNT POLICIES**

**(a) Basis of presentation**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the IASB have been condensed or omitted and these unaudited condensed consolidated interim financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2015.

Certain items within the statements of income and the statements of changes in equity have been reclassified in the current year. The prior periods have been restated to reflect the change in presentation.

The accounting policies applied in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those applied and disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2015, with the exception of certain amendments to accounting standards issued by the IASB, which were effective January 1, 2016. The amendments to accounting standards issued by the IASB did not have a significant impact on the Corporation's unaudited condensed consolidated interim financial statements as discussed in note 3.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Corporation's assets and liabilities are accounted for prospectively. The critical judgements and estimates applied in the preparation of the Corporation's unaudited condensed consolidated interim financial statements are consistent with those applied and disclosed in note 2 of the Corporation's audited consolidated financial statements for the year ended December 31, 2015 and discussed below.

The unaudited condensed consolidated interim financial statements of the Corporation for the period June 30, 2016 were approved and authorized by the Board of Directors on August 10, 2016.

(Stated in Canadian Dollars)

**(b) Basis of consolidation**

The Corporation's unaudited condensed consolidated interim financial statements consolidate those of the parent Corporation and all of its subsidiary undertakings drawn up to June 30, 2016. Subsidiaries are all entities over which the Corporation has the power to control the financial and operating policies. The Corporation obtains and exercises control through more than half of the voting rights. All subsidiaries have a year end of December 31. The Corporation's subsidiaries are:

| Subsidiary | Percentage of ownership | Jurisdiction | Principal activity |
|---|---|---|---|
| Premier Gold Mines USA Inc. | 100% | United States | Mineral exploration |
| Premier Gold Mines Nevada Inc. | 100% | United States | Mineral exploration |
| Au-reka Gold Corporation | 100% | United States | Mineral exploration |
| Goldcorp Dee LLC | 100% | United States | Development |
| Goldstone Resources Inc. | 100% | Canada | Mineral exploration |
| Premier Gold Mines Hardrock Inc. | 100% | Canada | Pre-development |
| Premier Gold Mines NWO Inc. | 100% | Canada | Mineral exploration |
| Cherbourg Gold Inc. | 85.7% | Canada | Mineral exploration |
| Barraute Gold Inc. | 100% | Canada | Mineral exploration |
| Oro Premier de Mexico S.A. de C.V. | 100% | Mexico | Mineral exploration |

All transactions and balances between the Corporation and its subsidiaries are eliminated on consolidation, including unrealized gains and losses on transactions between the companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Corporation.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

On June 2, 2015, the Corporation acquired 100% of the limited liability company membership interest in Goldcorp Dee LLC, a Nevada limited liability company ("Dee LLC"), which holds a 40% interest in respect of the South Arturo Project between Barrick Gold Exploration Inc., an indirect wholly owned subsidiary of Barrick Gold Corporation, and Dee LLC.

On March 9, 2015, Centerra Gold Inc. ("Centerra") and the Corporation announced the formation of a 50/50 partnership (TCP GP Corporation and TCP Limited Partnership) for the purpose of the joint ownership, exploration and development of the Trans-Canada Property including the Hardrock Gold Project located in the Geraldton-Beardmore Greenstone belt in Ontario, Canada. On July 20, 2015, the Board of the general managing partner (TCP GP Corporation) approved a name change of the corporation and the partnership (TCP Limited Partnership) to Greenstone Gold Mines GP Inc. and Greenstone Gold Mines LP respectively, collectively to be referred to as Greenstone Gold Mines ("Greenstone Gold").

On February 1, 2015, Premier Gold Mines Brookbank Inc. was amalgamated with and is continued as Premier Gold Mines Hardrock Inc.

**(c) Financial liabilities**

<u>Financial instruments – debt</u>

Debt is recognized initially at fair value, net of financing costs incurred, and subsequently measured at amortized cost. Any difference between the initial fair value less financing costs and the redemption value of the debt is recognized in the consolidated statements of income over the period to maturity using the effective interest method.

Financial instruments – derivative financial liabilities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and are subsequently remeasured at their fair value at the end of each reporting period. Any changes in fair value are recognized in the consolidated statements of income during each reporting period.

**(d) Significant accounting judgements and estimates**

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities, disclosure of commitments and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience, current and expected economic conditions. Actual results could differ from these estimates.

The significant judgements and estimates used in the preparation of these condensed consolidated interim financial statements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities and earnings within the next financial year include:

Impairment and reversal of impairment for non-current assets

Non-current assets are tested for impairment at the end of each reporting period if in management's judgement there is an indicator of impairment. If there are indicators, management performs an impairment test on the major assets within this balance.

In the case of mineral property assets, recoverability is dependent on a number of factors common to the natural resource sector. These include the extent to which the Corporation can continue to renew its exploration and future development licenses with local or other authorities, establish economically recoverable reserves on its properties, the availability of the Corporation to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof. The Corporation will use the evaluation work of professional geologists, geophysicists and engineers for estimates in determining whether to commence or continue mining and processing. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether or not the deposit contains economically recoverable mineralisation.

Asset retirement obligations

Management assesses the asset retirement obligations on an annual basis or when new information becomes available. This assessment includes the estimation of the future rehabilitation costs required based on the existing laws and regulations in each jurisdiction the Corporation operates in, the timing of these expenditures, and the impact of changes in the discount rate. The actual future expenditures may differ from the amounts currently provided if the estimates made are significantly different than actual results or if there are significant changes in environmental and / or regulatory requirements in the future.

Valuation of derivative financial liabilities

The fair value of derivative financial liabilities that are not traded in an active market, including the offtake agreement entered into during the period, is determined using valuation techniques. The Corporation uses its judgment to select a variety of methods and make assumptions that are based on market conditions existing at the end of each reporting period as an indication of the expected future market conditions. The Corporation has used a discounted cash flow analysis for the offtake agreement, incorporating key assumptions for the production to be delivered under the offtake agreement, expected metal prices and discount to metal prices during the quotational period, and discount rates that are commensurate with the risks associated with the financial liability to reflect the time value of money.

(Stated in Canadian Dollars)

**(e) Restatement**

The gain on divestment of mineral property interest, initially recognized in the quarter ended March 31, 2015, was revised in the fourth quarter of 2015, and the quarterly comparative results have been restated to reflect this. For the six months ended June 30, 2015, the gain on divestment of mineral property interest, income / (loss) for the period, and total comprehensive income/(loss) for the period decreased by $7,725,096, the deficit as at June 30, 2015 decreased by $7,725,096 and earnings per share as at June 30, 2015 decreased by $0.05.

## 3. RECENT ACCOUNTING PRONOUNCEMENTS

**Accounting standards issued and effective January 1, 2016**

The following standards were applied for the period beginning January 1, 2016 and had no effect on the financial statements:

- amendment to IFRS 11, Joint Arrangements which requires an acquirer of a joint operation in which the activity constitutes a business to apply all of the business combinations accounting principles and disclosures in IFRS 3 and IFRSs, except for those principles that conflict with the guidance in IFRS 11, to be applied prospectively
- amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets prohibiting entities from using a revenue-based depreciation method for items of property, plant and equipment as well as intangible assets except in limited circumstances, to be applied prospectively
- amendment to IAS 27, Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- amendments to IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture

## 4. FINANCING ARRANGEMENT

On June 2, 2016, the Corporation entered into a financing arrangement with Orion Mine Finance ("Orion") comprised of a credit facility for $30,000,000USD, an offtake agreement, a private placement of common shares for $15,000,000USD and the issue of warrants. The corporation received credit facility proceeds of $5,000,000USD, before an arrangement fee of $450,000USD as well as other related fees, and common share proceeds of $15,000,000USD.

