KERR MINES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED DECEMBER 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

Notice To Reader

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

Kerr Mines Inc.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
Unaudited

	As at December 31, 2019	As at June 30, 2019
ASSETS		
Current assets		
Cash	**$ 157,094**	$ 446,477
Marketable securities	**2,519**	2,519
Accounts receivable (note 4)	**20,680**	220,613
Prepaid expenses and other assets	**119,322**	193,301
Total current assets	**299,615**	862,910
Non-current assets		
Restricted investments (note 3)	**1,059,797**	1,067,876
Property, plant and equipment (note 5)	**9,010,917**	9,263,891
Right-of-use assets (note 6)	**85,251**	-
Mining properties (note 7)	**7,270,465**	7,270,465
Total assets	**$ 17,726,045**	$ 18,465,142
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	**$ 748,687**	$ 697,666
Convertible promissory notes payable (note 11)	**1,831,504**	-
Lease liability (note 9)	**33,072**	-
Derivative in convertible promissory note payable (note 12)	**55,127**	-
Total current liabilities	**2,668,390**	697,666
Non-current liabilities		
Promissory notes payable (note 10)	**6,757,330**	6,491,113
Convertible promissory notes payable (note 11)	**4,691,210**	7,021,663
Derivative financial liabilities (note 12)	**151,478**	430,295
Lease liability (note 9)	**43,666**	-
Deferred tax liabilities	**40,772**	40,772
Decommissioning liabilities (note 13)	**2,210,208**	2,271,222
Total liabilities	**16,563,054**	16,952,731
Equity		
Share capital (note 14)	**143,282,481**	141,743,418
Shares to be issued	**809,400**	-
Contributed surplus	**13,385,364**	13,064,554
Warrant reserve (note 16)	**1,081,855**	1,402,665
Share-based payments reserve (note 15)	**2,061,032**	2,017,768
Accumulated other comprehensive income	**677,786**	594,297
Deficit	**(160,134,927)**	(157,310,291)
Total equity	**1,162,991**	1,512,411
Total liabilities and equity	**$ 17,726,045**	$ 18,465,142

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

Nature of operations and going concern (note 1)
Commitments and contingencies (note 20)
Subsequent events (note 22)

Approved on behalf of the Board:

(Signed) "Fahad Al Tamimi" Director (Signed) "Claudio Ciavarella" Director

Kerr Mines Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
Unaudited

	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
Operating expenses				
Exploration and evaluation expenditures (note 17)	**$ 629,624**	$ 1,668,623	**$ 1,195,454**	$ 2,582,819
General and administrative	**10,278**	-	**14,983**	10,485
Depreciation (note 5)	**100,818**	113,234	**193,786**	225,318
Salaries and benefits	**1,627**	1,598	**3,132**	3,732
Consulting fees (note 19)	**96,635**	15,275	**193,270**	53,770
Professional fees (note 19)	**43,093**	286,872	**67,143**	301,274
Promotion and travel	**8,000**	-	**26,176**	-
Shareholder relations	**14,921**	91,277	**45,248**	131,963
	(904,996)	(2,176,879)	**(1,739,192)**	(3,309,361)
Gain on disposal of other assets	**-**	-	**-**	525,272
Unrealized loss on marketable securities	**-**	(86,603)	**-**	(128,805)
Finance charges	**(255,787)**	(242,264)	**(541,996)**	(449,866)
Net loss on settlement of interest payable	**-**	-	**(20,779)**	-
Fair value adjustment of derivative financial liabilities	**148,103**	60,562	**67,275**	(162,064)
Loss on converting of convertible debt	**(536)**	-	**(249,619)**	-
Interest and other revenue	**18**	2,762	**381**	6,377
(Loss) gain on foreign exchange	**(186,910)**	308,037	**(79,642)**	229,375
Share-based payments (note 15)	**(252,432)**	(48,466)	**(261,064)**	(72,932)
Net loss for the period	**$ (1,452,540)**	$ (2,182,851)	**$ (2,824,636)**	$ (3,362,004)
Other comprehensive income (loss)				
Foreign exchange difference	**$ 180,916**	$ (179,870)	**$ 83,489**	$ (151,350)
Other comprehensive income (loss) for the period	**180,916**	(179,870)	**83,489**	(151,350)
Total comprehensive loss for the period	**$ (1,271,624)**	$ (2,362,721)	**$ (2,741,147)**	$ (3,513,354)
Basic and diluted net loss per share (note 18)	**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ (0.01)
Weighted average number of common shares outstanding	**287,429,067**	263,634,515	**284,390,643**	259,709,841

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

Kerr Mines Inc.

