

Condensed Consolidated Interim Financial Statements

March 31, 2018

(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)**

	March 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 23,866	\$ 29,121
Restricted cash	1,767	1,798
Receivables and other assets	5,300	2,526
Inventories (note 6)	8,700	9,942
Total current assets	39,633	43,387
Non-current assets		
Mining interests; exploration and evaluation assets; and property, plant and equipment (note 7)	73,525	63,853
TOTAL ASSETS	\$ 113,158	\$ 107,240
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 15,723	\$ 10,660
Income taxes payable (note 15)	1,818	1,645
Short-term loan (note 8)	337	548
Current portion of finance lease obligation (note 16)	2,164	744
Current portion of provisions (note 9)	6,099	6,005
Total current liabilities	26,141	19,602
Non-current liabilities		
Finance lease obligation (note 16)	3,783	1,140
Provisions (note 9)	25,590	24,016
Warrant liability (note 12 (c))	980	749
Contingent Royalty payable to Northern Star Resources (note 18)	4,533	-
Deferred tax liability (note 15)	2,903	6,462
Total non-current liabilities	37,789	32,367
TOTAL LIABILITIES	63,930	51,969
SHAREHOLDERS' EQUITY		
Share capital (note 12 (a and b))	\$ 49,220	\$ 49,220
Contributed Surplus (note 12 (c and d))	5,449	5,151
Accumulated other comprehensive income	471	1,237
Retained deficit	(5,912)	(337)
TOTAL EQUITY	\$ 49,228	\$ 55,271
TOTAL EQUITY AND LIABILITIES	\$ 113,158	\$ 107,240

Contingencies (note 18)
Subsequent events (note 19)

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 March 31, 2018	Three months ended March 31, 2017
REVENUES		
Metal sales (note 5)	\$ 18,633	\$ 26,642
EXPENSES		
Cost of sales	20,410	22,097
General and administrative	1,542	828
OPERATING INCOME (LOSS)	(3,319)	3,717
OTHER EXPENSES (INCOME)		
Net finance cost (income) (note 13)	433	434
Business acquisition expenses (recovery)	-	(188)
Loss on change in valuation of warrant liability (note 12)	230	314
Loss on contingent payable to Northern Star Resources (note 18)	4,533	7,056
INCOME (LOSS) BEFORE TAXES	(8,515)	(3,899)
Income and mining tax expense (recovery) (note 15)	(2,940)	(886)
NET INCOME (LOSS) FOR THE PERIOD	\$ (5,575)	\$ (3,013)
 OTHER COMPREHENSIVE INCOME		
Foreign currency translation difference on foreign operations	(766)	920
 TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	 \$ (6,341)	 \$ (2,093)
 Net Income (loss) per share (note 12 (e)):		
Basic income (loss) per share	\$ (0.06)	\$ (0.05)
Diluted income (loss) per share	(0.06)	(0.05)
Weighted average number of common shares outstanding (basic & diluted)	95,669,140	64,438,715

The accompanying notes are an integral part of these condensed consolidated interim 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	Contributed Surplus	Retained earnings / (deficit)	Accumulated other comprehensive income/(loss)	Total
Balance as at January 1, 2017		11,492,599	\$ 12,023	\$ -	\$ 2,745	\$ (452)	\$ 14,316
Conversion of Subscription receipts	12	32,600,000	-	-	-	-	-
Offering	12	32,717,500	24,916	-	-	-	24,916
Share issue costs	12	-	(2,114)	-	-	-	(2,114)
Plutonic Gold Operations Acquisition	12, 18	18,859,041	14,395	-	-	-	14,395
Northern Star warrants	12, 18	-	-	3,971	-	-	3,971
Share-based payments	12	-	-	150	-	-	150
Total comprehensive income (loss)		--	--	--	(3,013)	920	(2,093)
Balance as at March 31, 2017		95,669,140	\$ 49,220	\$ 4,121	\$ (268)	\$ 468	\$ 53,541
Balance as at January 1, 2018		95,669,140	\$ 49,220	\$ 5,151	\$ (337)	\$ 1,237	\$ 55,271
Share-based payments	12	-	-	298	-	-	298
Total comprehensive income (loss)		-	-	-	(5,575)	(766)	(6,341)
Balance as at March 31, 2018		95,669,140	\$ 49,220	\$ 5,449	\$ (5,912)	\$ 471	\$ 49,228