The Corporation recorded the following on closing:

| | June 2, 2016<br>$ |
|---|---|
| **Current assets** | |
| Loan commitment under credit facility ($2,201,900USD) (note 6 (iii)) | 2,876,784 |
| | |
| **Long term liabilities** | |
| Senior unsecured term facility (note 9 (iii)) | |
| Principal drawn ($5,000,000USD) | 6,545,000 |
| Adjustment to carrying amount | (575,356) |
| Total | 5,969,644 |
| | |
| Offtake obligation ($1,874,745USD) (note 9 (iii)) | 2,452,166 |
| | |
| **Equity** | |
| Common shares and warrants ($15,000,000USD) (note 11) | 19,620,000 |

Transaction costs associated with the loan facility and common shares have been treated as part of the associated financing.

(Stated in Canadian Dollars)

Payment of the Corporation's obligation under the credit facility is guaranteed by each of its subsidiaries. The agreement contains convenants that limit, among other things, the ability of the Corporation to incur additional indebtedness, make distributions in certain circumstances and sell material assets.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and in banks including money market savings accounts and short term deposits that have a one year maturity but that are cashable after 30 days or less into a known amount of cash.

| | **June 30, 2016 $** | December 31, 2015 $ |
|---|---|---|
| Cash | **37,728,489** | 30,741,147 |
| Short-term money market investments | **9,130,482** | 42,315,670 |
| | **46,858,971** | 73,056,817 |

## 6. OTHER ASSETS

| | **June 30, 2016 $** | December 31, 2015 $ |
|---|---|---|
| Canadian equity investments (i) | **2,479,887** | 3,582,182 |
| Derivative investments (ii) | **340,802** | 2,350,630 |
| Loan commitment under credit facility (iii) | **2,876,784** | - |
| | **5,697,473** | 5,932,812 |

(i) The Corporation's investments consist of common shares and warrants held in Canadian publicly traded corporations. Fair values of shares are determined at the closing price on June 30, 2016 unless the shares have a hold period in which case the initial fair market value difference from the cost is deferred until the hold period has expired. In the event of a hold period, the value of the shares are determined using the Black Scholes option pricing model taking the restriction into account. Warrants are also valued using the Black Scholes option pricing model taking any restriction into account and are revalued at each reporting period until exercise or expiry.

(ii) During the period end June 30, 2016, the Corporation hedged a total of 45,000 ounces of gold sales with derivatives expiring between August 1, 2016 and January 04, 2017. The derivative instruments entered into were in the form of puts with a floor price of $1,200USD per ounce of gold. These puts have an unrealized loss of $1,936,538 and $2,121,779 for the three and six months ended June 30, 2016 that is included in unrealized net gain on investments in the statements of income / (loss) and comprehensive income / (loss).

At December 31, 2015 the Corporation had hedged a total of 30,000 ounces of gold sales with derivatives expiring between July 1, 2016 and December 31, 2016. The derivative instruments entered into were in the form of puts with the floor price ranging from $1,000USD to $1,100USD per ounce of gold. These puts were settled for a loss of $2,154,623 for the period ended June 30, 2016 that is included in net loss on sale of investments in the statements of income / (loss) and comprehensive income / (loss).

These derivative instruments have not been designated as accounting hedges by the Corporation and are therefore marked to their market values at each reporting date.

(iii) As a result of the credit facility entered into on June 2, 2016, the fees associated with the arrangement and an offtake obligation (as discussed in Note 4) have been presented as reduction of the carrying amount of the drawn portion of the credit facility and an asset representing the initial fair value of the undrawn loan commitment. As the balance of the credit facility is drawn, the loan commitment will be reclassified as a reduction of the resulting loan and amortized over the life of the associated liability on an effective interest rate basis.

(Stated in Canadian Dollars)

**7. RESTRICTED CASH AND CASH EQUIVALENTS**

| Property | **June 30, 2016** **$** | December 31, 2015 $ |
|---|---|---|
| Hardrock, Ontario (i) | **316,544** | 316,544 |
| Northern Empire Mill, Ontario (ii) | **2,230,488** | 2,230,488 |
| McCoy-Cove, Nevada (iii) | **1,584,386** | 1,697,600 |
| | **4,131,418** | 4,244,632 |

(i) The Corporation has a $633,089 standby letter of credit outstanding in favour of the Ontario Ministry of Northern Development and Mines ("MNDM") relating to potential reclamation obligations of the Greenstone Gold property in Ontario. Security, in the form of a guaranteed investment certificate, for the standby letter of credit is held with the Royal Bank of Canada. As a result of the 50% divestment of the interest in the Greenstone Gold properties only $316,544 is recorded on the books of the Corporation. Upon discharge of all reclamation related obligations 100% of the funds held as security will be returned to the Corporation.

(ii) The Corporation has a total of $2,230,488 in restricted cash and cash equivalents relating to reclamation obligations associated with the Northern Empire Mill in Ontario including:

- a $150,000 standby letter of credit with the Toronto Dominion Bank in the name of the Corporations' wholly owned subsidiary, Goldstone Resources Inc., and payable in favour of the MNDM
- a $1,678,494 standby letter of credit with the Royal Bank of Canada and payable in favour of the MNDM
- $401,994 in financial assurance held directly by the MNDM

(iii) The Corporation's wholly owned subsidiary, Au-reka Gold Corporation has a total of $1,226,584USD ($1,584,386CAD) in restricted cash related to reclamation obligations associated with the McCoy-Cove property in Nevada including:

- $976,584USD ($1,261,459CAD) held in trust with the United States Department of the Interior, Bureau of Land Management
- $250,000USD ($322,927CAD) held in trust with Lexon Surety Group as security for the surety bond described in Note 18.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Stated in Canadian Dollars)
(Unaudited)

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Building and equipment | Mill and mining equipment | Mineral properties | Total |
|---|---|---|---|---|
| **Costs** | $ | $ | $ | $ |
| Balance, January 1, 2015 | 1,214,046 | 4,762,947 | 185,425,036 | 191,402,029 |
| Additions | 172,181 | - | 87,248,406 | 87,420,587 |
| Disposals | (328,587) | - | (59,786,374) | (60,114,961) |
| Foreign currency adjustment | 37,581 | - | 17,271,926 | 17,309,507 |
| Balance, December 31, 2015 | 1,095,221 | 4,762,947 | 230,158,994 | 236,017,162 |
| Additions | 544,438 | 5,784,999 | 33,508,907 | 39,838,344 |
| Disposals | (73,159) | - | (62,802) | (135,961) |
| Foreign currency adjustment | (15,657) | - | (9,786,726) | (9,802,383) |
| **Balance, June 30, 2016** | **1,550,843** | **10,547,946** | **253,818,373** | **265,917,162** |
| | | | | |
| **Accumulated depreciation and impairment** | $ | $ | $ | $ |
| Balance, January 1, 2015 | 434,668 | 4,762,947 | 2,916,087 | 8,113,702 |
| Depreciation for the year | 265,178 | - | - | 265,178 |
| Disposals | (238,069) | - | - | (238,069) |
| Foreign currency adjustment | (43,213) | - | - | (43,213) |
| Balance, December 31, 2015 | 418,564 | 4,762,947 | 2,916,087 | 8,097,598 |
| Depreciation for the period (i) | 442,495 | 2,724,875 | - | 3,167,370 |
| Disposals | (53,099) | - | - | (53,099) |
| Foreign currency adjustment | (14,851) | (78,736) | - | (93,587) |
| **Balance, June 30, 2016** | **793,109** | **7,409,086** | **2,916,087** | **11,118,282** |
| | | | | |
| **Carrying amounts** | $ | $ | $ | $ |
| Balance, December 31, 2015 | 676,657 | - | 227,242,907 | 227,919,564 |
| **Balance, June 30, 2016** | **757,734** | **3,138,860** | **250,902,286** | **254,798,880** |

(i) The reconciliation of depreciation during the three and six months ended June 30 for depreciation on property, plant and equipment recognized in the statement of income / (loss) and comprehensive income / (loss):

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| Total depreciation | **1,513,390** | 26,499 | **3,167,370** | 56,317 |
| Less: amounts capitalized to development project | **(1,308,234)** | - | **(2,900,227)** | - |
| | **205,156** | 26,499 | **267,143** | 56,317 |

### Building and equipment

During the period ended June 30, 2016 the Corporation disposed of two trucks for proceeds of $37,258 and a net book value of $20,060 resulting in a gain on disposal of $17,198.