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Unaudited

	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
Operating activities		
Net loss for the period	**$ (2,824,636)**	$ (3,362,004)
Adjustments for:		
Depreciation	**193,786**	225,318
Share-based payments	**261,064**	72,932
Settlement of management fee	**163,209**	-
Accretion expenses	**(81,433)**	77,925
Unrealized loss on marketable securities	**-**	128,805
Accrued interest	**553,226**	431,650
Net loss on settlement of interest payable	**20,779**	-
Loss on revaluation of derivative liability	**-**	63,302
Change in decommission liability	**(61,840)**	-
Foreign exchange	**98,089**	(239,497)
(Gain) on disposal of other assets	**-**	(544,645)
Loss on converting of convertible debt	**249,619**	-
Changes in non-cash working capital items:		
Accounts receivable	**199,933**	186,582
Prepaid expenses and other assets	**73,979**	10,221
Accounts payable and accrued liabilities	**51,021**	(325,555)
Net cash used in operating activities	**(1,103,204)**	(3,274,966)
Investing activities		
Repayment of lease on right-to-use asset	**(16,262)**	-
Net cash used in investing activities	**(16,262)**	-
Financing activities		
Shares to be issued	**809,400**	-
Issuance of common shares and warrants, net of transaction costs	**-**	2,936,672
Proceeds from convertible note payable, net of transaction costs	**-**	2,660,400
Proceeds from options exercised	**111,791**	-
Repayment of interest on convertible note payable	**(91,108)**	-
Net cash provided by financing activities	**830,083**	5,597,072
Net change in cash	**(289,383)**	2,322,106
Cash, beginning of period	**446,477**	1,035,247
Cash, end of period	**$ 157,094**	$ 3,357,353

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

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

			Reserves					
	Share capital	Shares to be issued	Contributed surplus	Share-based payments reserve	Warrant reserve	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, June 30, 2018	**$139,366,531**	**$ -**	**$ 10,531,788**	**$ 1,696,578**	**$ 2,699,910**	**$ 498,689**	**$(148,297,883)**	**$ 6,495,613**
Shares issued in private placements	2,973,517	-	-	-	-	-	-	2,973,517
Transaction cost	(36,845)	-	-	-	-	-	-	(36,845)
Warrants issued with shares	(869,826)	-	-	-	869,826	-	-	-
Warrants issued with convertible debenture	-	-	-	-	72,347	-	-	72,347
Share-based payments	-	-	-	72,932	-	-	-	72,932
Stock-options expired	-	-	103,667	(103,667)	-	-	-	-
Net loss and comprehensive loss for the period	-	-	-	-	-	(151,350)	(3,362,004)	(3,513,354)
Balance, December 31, 2018	**$141,433,377**	**$ -**	**$ 10,635,455**	**$ 1,665,843**	**$ 3,642,083**	**$ 347,339**	**$(151,659,887)**	**$ 6,064,210**
Balance, June 30, 2019	**$141,743,418**	**$ -**	**$ 13,064,554**	**$ 2,017,768**	**$ 1,402,665**	**$ 594,297**	**$(157,310,291)**	**$ 1,512,411**
Shares issued for interest	137,594	-	-	-	-	-	-	137,594
Converting of convertible debt	908,669	-	-	-	-	-	-	908,669
Shares to be issued	-	809,400	-	-	-	-	-	809,400
Warrants expired	-	-	320,810	-	(320,810)	-	-	-
Stock-options exercised	492,800	-	-	(217,800)	-	-	-	275,000
Share-based payments	-	-	-	261,064	-	-	-	261,064
Net loss and comprehensive income for the period	-	-	-	-	-	83,489	(2,824,636)	(2,741,147)
Balance, December 31, 2019	**$143,282,481**	**$ 809,400**	**$ 13,385,364**	**$ 2,061,032**	**$ 1,081,855**	**$ 677,786**	**$(160,134,927)**	**$ 1,162,991**

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

1. Nature of operations and going concern

Kerr Mines Inc. (“Kerr” or the “Company”) is incorporated under the laws of the Province of Ontario. The principal business activities are directed towards exploring and developing the Copperstone gold property ("Copperstone") 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 18 King Street East, Suite 902, Toronto, Ontario, M5C 1C4, Canada.

As at December 31, 2019, the Company had working capital deficiency of $2,368,775 (June 30, 2019 – working capital of $165,244). The Company has incurred losses in previous periods and has not yet achieved profitable operations, with a current loss of $2,824,636 for six months ended December 31, 2019 (six months ended December 31, 2018 - loss of $3,362,004) and has an accumulated deficit of $160,134,927 as at December 31, 2019, (June 30, 2019 - $157,310,291), and expects to incur future losses in the development of its business and requires additional financing to continue to be able to operate, retain rights to its properties and carry out exploration and development of its properties, all of which casts significant doubt about the Company’s ability to continue as a going concern. These unaudited condensed interim consolidated financial statements have been prepared on a going-concern basis and do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material. While the Company expects to be able to obtain sufficient financing to continue as a going concern, it is not possible to predict whether financing efforts will be successful.

As at December 31, 2019, the Company is in the process of advancing the Copperstone Mine project to production. The continued operations of the Company and the amounts recoverable on the properties are dependent upon the ability of the Company to obtain the financing to continue the Company’s current focus of maximizing Copperstone’s potential by defining and expanding current resources and strengthening the mine’s economics leading to project financing and a production decision.

