

# Condensed Consolidated Interim Financial Statements

September 30, 2017

(Unaudited)

(Expressed in thousands of United States dollars)



SUPERIOR  
GOLD INC.

**SUPERIOR GOLD INC.****Condensed Consolidated Interim Statement of Financial Position  
(Unaudited)  
(Expressed in thousands of United States Dollars)**

As at	September 30, 2017	December 31, 2016 (restated – note 16)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 35,128	\$ 6,096
Restricted cash	1,769	1,749
Receivables and other assets	1,486	2,455
Inventories (note 5)	10,074	9,295
<b>Total current assets</b>	<b>48,457</b>	<b>19,595</b>
<b>Non-current assets</b>		
Mining interests; exploration and evaluation; and property, plant and equipment (note 6)	55,573	56,104
<b>TOTAL ASSETS</b>	<b>\$ 104,030</b>	<b>\$ 75,699</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 8,712	\$ 8,929
Income taxes payable (note 14)	3,523	339
Short-term loan (note 7)	-	566
Contingent payable to Northern Star Resources (note 16)	-	18,090
Current portion of finance lease obligation (note 15)	826	1,535
Current portion of provisions (note 8)	5,725	4,794
<b>Total current liabilities</b>	<b>18,786</b>	<b>34,253</b>
<b>Non-current liabilities</b>		
Finance lease obligation (note 15)	1,327	27
Provisions (note 8)	20,264	18,279
Warrant liability (note 11(c))	570	151
Deferred tax liability (note 14)	5,533	8,673
<b>Total non-current liabilities</b>	<b>27,694</b>	<b>27,130</b>
<b>TOTAL LIABILITIES</b>	<b>46,480</b>	<b>61,383</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 11(a and b))	\$ 49,220	\$ 1,471
Subscription receipts (note 11(b))	-	10,552
Reserve (note 11 (c and d))	4,885	-
Accumulated other comprehensive income (loss)	1,467	(452)
Retained earnings	1,978	2,745
<b>TOTAL EQUITY</b>	<b>\$ 57,550</b>	<b>\$ 14,316</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>\$ 104,030</b>	<b>\$ 75,699</b>

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**SUPERIOR GOLD INC.****Condensed Consolidated Interim Statement of Income (loss) and  
Comprehensive Income (loss)****(Unaudited)****(Expressed in thousands of United States Dollars, except per share amounts)**

	Three months ended September 30, 2017	Nine months ended September 30, 2017	For the Period from Incorporation on July 4, 2016 to September 30, 2016
<b>REVENUES</b>			
Metal sales	\$ 26,662	\$ 77,628	\$ -
<b>EXPENSES</b>			
Cost of sales	23,294	68,988	-
General and administrative	857	2,633	131
<b>OPERATING INCOME (LOSS)</b>	<b>2,511</b>	<b>6,007</b>	<b>(131)</b>
<b>OTHER EXPENSES (INCOME)</b>			
Net finance cost (income) (note 12)	(399)	(113)	(22)
Business acquisition expenses (recovery)	3	(458)	422
(Gain) loss on change in valuation of warrant liability (note 11)	(128)	246	-
(Gain) on sale of assets (note 16)	(42)	(42)	-
Loss on settlement of Contingent Payable to Northern Star Resources (note 16)	-	7,056	-
<b>INCOME (LOSS) BEFORE TAXES</b>	<b>3,077</b>	<b>(682)</b>	<b>(531)</b>
Income and mining tax expense (note 14)	749	85	-
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<b>\$ 2,328</b>	<b>\$ (767)</b>	<b>\$ (531)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Foreign currency translation difference on foreign operations	731	1,919	(1)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<b>\$ 3,059</b>	<b>\$ 1,152</b>	<b>\$ (532)</b>
<b>Income (loss) per share (note 11(e)):</b>			
Basic income (loss) per share	\$ 0.02	\$ (0.01)	\$ (0.05)
Diluted income (loss) per share	0.02	(0.01)	(0.05)
Weighted average number of common shares outstanding (basic)	95,669,140	85,373,396	10,103,489
Weighted average number of common shares outstanding (diluted)	112,010,186	85,373,396	10,103,489

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

**SUPERIOR GOLD INC.****Condensed Consolidated Interim Statement of Changes in Equity  
(Unaudited)  
(Expressed in thousands of United States Dollars)**