(Stated in Canadian Dollars)

**Mineral properties**

| Property | January 1, 2016<br>$ | Additions<br>$ | Capitalized Development<br>$ | Disposals<br>$ | Currency Adjustment<br>$ | **June 30, 2016**<br>**$** |
|---|---|---|---|---|---|---|
| Rahill-Bonanza, Ontario | 17,997,912 | - | - | (62,802) | - | **17,935,110** |
| Hasaga, Ontario | 12,644,362 | 547,177 | - | - | - | **13,191,539** |
| Greenstone Gold, Ontario | 49,858,051 | - | - | - | - | **49,858,051** |
| McCoy-Cove, Nevada | 65,799,617 | 2,598 | - | - | (4,388,228) | **61,413,987** |
| South Arturo, Nevada | 80,942,965 | - | 32,959,132 | - | (5,398,498) | **108,503,599** |
| | 227,242,907 | 549,775 | 32,959,132 | (62,802) | (9,786,726) | **250,902,286** |

| Property | January 1, 2015<br>$ | Additions<br>$ | Capitalized Development<br>$ | Transfers<br>$ | Currency Adjustment<br>$ | December 31, 2015<br>$ |
|---|---|---|---|---|---|---|
| Rahill-Bonanza, Ontario | 19,898,612 | 129,771 | - | (2,030,471) | - | 17,997,912 |
| East Bay, Ontario | 6,308,379 | - | - | (6,308,379) | - | - |
| PQ North, Ontario | 1,589,473 | - | - | (1,589,473) | - | - |
| Hasaga, Ontario | - | 12,644,362 | - | - | - | 12,644,362 |
| Hardrock, Ontario | 84,719,118 | - | - | (84,719,118) | - | - |
| Brookbank, Ontario | 14,996,984 | - | - | (14,996,984) | - | - |
| Greenstone Gold, Ontario | - | - | - | 49,858,051 | - | 49,858,051 |
| McCoy-Cove, Nevada | 54,996,383 | 187,214 | - | - | 10,616,020 | 65,799,617 |
| South Arturo, Nevada | - | 22,101,578 | 52,185,481 | - | 6,655,906 | 80,942,965 |
| | 182,508,949 | 35,062,925 | 52,185,481 | (59,786,374) | 17,271,926 | 227,242,907 |

All mineral properties are in the exploration, evaluation, pre-development or development stage and are not subject to depletion at this time.

Acquisitions

*Acquisition of Red Lake land package for Hasaga*

On May 20, 2016 the Corporation acquired the two remaining patented claims known as the Buffalo Claims from Pure Gold Mining Inc. as further discussed in Note 8 of the audited December 31, 2015 consolidated financial statements for the final payment of $500,000 and closing costs of $47,177.

Disposal

*Grandview Gold mining claims for Rahill-Bonanza*

On March 3, 2016 Goldcorp Inc. ("Goldcorp") exercised its right to acquire a 56% interest in the Grandview Gold claims by funding 56% of the acquisition costs under the terms of the Rahill-Bonanza agreement and it is shown as a disposal in the period.

Gain attributable to Greenstone Gold development commitment

As a result of the divestment of the 50% interest in Greenstone Gold discussed in the audited December 31, 2015 consolidated financial statements, the Corporation continues to record a gain attributable to Centerra Gold Inc's ("Centerra") development commitment. For the three and six months ended June 30, 2016, the Greenstone Gold partnership incurred a total of $10,929,172 and $14,899,202 respectively (three and six months ended June 30, 2015 - $8,041,572 and $11,746,530) for expenditures. The Corporation's share is 50% of these expenditures and is included in the income / (loss) for the period. As 100% of expenditures are funded by Centerra under the terms of the agreement, the recovery of $5,464,586 and $7,449,601 for the three and six months ended June 30, 2016 respectively (three and six months ended June 30, 2015 - $4,020,786 and $5,873,265) is shown as a gain attributable to the Greenstone Gold development commitment.

(Stated in Canadian Dollars)

Summary of mineral property Net Smelter Return ("NSR") royalties (at June 30, 2016)

| **Active properties** | **NSR's** |
|---|---|
| Rahill Bonanza, Ontario | 2% NSR Marathon Canada Ltd.<br>3% NSR William, Michael and the estate of Steve Kostynuk<br>3% NSR Dave Meunier<br>0.5% NSR Cypress/Skyharbour<br>2% underlying NSR owed to a third party |
| Hasaga, Ontario | 3% NSR Lac Properties<br>1% NSR Pure Gold Mining Inc.<br>3% NSR Camp McMann Red Lake Gold Mine Ltd.<br>0.5% NSR Sandstorm Gold Ltd. |
| Greenstone Gold Mines, Ontario | 3% NSR Argonaut Gold Inc.<br>2% NSR Algoma Steel Inc.<br>1% NSR on the first 350,000 tons of production from the property payable to Griffin Mining Limited (formerly European Mining Limited)<br>3% NSR Franco-Nevada Corporation<br>5% NSR Algoma Steel Inc.<br>1% NSR Metalore Resources |
| McCoy-Cove, Nevada | 1.5% NSR Newmont |
| South Arturo, Nevada | 4-9% Annual minimum royalty Franco-Nevada Corporation |

| **Inactive properties** | **NSR** |
|---|---|
| Northern Empire, Ontario | 3% NSR Shirley Lafontaine, Amede Lafontaine, Stewart Robertson, Geneva Nichols |
| Sand River Leitch, Ontario | 1-2% NSR Osisko Gold Royalties<br>3% NSR Franco-Nevada Corporation |
| Nortoba-Tyson, Ontario | 1% NSR Wayne Gorrie |
| Faymar, Ontario | 0.2% NSR Marion Howes |
| Santa Teresa, Mexico | 1.5-3% NSR Grupo Alamo S.A. de C.V. |

**9. LONG TERM DEBT**

| | **June 30, 2016 $** | December 31, 2015 $ |
|---|---|---|
| Promissory note payable (i) | **193,755** | 207,600 |
| Newmont payable (ii) | **7,750,200** | 8,304,000 |
| Credit facility (iii) | **6,458,500** | - |
| Offtake obligation (iii) | **2,618,899** | - |
| Total obligation | **17,021,354** | 8,511,600 |
| Less: interest and debt agreement costs to be accreted | **577,174** | 161,985 |
| Present value of the obligation | **16,444,180** | 8,349,615 |
| Less: current portion | **7,813,705** | 8,237,115 |
| Long term debt | **8,630,475** | 112,500 |

| **Scheduled debt principal repayments** | 2016 $ | 2017 $ | 2018 $ | **Total $** |
|---|---|---|---|---|
| Promissory note payable | 64,585 | 64,585 | 64,585 | **193,755** |
| Newmont payable | 7,750,200 | - | - | **7,750,200** |
| Credit facility | - | - | 6,458,500 | **6,458,500** |
| Offtake obligation | 2,618,899 | - | - | **2,618,899** |
| **Total** | **10,433,684** | **64,585** | **6,523,085** | **17,021,354** |

(i) The Corporation, through its wholly owned subsidiary, Premier Gold Mines Nevada Inc. holds a non-interest bearing promissory note secured by a deed of trust on the Blue Sage property.

The outstanding principal of the promissory note at June 30, 2016 is $150,000USD ($193,755CAD) and at December 31, 2015 $150,000USD ($207,600CAD) repayable at $50,000USD annually on July 19th until 2018. The note is discounted at a rate of 15% for a discounted balance of $130,421USD ($168,466CAD) at June 30, 2016 and $121,859USD ($168,653CAD) at December 31, 2015. The current portion of the discounted note is $63,469CAD ($56,154CAD at December 31, 2015) with a remaining long term balance of $104,997CAD ($112,500CAD at December 31, 2015).

The value of the debt is being accreted to the face value of the promissory note at its maturity date, with the charge to the statement of income / (loss) and comprehensive income / (loss) as a form of interest expense over the term of the note.