2. Significant accounting policies

Statement of compliance

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

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS's issued and outstanding as of February 14, 2020, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended June 30, 2019, except as noted below. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending June 30, 2020 could result in restatement of these unaudited condensed interim consolidated financial statements.

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

New standards adopted

Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. The application of the new standard had no impact on the unaudited condensed interim consolidated financial statements as at December 31, 2019.

New standards not yet adopted and interpretations issued but not yet effective

IFRS 10 - Consolidated Financial Statements ("IFRS 10"). IFRS 10 and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

3. Restricted investments

	As at December 31, 2019	As at June 30, 2019
Restricted investments		
Short-term cashable account [(1)]	**$ 1,059,797**	$ 1,067,876
Total	**$ 1,059,797**	$ 1,067,876

(1) Pursuant to the term of the surety bond disclosed in (note 20) the Company provided cash collateral of $1,059,797 or US$816,000 (June 30, 2019 - $1,067,876 or US$816,000) which is held with the Bank of New York in the name of the Company to cover a portion of the decommission liabilities related to Copperstone property (note 7).

4. Accounts receivable

	As at December 31, 2019	As at June 30, 2019
HST receivable	**$ 18,661**	$ 16,581
Other receivables	**2,019**	204,032
Total	**$ 20,680**	$ 220,613

The other receivables are mainly the receivable from the disposal of Orefinders and PowerOre to a related party and has been fully received in July 2019.

(Expressed in Canadian Dollars)

5. Property, plant and equipment

Cost	Buildings	Mine and mill equipment	Surface vehicles	Computer equipment	Mill	Total
Balance, June 30, 2018	**$ 2,552,059**	**$ 560,925**	**$ 1,554,096**	**$ 61,495**	**$ 5,722,287**	**$ 10,450,862**
Disposals	-	-	(406,329)	-	-	(406,329)
Foreign exchange differences	80,598	(94,850)	229,083	(378)	(221,395)	(6,942)
Balance, June 30, 2019	**2,632,657**	**466,075**	**1,376,850**	**61,117**	**5,500,892**	**10,037,591**
Foreign exchange differences	(19,916)	(3,526)	(10,416)	(462)	(41,613)	(75,933)
Balance, December 31, 2019	**$ 2,612,741**	**$ 462,549**	**$ 1,366,434**	**$ 60,655**	**$ 5,459,279**	**$ 9,961,658**

Accumulated depreciation	Buildings	Mine and mill equipment	Surface vehicles	Computer equipment	Mill	Total
Balance, June 30, 2018	**$ -**	**$ 134,196**	**$ 260,602**	**$ 61,495**	**$ -**	**$ 456,293**
Depreciation for the year	-	94,279	359,787	-	-	454,066
Disposals	-	-	(144,776)	-	-	(144,776)
Foreign exchange differences	-	3,011	5,484	(378)	-	8,117
Balance, June 30, 2019	**-**	**231,486**	**481,097**	**61,117**	**-**	**773,700**
Depreciation for the period	-	47,015	138,893	-	-	185,908
Foreign exchange differences	-	(2,514)	(5,891)	(462)	-	(8,867)
Balance, December 31, 2019	**$ -**	**$ 275,987**	**$ 614,099**	**$ 60,655**	**$ -**	**$ 950,741**

Carrying value	Buildings	Mine and mill equipment	Surface vehicles	Computer equipment	Mill	Total
Balance, June 30, 2019	$ 2,632,657	$ 234,589	$ 895,753	$ -	$ 5,500,892	$ 9,263,891
Balance, December 31, 2019	**$ 2,612,741**	**$ 186,562**	**$ 752,335**	**$ -**	**$ 5,459,279**	**$ 9,010,917**

6. Rights-of-use assets

	Mobile equipment	Total
Balance, June 30, 2018 and June 30, 2019	**$ -**	**$ -**
Additions (note 9)	93,000	93,000
Depreciation for the period	(7,878)	(7,878)
Foreign exchange movements	129	129
Balance, December 31, 2019	**$ 85,251**	**$ 85,251**

Mobile equipment is depreciate over 36 months.

(Expressed in Canadian Dollars)

7. Mineral properties

The Company is engaged in exploring and developing the Copperstone gold property in La Paz County, Arizona, United States.

The Company holds a 100% leasehold interest in the Copperstone Project. The landlord is The Patch Living Trust. The current lease expires June 12, 2026. The lease is renewable for one or more ten-year terms at the Company's option under the same terms and conditions. The Company is obligated to pay for all permitting and state lease bonding, insurance, taxes, and is also required to pay an annual lease payment of US$40,000 to the Patch Living Trust. In addition, the Company is obligated to pay a quarterly production gross royalty equal to 1.5% of the disposition of Metal Products by the Company. Total annual production gross royalty obligations for the Copperstone Property total 6%. Of the annual gross production royalty, 4.5% is payable to Trans Oceanic Minerals Company Ltd., a company controlled by Fahad Al Tamimi, the Company's Chairman of the Board of Directors, and 1.5% payable to the Patch Living Trust.