	Note	Number of shares issued	Share capital	Warrant and Share-based payment reserve	Retained earnings	Accumulated other comprehensive income/(loss)	Total
<b>Shares issued on incorporation on July 4, 2016</b>	11	5,000,100	\$ 39	\$ -	\$ -	\$ -	\$ 39
Private placements	11	6,492,499	660	-	-	-	660
Subscription receipts	11	-	12,396	168	-	-	12,564
Subscription receipt issue costs	11	-	(796)	-	-	-	(796)
Total comprehensive loss for the period from incorporation on July 4, 2016 to September 30, 2016		-	-	-	(531)	(1)	(532)
<b>Balance as at September 30, 2016</b>		<b>11,492,599</b>	<b>\$ 12,299</b>	<b>\$ 168</b>	<b>\$ (531)</b>	<b>\$ (1)</b>	<b>\$ 11,935</b>
<b>Balance as at January 1, 2017</b>		<b>11,492,599</b>	<b>\$ 12,023</b>	<b>\$ -</b>	<b>\$ 2,745</b>	<b>\$ (452)</b>	<b>\$ 14,316</b>
Conversion of Subscription receipts	11	32,600,000	-	-	-	-	-
Offering	11	32,717,500	24,916	-	-	-	24,916
Share issue costs	11	-	(2,114)	-	-	-	(2,114)
Plutonic Gold Operations Acquisition	11, 16	18,859,041	14,395	-	-	-	14,395
Northern Star warrants	11, 16	-	-	3,971	-	-	3,971
Share-based payments	11	-	-	914	-	-	914
Total comprehensive income for the period ended September 30, 2017		-	-	-	(767)	1,919	1,152
<b>Balance as at September 30, 2017</b>		<b>95,669,140</b>	<b>\$ 49,220</b>	<b>\$ 4,885</b>	<b>\$ 1,978</b>	<b>\$ 1,467</b>	<b>\$ 57,550</b>

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

**SUPERIOR GOLD INC.****Condensed Consolidated Interim Statement of Cash Flows****(Unaudited)****(Expressed in thousands of United States Dollars)**

	Three months ended September 30, 2017	Nine months ended September 30, 2017	For the Period from Incorporation on July 4, 2016 to September 30, 2016
<b>Cash flows provided from (used by):</b>			
<b>OPERATING ACTIVITIES</b>			
Net income (loss) for the period	\$ 2,328	\$ (767)	\$ (531)
Adjustments:			
Depreciation and amortization	4,892	13,913	-
Loss on settlement of Contingent Payable to Northern Star Resources	-	7,056	-
Loss on change in valuation of warrant liability	(128)	246	-
Share-based payments	394	914	-
Gain on sale of assets	(42)	(42)	-
Employee entitlements expense	742	2,374	-
Net finance (income) cost	(399)	(113)	-
Income tax expense	749	85	-
Employee provisions paid	(554)	(1,836)	-
Reclamation payments	(82)	(280)	-
Income taxes recovered (paid)	200	(908)	-
Net changes in non-cash working capital items:			
Receivables and other assets	1,951	1,189	(36)
Inventories	(1,466)	(5)	-
Accounts payable and accrued liabilities	258	(2,165)	765
Decrease (increase) in restricted cash	(3)	125	-
	<b>8,840</b>	<b>19,786</b>	<b>198</b>
<b>INVESTING ACTIVITIES</b>			
Interest received	37	103	-
Acquisition of Plutonic Gold Operations (note 16)	-	(7,633)	(762)
Proceeds on sale of assets	78	78	-
Cash held in trust	-	-	(12,266)
Expenditures on mineral interests; exploration and evaluation; and property, plant and equipment	(2,901)	(5,556)	-
	<b>(2,786)</b>	<b>(13,008)</b>	<b>(13,028)</b>
<b>FINANCING ACTIVITIES</b>			
Issuance of common shares	-	24,916	1,280
Share issue costs	-	(1,941)	-
Subscriptions receipts, net of issue costs	-	-	11,768
Repayment of short-term loan	-	(591)	-
Repayment of finance lease obligation	(403)	(1,720)	-
Interest paid	(27)	(65)	-
	<b>(430)</b>	<b>20,599</b>	<b>13,048</b>
Effect of exchange rates on cash & cash equivalents	891	1,655	(2)
Increase (decrease) in cash and cash equivalents	6,515	29,032	216
Cash and cash equivalents, beginning of period	28,613	6,096	-
Cash and cash equivalents, end of period	35,128	35,128	216

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

## **SUPERIOR GOLD INC.**

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

**For the three and nine months ended September 30, 2017**

**(Unaudited)**

**(expressed in thousands of United States dollars unless otherwise stated)**

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#### **1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS**

Superior Gold Inc. (formerly 2525908 Ontario Inc.) (the “Company”) was incorporated under the Business Corporations Act in Ontario on July 4, 2016 and is engaged in the acquisition, exploration, development and operation of gold resource properties. The address and domicile of the Company’s registered office and its principal place of business is 70 University Avenue, Suite 1410, Toronto, Ontario M5J 2M4.

On October 12, 2016, the Company completed the acquisition of the Plutonic Gold Operations from Northern Star Resources Inc. (“Northern Star”) (note 16).

The Company raised aggregate gross proceeds of \$24,916 from an initial public offering (“Offering”) completed on February 23, 2017 and the exercise of an Over-Allotment Option completed on March 1, 2017 (12 (b)). After closing of the Offering, the Company paid the contingent consideration owing for the acquisition of the Plutonic Gold Operations including 18,859,041 common shares, 14,429,521 common share purchase warrants and \$7,633 (CAD\$10,000) of cash according to the amendment to the Acquisition Agreement dated February 9, 2017 (note 16).

The Company is subject to risks and challenges similar to other companies in a comparable stage of operation, exploration and development. These risks include, but are not limited to, losses, successfully raising cash flows through debt or equity markets and the successful development of its mineral property interests to satisfy its commitments and continue as a going concern. The Company believes it has sufficient funds available from existing cash on hand or available from continuing operations to maintain its mineral investments, fund its exploration and evaluation and administration costs.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

These condensed consolidated interim financial statements (the “financial statements”) have been prepared in accordance with IAS 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and the IFRS Interpretations Committee. They do not include all the information required for full annual financial statements and therefore should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2016. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes to the Company’s financial position and performance since the last annual consolidated financial statements.