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

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash flows provided from (used by):		
OPERATING ACTIVITIES		
Net income (loss) for the period	\$ (5,575)	\$ (3,013)
Adjustments:		
Depreciation and amortization	2,190	4,860
Loss on contingent payable to Northern Star Resources	4,533	7,056
Loss on change in valuation of warrant liability	230	314
Share-based payments	298	150
Employee provisions expense	743	873
Net finance (income) cost	433	434
Income tax expense (recovery)	(2,940)	(886)
Employee provisions paid	(536)	(684)
Reclamation payments	(17)	(154)
Net changes in non-cash working capital items:		
Receivables and other assets	(3,200)	(704)
Inventories	1,070	(234)
Accounts payable and accrued liabilities	1,172	(618)
	(1,599)	7,394
INVESTING ACTIVITIES		
Interest received	45	-
Acquisition of Plutonic Gold Operations (note 18)	-	(7,633)
Expenditures on mineral interests; exploration and evaluation assets; and property, plant and equipment	(2,746)	(1,719)
Decrease (increase) in restricted cash	-	-
	(2,701)	(9,352)
FINANCING ACTIVITIES		
Issuance of common shares	-	24,916
Share issue costs	-	(1,875)
Repayment of short-term loan	(207)	(284)
Repayment of finance lease obligation	(280)	(1,072)
Interest paid	(42)	(29)
	(529)	21,656
Effect of exchange rates on cash and cash equivalents	(426)	131
Increase (decrease) in cash and cash equivalents	(5,255)	19,829
Cash and cash equivalents, beginning of period	29,121	6,096
Cash and cash equivalents, end of period	23,866	25,925

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

SUPERIOR GOLD INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018

(Unaudited)

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

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

Superior Gold 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 ("the Acquisition") from Northern Star Resources Inc. ("Northern Star") (note 18).

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 (note 12 (b)). After closing of the Offering, the Company paid the 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. In addition to the amount paid on completion of the Offering, the Company is required to pay further contingent amounts, including the Northern Star Royalty and the Milestone Payments (note 11 and note 18).

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. These financial statements 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, 2017. 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.

The Company has applied the same accounting policies and methods as those described in the annual consolidated financial statements for the year ended December 31, 2017, except as described in note 3.

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, share-based payments, and contingent royalty payable to Northern Star Resources 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, 2017.

SUPERIOR GOLD INC.

Notes to the Condensed Consolidated Interim Financial Statements

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

Basis of consolidation

These condensed consolidated interim 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 continue 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, 2018:

IFRS 9 Financial Instruments: Classification and Measurement

On July 24, 2014, the IASB issued the completed IFRS 9, Financial Instruments, (IFRS 9 (2014)) to come into effect on January 1, 2018 with early adoption permitted.

IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured either at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") based on the business model in which they are held and the characteristics of their contractual cash flows.

The Company adopted IFRS 9 in its Consolidated Financial Statements on January 1, 2018. Due to the nature of its financial instruments, the adoption of IFRS 9 had no impact on the opening accumulated deficit balance on January 1, 2018. The impact on the classification and measurement of its financial instruments is set out below.

All financial assets not classified at amortized cost or FVOCI are measured at FVTPL. On initial recognition, the Company can irrevocably designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

All financial instruments are initially recognized at fair value on the consolidated statement of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified at FVTPL are measured at fair value with changes in those fair values recognized in the consolidated statement of loss and comprehensive loss for the year. Financial assets classified at amortized cost and financial liabilities are measured at amortized cost using the effective interest method.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- i) It is held within a business model whose objective is to hold the financial asset to collect the contractual cash flows associated with the financial asset instead of selling the financial asset for a profit or loss;
- ii) Its contractual terms give rise to cash flows that are solely payments of principal and interest.