(ii) As a result of the 2014 acquisition of the McCoy-Cove Property, the Corporation agreed to an additional $6,000,000USD payable in favour of Newmont and is reported as the outstanding principal at June 30, 2016. The value of the debt has been accreted to the face value of the payable at its expected maturity date, with the discounted payable rate of 8% accretion charged to the statement of income / (loss) and comprehensive income / (loss) as a form of interest expense over the expected term of the debt. The final terms of payment are currently in the process of being negotiated.

(iii) Credit facility

In conjunction with the fiancing arrangement discussed in note 4, the Corporation entered into a $30,000,000USD senior unsecured term facility (“credit facility”) with Orion. The facility will be available to the Corporation in three tranches, consisting of an initial tranche of $5,000,000USD at closing, and then at the Corporation’s discretion in increments of $1,000,000USD to a maximum of an additional $10,000,000USD until August 30, 2016 and an additional $15,000,000USD until October 31, 2016. The credit facility will bear interest at the rate of 6.0% annually, payable only on the amount drawn and will be paid quarterly. The credit facility principal will be due upon maturity on June 30, 2018.

There is no stand-by interest payable under the credit facility, but loan commitment and other fees were paid upon closing in the amount of $1,499,961 and allocated to the components of the agreement including the drawn portion as a reduction of carrying value of $166,662, an asset representing part of the initial fair value of the undrawn loan commitment of $833,313 and $499,987 as reduction to equity for the share and warrant component.

Also in conjunction with the credit facility, the Corporation entered into an agreement to sell up to 20,000 ounces of refined gold annually from existing projects and any projects acquired with funding from Orion (the “Offtake obligation”). The Offtake obligation (discussed below) compensates for a lower stated interest rate on the credit facility and is also presented as a reduction to the carrying amount of the drawn portion of the credit facility and an asset representing the initial fair value of the undrawn loan commitment. As the balance of the facility is drawn, the loan commitment will be reclassified as a reduction of the resulting loan and amortized over the life of the associated liability on an effective interest rate basis.

As a result of the impact of both the fees and the Offtake obligation, the effective interest rate on the drawn portion of the credit facility is 10%.

Offtake obligation

The Corporation entered into an agreement to sell up to 20,000 ounces of gold annually for a period of 90 months from the date of the first outturn from the South Arturo mine. The final purchase price to be paid by Orion will be, at Orion’s option, a market referenced gold price in US dollars per ounce during a defined pricing period before and after the date of each sale. In the event that the Corporation does not produce 20,000 ounces in any given year, the obligation is limited to those ounces actually produced.

The Corporation has determined the Offtake obligation represents a derivative liability for the gold price option feature included in the agreement and as such is remeasured at fair value at each balance sheet date with changes in fair value being recorded in profit or loss. From inception to June 30, 2016, the change in fair value of the Offtake obligation was a fair value loss of $160,312.

(Stated in Canadian Dollars)

## 10. PROVISION FOR ENVIRONMENTAL REHABILITATION

The Corporation's provision for environmental rehabilitation results from an ownership interest in a mill, mining equipment and previously mined property interests. The provision consists primarily of costs associated with mine reclamation and closure activities. These activities, which tend to be site specific, generally include costs for decommissioning the mill complex and related infrastructure, physical and chemical stability of the tailings area and post-closure site security and monitoring costs. In determining the estimated costs, the Corporation considers such factors as changes in laws and regulations and requirements under existing permits. Such analysis is performed on an ongoing basis.

The Corporation estimates that the future value of the cash flows required to settle the provision is $4,093,509 for the Northern Empire Mill and the Faymar Deloro property in Canada and $9,425,746USD ($12,175,236CAD) for the McCoy-Cove property and South Arturo Mine project in the United States. In calculating the best estimate of the Corporation's provision, management used risk free interest rates ranging from 1.111% to 7.5%. A reconciliation of the discounted provision is provided below:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | **Northern Empire Mill** | **Faymar Deloro property** | **McCoy-Cove property** | **South Arturo property** | **Total** |
| | **$** | **$** | **$** | **$** | **$** |
| Balance, January 1, 2016 | **2,473,590** | **1,419,447** | **1,195,140** | **5,031,380** | **10,119,557** |
| Change in estimate | **-** | **-** | **-** | **403,004** | **403,004** |
| Accretion expense | **13,657** | **8,379** | **19,118** | **62,084** | **103,238** |
| Reclamation expenditures | **-** | **(6,543)** | **(97,703)** | **-** | **(104,246)** |
| Currency adjustment | **-** | **-** | **(77,434)** | **(337,339)** | **(414,773)** |
| Balance, June 30, 2016 | **2,487,247** | **1,421,283** | **1,039,121** | **5,159,129** | **10,106,780** |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Northern Empire Mill | Faymar Deloro property | McCoy-Cove property | South Arturo property | Total |
| | $ | $ | $ | $ | $ |
| Balance, January 1, 2015 | 2,430,402 | 1,388,561 | 1,011,539 | - | 4,830,502 |
| New obligation | - | - | - | 5,031,380 | 5,031,380 |
| Change in estimate | 11,562 | 5,846 | 176,690 | - | 194,098 |
| Accretion expense | 31,626 | 25,040 | 19,466 | - | 76,132 |
| Reclamation expenditures | - | - | (193,478) | - | (193,478) |
| Currency adjustment | - | - | 180,923 | - | 180,923 |
| Balance, December 31, 2015 | 2,473,590 | 1,419,447 | 1,195,140 | 5,031,380 | 10,119,557 |

The additional obligation accounted for in 2015 is related to the South Arturo Mine project interest acquired on April 6, 2015 as described in Note 8 of the audited December 31, 2015 consolidated financial statements.

**11. CAPITAL**

**Authorized**

The Corporation is authorized to issue an unlimited number of common shares.

**Details of share issuances**

2016

*Private Placement*

On June 2, 2016, in conjunction with the financing arrangement discussed in note 4, the Corporation issued 6,393,443 common shares at a price of $3.05 per common share for gross proceeds of $19,620,000. 2,000,000 common share warrants were also issued in the arrangement. Each warrant is exercisable into one common share each of the Corporation until June 30, 2018 at an exercise price of $3.97. Costs associated with the closing of the subscription agreement totaled $499,987.

2015

*Shares issued as payment*

On December 30, 2015, the Corporation issued 1,001,721 common shares, valued at $2,500,000 for a 513 hectare land package located west of the Hasaga property. Purchase details are described in Note 8 of the audited December 31, 2015 consolidated financial statements.

*Issuance of Restricted Share Units ("RSU")*

On December 22, 2015 the Corporation granted 84,308 RSU's that vested and settled immediately in shares only, valued at $210,770.

*Private Placements*

On December 4, 2015 the Corporation issued 2,689,560 flow-through common shares, on a "bought deal" basis, at a price of $2.90 per common share for gross proceeds of $7,799,724. In consideration of the agents' services in connection with the offering, the agents were paid an aggregate cash fee totalling $398,712, equal to approximately 5 per cent of the gross proceeds raised in the offering.