##### **Basis of measurement**

The condensed consolidated interim financial statements have been prepared on a historical cost basis, with the exception of certain financial instruments, warrant liability, and share-based payments, which are measured at fair value.

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ materially from these estimates.

The significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2016.

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

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#### **Basis of consolidation**

These consolidated financial statements include the assets, liabilities, and expenses of the Company and its 100% owned subsidiary, Billabong Gold Pty. Ltd. Subsidiaries are entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Superior Gold Inc. obtains control of the subsidiary, and continues to be consolidated until the date when such control ceases. All intercompany balances and transactions have been eliminated.

### **3. NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY**

The following accounting standard are effective and have been implemented as of January 1, 2017:

On January 19, 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The implementation of the amendments to IAS 12 did not have an impact on the Company's condensed consolidated interim financial statements.

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows. The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. These amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The implementation of this amendment did not have a material impact on the Company's condensed consolidated interim financial statements.

### **4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS**

Standards issued but not yet effective up to the date of issuance of the Company's condensed consolidated interim financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company does not expect the impact of such changes on the consolidated financial statements to be material.

#### **IFRS 9 Financial Instruments: Classification and Measurement**

IFRS 9 Financial instruments replaces the existing guidance in IAS 39 Financial instruments recognition and measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carried forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. Management is in the processes of assessing the impact of IFRS 9 on the Company's financial instruments, however, due to nature of the financial instruments the impact does not appear to be material.

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 Revenue from contracts with customers will replace IAS 18 Revenue, IAS 11 Construction contracts, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company generates revenue primarily

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from selling gold. The Company is currently evaluating the potential impact of IFRS 15 by analyzing its dore sales agreements. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The Company has not yet determined the impact of adopting IFRS 15 on the financial statements, at this time expects the impact not to be material.

#### IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The Company has not yet determined the impact of adopting IFRS 16 on the financial statements.

#### IFRIC 22 - Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB issued IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018. Earlier application is permitted. Management is in the processes of assessing the impact of IFRIC 22 on the Company's financial statements and the impact does not appear to be material.

#### IFRIC 23 – Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company has not yet determined the impact of adopting IFRIC 23 on the financial statements.

## 5. INVENTORIES

	September 30, 2017	December 31, 2016
Consumable stores	\$ 6,075	\$ 5,489
Stockpiles	630	150
Gold in circuit	2,425	2,386
Dore on hand	944	1,270
	<b>\$ 10,074</b>	<b>\$ 9,295</b>



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**For the three and nine months ended September 30, 2017**  
**(Unaudited)**  
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**6. MINING INTERESTS; EXPLORATION AND EVALUATION; AND PROPERTY, PLANT AND EQUIPMENT**

	Mining interests	Exploration and evaluation	Property, plant and equipment	Capital work in progress	Total
<i>Cost:</i>					
As at December 31, 2016	\$ 49,115	\$ 1,183	\$ 9,628	\$ 574	\$ 60,500
Additions	2,730	1,186	-	4,955	8,871
Transfers	599	(599)	3,593	(3,593)	-
Sale of assets	-	-	(434)	-	(434)
Foreign exchange movement	4,158	119	915	44	5,236
September 30, 2017	56,602	1,889	13,702	1,980	74,173
<i>Accumulated depreciation:</i>					
December 31, 2016	3,253	-	1,143	-	4,396
Depreciation charge	8,725	-	5,188	-	13,913
Sale of assets	-	-	(398)	-	(398)
Foreign exchange movement	492	-	197	-	689
September 30, 2017	12,470	-	6,130	-	18,600
As at beginning of period	\$ 45,862	\$ 1,183	\$ 8,485	\$ 574	\$ 56,104
<b>As at September 30, 2017</b>	<b>\$ 44,132</b>	<b>\$ 1,889</b>	<b>\$ 7,572</b>	<b>\$ 1,980</b>	<b>\$ 55,573</b>

	Mining interests	Exploration and evaluation	Property, plant and equipment	Capital work in progress	Total
<i>Cost:</i>					
<b>July 4, 2016</b>	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisition of Plutonic Gold Operations	51,000	909	10,082	-	61,991
Additions	425	327	-	595	1,347
Foreign exchange movement	(2,310)	(53)	(454)	(21)	(2,838)
December 31, 2016 (restated – note 16)	49,115	1,183	9,628	574	60,500
<i>Accumulated depreciation:</i>					
July 4, 2016	-	-	-	-	-
Depreciation charge	3,406	-	1,196	-	4,602
Foreign exchange movement	(153)	-	(53)	-	(206)
December 31, 2016	3,253	-	1,143	-	4,396
As at beginning of period	-	-	-	-	-
<b>As at December 31, 2016</b>	<b>\$ 45,862</b>	<b>\$ 1,183</b>	<b>\$ 8,485</b>	<b>\$ 574</b>	<b>\$ 56,104</b>

Items comprising mineral interests and property, plant and equipment include mine development properties, exploration and evaluation assets, land and buildings, plant and equipment, motor vehicles, office equipment and capital work in progress. The Company will allocate the acquisition cost to these categories upon completion of the purchase price allocation of the Plutonic Gold Operations acquisition.