The following table summarizes the classification and measurement changes under IFRS 9 for each financial instrument:

Asset of liability	Original classification under IAS 39	New classification under IFRS 9
Cash and cash equivalents	FVTPL	FVTPL
Restricted cash	FVTPL	FVTPL
Amounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liability	Amortized cost
Short-term loan	Other financial liability	Amortized cost
Finance lease obligation	Other financial liability	Amortized cost
Contingent Royalty payable	N/A	Fair value
Warrant liability	FVPTL	FVPTL

The original carrying value of the Company's financial instruments under IAS 39 has not changed under IFRS 9.

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IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from contracts with customers has replaced 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 from selling gold. The Company has adopted IFRS 15 in its consolidated financial statements using the full retrospective approach without practical expedients on January 1, 2018. Accordingly, information for 2017 has not been restated. The details of accounting policy changes and the quantitative impact of these changes are described below.

IFRS 15 requires that revenue from contracts with customers be recognized upon the transfer of control over goods or services to the customer. The recognition of revenue upon transfer of control to the customer is consistent with our revenue recognition policy as set out in Note 2(o) of the 2017 consolidated financial statements, as the condition is generally satisfied when title transfers to the customer. As such, upon adoption, this requirement under IFRS 15 resulted in no impact to the financial statements as the timing of revenue recognition on gold sales is unchanged and is presented as previously reported under IAS18, IAS11 and related interpretations. Additional disclosure has been presented in note 5 as a result of adopting IFRS 15.

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. The Company has adopted the Interpretation in its financial statements for the annual period beginning on January 1, 2018. The Company evaluated the impact of applying IFRIC 22 and concluded that the adoption of the standard did not have a material impact on the consolidated 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 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 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.

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

5. METAL SALES

	March 31, 2018	March 31, 2017
Gold sales	\$ 18,602	\$ 26,585
Silver sales	31	57
	\$ 18,633	\$ 26,642

The Company's main source of revenue is the sale of gold. The sale of gold occurs in one geographic market, Australia, and to one customer, the Perth Mint. There are no contract receivables for gold sales as at March 31, 2018 or December 31, 2017.

6. INVENTORIES

	March 31, 2018	December 31, 2017
Consumable stores	\$ 5,732	\$ 5,902
Stockpiles	92	510
Gold in circuit	2,104	3,242
Dore on hand	772	288
	\$ 8,700	\$ 9,942

The cost of inventories recognized as an expense and included in cost of sales in the period ended March 31, 2018 and 2017 was \$4,672 and \$3,482, respectively. During the three months ended March 31, 2018, there were \$127 write downs (March 31, 2017 - \$nil) of consumables inventory.

SUPERIOR GOLD INC.**Notes to the Condensed Consolidated Interim Financial Statements****For the three months ended March 31, 2018****(Unaudited)****(expressed in thousands of United States dollars unless otherwise stated)****7. MINING INTERESTS; EXPLORATION AND EVALUATION; AND PROPERTY, PLANT AND EQUIPMENT**

	Mining interests	Property, plant and equipment	Capital work in progress	Total
<i>Cost:</i>				
As at December 31, 2017	\$ 69,019	\$ 13,836	\$ 3,787	\$ 86,642
Additions	7,554	4,658	1,034	13,246
Foreign exchange movement	(1,385)	(356)	(92)	(1,833)
March 31, 2018	75,188	18,138	4,729	98,055
<i>Accumulated depreciation:</i>				
As at December 31, 2017	15,300	7,489	-	22,789
Depreciation charge	1,365	825	-	2,190
Foreign exchange movement	(299)	(150)	-	(449)
March 31, 2018	16,366	8,164	-	24,530
As at beginning of period	\$ 53,719	\$ 6,347	\$ 3,787	\$ 63,853
As at March 31, 2018	\$ 58,822	\$ 9,974	\$ 4,729	\$ 73,525

	Mining interests	Property, plant and equipment	Capital work in progress	Total
<i>Cost:</i>				
As at December 31, 2016	\$ 50,298	\$ 9,628	\$ 574	\$ 60,500
Additions	14,578	3,792	3,152	21,522
Sale of assets	-	(434)	-	(434)
Foreign exchange movement	4,143	850	61	5,054
December 31, 2017	69,019	13,836	3,787	86,642
<i>Accumulated depreciation:</i>				
December 31, 2016	3,253	1,143	-	4,396
Depreciation charge	11,578	6,555	-	18,133
Sale of assets	-	(398)	-	(398)
Foreign exchange movement	469	189	-	658
December 31, 2017	15,300	7,489	-	22,789
As at beginning of period	\$ 47,045	\$ 8,485	\$ 574	\$ 56,104
As at December 31, 2017	\$ 53,719	\$ 6,347	\$ 3,787	\$ 63,853

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 has allocated the acquisition cost to these categories through the purchase price allocation of the Plutonic Gold Operations acquisition (note 18).