On June 3, 2015 the Corporation issued 11,544,969 common shares, on a "bought deal" basis, at a price of $2.35 per common share for gross proceeds of $27,130,677. In consideration of the agents' services in connection with a portion of the offering, the agents were paid an aggregate cash fee totalling $413,269, representing between 3 and 5 per cent of the gross proceeds they raised in the offering.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Stated in Canadian Dollars)
(Unaudited)

The following table reflects the stock options outstanding as at June 30, 2016:

| Expiry date | Exercise price $ | January 1, 2016 # | Granted # | Exercised # | Cancelled # | June 30, 2016 # |
|---|---|---|---|---|---|---|
| June 24, 2016 | 5.25 | 16,001 | - | - | (16,001) | - |
| July 28, 2016 | 6.01 | 1,327,000 | - | - | - | 1,327,000 |
| August 10, 2016 | 6.05 | 630,000 | - | - | - | 630,000 |
| August 25, 2016 | 6.20 | 431,666 | - | - | - | 431,666 |
| October 19, 2016 | 5.27 | 220,000 | - | - | - | 220,000 |
| December 20, 2016 | 4.43 | 35,000 | - | - | - | 35,000 |
| March 5, 2017 | 5.20 | 125,000 | - | - | - | 125,000 |
| May 2, 2017 | 4.78 | 150,000 | - | - | - | 150,000 |
| May 8, 2017 | 4.50 | 550,000 | - | - | - | 550,000 |
| June 13, 2017 | 4.69 | 300,000 | - | - | - | 300,000 |
| August 13, 2017 | 4.45 | 715,000 | - | - | - | 715,000 |
| October 24, 2017 | 5.40 | 60,000 | - | - | - | 60,000 |
| January 28, 2018 | 3.65 | 250,000 | - | - | - | 250,000 |
| February 22, 2018 | 2.95 | 150,000 | - | (105,000) | - | 45,000 |
| March 6, 2018 | 2.75 | 685,000 | - | (70,000) | - | 615,000 |
| March 18, 2018 | 3.11 | 125,000 | - | - | - | 125,000 |
| April 8, 2018 | 2.60 | 150,000 | - | (150,000) | - | - |
| April 15, 2018 | 2.23 | 15,000 | - | - | - | 15,000 |
| August 8, 2018 | 1.79 | 1,185,250 | - | (411,250) | - | 774,000 |
| September 20, 2018 | 2.41 | 50,000 | - | (50,000) | - | - |
| September 24, 2018 | 2.03 | 4,000 | - | - | - | 4,000 |
| October 22, 2018 | 2.14 | 150,000 | - | (150,000) | - | - |
| December 18, 2018 | 1.40 | 250,000 | - | - | - | 250,000 |
| March 7, 2019 | 2.51 | 100,000 | - | - | - | 100,000 |
| May 2, 2019 | 2.01 | 105,000 | - | (60,000) | - | 45,000 |
| August 29, 2019 | 2.83 | 1,637,500 | - | (305,000) | (40,000) | 1,292,500 |
| September 22, 2019 | 2.85 | 25,000 | - | - | - | 25,000 |
| March 9, 2020 | 2.41 | 125,000 | - | (50,000) | - | 75,000 |
| April 10, 2020 | 2.39 | 190,000 | - | (20,000) | (30,000) | 140,000 |
| July 15, 2020 | 2.19 | 2,740,000 | - | (205,000) | (10,000) | 2,525,000 |
| March 21, 2021 | 3.18 | - | 1,625,800 | - | - | 1,625,800 |
| May 17, 2021 | 3.34 | - | 200,000 | - | - | 200,000 |
| June 23, 2021 | 3.30 | - | 83,000 | - | - | 83,000 |
| June 27, 2021 | 3.65 | - | 75,000 | - | - | 75,000 |
| | | 12,496,417 | 1,983,800 | (1,576,250) | (96,001) | 12,807,966 |
| Weighted average exercise price | | 3.48 | 3.22 | 2.33 | 3.03 | 3.59 |

Total vested stock options at June 30, 2016 were 12,467,966 with a weighted average exercise price of $3.61 (9,901,822 at June 30, 2015 with a weighted average exercise price of $3.86).

The Corporation applies the fair value method of accounting for all stock based compensation awards and accordingly, $624,336 and $3,498,815 was recorded for options and shares issued as compensation during the three and six months ended June 30, 2016 (three and six months ended June 30, 2015 - $145,760 and $238,805). As of June 30, 2016 there were 340,000 unvested stock options (480,000 at June 30, 2015).

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Stated in Canadian Dollars)
(Unaudited)

For purposes of the options granted, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions:

| | **June 30, 2016** | December 31, 2015 |
|---|---|---|
| Risk-free interest rate | 0.56% - 0.81% | 0.75% - 1.35% |
| Annualized volatility based on historical volatility | 65% - 66% | 64% |
| Expected dividend | Nil | Nil |
| Expected option life | 5 years | 5 years |

**Deferred Share Unit Plan**

Effective June 25, 2015, the Corporation introduced a DSU plan for eligible directors. The DSUs are paid in full in the form of a lump sum payment no later than December 31 of the calendar year immediately following the calendar year of termination of service. The Corporation may issue shares in lieu of cash payment. The aggregate maximum number of shares available for issuance from treasury under this plan is 500,000 shares and are subject to the maximums of 10% in total and 1% per optionee.

During the three and six months ended June 30, 2016 the Corporation did not issue any DSUs.

**Restricted Share Unit Plan**

Effective June 25, 2015, the Corporation introduced a RSU plan for eligible members of the Board of Directors, eligible employees and eligible contractors. The aggregate maximum number of shares available for issuance from treasury under this plan is 1,100,000 shares and are subject to the maximums of 10% in total and 1% per optionee. The restricted share units can be settled in cash or equity at the option of the Corporation. The RSUs vest subject to a RSU award letter but no later than December 31 of the third calendar year following the service year determined based on date of grant.

During the three and six months ended June 30, 2016 the Corporation did not issue any RSUs.

## 12. INCOME / (LOSS) PER SHARE

Basic income / (loss) per share is calculated based on the weighted average number of common shares and common share equivalents outstanding during three and six months ended June 30, 2016 and 2015. Diluted income per share is based on the assumption that stock options that have an exercise price less than the average market price of the Corporation's common shares during the period have been exercised on the later of the beginning of the year and the date granted. Net income / (loss) and basic weighted average shares outstanding are reconciled to diluted net income / (loss) and diluted weighted average shares outstanding, respectively, as follows:

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 (restated - Note 2(e)) |
| | **$** | $ | **$** | $ |
| Net income / (loss) for the period | **(9,434,100)** | (976,554) | **(22,688,520)** | 29,374,169 |
| Basic weighted average shares outstanding | **162,296,014** | 159,382,565 | **175,589,161** | 159,382,565 |
| Dilution adjustment for stock options | **-** | - | **-** | 1,758,634 |
| Diluted weighted average shares outstanding | **162,296,014** | 159,382,565 | **175,589,161** | 161,141,199 |
| Basic and diluted income / (loss) per share | **(0.06)** | (0.01) | **(0.13)** | 0.18 |

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Stated in Canadian Dollars)
(Unaudited)

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

The significant non-cash activities during the period are as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| Fair value of mineral property interest exchanged in property acquisition | **-** | 4,969,200 | **-** | 4,969,200 |
| Fair value of stock options allocated to share capital upon exercise | **1,116,444** | - | **1,937,070** | 9,650 |
| Fair value of offtake obligation derivative liability | **2,452,166** | - | **2,452,166** | - |

## 14. GENERAL AND ADMINISTRATIVE

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| Corporate administration | **345,556** | 254,315 | **785,907** | 696,851 |
| Flow-through interest penalty | **10,392** | 15,615 | **19,344** | 27,394 |
| Corporate salaries and benefits | **614,854** | 475,189 | **1,242,989** | 954,971 |
| Professional fees | **748,348** | 425,303 | **1,176,622** | 655,823 |
| Project administration (i) | **877,815** | - | **2,017,554** | - |
| | **2,596,965** | 1,170,422 | **5,242,416** | 2,335,039 |

(i) Management fees and other administrative costs related to the projects included in the joint arrangement and co-ownerships.