All required property payments were made with respect to the Copperstone Project as of December 31, 2019, and all claims are in good standing. Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company's ability to retain the rights to certain of its properties is dependent upon the Company continuing to make option payments and meet other commitments.

8. Accounts payable and accrued liabilities

	As at December 31, 2019	As at June 30, 2019
Trade payables	**$ 600,372**	$ 319,942
Accrued liabilities	**148,297**	377,516
Payroll liabilities	**18**	208
Total	**$ 748,687**	$ 697,666

9. Lease liability

	Total
Balance, June 30, 2018 and June 30, 2019	**$ -**
Additions	93,000
Lease payments	(16,262)
Balance, December 31, 2019	**$ 76,738**

Allocated as:

	As at December 31, 2019	**As at June 30, 2019**
Current	**33,072**	-
Long-term	**43,666**	-
Total	**76,738**	-

9. Lease liability (continued)

On September 1, 2019, the Company entered into a thirty-six month lease agreement for a mobile equipment. Under the lease, the Company is required to pay a quarterly payment of $5,941. The lease bear an interest of 7%.

10. Promissory notes payable

	Promissory note (1)	Promissory note (2)	Total
Balance, June 30, 2018	**$ 3,856,783**	**$ 2,136,863**	**$ 5,993,646**
Accrued interest	320,110	177,357	497,467
Balance, June 30, 2019	**4,176,893**	**2,314,220**	**6,491,113**
Accrued interest	171,305	94,912	266,217
Balance, December 31, 2019	**$ 4,348,198**	**$ 2,409,132**	**$ 6,757,330**

1) The promissory note with principal of $3,609,763 is payable to Braydon Capital Corporation ("Braydon"), a company controlled by Claudio Ciavarella, an Officer, a director and shareholder of Kerr. The promissory note bears interest rate of 8% beginning in September 2017 and has a maturity date of August 22, 2020. During the six months ended December 31, 2019, the maturity date was extended to January 20, 2021.
2) Braydon Capital Corporation and Trans Oceanic Minerals Corporation Ltd. each provided promissory notes of $1,000,000 to the Company, bearing interest at 8% beginning in September 2017 and having a maturity date of August 22, 2020. The notes are secured by a general security agreement in the Copperstone Mine. During the six months ended December 31, 2019, the maturity date was extended to January 20, 2021.

11. Convertible promissory notes payable

Kerr debenture I

The Company has a convertible promissory note in the amount of US$2,054,570 ("Kerr debenture I") payable to Trans Oceanic Minerals Corporation Ltd. The Kerr Debenture I had a maturity date of August 22, 2019, interest rate of 8% per annum, compounded monthly and payable quarterly. The holder has the right to convert any part of the amount owing into common shares of the Company at a conversion price of $0.90 per common share. On November 28, 2018, the convertible promissory note was amended by extending the maturity date from August 22, 2019 to August 22, 2020. During the six months ended December 31, 2019, the maturity date was extended to January 20, 2021.

Kerr debenture II

The Company has a convertible promissory note in the amount of US$1,000,000 ("Kerr debenture II") payable to Trans Oceanic Minerals Corporation Ltd. The Kerr Debenture II had a maturity date of August 22, 2019, interest rate of 8% per annum, compounded monthly, payable quarterly. The interest will not accrue and will not payable until August 22, 2017. The holder has the right to convert any part of the amount owing into common shares of the Company at a conversion price of $0.065 per common share.

The conversion feature of a convertible financial instrument is presumed to be classified as a derivative financial liability unless it meets all the criteria to recognize as equity instrument under IAS 32 - Financial Instruments: Presentation. One of criteria is that the conversion option exchanges a fixed amount of shares for a fixed amount of cash ("fixed for fixed"). Since the convertible promissory note payables are denominated in US dollar, but are convertible into common shares based upon a Canadian dollar conversion rate, therefore the fixed for fixed criteria is not met. As such, the conversion feature was classified as derivative financial liabilities instead of an equity instrument. The Company separated the convertible promissory notes payable into two components, with the debentures carried at amortized cost, and the conversion feature carried at fair value.

11. Convertible promissory notes payable (continued)

Kerr debenture II (continued)

On November 28, 2018, the Kerr debenture I and II convertible promissory notes was amended by extending the maturity date from August 22, 2019 to August 22, 2020. As a result, the Company extinguished these two convertible promissory notes when they were amended on November 28, 2018 and treated them as two new convertible promissory notes with a maturity date of August 22, 2020. The Company calculated the fair value of the conversion feature and re-allocated the convertible promissory note payables into two components, with the debentures carried at amortized cost, and the conversion feature carried at fair value.

During the six months ended December 31, 2019, the maturity date was extended again to January 20, 2021. As a result, the Company treated them as two new convertible promissory notes with a new maturity date of January 20, 2021. The Company calculated the fair value of the conversion feature and re-allocated the convertible promissory note payables into two components, with the debentures carried at amortized cost, and the conversion feature carried at fair value.