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. During the three months ended March 31, 2018, the Company has reclassified exploration and evaluation assets to Mining Interests for the Plutonic producing operations.

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. Failure to meet the total earn-in expenditure within the earn-in period, may result in termination of the joint venture

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(Unaudited)

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

agreement and all rights are divested by the Company. As at March 31, 2018, AUD\$1.2 million has been spent on the Bryah Basin joint venture (note 19).

8. SHORT-TERM LOAN

The short-term loan of \$337 (December 31, 2017 - \$548) 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 2017, terminating in June 2018 and bears interest at 2.75%.

9. PROVISIONS

	March 31, 2018	December 31, 2017
Employee entitlements	\$ 5,821	\$ 5,719
Rehabilitation	25,868	24,302
Total provisions	\$ 31,689	\$ 30,021
Current	\$ 6,099	\$ 6,005
Non-current	25,590	24,016
	\$ 31,689	\$ 30,021

	Employee Entitlements	Rehabilitation	Total provisions
Beginning balance on December 31, 2017	\$ 5,719	\$ 24,302	\$ 30,021
Accretion	-	117	117
Revisions to expected cash flows	743	1,938	2,681
Utilized	(536)	(17)	(553)
Foreign exchange movement	(105)	(472)	(577)
Balance, March 31, 2018	\$ 5,821	\$ 25,868	\$ 31,689
Current	5,639	460	6,099
Non-current	182	25,408	25,590
Balance, March 31, 2018	\$ 5,821	\$ 25,868	\$ 31,689

(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 March 31, 2018, the mine rehabilitation provision has been discounted using discount rates of 1.9% - 2.8% (December 31, 2017 - 2.0% - 2.6%) and the cash flows have been inflated using inflation rates of 2.2% - 2.5% (December 31, 2017 - 2.2% - 2.5%), payable over the years 2018 to 2032.

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

10. COMMITMENTS

(i) Capital commitments

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

	March 31, 2018	December 31, 2017
Property, plant and equipment	\$ 2,313	\$ 1,548
Mine development	-	1,612
	\$ 2,313	\$ 3,160

In the three months ended March 31, 2018, the Company entered into a commitment for mobile equipment as well as the remaining commitment for the installation of a gravity circuit to improve metallurgical recovery. These commitments totalled \$2,313 at March 31, 2018.

(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:

	March 31, 2018
Within one year	\$ 1,657
Later than one but not later than five years	2,229
	\$ 3,886

11. FINANCIAL INSTRUMENTS

Fair value

The carrying value of cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities, and short-term loan 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 their short-term maturity and are classified as Level 2 in accordance with the fair value hierarchy.

The Warrant Liability is valued using pricing models which require the use of observable inputs including market prices and interest rates obtained from or verified with information available to the market (note 12 (c)). This financial instrument is classified as Level 2 in accordance with the fair value hierarchy. The Contingent Royalty payable to Northern Star Resources is valued using pricing models which require the use of discount rates obtained from or verified with information available to the market. This financial instrument is classified as Level 2 in accordance with the fair value hierarchy.

