

**FORM 51-102F4
BUSINESS ACQUISITION REPORT**

Item 1 Identity of Company

1.1 Name and Address of Company

Bonterra Resource Inc. (the “**Company**”)
Suite 1680, 200 Burrard Street
Vancouver, British Columbia V6C 3L6

1.2 Executive Officer

Nav Dhaliwal, President and Chief Executive Officer
(604) 678-5308

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

Pursuant to an arrangement agreement between the Company and Metanor Resources Inc. (“**Metanor**”) dated July 20, 2018 (the “**Arrangement Agreement**”), the Company acquired all of the issued and outstanding shares of Metanor by way of a plan of arrangement under the *Canada Business Corporations Act* (the “**Arrangement**”).

Metanor is a gold exploration, development and production company. Metanor holds interests in mineral exploration properties in Quebec.

The Arrangement and the respective businesses of the Company and Metanor are more fully described in Metanor’s management information circular dated as of August 15, 2018 and filed on www.sedar.com.

2.2 Date of Acquisition

September 24, 2018.

2.3 Consideration

Pursuant to the Arrangement Agreement, at the effective time of the arrangement, Metanor shareholders received 1.6039 of a common share of the Company for each common share of Metanor held. The Company issued an aggregate of 163,513,129 common shares to former Metanor shareholders.

2.4 Effect on Financial Position

Upon completion of the Arrangement, Metanor became a wholly owned subsidiary of the Company. The business and operations of Metanor have been combined with those of the Company and are managed concurrently. The Company does not have any plans or proposals for material changes in its business affairs, or the affairs of the acquired business which may have a significant effect on the financial performance or position of the Company, including any proposal to liquidate the business of Metanor, to sell, lease or exchange all or any substantial parts of its assets, to amalgamate the business organization or to make any other material changes.

2.5 Prior Valuations

No valuations or opinions were obtained in the last 12 months by Metanor or the Company as required by securities legislation or a Canadian exchange or market to support the consideration paid by the Company or any of its subsidiaries for the common shares of Metanor.

2.6 Parties to Transaction

The acquisition was not with an informed person (as such term is defined in section 1.1 of National Instrument 51-102 Continuous Disclosure Obligations), associate or affiliate of the Company.

2.7 Date of Report

November 28, 2018

Item 3 Financial Statements

Pursuant to Part 8 of National instrument 51-102, the following financial statements are attached as Schedule 'A' hereto:

- a) Audited annual financial statements of Metanor as at and for the years ended December 31, 2017 and December 31, 2016, together with the notes thereto and the auditor's report thereon. The auditors of Metanor have not provided their consent to the inclusion of their audit report in this business acquisition report;
- b) Unaudited interim financial statements of Metanor as at and for the three and six month periods ended June 30, 2018 and June 30, 2017; and
- c) Unaudited pro forma financial statements of the Company, including notes thereon, comprised of:
 - (i) a pro forma statement of financial position as of February 28, 2018; and
 - (ii) a pro forma statement of comprehensive income (loss) for the periods ended February 28, 2018 and May 31, 2017; and
 - (iii) pro forma earnings per share.

Cautionary Statement: *Certain information contained in this business acquisition report constitutes "forward-looking information", within the meaning of Canadian legislation. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur", "be achieved" or "has the potential to". Forward looking statements contained in this press release, including the Company's ability to incorporate the business of Metanor into the business of the Company, involve known and unknown risks and uncertainties which may not prove to be accurate. Actual results and outcomes may differ materially from what is expressed or forecasted in these forward-looking statements. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Among those factors which could cause actual results to differ materially are the following: market conditions and other risk factors listed from time to time in the Company's reports filed with Canadian securities regulators on SEDAR at www.sedar.com. The forward-looking statements included in this press release are made as of the date of this press release and the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities legislation.*

Schedule 'A'

METANOR

FINANCIAL STATEMENTS

Six Months ended December 31, 2017 and the Year ended June 30, 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Metanor Resources Inc. (the "Company") are the responsibility of the management and Board of Directors of the Company.

The financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with International Financial Reporting Standards ("IFRS"). When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Company maintains systems of internal control that are designed by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

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

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

"Greg Gibson" (signed)

Chief Executive Officer

"James Fairbairn" (signed)

Chief Financial Officer



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Montréal QC H3B 4W5 Canada

Independent Auditor's Report

To the Shareholders of Metanor Resources Inc.

We have audited the accompanying financial statements of Metanor Resources Inc., which comprise the statements of financial position as at December 31, 2017 and June 30, 2017 and the statements of comprehensive loss, changes in equity and cash flows for the six-month period ended December 31, 2017 and the year ended June 30, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

BDO Canada s.r.l./S.E.N.C.R.L., une société canadienne à responsabilité limitée/société en nom collectif à responsabilité limitée, est membre de BDO International Limited, société de droit anglais, et fait partie du réseau international de sociétés membres indépendantes BDO.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms



Independent Auditor's Report

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Metanor Resources Inc. as at December 31, 2017 and June 30, 2017 and its financial performance and cash flows for the six-month period ended December 31, 2017 and the year ended June 30, 2017 in accordance with International Financial Reporting Standards.

BDO Canada s.r.l./S.E.N.C.R.L./LLP

¹

Montréal, Québec
April 27, 2018

¹ CPA auditor, CA, public accountancy permit No. A125523

METANOR RESOURCES INC.
STATEMENTS OF FINANCIAL POSITION
Six Months ended December 31, 2017 and the Year ended June 30, 2017

	Notes	December 31, 2017	June 30, 2017
		\$	\$
ASSETS			
Current			
Cash and cash equivalents	20.2	13,258,001	19,392,815
Other receivables and securities		151,800	31,959
Sales taxes receivable		2,713,509	1,303,445
Mining tax credits receivable		1,307,783	350,275
Prepaid expenses		30,508	79,427
Materials, supplies and gold inventory	4	5,170,784	4,156,723
		<u>22,632,385</u>	<u>25,314,644</u>
Non-current			
Security and contract deposits	5	4,841,663	3,429,566
Property, plant and equipment	7	30,917,127	30,635,454
		<u>35,758,790</u>	<u>34,065,020</u>
Total assets		<u><u>58,391,175</u></u>	<u><u>59,379,664</u></u>

The accompanying notes are an integral part of these financial statements

METANOR RESOURCES INC.
STATEMENTS OF FINANCIAL POSITION
Six Months ended December 31, 2017 and the Year ended June 30, 2017

	Notes	December 31, 2017	June 30, 2017
		\$	\$
LIABILITIES			
Current			
Trade and other payables	8	9,140,597	7,348,907
Other liabilities	15	638,134	1,417,500
Other provisions	2.16	99,600	99,600
Royalties payable		635,146	677,847
Mining taxes payable		1,054,706	1,055,775
Current portion on long term debt	9	1,045,873	842,432
		<u>12,614,056</u>	<u>11,442,061</u>
Non-current			
Long-term debt	9	706,747	868,845
Unearned revenue	10	-	5,309,103
Asset retirement obligations	11	4,685,630	4,727,129
Deferred income and mining taxes	15	-	305,388
Total liabilities		<u>18,006,433</u>	<u>22,652,526</u>
Equity			
Share Capital	12.1	152,843,312	140,872,662
Reserve for warrants	12.2	1,224,523	734,803
Contributed surplus	12.3	11,656,703	11,598,043
Deficit		<u>(125,339,796)</u>	<u>(116,478,370)</u>
Total equity		<u>40,384,742</u>	<u>36,727,138</u>
Total liabilities and equity		<u>58,391,175</u>	<u>59,379,664</u>

Contingency and commitments (Note 21)