## 15. EXPLORATION, EVALUATION AND PRE-DEVELOPMENT

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| Rahill-Bonanza, Ontario | **191,756** | 149,355 | **366,109** | 249,353 |
| East Bay, Ontario | **-** | 7,668 | **-** | 19,765 |
| Hasaga, Ontario | **1,891,257** | 1,511,796 | **4,012,197** | 1,527,011 |
| Greenstone Gold, Ontario (i) | **5,323,757** | 3,834,413 | **7,183,250** | 7,346,163 |
| McCoy-Cove, Nevada | **2,226,722** | 925,955 | **2,835,189** | 2,051,174 |
| South Arturo | **175,620** | - | **214,613** | - |
| Other areas | **-** | 11,709 | **-** | 12,172 |
| | **9,809,112** | 6,440,896 | **14,611,358** | 11,205,638 |

(i) In 2015 Greenstone Gold includes the Hardrock, Brookbank, and Key Lake projects.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Stated in Canadian Dollars)
(Unaudited)

## 16. SEGMENTED INFORMATION

The Corporation's significant segments, that are represented by its separately identifiable mineral properties as described in Note 8, operate in three distinct geographic areas. The Canadian operations, which are located in Ontario, are managed from the Corporation's head office in Thunder Bay. The United States of America (U.S.A.) operations are managed from an office in Nevada. The Mexican operations are managed from an office in Mexico City.

| | **Three months ended June 30, 2016** | | | |
|---|---|---|---|---|
| | Canada | U.S.A. | Mexico | **Total** |
| | $ | $ | $ | **$** |
| Depreciation and impairment loss on property, plant and equipment | (37,272) | (167,884) | - | **(205,156)** |
| Long term debt interest and accretion | (48,134) | (1,527) | - | **(49,661)** |
| Overhead costs | (2,330,648) | (886,186) | (4,467) | **(3,221,301)** |
| Exploration, maintenance and rehabilitation | (7,527,973) | (2,603,509) | (9,688) | **(10,141,170)** |
| Other income | 4,828,139 | 17,198 | - | **4,845,337** |
| Loss before income taxes | (5,115,888) | (3,641,908) | (14,155) | **(8,771,951)** |
| Deferred tax | 258,267 | (920,416) | - | **(662,149)** |
| Loss for the period | (4,857,621) | (4,562,324) | (14,155) | **(9,434,100)** |

| | **Six months ended June 30, 2016** | | | |
|---|---|---|---|---|
| | Canada | U.S.A. | Mexico | **Total** |
| | $ | $ | $ | **$** |
| Depreciation on property, plant and equipment | (72,558) | (194,585) | - | **(267,143)** |
| Long term debt accretion | (48,134) | (129,676) | - | **(177,810)** |
| Overhead costs | (6,705,244) | (2,028,721) | (7,266) | **(8,741,231)** |
| Exploration, maintenance and rehabilitation | (11,836,428) | (3,386,201) | (20,627) | **(15,243,256)** |
| Other income | 4,153,597 | 17,198 | - | **4,170,795** |
| Loss before income taxes | (14,508,767) | (5,721,985) | (27,893) | **(20,258,645)** |
| Deferred tax | 543,264 | (2,973,139) | - | **(2,429,875)** |
| Loss for the period | (13,965,503) | (8,695,124) | (27,893) | **(22,688,520)** |

| | Three months ended June 30, 2015 | | | |
|---|---|---|---|---|
| | Canada | U.S.A. | Mexico | Total |
| | $ | $ | $ | $ |
| Depreciation and impairment loss on property, plant and equipment | (19,602) | (6,897) | - | (26,499) |
| Long term debt accretion | - | (145,167) | - | (145,167) |
| Overhead costs | (1,299,537) | (14,122) | (2,523) | (1,316,182) |
| Exploration, maintenance and rehabilitation | (5,645,253) | (997,381) | (8,208) | (6,650,842) |
| Other income / (expense) | 8,287,610 | - | - | 8,287,610 |
| Income / (loss) before income taxes | 1,323,218 | (1,163,567) | (10,731) | 148,920 |
| Current tax | (1,032,091) | - | - | (1,032,091) |
| Deferred tax | 343,267 | (436,650) | - | (93,383) |
| Income / (loss) for the period | 634,394 | (1,600,217) | (10,731) | (976,554) |

(Stated in Canadian Dollars)

| | Six months ended June 30, 2015 | | | |
|---|---|---|---|---|
| | Canada (restated - Note 2(e)) | U.S.A. | Mexico | Total (restated - Note 2(e)) |
| | $ | $ | $ | $ |
| Depreciation on property, plant and equipment | (42,837) | (13,480) | - | (56,317) |
| Long term debt accretion | - | (291,721) | - | (291,721) |
| Overhead costs | (2,519,376) | (49,181) | (5,287) | (2,573,844) |
| Exploration, maintenance and rehabilitation | (9,430,081) | (2,179,539) | (19,777) | (11,629,397) |
| Other income | 42,336,336 | - | - | 42,336,336 |
| Income / (loss) before income taxes | 30,344,042 | (2,533,921) | (25,064) | 27,785,057 |
| Current tax | (1,032,091) | - | - | (1,032,091) |
| Deferred tax | 407,271 | 2,213,932 | - | 2,621,203 |
| Income / (loss) for the period | 29,719,222 | (319,989) | (25,064) | 29,374,169 |

**As at June 30, 2016**

| | Canada | U.S.A. | Mexico | **Total** |
|---|---|---|---|---|
| | $ | $ | $ | **$** |
| Mineral properties | 80,984,698 | 169,917,588 | - | **250,902,286** |
| Total assets | 134,757,396 | 179,744,900 | 2,439 | **314,504,735** |
| Total liabilities | 24,990,486 | 15,225,462 | 5,294 | **40,221,242** |

As at December 31, 2015

| | Canada | U.S.A. | Mexico | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Mineral properties | 80,500,323 | 146,742,584 | - | 227,242,907 |
| Total assets | 151,422,202 | 161,752,564 | 7,804 | 313,182,570 |
| Total liabilities | 18,096,805 | 14,769,404 | 903 | 32,867,112 |

**17. RELATED PARTY TRANSACTIONS**

The Corporation's related parties include key management personnel and entities over which they have control or significant influence as described in Note 2 (b) to unaudited condensed consolidated interim financial statements and below.

| | Nature of transactions |
|---|---|
| DSA Filing Services | Filing services |
| DRAX Services Limited | Corporate secretarial services |
| The Alyris Group | IT support services |
| Alyris Leasing Inc. | Facilities rental |
| Wolfden Resources Corp | Facilities rental received |
| Alyris Vineyards Limited | Marketing and investor relations events |

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The following are the related party transactions, recorded at the exchange amount as agreed to by the parties.

The figures noted below are for the six months ended June 30, 2016 with comparative figures for the six months ended June 30, 2015.

(a) Included in general and administrative expenses are amounts totalling $25,500 (2015 - $18,500) for corporate secretarial and filing services provided by DSA Filing Services and DRAX Services Limited, all of which are or have been related to the Corporation through Shaun Drake, Corporate Secretary of the Corporation.

(Stated in Canadian Dollars)

(b) Included in general and administrative expenditures are amounts totalling $46,782 (2015 - $47,719) for IT support services provided by 1752466 Ontario Inc., O/A The Alyris Group, a company related to the Corporation through Ewan Downie, Director, President and Chief Executive Officer of the Corporation, and Steve Filipovic, Chief Financial Officer of the Corporation.

(c) Included in general and administrative expenditures are amounts totalling $77,203 (2015 - $76,824) for rental charges paid to Alyris Leasing Inc., a company related to the Corporation through Ewan Downie, Director, President and Chief Executive Officer of the Corporation, and Steve Filipovic, Chief Financial Officer of the Corporation.

(d) Included as a cost recovery in general and administrative are amounts totaling $nil (2015 - $3,600) for rental of office space paid by Wolfden Resources Corporation, a company related to the Corporation through Ewan Downie, Director, President and Chief Executive Officer of the Corporation, who is also a Director of Wolfden Resources Corporation.

(e) Included in general and administrative expenditures are amounts totaling $548 (2015 - $nil) for marketing and investor relations events held at Alyris Vineyards Limited, a company related to the Corporation through Ewan Downie, Director, President and Chief Executive Officer of the Corporation.

**Transactions with key management personnel**

Key management personnel remuneration includes the following amounts:

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| Salary, wages and benefits | **486,942** | 283,543 | **784,268** | 562,697 |
| Share-based payments | **-** | - | **954,993** | - |
| | **486,942** | 283,543 | **1,739,261** | 562,697 |

**18. COMMITMENTS**

(a) Contractual obligations

The Corporation has commitments relating to facilities and other operating leases extending to 2018. The minimum annual contractual and lease payments for the three years are as follows:

| | $ |
|---|---|
| 2016 | 153,175 |
| 2017 | 187,024 |
| 2018 | 61,393 |
| | 401,592 |

(b) Flow-through commitments

The Corporation has $2,685,924 in remaining flow-through obligations to be spent by December 31, 2016.