The fair value of financial instruments is summarized as follows:

SUPERIOR GOLD INC.**Notes to the Condensed Consolidated Interim Financial Statements****For the three months ended March 31, 2018****(Unaudited)****(expressed in thousands of United States dollars unless otherwise stated)**

	March 31, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
<i>Held-for-trading</i>				
Cash and cash equivalents	\$ 23,866	\$ 23,866	\$ 29,121	\$ 29,121
Restricted cash	1,767	1,767	1,798	1,798
<i>Loans and receivables</i>				
Receivables (excluding HST and GST receivable)	1,896	1,896	1,405	1,405
Financial Liabilities				
Accounts payable and accrued liabilities	\$ 15,723	\$ 15,723	\$ 10,660	\$ 10,660
Short-term loan	337	337	548	548
Finance lease obligations	5,947	5,947	1,884	1,884
Contingent Royalty payable (note 18)	4,533	4,533	-	-
Warrant liability (note 12 (c))	\$ 980	\$ 980	\$ 749	\$ 749

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.

b) Letter of guarantee facility

In November 2017, the Company entered into an AUD\$6,000 Guarantee Credit Facility (the "Credit Facility") with a leading international bank. The Credit Facility permits the Company to issue letters of guarantee for a term of up to 12 months to various suppliers from time to time to support the Plutonic Gold Operations.

The Credit Facility includes an aggregate fee of 2.94% calculated on drawn amounts, is secured by an assignment of a performance security guarantee issued by Export Development Canada ("EDC") in support of the Plutonic Gold Operations. The Credit Facility contains covenants customary for a loan facility of this nature, including limits on indebtedness and change of control. It contains a financial covenant test requiring that the Company maintain a tangible net worth of \$45,000.

No guarantees have been issued under the Credit Facility as at March 31, 2018 (December 31, 2017 - \$nil). During the three months ended March 31, 2018, the Company paid \$41 in associated fees on the Credit Facility (March 31, 2017 - \$nil) (note 19). The Company is in compliance with all covenants as at March 31, 2018.

SUPERIOR GOLD INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018

(Unaudited)

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

12. SHARE CAPITAL

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued and outstanding

	Number of shares	Amount
Balance, January 1, 2017	11,492,599	\$ 12,023
Shares issued under:		
Conversion of Subscription receipts	32,600,000	-
Offering	32,717,500	24,916
Share issue costs	-	(2,114)
Plutonic Gold Operations Acquisition (note 18)	18,859,041	14,395
Balance, December 31, 2017	95,669,140	\$ 49,220
Shares issued:	-	-
Balance, March 31, 2018	95,669,140	\$ 49,220

c) Warrants

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.

A summary of the assumptions in respect of revalued warrants as at March 31, 2018 are as follows:

	Number of warrants	Risk free interest rate	Expected annual volatility ⁽¹⁾	Expected Life (in years)	Value ⁽²⁾
Broker Warrants					
Balance, January 1, 2017	1,230,000	0.58%	58%	2.11	151
Revalued, December 31, 2017	1,230,000	1.67%	58%	1.15	588
Fair value change as at December 31, 2017					437
Revalued, March 31, 2018	1,230,000	1.76%	45%	0.91	773
Fair value change as at March 31, 2018					185
Offering Broker Warrants					
Granted, February 23, 2017	553,500	0.76%	61%	2.00	142
Granted, March 1, 2017	128,025	0.76%	58%	1.98	31
Revalued, December 31, 2017	681,525	1.67%	58%	1.15	161
Fair value change as at December 31, 2017					(12)
Revalued, March 31, 2018	681,525	1.76%	45%	0.91	207
Fair value change as at March 31, 2018					46
Total liability as at March 31, 2018					980
Total fair value change as at March 31, 2018					\$ 231
Northern Star Warrants					
Granted, February 23, 2017	14,429,521	1.13%	63%	5.00	\$3,971

⁽¹⁾ Based on an expected peer group of companies over the expected life of the warrants

⁽²⁾ Based on an assumed dividend yield of 0%

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A summary of the status of warrants as of March 31, 2018 are as follows:

	Number outstanding	Weighted average exercise price (CAD\$)
Balance, January 1, 2017	1,230,000	\$ 0.50
Issued to Agent (Note 12 c))	681,525	1.00
Issued to Northern Star (Note 12 c))	14,429,521	1.91
Balance, December 31, 2017	16,341,046	\$ 1.76
Exercised	-	-
Balance, March 31, 2018	16,341,046	\$ 1.81

d) Share-based payments

Movements in the share options are summarized below:

	Number of options	Weighted average exercise price ⁽¹⁾	Weighted average exercise price (CAD\$)
Balance, January 1, 2017	-	\$ -	\$ -
Granted	7,600,000	0.80	1.00
Forfeited	(850,000)	0.80	1.00
Balance December 31, 2017	6,750,000	\$ 0.80	\$ 1.00
Granted	-	-	-
Forfeited	(166,667)	0.77	1.00
Balance March 31, 2018	6,583,333	\$ 0.77	\$ 1.00

⁽¹⁾ At March 31, 2018, the U.S. dollar weighted average exercise price was calculated using the period end Canadian to U.S. dollar exchange rate of 0.7745.