Sprott convertible note

On November 6, 2018, the Company executed a term sheet with Sprott Private Resource Lending (Collector) LP ("Sprott"), setting out the indicative terms upon which Sprott is prepared, subject to certain conditions including satisfactory due diligence, to provide up to US$25 million of senior secured project financing (the "Financing Package") to fund the development and production of gold at the Copperstone Mine.

The Highlights of the Financing Package include:

- US$2 million senior redeemable convertible note (the "Note") with an 9% coupon repayable 18 months after closing (received of which US$500,000 was converted at $0.16 for 4,130,313 commons shares);
- US$2 million senior gold loan facility repayable 18 months after closing (target completion on or about June 30, 2019 ("Phase 2"));
- US$21 million senior project loan facility repayable 48 months after closing;
- The Company will raise US$2 million in equity as working capital.

On November 28, 2018, the Company closed the US$2 million (CDN$2.7 million) Sprott Note financing. The Sprott Note is convertible into Common Shares at any time prior to maturity at a conversion price of CDN$0.16 per share. The Corporation can redeem the Sprott Note at any time by paying the outstanding principal amount in cash, or with the agreement of the holder, in common shares of the Corporation, together with interest payable to maturity. In connection with the Sprott Note, the Corporation issued to Sprott one million common share purchase warrants entitling the holder to purchase one common share at a price of CDN$0.15 until November 27, 2021, subject to acceleration.

In connection with the Sprott Note, on November 28, 2018 the Company completed a non-brokered private placement of 21,239,409 units at a price of $0.14 per unit for gross proceeds of $2,973,517. The offering, initially announced on November 9, 2018 and targeting proceeds of $2.5 million, was oversubscribed.

The Company remains in discussion with Sprott regarding the balance of the Sprott Project Financing Package as it continues with its Resource Expansion Program and project optimization studies regarding the Copperstone Project. Any further financing from Sprott under the Sprott Project Financing Package or otherwise will be subject to the Company meeting prescribed project milestones set forth in the term sheet and additional conditions that may be prescribed if the financing moves forward.

11. Convertible promissory notes payable (continued)

Sprott convertible note (continued)

Resulting from the Company's internal optimization study which reflects a further reduction in the required project capital for the re-start of the Copperstone mine the Company continues to consider other potential sources of project financing that would further enhance project economics by reducing the effective cost of capital.

Since the Sprott note is denominated in US dollar but is convertible into common shares based upon a Canadian dollar conversion rate, the fixed for fixed criteria is not met. As such, the conversion feature was classified as a financial derivative liability instead of an equity instrument. The warrants met the fixed for fixed criteria and was classified as an equity instrument. On the initial recognition, the face value of $2,660,400 were separated into three components. The Company calculated the fair value of the liability component as $2,553,722 using a discount rate of 12%, and the residual amount of $106,678 being the fair value of the equity (warrants). The fair value of the financial derivative liability (conversion feature) was estimated at $129,895 by using Black-Scholes pricing model with the assumptions; dividend yield 0%; risk free interest 2.19%; volatility 103.25% and an expected life of 18 months.

Transaction costs of $151,148 were allocated to the debt components, equity components and derivative liability components in proportion to the allocation of the proceeds on initial recognition. Transaction cost $6,061 was allocated to equity component, and was accounted for as a deduction from equity; $7,380 was allocated to the derivative financial liability component and was expensed; and $137,701 was allocated to the debt component and was offset against the carrying amount of the debt and included in the determination of the accretion expenses. $163,375 accretion expenses were included in finance charges.

The following table summarizes the debt component:

	Kerr debenture I	Kerr debenture II	Sprott note	Total
Balance, June 30, 2018	**$ 2,887,661**	**$ 1,306,458**	**$ -**	**$ 4,194,119**
Issue of convertible debt	-	-	2,660,400	2,660,400
Less transaction cost	-	-	(151,148)	(151,148)
Less fair value on convertible feature	(33,594)	(105,139)	(129,895)	(268,628)
Less fair value of detachable warrants	-	-	(72,347)	(72,347)
Accrued interest	243,969	117,162	118,569	479,700
Accretion expenses	13,064	141,340	163,375	317,779
Foreign exchange difference	(16,979)	(9,762)	(111,471)	(138,212)
Balance, June 30, 2019	**3,094,121**	**1,450,059**	**2,477,483**	**7,021,663**
Less converting of loan	-	-	(662,650)	(662,650)
Less fair value on convertible feature	(1,091)	(97,441)	-	(98,532)
Interest paid	-	-	(207,923)	(207,923)
Accrued interest	128,675	62,628	95,706	287,009
Accretion expense	6,492	75,029	140,037	221,558
Foreign exchange difference	(14,813)	(12,449)	(11,149)	(38,411)
Balance, December 31, 2019	**$ 3,213,384**	**$ 1,477,826**	**$ 1,831,504**	**$ 6,522,714**
Components of convertible promissory notes payable:				
Current	$ -	$ -	$ 1,831,504	$ 1,831,504
Long term	$ 3,213,384	$ 1,477,826	$ -	$ 4,691,210
Total balance	**$ 3,213,384**	**$ 1,477,826**	**$ 1,831,504**	**$ 6,522,714**