(c) Surety Bonds

At June 30, 2016, the Corporation has outstanding surety bonds in the amount of $4,566,905USD ($5,899,071CAD) in favour of the United States Department of the Interior, Bureau of Land Management ("BLM") as financial support for environmental reclamation and exploration permitting. The surety bonds are secured by a $250,000USD ($322,927CAD) deposit and are subject to fees competitively determined in the market place. The obligations associated with these instruments are generally related to performance requirements that the Corporation addresses through its ongoing operations. As specific requirements are met, the BLM as beneficiary of the instrument will return the instrument to the issuing entity. As these instruments are associated with operating sites with long-lived assets, they will remain outstanding until closure.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Stated in Canadian Dollars)
(Unaudited)

## 19. FINANCIAL INSTRUMENTS AND RELATED RISKS

The Corporation's operations include the acquisition and exploration of mineral properties in Canada, the United States of America and Mexico. The Corporation examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and other risks. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Credit Risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Corporation by those counterparties, less any amounts owed to the counterparty by the Corporation where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

(i) Trade credit risk
The Corporation is in the exploration and development stage and has not yet commenced commercial production or sales. Therefore, the Corporation is not exposed to significant credit risk and overall the Corporation's credit risk has not changed significantly from the prior period.

(ii) Cash and cash equivalents
In order to manage credit and liquidity risk the Corporation invests only in highly rated investment grade instruments that have maturities of 90 days or less and which are cashable after 30 days or less into a known amount of cash. Limits are also established based on the type of investment, the counterparty and the credit rate. The credit risk on cash and cash equivalents is therefore negligible.

(iii) Derivative financial instruments
As a way of managing commodity risk, the Corporation has invested in derivative financial instruments. The derivative financial instruments are with highly rated investment grade counterparties. These derivatives have allowed the Corporation to reduce the down side risk on commodity markets. Given the nature of the derivatives the Corporation is not exposed to significant credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk through the management of its capital structure.

As at June 30, 2016 the Corporation's liabilities that have contractual maturities are as follows:

| | 2016<br>$ | 2017<br>$ | 2018<br>$ | Total<br>$ |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 5,675,308 | - | - | 5,675,308 |
| Long term debt | 10,433,684 | 64,585 | 6,523,085 | 17,021,354 |
| | 16,108,992 | 64,585 | 6,523,085 | 22,696,662 |

(c) Market risk

(i) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Corporation will realize a significant loss as a result of a decline in the fair market value of investments and other items held within cash and cash equivalents is limited given that the majority of investments have a relatively short maturity. The Corporation manages its interest rate risk with investments by investing the majority of funds in short term investments and therefore is not exposed to significant fluctuations in interest rates.

(ii) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Corporation's functional currency. The Corporation's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The functional currency and presentation currency of the Corporation is the Canadian dollar. The Corporation's capitalized mineral properties and expenses also include amounts incurred in U.S. dollars and to a lesser extent, the Mexican peso which are the functional currencies of these operations. The Corporation's exchange risk is therefore related to movement between these currencies. Changes in the currency exchange rates between the Canadian dollar relative to the U.S. dollar and the Mexican peso have an effect on the Corporation's results of operations through comprehensive income (loss), financial position or cash flows.

The Corporation has mitigated this risk by diversifying its cash resources in the U.S. dollar and Mexican peso roughly in proportion to expected future expenditure over the following twelve months. The carrying amounts of the Company's U.S. dollar denominated monetary assets and monetary liabilities in Canadian dollars at the end of the reporting period are as follows:

| | **June 30, 2016 $** | December 31, 2015 $ |
|---|---|---|
| Cash and cash equivalents | **30,551,402** | 16,880,819 |
| Restricted cash and cash equivalents | **1,584,379** | 1,697,592 |
| Accounts receivable & prepaids | **2,130,427** | 328,950 |
| Accounts payable and accrued liabilities | **3,042,544** | 263,525 |
| Promissory notes | **7,918,665** | 8,349,576 |
| Credit facility | **5,906,579** | - |

There are no significant financial instruments in Mexican pesos.

For the three and six months ended June 30, 2016, the Corporation recognized an unrealized foreign exchange gain of $345,586 and a loss of $818,759 respectively (a gain of $191,778 and $168,352 for the three and six months ended June 30, 2015 respectively) and an exchange loss on the translation of foreign operations in comprehensive loss of $1,079,555 and $12,552,465 respectively (a loss of $424,335 and a gain of $4,261,773 for the three and six months ended June 30, 2015 respectively). As of June 30, 2016, if the Canadian dollar to the U.S. dollar exchange rate increases or decreases by 10%, the Corporation's net income or loss will increase or decrease by $41,302 (2015 - $1,621,933) and the Corporation's other comprehensive income or (loss) will increase or decrease by $1,754,622 (2015 - $592,507).

(iii) Security price risk

Security price risk is the risk that the fair value or future cash flow of the Corporation's financial instruments will fluctuate because of the changes in the market price. The Corporation only takes a position in the securities of another entity where it has a strategic objective; or as a result of a purchase or sale transaction. In situations where the Corporation has taken a position in the securities of another entity, the Corporation manages its exposure to price risk by monitoring the market(s) where the entity's securities trade and planning the divestiture accordingly. The fair value of available for sale securities at June 30, 2016 and December 31, 2015 was $2,450,070 and $3,582,182 respectively, representing the maximum potential losses from changes in prices of equity investments.

(iv) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flow of the Corporation's derivative financial instruments will fluctuate because of the changes in the commodity price. The Corporation has entered into put options in order to reduce the down side risk on the gold commodity market. The fair value of derivative financial instruments at June 30, 2016 and December 31, 2015 was $340,802 and $2,350,630 respectively, representing the maximum potential losses from changes in the related commodity price.

(Stated in Canadian Dollars)

(d) Fair value

IFRS 13 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 - quoted prices (unadjusted) 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 (unobservable inputs).

The following table sets forth the Corporation's financial assets / (liabilities) measured at fair value by level within the fair value hierarchy at June 30, 2016 and December 31, 2015:

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ | **$** | $ | **$** | $ |
| Canadian equity investments | **488,371** | 3,582,182 | **1,991,516** | - | **-** | - | **2,479,887** | 3,582,182 |
| Derivative investments | **-** | - | **340,802** | 2,350,630 | **-** | - | **340,802** | 2,350,630 |
| Offtake obligation | **-** | - | **-** | - | **(2,452,166)** | - | **(2,452,166)** | - |
| | **488,371** | 3,582,182 | **2,332,318** | 2,350,630 | **(2,452,166)** | - | **368,523** | 5,932,812 |

Set out below are the Corporation's financial assets by category:

| | Fair value through profit or loss | | Loans and receivables | | Total | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ | **$** | $ |
| Cash and cash equivalents | **-** | - | **46,858,971** | 73,056,817 | **46,858,971** | 73,056,817 |
| Accounts receivable | **-** | - | **893,742** | 1,167,199 | **893,742** | 1,167,199 |
| Canadian equity investments | **2,479,887** | 3,582,182 | **-** | - | **2,479,887** | 3,582,182 |
| Derivative investments | **340,802** | 2,350,630 | **-** | - | **340,802** | 2,350,630 |
| Loan commitment under credit facility | **2,876,784** | - | **-** | - | **2,876,784** | - |
| Restricted cash and cash equivalents | **-** | - | **4,131,418** | 4,244,632 | **4,131,418** | 4,244,632 |
| | **5,697,473** | 5,932,812 | **51,884,131** | 78,468,648 | **57,581,604** | 84,401,460 |

The offtake obligation entered into during the period has been classified as level 3 as the valuation includes significant unobservable inputs.