Mine development properties and exploration and evaluation include the Plutonic Gold Mine, the Hermes development project located south-west of the Plutonic Gold Mine and the Bryah Basin joint venture.

The Bryah Basin joint venture is located south-west of the Plutonic Gold Mine mill and the Company has an option to earn up to an 80% interest in the joint venture by spending AUD\$1.2 million (\$888) over three years beginning April 2015.

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### Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2017 (Unaudited) (expressed in thousands of United States dollars unless otherwise stated)

Failure to meet the total earn-in expenditure within the earn-in period, may result in termination of the joint venture agreement and all rights are divested by the Company.

#### 7. SHORT-TERM LOAN

The short-term loan of \$nil (December 31, 2016 - \$566) represents amounts owing to a financial institution which financed the Company's annual insurance premium. The term of loan is 10 months commencing in September 2016, was repaid in June 2017 and bore interest at 2.75%.

#### 8. PROVISIONS

	September 30, 2017	December 31, 2016
Employee entitlements	\$ 5,860	\$ 4,900
Rehabilitation	20,129	18,173
Total provisions	\$ 25,989	\$ 23,073
Current	\$ 5,725	\$ 4,794
Non-current	20,264	18,279
	\$ 25,989	\$ 23,073

	Employee Entitlements	Rehabilitation	Total provisions
Beginning balance on December 31, 2016	\$ 4,900	\$ 18,173	\$ 23,073
Accretion	-	713	713
Revisions to expected cash flows	2,374	-	2,374
Utilized	(1,836)	(280)	(2,116)
Foreign exchange movement	422	1,523	1,945
Balance, September 30, 2017	5,860	20,129	25,989
Current	5,725	-	5,725
Non-current	135	20,129	20,264
Balance, September 30, 2017	\$ 5,860	\$ 20,129	\$ 25,989

##### (i) Employee entitlements

Employee entitlement obligations cover Plutonic's liability for long service leave and annual leave. The current portion of this liability includes all of the accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the annual leave provision is presented as current, since Plutonic does not have an unconditional right to defer settlement for any of these obligations.

Current employee entitlements also include provisions for bonus and Fringe Benefits tax.

##### (ii) Rehabilitation provision

The Company assesses its mine rehabilitation provision annually. Significant judgment is required in determining the provision for mine rehabilitation and closure as there are many factors that will affect the ultimate liability payable to rehabilitate the mine sites, including future disturbances caused by further development, changes in technology, changes in regulations, price increases, changes in timing of cash flows which are based on life of mine plans and changes in discount rates. When these factors change or become known in the future, such differences will impact the mine rehabilitation provision in the period in which the change becomes known. As at September 30, 2017, the mine rehabilitation provision has been discounted using a

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discount rate of 5.0% (December 31, 2016 – 5.0%) and the cash flows have been inflated using an inflation rate of 2.4% (December 31, 2016 – 2.4%), payable over the years 2019 to 2028. As at September 30, 2017, the total undiscounted estimated reclamation costs are approximately \$21,677 (December 31, 2016 - \$20,920).

#### 9. COMMITMENTS

##### (i) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognized as liabilities is as follows:

	<b>September 30, 2017</b>	
Property, plant and equipment	\$	410
Mine development		2,597
	\$	3,007

In July 2017, the Company entered into a commitment related to services for the construction of the haul road associated with the development of the Hermes deposit. The contract totals approximately \$4,100 (AUD\$5,230) and payments are expected to fall due over 4 months. Termination of the contract can occur on 30 days' notice.

##### (ii) Non-cancellable operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The Company has entered into an operating lease for the operation and maintenance of a power station for the Plutonic mine site. The lease term is seven years and commenced in July 2014. The Company has also entered into an operating lease for its head office in Toronto. The lease term is for five years and commenced in June 2017. Commitments for minimum lease payments in relation to these non-cancellable operating leases (excluding variable per kilowatt hour charges for the power station lease) are as follows:

	<b>September 30, 2017</b>	
Within one year	\$	1,651
Later than one but not later than five years		4,613
	\$	6,264

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### Notes to the Condensed Consolidated Interim Financial Statements

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#### 10. FINANCIAL INSTRUMENTS

##### Fair value

The carrying value of cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities, short-term loan and contingent payable to Northern Star Resources approximate fair value, due to the short-term maturity of these instruments and are classified as Level 1 in accordance with the fair value hierarchy.

The carrying value of finance lease obligations approximate fair value due to its short-term maturity and are classified as Level 2 in accordance with the fair value hierarchy.

The fair value of financial instruments is summarized as follows:

	September 30, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial Assets</b>				
<i>Held-for-trading</i>				
Cash and cash equivalents	\$ 35,128	\$ 35,128	\$ 6,096	\$ 6,096
Restricted cash	1,769	1,769	1,749	1,749
<i>Loans and receivables</i>				
Receivables (excluding HST and GST receivable)	645	645	1,368	1,368
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	\$ 8,712	\$ 8,712	\$ 8,929	\$ 8,929
Short-term loan	-	-	566	566
Finance lease obligations	2,153	2,153	1,562	1,562
Contingent payable to Northern Star	-	-	18,090	18,090
Warrant liability (note 11(c))	\$ 570	\$ 570	\$ 151	\$ 151

IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices 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 that are not based on observable market data.