(Expressed in Canadian Dollars)

12. Derivative financial liabilities

The following table summarizes the derivative financial liabilities (note 11):

	Kerr debenture I	Kerr debenture II	Sprott note	Total
Balance, June 30, 2018	**$ -**	**$ 208,739**	**$ -**	**$ 208,739**
Fair value adjustment	-	(208,739)	-	(208,739)
Derivative financial liabilities on initial	33,594	105,139	129,895	268,628
Fair value adjustment	4,745	71,758	85,164	161,667
Balance, June 30, 2019	**38,339**	**176,897**	**215,059**	**430,295**
Fair value adjustment	(38,339)	(176,897)	-	(215,236)
Derivative financial liabilities on initial	1,091	97,441	-	98,532
Fair value adjustment	5,312	47,634	(159,932)	(106,986)
Balance, December 31, 2019	**$ 6,403**	**$ 145,075**	**$ 55,127**	**$ 206,605**
Components of derivative financial liabilities:				
Current	$ -	$ -	$ 55,127	$ 55,127
Long term	$ 6,403	$ 145,075	$ -	$ 151,478
Total Balance	**$ 6,403**	**$ 145,075**	**$ 55,127**	**$ 206,605**

13. Decommissioning liabilities

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

A continuity for asset retirement obligations is as follows:

Asset Retirement Obligation	Copperstone	Total
Balance, June 30, 2018	**$ 2,174,079**	**$ 2,174,079**
Accretion expense for the year	30,792	30,792
Foreign exchange differences	(13,722)	(13,722)
Adjustment	80,073	80,073
Balance, June 30, 2019	**2,271,222**	**2,271,222**
Accretion expense for the year	19,231	19,231
Foreign exchange differences	(18,405)	(18,405)
Adjustment	(61,840)	(61,840)
Balance, December 31, 2019	**$ 2,210,208**	**$ 2,210,208**

Copperstone:

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

i) Total undiscounted amount of future retirement costs was estimated to be US$1,734,214 (Cdn$2,210,208) to which the Company has provided cash collateral as disclosed in (note 20).
ii) Risk-free rate at 1.68%.
iii) Expected timing of cash outflows required to settle the obligation is for the full amount to be paid in 2022.
iv) Inflation over the period up to 2022 was estimated to be 1.70% per annum.

(Expressed in Canadian Dollars)

14. Share capital

a) Authorized share capital

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

b) Common shares issued

	Number of common shares	Amount
Balance, June 30, 2018	**255,785,168**	**$139,366,531**
Common shares issued in private placement [i]	21,239,409	2,973,517
Value allocated to warrant [i]	-	(869,826)
Transaction costs	-	(36,845)
Balance, December 31, 2018	**277,024,577**	**$141,433,377**
Balance, June 30, 2019	**280,374,577**	**$141,743,418**
Shares issued for interest [ii]	724,177	137,594
Conversion of promissory note [iii]	4,130,313	908,669
Options exercised	2,200,000	492,800
Balance, December 31, 2019	**287,429,067**	**$143,282,481**

(i) On November 27, 2018, the Company closed a non-brokered private placement, by issuing 21,239,409 units at a price of $0.14 per unit, for gross proceeds of $2,973,518. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire a common share at a price of $0.21 per share for a period of 24 months from the date of issuance, provided, that if, at any time the common shares trade at a volume weighted average trading price of $0.30, or greater, per share for a period of 20 consecutive trading days. The Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company. The fair value of the 21,239,409 share purchase warrants was estimated at $869,826 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 2.19%; volatility 103.25% and an expected life of 24 months.

(ii) On July 2, 2019, the Company issued 724,177 shares to Sprott for semi-annually interest payment.

(iii) On August 6, 2019, Sprott elected to convert an amount of US$500,000 into 4,130,313 common shares of the Company.

15. Stock options

The purpose of the Company's stock option plan is to provide incentives to directors, officers, employees and consultants of the Company. The maximum number of common shares reserved for issuance upon exercise of the options is 10% of issued and outstanding shares. The Board of Directors may designate the recipients of options and determine the number of common shares covered by each option, its exercise price (which may not be less than closing market price of the common shares on the trading day prior to the grant) and its expiry date. The term of the options shall not exceed five years from the date of grant.

Option pricing models require the input of highly subjective assumptions noted above. Changes in the subjective input assumptions can materially affect the fair value estimate.