(Stated in Canadian Dollars)

Set out below are the Corporation's financial liabilities by category:

| | Fair value through profit or loss | | Other financial liabilities | | Total | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ | **$** | $ |
| Accounts payable and accrued liabilities | **-** | - | **5,675,308** | 5,859,702 | **5,675,308** | 5,859,702 |
| Long term debt | **2,618,899** | - | **13,825,281** | 8,349,615 | **16,444,180** | 8,349,615 |
| | **2,618,899** | - | **19,500,589** | 14,209,317 | **22,119,488** | 14,209,317 |

The fair value of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying value due to their short term nature. The fair value of the Corporation's long term debt is approximated by its carrying value.

The offtake obligation is valued using the a forward strike lookback option valuation model with key inputs that include the Corporation's assessment of expected gold prices and discount to gold prices during the quotational period, discount rates that are commensurate with the risks associated with the financial liability to reflect the time value of money and the expected production levels.

**20. MANAGEMENT OF CAPITAL RISK**

The Corporation manages its share capital, equity settled employee benefits reserve, warrant reserve and contributed surplus as capital. The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going-concern in order to pursue the exploration and development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares, acquire or dispose of assets or acquire new debt.

In order to maximize ongoing exploration efforts, the Corporation does not pay out dividends. The Corporation's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with short-term maturities, selected with regard to the expected timing of expenditures from continuing operations.

To effectively manage its capital requirements, the Corporation has in place a planning and budgeting process to help determine the funds required to ensure the Corporation has the appropriate liquidity to meet its operating and growth objectives. The Corporation expects its current capital resources will be sufficient to carry out its exploration and evaluation plans through 2016.

**21. CONTINGENCIES**

**Legal claims**

In October 2010, prior to the Goldstone Arrangement, Patrick Sheridan, the former President and Chief Executive Officer and a director of Goldstone, and Gary Conn, a former senior officer and director of Goldstone, together with their respective management companies, commenced legal actions against Goldstone. Mr. Sheridan alleged breach of contract and sought damages of up to $1,400,000, including punitive damages, plus costs and interest (the "Sheridan Action"). Mr. Conn alleged breach of a consulting agreement or, alternatively, wrongful dismissal and other causes of action and is seeking damages of up to approximately $3,400,000, plus costs and interest (the "Conn Action").

With respect to the Sheridan Action, the parties have agreed to a settlement. Pursuant to such settlement, Goldstone paid a sum to Mr. Sheridan, which was included in general and administrative expenses in 2012. Goldstone also commenced third party claims against Mr. Conn and three former directors in order to seek contribution and indemnity for any amounts that it may be found liable to pay Mr. Sheridan and his management company in the Sheridan Action - which third party claims have been dismissed.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Stated in Canadian Dollars)
(Unaudited)

Goldstone dismissed Mr. Conn for cause on October 1, 2010. The allegations forming the basis for Goldstone's just cause termination were also the basis for the initiation of a proceeding (the "Conn Counterclaim") in which Goldstone sought damages, plus costs and interest.

In January 2011, Mr. Conn commenced a legal action (the "Defamation Claim") against Goldstone, four of its directors, and other individuals, seeking damages of $2,500,000 based on alleged conspiracy, libel, defamation and intentional infliction of mental suffering arising from alleged improper publication of certain allegations contained in the Conn Counterclaim. On May 24, 2011, the Superior Court of Justice (Ontario) granted Goldstone's motion for summary judgment. The summary judgment concluded that the allegations in the Conn Counterclaim which, in Goldstone's view justified Mr. Conn's termination for cause, but which according to Mr. Conn were allegedly defamatory, were substantially true. Mr. Conn sought to appeal the judgment, but the Ontario Court of Appeal dismissed his appeal on November 18, 2011.

With respect to the Conn Action, Goldstone launched a summary judgment motion on the basis that certain allegations which were relied upon to justify cause for Mr. Conn's dismissal have already been proven in a related proceeding, being the Defamation Claim. Goldstone's motion for summary judgment was unsuccessful and the parties therefore continued with the Conn Action and related Conn Counterclaim. In February 2014, Mr. Conn first informed Goldstone that he would seek advancement of expenses and indemnification from Goldstone relating to his defence of the Conn Counterclaim, and commenced an application for such relief. Goldstone and Mr. Conn have agreed to the terms of an order that provide for the advancement of expenses by Goldstone with respect to the Conn Counterclaim. Goldstone has sought to discontinue the Conn Counterclaim, in part, because of the terms of that agreement. A judge has refused to discontinue the Conn Counterclaim, although Goldstone is seeking leave to appeal that decision. A judge has determined that remaining indemnity amounts related to the Conn Counterclaim should be decided by the judge at trial.

The trial of the Conn Action is mostly complete as both parties have marshaled their evidence. The parties are expected to complete the trial in October 2016.

**22. SUBSEQUENT EVENTS**

**Gold forward contracts**

Subsequent to June 30, 2016 the Corporation signed three refined gold forward contracts with Orion as follows:

| Ounces of gold | Delivery date | Contract price |
|---|---|---|
| 10,000 | November 21, 2016 | $1,720 per ounce |
| 10,000 | December 21, 2016 | $1,705 per ounce |
| 10,000 | January 18, 2017 | $1,725 per ounce |

The contracts required no cash or other consideration. If the contracted ounces are not delivered on the delivery date, as per the terms of the agreement, the Corporation will compensate Orion for the difference between the contract price and the market price per ounce.

**Acquisition of Mercedes Mine**

On July 28, 2016 the Corporation entered into a definitive purchase agreement with Yamana Gold Inc. ("Yamana") pursuant to which the corporation has agreed to acquire Yamana's Mercedes mine and exploration property (the "Acquisition") located in the state of Sonora, northwest Mexico. The Corporation has agreed to pay a purchase price to Yamana consisting of the following:

- $122,500,000USD of cash
- issuance of 6,000,000 common shares of the Corporation
- issuance of 3,000,000 warrants to acquire up to 3,000,000 common shares of the Corporation
- warrants are exercisable at the price of $4.75 per common share for a period of twenty-four months after the closing date
- 1% NSR on production commencing on the earlier of 450,000 ounces of gold produced or six years from the date of closing the acquisition

The Acquisition is expected to close on or about September 30, 2016.

In connection with the Acquisition, the Corporation signed a letter agreement with Orion whereby they have agreed to negotiate in good faith the terms of a financing package to fund the cash component of the Acquisition, subject to the execution of definitive documentation with respect to the financing and the receipt of all regulatory requirements. Terms of the financing package are expected to include:

- Secured gold prepaid facility of $42,200,000USD for which the Corporation will deliver to Orion 2,450oz of gold per quarter for a period of fifteen consecutive quarters following the closing date of the acquisition plus an interest rate of 6.5% of which the Corporation can satisfy four interest payments in common shares of the Corporation based on the 10 business day volume weighted average closing price (“VWAP).
- Silver stream of $11,500,000USD (50% of the initial four quarters of silver produced at Mercedes Mine, 60% for the subsequent four quarters and 70% thereafter until the delivery of 1,250,000oz of silver production after such time the delivery will be reduced to 25% of silver production until the delivery of 2,000,000 ounces upon which time a further reduction to 12.5% of production) with ongoing payment based on 20% of the prevailing silver price.
- An increase of $15,000,000USD to the Corporation’s unsecured credit facility with Orion to $45,000,000.
- Issuance of 1,000,000 warrants with an exercise price of 130% of the VWAP for the 10 business day leading up to the financing and exercisable until 24 months after the closing date of the Acquisition.
- Issuance of $35,000,000USD worth of common shares at the VWAP for the 10 business day leading up to the financing of which the Corporation has the option to reduce by up to $20,000,000USD at its sole discretion.
- An offtake obligation of 15,000oz of gold annually relating exclusively to production from Mercedes Mine.

**South Arturo**

The Corporation received notice from Barrick on August 1, 2016 that ore from the Corporation’s 40% owned South Aruto project commenced being processed at Barrick’s Goldstrike Mine processing facility.