#### 11. SHARE CAPITAL

##### a) Authorized share capital

Unlimited number of common shares without par value.

##### b) Issued and outstanding

On July 4, 2016, the Company issued 5,000,100 common shares for gross cash proceeds of \$39.

## **SUPERIOR GOLD INC.**

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

**For the three and nine months ended September 30, 2017**

**(Unaudited)**

**(expressed in thousands of United States dollars unless otherwise stated)**

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The Company issued 6,492,499 common shares for aggregate gross cash proceeds of \$1,432 in four different tranches dated July 14, July 25, August 24 and September 26.

On September 29, 2016, the Company issued 32,600,000 Subscription Receipts for gross cash proceeds of \$12,396. Each Subscription Receipt was convertible to one Special Warrant for no additional consideration upon satisfaction of certain escrow release conditions.

Each Special Warrant entitled the holder thereof, upon deemed exercise (for no additional consideration), to acquire one common share upon completion of an initial public offering. The Offering was completed on February 23, 2017 which resulted in the deemed exercise of the Special Warrants into 32,600,000 common shares of the Company.

On February 23, and March 1, 2017, respectively, the Company completed an Offering of 28,450,000 common shares with an over-allotment option of 4,267,500 common shares at a price of \$0.76 and \$0.75 (CAD\$1.00) per common share. The gross cash proceeds to the Company were \$24,916 (CAD\$32,717). In connection with the offering the underwriters were paid a 6% commission totaling approximately \$1,495 (CAD\$1,963) and 681,525 Offering Broker Warrants (refer to note 11 (c)). Share issuance costs of \$3,958 (CAD \$5,208) were incurred in relation to the offering.

On February 23, 2017, the Company issued 18,859,041 common shares to Northern Star under the amended Acquisition Agreement, dated February 9, 2017 as partial consideration for the Plutonic Gold Operations (note 16).

#### **c) Warrants**

In connection with the Subscription Receipts and Offering transactions, the Company incurred \$3,618 of commissions and fees, excluding the value of warrants that have been recorded as share issue costs. As part of the consideration of the services rendered by the Agent in connection with the Private Placement and Offering, the Company issued to the Agent 1,230,000 Broker Warrants and 681,525 Offering Broker Warrants. The 1,230,000 Broker Warrants and 681,525 Offering Broker Warrants are exercisable at CAD\$0.50 per Broker Warrant and CAD\$1.00 per Offering Broker Warrant, respectively, up to February 23, 2019. The Company has accounted for the warrants as a financial liability as the strike price of the warrants is in a different currency than Superior Gold Inc.'s functional currency. For accounting purposes, the Company determined the fair value of the Broker Warrants and Offering Broker Warrants using the Black-Scholes option pricing model and recorded the amount as a warrant liability within non-current liabilities with the change in fair value from the date of issuance being reflected in the consolidated statement of comprehensive income as a change in valuation of warrant liability.

On February 23, 2017, the Company issued 14,429,521 common share purchase warrants to Northern Star under the amended Acquisition Agreement, dated February 9, 2017 as partial consideration for the Plutonic Gold Operations (note 16). The common share purchase warrants are exercisable at \$1.5166 per warrant, up to and including February 23, 2022. The Company has accounted for the warrants as an equity instrument as the strike price of these warrants is in Superior Gold Inc.'s functional currency.

## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2017 (Unaudited)

(expressed in thousands of United States dollars unless otherwise stated)

A summary of the assumptions in respect of warrants issued to the Agent and Northern Star as at September 30, 2017 are as follows:

	Number of warrants	Risk free interest rate	Expected annual volatility <sup>(1)</sup>	Expected Life (in years)	Value <sup>(2)</sup>
<b>Broker Warrants</b>					
Granted, September 29, 2016	1,230,000	0.51%	60%	2.33	\$ 167
Revalued, December 31, 2016	1,230,000	0.58%	58%	2.11	151
Fair value change as at December 31, 2016					(16)
<b>Revalued, September 30, 2017</b>	<b>1,230,000</b>	<b>1.51%</b>	<b>62%</b>	<b>1.40</b>	<b>448</b>
<b>Fair value change as at September 30, 2017</b>					<b>297</b>
<b>Offering Broker Warrants</b>					
Granted, February 23, 2017	553,500	0.76%	61%	2.00	142
Granted, March 1, 2017	128,025	0.76%	58%	1.98	31
<b>Revalued, September 30, 2017</b>	<b>681,525</b>	<b>1.51%</b>	<b>62%</b>	<b>1.40</b>	<b>122</b>
<b>Fair value change as at September 30, 2017</b>					<b>(51)</b>
<b>Total liability as at September 30, 2017</b>					<b>570</b>
<b>Total fair value change as at September 30, 2017</b>					<b>\$ 246</b>
<b>Northern Star Warrants</b>					
Granted, February 23, 2017	14,429,521	1.13%	63%	5.00	\$3,971

<sup>(1)</sup> Based on an expected peer group of companies over the expected life of the warrants