(Expressed in Canadian Dollars)

15. Stock options (continued)

The following table reflects the continuity of stock options for the six months ended December 31, 2019 and December 31, 2018:

	Number of stock options	Weighted average exercise price
Balance, June 30, 2018	**9,880,000**	**$ 0.220**
Issued [(i)]	500,000	0.130
Expired	(580,000)	(0.220)
Balance, December 31, 2018	**9,800,000**	**$ 0.220**
Balance, June 30, 2019	**13,000,000**	**$ 0.200**
Issued [(ii)]	2,200,000	0.135
Exercised	(2,200,000)	(0.125)
Balance, December 31, 2019	**13,000,000**	**$ 0.200**

[(i)] On November 28, 2018, the Company issued 500,000 stock options to an employee of the Company with an exercise price of $0.13. The options vest 200,000 immediately, 150,000 on May 24, 2019, and 150,000 on May 24 2020. The grant date fair value of $44,239 was assigned to the stock options as estimated by using the Black-Scholes option pricing model with the following assumptions: a five year expected average life; share price of $0.12; 103.25% expected volatility; risk free interest rate of 2.19%; and an expected dividend yield of 0%. For the three and six months ended December 31, 2019, $2,249 and $4,498, respectively was expensed to option-based payments (three and six months ended December 31, 2018 - $24,000)

[(ii)] On November 5, 2019, the Company issued 2,200,000 stock options to a certain director and officer of the Company with an exercise price of $0.135. The options vest immediately. The fair value of these options at the date of grant of $677,529 was assigned to the stock options as estimated by using the Black-Scholes option pricing model with the following assumptions: a five year expected average life; share price of $0.135; 118% expected volatility; risk free interest rate of 1.59%; and an expected dividend yield of 0%. For the three and six months ended December 31, 2019, $243,800 was expensed to option-based payments (three and six months ended December 31, 2018 - $nil)

The following table reflects the actual stock options issued and outstanding as of December 31, 2019:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
May 2, 2022	0.19	2.34	4,000,000	2,500,000
August 23, 2022	0.22	2.65	3,000,000	3,000,000
January 12, 2023	0.30	3.04	2,000,000	2,000,000
November 28, 2023	0.13	3.91	500,000	350,000
January 29, 2024	0.14	4.08	500,000	500,000
April 15, 2024	0.125	4.29	800,000	800,000
November 5, 2024	0.135	4.85	2,200,000	2,200,000
	0.20	**3.19**	**13,000,000**	**11,350,000**

(Expressed in Canadian Dollars)

16. Warrants

The following table reflects the continuity of warrants for the six months ended December 31, 2019 and December 31, 2018:

	Number of warrants		Amount
Balance, June 30, 2018	**22,222,217**	**$**	**0.27**
Issued (note 14(b)(i))	21,239,409		0.21
Issued (note 11)	1,000,000		0.16
Balance, December 31, 2018	**44,461,626**	**$**	**0.24**
Balance, June 30, 2019	**29,991,357**	**$**	**0.22**
Expired	(4,401,948)		(0.27)
Balance, December 31, 2019	**25,589,409**	**$**	**0.21**

The following table reflects the actual warrants issued as of December 31, 2019:

Number of warrants outstanding	Grant date fair value ($)	Exercise price ($)	Expiry date
21,239,409	869,826	0.21	November 27, 2020
3,350,000	139,682	0.21	June 29, 2019
1,000,000	72,347	0.16	November 27, 2021
25,589,409	**1,081,855**	**0.21**	

17. Exploration and Evaluation Expenditures

	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
McGarry property	**$ -**	$ (11,320)	**$ -**	$ (41,238)
Copperstone property	**629,624**	1,679,943	**1,195,454**	2,624,057
	$ 629,624	$ 1,668,623	**$ 1,195,454**	$ 2,582,819

(Expressed in Canadian Dollars)

18. Loss per share

For the three and six months ended December 31, 2019, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $1,452,540 and $2,824,636, respectively (three and six months ended December 31, 2018 - $2,182,851 and $3,362,004, respectively) and the weighted average number of common shares outstanding of 287,429,067 and 284,390,643, respectively (three and six months ended December 31, 2018 - 263,634,515 and 259,709,841, respectively) for basic and diluted loss per share. Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

19. Related party transactions

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

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

(a) Loans from related parties

The Company has entered into a series of financial transactions with related parties as detailed below.

	December 31, 2019	
Loans from related parties	**Directors**	**Total**
Promissory note payables (note 10)	$ 6,757,330	$ 6,757,330
Convertible promissory note payables (note 11)	4,691,210	4,691,210
Derivative financial liabilities (note 11)	151,478	151,478
Total	**$ 11,600,018**	**$ 11,600,018**

	June 30, 2019	
Loans from related parties	**Directors**	**Total**
Promissory note payables (note 10)	$ 6,491,113	$ 6,491,113
Convertible promissory note payables (note 11)	4,544,179	4,544,179
Derivative financial liabilities (note 11)	215,236	215,236
Total	**$ 11,250,528**	**$ 11,250,528**

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

		Three Months Ended December 31,		Six Months Ended December 31,	
		2019	**2018**	**2019**	**2018**
The Marrelli Group	(i)	**$ 18,830**	$ 15,699	**$ 31,679**	$ 23,837
Peterson McVicar LLP ("Peterson")	(ii)	**31,493**	109,226	**41,698**	109,226
Silvergate Consulting	(iii)	**-**	30,000	**-**	60,000
Braydon Capital Corporation ("Braydon")	(iv)	**110,480**	102,016	**218,761**	201,995
Trans Oceanic Minerals Corporation ("TOMC")	(v)	**136,108**	125,471	**238,829**	229,656