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.

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The weighted average inputs used in the measurement of fair value at grant date during the period ended March 31, 2017 were:

	2017
Number of share options granted	7,600,000
Expected volatility ⁽¹⁾	63%
Risk free interest rate	1.00%
Estimated forfeiture rate	0%
Expected dividend yield	Nil
Expected life in years	3.33
Fair value (weighted average) - CAD\$	\$ 0.44
- U.S. \$ ⁽²⁾	\$ 0.34

⁽¹⁾ 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.

⁽²⁾ 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 March 31, 2018 are:

Options outstanding					Options exercisable			
Exercise price (CAD\$)	Number of options	Weighted average exercise price ⁽¹⁾	Weighted average exercise price CAD\$	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price ⁽¹⁾	Weighted average exercise price CAD\$	Weighted average remaining contractual life (years)
\$1.00	6,583,333	\$0.77	\$1.00	3.97	1,966,668	\$0.77	\$1.00	3.90
\$1.00	6,583,333	\$0.77	\$1.00	3.97	1,966,668	\$0.77	\$1.00	3.90

⁽¹⁾ At March 31, 2018, the U.S. weighted average exercise price was calculated using the period end Canadian to U.S. dollar exchange rate of 0.7745.

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

	Equity settled plans	
	Share option plan	
	Three months ended March 31, 2018	Three months ended March 31, 2017
Cost of sales – Mining	\$ 36	\$ 17
Cost of sales – Site services	55	28
General and administrative	207	105
	\$ 298	\$ 150

e) Earnings per share

The calculation of basic earnings per share for the three months ended March 31, 2018 (March 31, 2017) was based on the loss attributable to common shareholders of \$5,575 and \$3,013, respectively and the weighted average number of common shares outstanding of 95,669,140 and 64,438,715, respectively. The outstanding share options, Broker Warrants, Offering Broker Warrants and warrants issued to Northern Star (refer to note 18) are not dilutive to earnings per share for the three months ended March 31, 2018.

SUPERIOR GOLD INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018

(Unaudited)

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

13. NET FINANCE (INCOME) COSTS

	Three months ended March 31, 2018	Three months ended March 31, 2017
Accretion of provisions	\$ 117	\$ 235
Lease finance charges	42	29
Interest income	(45)	(6)
Foreign exchange (gain)/loss	319	176
	\$ 433	\$ 434

14. 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 March 31, 2018	Three months ended March 31, 2017
Management compensation	\$ 568	\$ 151
Directors' fees	34	24
Share-based payments	192	94
	\$ 794	\$ 269

Northern Star is a related party as a result of its ownership interest in the Company's common shares and warrants.

In the three months ended March 31, 2018, the Company paid Northern Star \$29 related to the finance lease obligation (February 23, 2017 to March 31, 2017 - \$177). The Company assumed the lease from Northern Star upon acquisition of the Plutonic Gold Operations. The amount owing to Northern Star at March 31, 2018 is \$4,533, representing the non-current contingent royalty (note 18) (December 31, 2017 - \$29). In the three months ended March 31, 2018, the Company received no amounts from Northern Star (March 31, 2017 - \$nil) and there are no amounts receivable at March 31, 2018.

15. 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 (recovery) for the three months ended March 31, 2018 was (\$2,940) (March 31, 2017 - (\$886)).