<sup>(2)</sup> Based on an assumed dividend yield of 0%

A summary of the status of warrants as of September 30, 2017 are as follows:

	Number outstanding	Weighted average exercise price (CAD\$)
<b>Balance at incorporation, July 4, 2016</b>	-	\$ -
Issued to Agent (Note 11c))	1,230,000	0.50
<b>Balance, December 31, 2016</b>	<b>1,230,000</b>	<b>\$ 0.50</b>
Issued to Agent (Note 11c))	681,525	1.00
Issued to Northern Star (Note 11c))	14,429,521	1.88
<b>Balance, September 30, 2017</b>	<b>16,341,046</b>	<b>\$ 1.74</b>

#### d) Share-based payments

Upon closing of the Offering, the Company granted stock options to purchase Common Shares under an omnibus equity incentive plan (the "Omnibus Equity Plan"). The Omnibus Equity Plan was approved by the Board pursuant to the rules of the Exchange, as well as presented to, and approved by, shareholders of the Company at the first annual general meeting of shareholders. The Omnibus Equity Plan permits the granting of incentive stock options ("Stock Options") to the Company's employees, officers, and directors for the purpose of developing the interest of the participants in the growth and development of the Company and to better enable the Company to attract and retain persons of desired experience and ability. These share options may only be settled in the Company's shares.

## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2017 (Unaudited) (expressed in thousands of United States dollars unless otherwise stated)

Movements in the share options are summarized below:

	Number of options	Weighted average exercise price <sup>(1)</sup>	Weighted average exercise price (CAD\$)
Balance, January 1, 2017	-	\$ -	\$ -
Granted	7,250,000	0.81	1.00
Forfeited	(100,000)	0.81	1.00
Expired	-	-	-
Exercised	-	-	-
<b>Balance September 30, 2017</b>	<b>7,150,000</b>	<b>\$ 0.81</b>	<b>\$ 1.00</b>

<sup>(1)</sup> At September 30, 2017, the U.S. dollar weighted average exercise price was calculated using the period end Canadian to U.S. dollar exchange rate of 0.8061.

The fair value of the options granted to employees, officers and directors under the share option plan was measured using the Black-Scholes option pricing model. The grant date fair value is amortized, as part of compensation expense over the vesting period with one third of the Stock Options vesting on the first grant date anniversary and two thirds vesting on the second grant date anniversary.

The weighted average inputs used in the measurement of fair value at grant date during the nine months ended September 30 were:

	2017
Number of share options granted	7,250,000
Expected volatility <sup>(1)</sup>	63%
Risk free interest rate	0.97%
Estimated forfeiture rate	0%
Expected dividend yield	Nil
Expected life in years	3.33
<b>Fair value (weighted average)</b>	
- CAD\$	<b>\$ 0.44</b>
- U.S. \$ <sup>(2)</sup>	<b>\$ 0.34</b>

<sup>(1)</sup> Expected volatility is measured as the annualized standard deviation of share price returns, based on the historical movements in the price of comparable publicly traded companies considered included in the Company's peer group over the same period as the expected life of the option being valued.

<sup>(2)</sup> The U.S. dollar weighted average Black-Scholes value was calculated using the spot Canadian to U.S. dollar exchange rate on the date of grant.

Share options outstanding and exercisable at September 30, 2017 are:

Options outstanding					Options exercisable			
Exercise price (CAD\$)	Number of options	Weighted average exercise price <sup>(1)</sup>	Weighted average exercise price CAD\$	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price <sup>(1)</sup>	Weighted average exercise price CAD\$	Weighted average remaining contractual life (years)
\$1.00	7,150,000	\$0.81	\$1.00	4.43	-	\$-	\$-	-
<b>\$1.00</b>	<b>7,150,000</b>	<b>\$0.81</b>	<b>\$1.00</b>	<b>4.43</b>	<b>-</b>	<b>\$-</b>	<b>\$-</b>	<b>-</b>

<sup>(1)</sup> At September 30, 2017, the U.S. weighted average exercise price was calculated using the period end Canadian to U.S. dollar exchange rate of 0.8061.

## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

(expressed in thousands of United States dollars unless otherwise stated)

The share based payments recognized in these financial statements are as follow:

	Equity settled plans	
	Share option plan	
	Three months ended September 30, 2017	Nine months ended September 30, 2017
Cost of sales – Mining	\$ 60	\$ 118
Cost of sales – Site services	70	168
General and administrative	264	628
	<b>\$ 394</b>	<b>\$ 914</b>

#### e) Earnings per share

The calculation of basic loss per share for the three and nine months ended September 30, 2017 was based on the income (loss) attributable to common shareholders of \$2,328 and (\$767), respectively and the weighted average number of common shares outstanding of 95,669,140 and 85,373,396, respectively. The outstanding Broker Warrants, Offering Broker Warrants and warrants issued to Northern Star (refer to note 16) are not dilutive to earnings per share for the three and nine months ended September 30, 2017.