19. Related party transactions (continued)

(b) Transactions (continued)

i) During the three and six months ended December 31, 2019, the Company paid professional fees and disbursements of $18,830 and $31,679, respectively, (three and six months ended December 31, 2018 - $15,699 and $23,837, respectively) to Marrelli Support Services Inc., DSA Corporate Services Inc.,DSA Filling Services Limited and Marrelli Press Release Services, together known as the "The Marrelli Group", for:

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

These services were incurred in the normal course of operations for general accounting and financial reporting matters. As at December 31, 2019, the Marrelli Group was owed $24,295 (June 30, 2019 - $11,235).

ii) A director is a partner in a legal firm that provided legal services to the Company. The amounts paid or accrued to the firm relating to services provided in the normal course during the three and six months ended December 31, 2019 was $31,493 and $41,698, respectively (three and six months ended December 31, 2018 - $109,226). The amounts owing to the firm as at December 31, 2019 was $58,091 (June 30, 2019 - $13,311).

iii) During the three and six months ended December 31, 2019, the Company expensed consulting fees to Silvergate Consulting, a company controlled by a director of the Company, to provide capital markets and investor relations services to the Company. The amounts paid or accrued to the firm relating to the services provided in the normal course of business for the three and six months ended December 31, 2019, $nil (three and six months ended December 31, 2018 - $30,000 and $60,000, respectively).

iv) During the three and six months ended December 31, 2019, the Company accrued interest to Braydon for the promissory notes payables (note 10).

v) During the three and six months ended December 31, 2019, the Company accrued interest to TOMC for the promissory notes payables (note 10) and convertible promissory notes payable (note 11).

vi) During the three and six months ended December 31, 2019, an officer and director of the Company settled a portion of management fees for stock options exercised of $163,209 (three and six months ended December 31, 2018 - $nil).

(Expressed in Canadian Dollars)

19. Related party transactions (continued)

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

	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
Salaries and benefits	**$ 74,249**	$ 74,273	**$ 148,522**	$ 147,792
Consulting fee	**87,500**	-	**175,000**	-
Stock-based compensation	**250,183**	24,466	**256,565**	48,932
	$ 411,932	$ 98,739	**$ 580,087**	$ 196,724

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

20. Commitments and contingencies

a) The Company has placed a surety bond of an insurance company in connection with the Copperstone Property as required by the US Bureau of Land Management. Cash collateral of $1,059,797 (US$816,000) is held with the Bank of New York in the name of the Company in a short term cashable account.
b) 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.

21. Segmented information

As at December 31, 2019, the Company's operations comprises of a mineral exploration and development project in La Paz County, Arizona ("USA") which also represent geographical location, a head office in Toronto, Canada.

Six Months Ended December 31, 2019

	Canada	USA	Total
Revenues	$ -	$ -	$ -
Net loss	$ (1,403,082)	$ (1,421,554)	$ (2,824,636)

Six Months Ended December 31, 2018

	Canada	USA	Total
Revenues	$ -	$ -	$ -
Net loss	$ (473,724)	$ (2,888,280)	$ (3,362,004)

(Expressed in Canadian Dollars)

21. Segmented information (continued)

Three Months Ended December 31, 2019

	Canada	USA	Total
Revenues	$ -	$ -	$ -
Net loss	$ (686,114)	$ (766,426)	$ (1,452,540)

Three Months Ended December 31, 2018

	Canada	USA	Total
Revenues	$ -	$ -	$ -
Net loss	$ (383,250)	$ (1,799,601)	$ (2,182,851)

As at December 31, 2019

	Canada	USA	Total
Total assets	$ 127,135	$ 17,598,910	$ 17,726,045
Non-current assets	$ -	$ 17,426,430	$ 17,426,430

As at June 30, 2019

	Canada	USA	Total
Total assets	$ 625,552	$ 17,839,590	$ 18,465,142
Non-current assets	$ -	$ 17,602,232	$ 17,602,232

22. Subsequent events

On February 11, 2020, the Company announced that it proposes to offer a non-brokered private placement for up to 18 million units (the “Units”) at $0.14 per Unit for total gross proceeds of up to $2.5 million (the “Offering”). Each Unit will consist of one common share (a “Common Share”) and one common share purchase warrant (a “Warrant”), with each Warrant entitling the holder thereof to purchase one Common Share at a price of $0.21 for a period of 24 months from the closing of the Offering, provided that if, at any time the Common Shares trade on a stock exchange at a volume weighted average trading price of CDN$0.30 or greater for a period of 20 consecutive trading days, the Company may accelerate the expiry date of the Warrants by giving notice to the holders thereof and in such case the Warrants will expire on the 30th calendar day after the date on which such notice is given by the Company.

The net proceeds from the Offering will be used to fund the next phase of drilling and to further advance detailed engineering, including further optimization, all towards the objective of re-starting production on the Company’s high grade Copperstone gold project in the near term.