SUPERIOR GOLD INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018

(Unaudited)

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

16. FINANCE LEASE OBLIGATION

	March 31, 2018	December 31, 2017
Commitments in relation to finance leases are payable as follows:		
Within one year	\$ 2,406	\$ 818
Later than one year but not later than five years	3,949	1,184
Minimum lease payments	6,355	2,002
Future finance charges	(408)	(118)
Lease liabilities	\$ 5,947	\$ 1,884
Representing lease liabilities:		
Current	\$ 2,164	\$ 744
Non-current	3,783	1,140
	\$ 5,947	\$ 1,884

Lease liabilities are secured by the underlying assets which are subject to the finance lease. During the three months ended March 31, 2018, the Company acquired mobile equipment at a cost of \$4,481 via financial lease agreements.

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 (refer to note 12 (b) – Liquidity Risk of the December 31, 2017 Consolidated Financial Statements, for the summary of future payments).

17. CAPITAL MANAGEMENT

The Corporation's objective when managing capital is to ensure the Corporation continues as a going concern by ensuring it has an appropriate amount of liquidity and that it has an appropriate capital structure. Management monitors the amount of cash, undrawn (or potentially available) financing, equity in the capital structure and adjusts the capital structure, as necessary, to support the operation, development and exploration of its projects.

In order to ensure there is adequate liquidity and an appropriate capital structure, the Corporation may issue new equity, repay debt, issue new debt, draw on credit facilities or sell assets.

The Board of Directors has not established criteria for quantitative return on capital for management, but rather relies on the expertise of management to sustain future development of the business. The Corporation considers its capital to be shareholders' equity, which amounted to \$49,228 at March 31, 2018 (\$55,271 – December 31, 2017).

18. PLUTONIC GOLD OPERATIONS ACQUISITION

As part of the Acquisition, the Company 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. The fair value of the Northern Star Royalty was determined to have nil value on the Acquisition date.

In addition, the Company 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. The fair value of the Milestone Payments was determined to have nil value on the Acquisition Date.

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(Unaudited)

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

Upon completion of the Company's reserve and resource update effective December 31, 2017, the Company has accrued a Contingent Royalty payable of \$4,533 and a corresponding charge to the Condensed Consolidated Interim Statement of Income (loss) and Comprehensive Income (loss). The Company has accounted for the Contingent Royalty payable as a financial liability as it is denominated in Australian dollars. For accounting purposes, the fair value of the Contingent Royalty payable was determined to be AUD\$5,914 based on the net present value of the Norther Star Royalty's AUD\$6.5 million buyback option, discounted from the time the Company anticipates it to become payable.

The Company discounted the Contingent Royalty payable using its weighted average cost of capital of 6.5% as at March 31, 2018 and translated the amount using the period end Australian to U.S. dollar exchange rate of 0.7665, with any changes in fair value being reflected in the consolidated statement of comprehensive income as a change in valuation of the Contingent Royalty payable.

The fair value of the Milestone Payments was determined to have nil value as at March 31, 2018 as Management had determined that it was uncertain that the threshold outlined in the Acquisition Agreement of 1,717,000 ounces of Joint Ore Reserves Committee 2012 compliant measured, indicated and inferred resources would be reached.

19. SUBSEQUENT EVENTS

Commercial production

Effective April 1, 2018, the Company declared commercial production of its wholly-owned Hermes project. Commercial production has been defined as the first day of the calendar month following satisfaction of a dual test which comprised: 1) reaching 85% of the planned daily haulage rate from Hermes to the Plutonic mill, and 2) delivering a cumulative total tonnage of 100,000 tonnes from Hermes to the Plutonic mill.

As part of the declaration of commercial production effective April 1, 2018, the Company will transition from accounting for certain costs of the Hermes project as development costs to operating costs as part of the Plutonic Gold operation. The significant financial reporting changes going forward will be as follows: certain capitalized costs will be depleted consistent with the Company's established accounting policies, capitalization of pre-commercial production operating costs ceased, and recording of Hermes operations to the income statement, which includes revenues, production costs, depreciation and depletion commenced.

Bryah Basin

Subsequent to March 31, 2018, the Company provided notice to its joint venture partner that it had earned its interest in the joint venture and intended to exercise its option under the agreement.

Letter of Guarantee facility

Subsequent to March 31, 2018, the Company issued two letters of guarantee under the credit facility for fees of \$41, paid as of March 31, 2018.