## 12. NET FINANCE (INCOME) COSTS

	Three months ended September 30, 2017	Nine months ended September 30, 2017	For the Period from Incorporation on July 4, 2016 to September 30, 2016
Accretion of provisions	\$ 246	\$ 713	\$ -
Lease finance charges	28	66	-
Interest income	(37)	(103)	-
Foreign exchange (gain)/loss	(636)	(789)	(22)
	<b>\$ (399)</b>	<b>\$ (113)</b>	<b>\$ (22)</b>

## 13. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

	Three months ended September 30, 2017	Nine months ended September 30, 2017	For the Period from Incorporation on July 4, 2016 to September 30, 2016
Management compensation	\$ 220	\$ 572	\$ 46
Directors' fees	27	74	-
Share-based payments	236	561	-
	<b>\$ 483</b>	<b>\$ 1,207</b>	<b>\$ 46</b>

Northern Star is a related party as a result of the 19.7% ownership interest in the Company's common shares and 14,429,521 warrants (note 16) acquired on February 23, 2017. Northern Star acquired 18,859,041 common shares and 14,429,521 warrants under the amended Acquisition Agreement, dated February 9, 2017 as partial consideration for the Plutonic Gold Operations (note 16). As at September 30, 2017 Northern Star held 18,346,261 or 19.2% of the Company's common shares and



## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2017 (Unaudited)

(expressed in thousands of United States dollars unless otherwise stated)

13,960,561 warrants to purchase common shares of the Company. In the nine months ended September 30, 2017, the Company paid Northern Star \$652 related to the finance lease obligation, subsequent to February 23, 2017. The Company assumed the lease from Northern Star upon acquisition of the Plutonic Gold Operations. The Current portion of finance lease obligation includes an amount of \$114 owing to Northern Star at September 30, 2017. In the nine months ended September 30, 2017, the Company received \$207 for repair work charged to Northern Star as per the Sale and Purchase Agreement, there are no amounts receivable at September 30, 2017.

#### 14. TAXES

The Company estimates the effective tax rate expected to be applied for the full fiscal year and uses this rate to determine income provisions in interim periods. The impact of changes in judgments and estimates concerning the probable realization of losses, changes in tax rates, and foreign exchange rates are recognized in the interim period in which they occur.

The tax expense for the three and nine months ended September 30, 2017 was \$749 and \$85, respectively.

#### 15. FINANCE LEASE OBLIGATION

	September 30, 2017	December 31, 2016
Commitments in relation to finance leases are payable as follows:		
Within one year	\$ 971	\$ 1,559
Later than one year but not later than five years	1,389	27
Minimum lease payments	2,360	1,586
Future finance charges	(207)	(24)
Lease liabilities	\$ 2,153	\$ 1,562
Representing lease liabilities:		
Current	\$ 826	\$ 1,535
Non-current	1,327	27
	\$ 2,153	\$ 1,562

Lease liabilities are secured by the underlying assets which are subject to the finance lease. During the nine-month period ended on September 30, 2017, the Company acquired mobile equipment at a cost of \$2,116 via a financial lease agreement.

The Company has entered into various loan agreements for the purchase of mobile equipment. The interest rates are fixed and payable over a period of up to 36 months from the inception of the lease.

#### 16. PLUTONIC GOLD OPERATIONS ACQUISITION

On October 12, 2016 (the "Acquisition Date"), the Company completed the acquisition of the Plutonic Gold Operations. The Company (as the buyer) entered into an Acquisition Agreement on August 12, 2016 and amended February 9, 2017, with Northern Star (as the vendor) and Northern Star Mining Services Pty Ltd. relating to the acquisition (the "Acquisition") of the Plutonic Gold Operations, secured via a refundable deposit of \$762 (AUD\$1 million).

The acquisition consideration as outlined in the August 12, 2016 Acquisition Agreement and in the February 9, 2017 amended Acquisition Agreement consisted of an initial payment of AUD\$12.5 million and in addition the Company:

- on completion of Superior Gold's initial public offering on February 23, 2017, paid Northern Star \$7,633 cash, 18,859,041 common shares and 14,429,521 common share purchase warrants.
- paid Northern Star a working capital adjustment in the amount of AUD\$4.6 million that was paid over a three month period ending December 31, 2016.

## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

(expressed in thousands of United States dollars unless otherwise stated)

- agreed to pay Northern Star a 2% net smelter return royalty on future gold recovered from the Plutonic Gold Operations in excess of a cumulative 300,000 ounces. The royalty terminates on the earlier of; (i) the date that a cumulative AUD\$10 million is paid to Northern Star under the royalty, or (ii) gold in excess of a cumulative 600,000 ounces being produced (the "Northern Star Royalty"). The Company maintains the right to purchase the Northern Star Royalty back from Northern Star for a purchase price of AUD\$6.5 million at any time before the expiry of 30 days after the date the royalty first becomes payable.
- agreed to pay Northern Star milestone payments ("Milestone Payments") of AUD\$2.5 million for every 250,000 ounces of NI 43-101 compliant measured and indicated resources identified at the Plutonic Gold Operations in excess of the 1,717,000 ounces of Joint Ore Reserves Committee 2012 compliant measured, indicated and inferred resources. The aggregate of the Milestone Payments are capped at AUD\$10 million.
- agreed to Northern Star being eligible to nominate one director to the Board. Mr. Shaun Day, the current Chief Financial Officer of Northern Star was appointed to the Board.

The Acquisition also includes the Hermes open pit development project ("Hermes"). Hermes is an open pit development project located south-west of the Plutonic Gold Mine.

The acquisition of the Plutonic Gold Mine also included an interest in the Bryah Basin exploration joint venture (the "Bryah Basin"). The Bryah Basin joint venture is located south west of the Plutonic Gold Operations processing plant.

In accordance with IFRS 3 *Business Combinations*, the Company has allocated the purchase price of \$32,324 to the acquired assets and liabilities of the Plutonic Gold Operations. This price is the sum of initial cash payment, the contingent payable to Northern Star and an obligation to reimburse for working capital acquired and pre acquisition expenses of Northern Star. The purchase price as outlined below was finalized during the third quarter of 2017.

Cash	\$ 9,471
Contingent payable to Northern Star	18,943
Obligation to reimburse for working capital on acquisition and pre-acquisition expenses	3,910
<b>Aggregate purchase price</b>	<b>\$ 32,324</b>

The Company has determined that the fair value of the contingent consideration was not impacted by the following:

- The fair value of the Northern Star Royalty was determined to have nil value; and
- The fair value of the Milestone Payments was determined to have nil value.

During the third quarter of 2017, the Company finalized the purchase price allocation through a valuation of the property's reserves, resources and exploration potential. The significant assumptions used in determining the fair value of mining interests were: i) a gold price of US\$1,250 per ounce for 2017 and US\$1,300 per ounce for 2018 and beyond; ii) an after-tax discount rate of 6.5%; and iii) expected operating costs consistent with the operating costs outlined in the NI 43-101 report on the mining property. The fair value of the exploration potential was estimated based on historical and planned expenditures as well as a market value approach for mineral resources through a comparative analysis of appropriate market comparable values. The fair value of property plant and equipment was estimated based on a third-party valuation.

The revised allocation and bargain purchase gain have been recorded by restating prior reporting periods, where impacted, as outlined below.

**SUPERIOR GOLD INC.****Notes to the Condensed Consolidated Interim Financial Statements****For the three and nine months ended September 30, 2017****(Unaudited)****(expressed in thousands of United States dollars unless otherwise stated)**

	Original Purchase price allocation as at December 31, 2016	Adjustments	Restated
Amounts receivable	\$ 49	\$ -	\$ 49
Inventory	9,059	(755)	8,304
Mining interests and property, plant and equipment <sup>(1)</sup>	60,981	1,008	61,989
Trade and other payables	(34)	-	(34)
Current borrowings	(1,950)	-	(1,950)
Current provisions	(3,848)	(884)	(4,732)
Non-current borrowings	(110)	-	(110)
Non-current provisions <sup>(1)</sup>	(19,457)	538	(18,919)
Deferred tax liability	(3,098)	(6,064)	(9,162)
Total net identifiable assets acquired	41,592	(6,157)	35,435
Bargain purchase gain	(9,268)	6,157	(3,111)
<b>Total consideration paid</b>	<b>\$ 32,324</b>	<b>\$ -</b>	<b>\$ 32,324</b>

<sup>(1)</sup> Mining interests and non-current provisions include the mine rehabilitation provision of \$18,794 assumed as part of the Acquisition.

A restated Condensed Consolidated Interim Statement of Comprehensive Income for the period ended December 31, 2016, reflecting the adjustments indicated above is provided below:

	For the period from incorporation on July 4, 2016 to December 31, 2016		Adjustments	Restated
<b>REVENUES</b>				
Metal sales	\$ 24,750	\$ -	\$ -	\$ 24,750
<b>EXPENSES</b>				
Cost of sales	19,727	-	-	19,727
General and administrative	740	-	-	740
<b>OPERATING INCOME</b>	<b>4,283</b>	<b>-</b>	<b>-</b>	<b>4,283</b>
<b>OTHER EXPENSES (INCOME)</b>				
Net finance cost	520	-	-	520
Business acquisition costs	3,864	-	-	3,864
(Gain) on change in valuation of warrant liability	(16)	-	-	(16)
Bargain purchase gain on acquisition of Plutonic Gold Operations	(9,268)	6,157	-	(3,111)
<b>NET INCOME BEFORE TAXES</b>	<b>9,183</b>	<b>(6,157)</b>	<b>-</b>	<b>3,026</b>
Income and mining tax expense	281	-	-	281
<b>NET INCOME FOR THE PERIOD FROM INCORPORATION ON JULY 4, 2016 TO DECEMBER 31, 2016</b>	<b>\$ 8,902</b>	<b>\$ (6,157)</b>	<b>\$ -</b>	<b>\$ 2,745</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Foreign currency translation difference on foreign operations	(729)	277	-	(452)
<b>COMPREHENSIVE INCOME FOR THE PERIOD FROM INCORPORATION ON JULY 4, 2016 TO DECEMBER 31, 2016</b>	<b>\$ 8,173</b>	<b>\$ (5,880)</b>	<b>\$ -</b>	<b>\$ 2,293</b>
<b>Loss per share (note 11(d)):</b>				
Basic earnings per share	\$ 0.35	-	-	\$ 0.11
Diluted earnings per share	0.35	-	-	0.11
Weighted average number of common shares outstanding (basic)	25,302,368	-	-	25,302,368
Weighted average number of common shares outstanding diluted)	25,302,368	-	-	25,302,368