Approved on behalf of the Board of Directors on April 27, 2018:

Signed
Akiba Leisman - Director

Signed
Tina Ouellette - Director

The accompanying notes are an integral part of these financial statements

METANOR RESOURCES INC.
STATEMENTS OF COMPREHENSIVE LOSS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

	Notes	Six Months Ended December 31, 2017	Year Ended June 30, 2017
		\$	\$
OPERATIONS			
Revenue		18,647,281	56,292,643
Operating costs	18	16,388,649	36,307,780
Royalties		436,647	1,136,966
Depreciation and depletion		3,040,702	7,480,913
Cost of sales		19,865,998	44,925,659
GROSS PROFIT (NEGATIVE)		(1,218,717)	11,366,984
OTHER EXPENSES			
Administration			
Salaries and fringe benefits	18	1,097,570	1,381,090
Severance compensation	18	-	1,300,000
Share-based compensation	12.3,18	58,660	1,064,076
Professional fees	18	548,020	994,896
Investors' relations and information to shareholders	18	160,840	557,333
Travel and entertainment		211,970	248,998
Office expenses and insurance		177,325	381,993
Maintenance, rental and depreciation		48,948	116,120
Part XII.6 income taxes		-	12,689
Reversal of other provisions	2.16	-	(1,884,972)
Exploration and evaluation - Properties in production (net of tax credits received of \$nil (June 30, 2017 - \$2,089,121))	6	2,614,613	400,771
Exploration and evaluation – Properties in exploration		5,973,823	5,590,125
Gain on settlement of streaming contract	10	(1,686,278)	-
Loss on disposal of non-financial assets		15,403	19,697
		9,220,894	10,182,816
OPERATING INCOME (LOSS)		(10,439,611)	1,184,168
FINANCIAL EXPENSES			
Interest on long-term debt		9,327	1,533,454
Accretion expense		36,566	50,396
		(45,893)	(1,583,850)
FINANCIAL REVENUES			
Unrealized gain on derivative financial instrument		-	322,770
Interest income		35,896	164,144
		35,896	486,914
INCOME (LOSS) BEFORE INCOME TAXES		(10,449,608)	87,232
Recovery (income taxes)	15	1,588,182	(491,477)
NET LOSS AND COMPREHENSIVE LOSS		(8,861,426)	(404,245)
LOSS PER SHARE			
Basic and diluted loss per share	14	(0.106)	(0.008)
Weighted average number of common shares outstanding		83,659,134	51,674,370

The accompanying notes are an integral part of these financial statements

METANOR RESOURCES INC.
STATEMENTS OF CHANGES IN EQUITY
Six Months ended December 31, 2017 and the Year ended June 30, 2017

	Notes	Number of shares	Share capital	Reserve for warrants	Contributed surplus	Deficit	Total equity
			\$	\$	\$	\$	\$
Balance as at June 30, 2016		43,168,947	116,516,786	670,808	10,420,768	(116,074,125)	11,534,237
Issuance of shares	12.1	30,562,195	19,601,531	-	-	-	19,601,531
Issuance of flow-through shares	12.1	6,247,300	5,213,110	-	-	-	5,213,110
Issuance cost of shares	12.1	-	(1,610,747)	170,256	-	-	(1,440,491)
Exercise of warrants		1,725,056	1,151,982	(106,261)	-	-	1,045,721
Share-based compensation	12.3	-	-	-	1,177,275	-	1,177,275
Net loss and comprehensive loss for the year		-	-	-	-	(404,245)	(404,245)
Balance as at June 30, 2017		<u>81,703,498</u>	<u>140,872,662</u>	<u>734,803</u>	<u>11,598,043</u>	<u>(116,478,370)</u>	<u>36,727,138</u>
Issuance of units	12.1	12,243,000	8,080,380	489,720	-	-	8,570,100
Issuance of flow-through shares	12.1	3,358,600	2,216,676	-	-	-	2,216,676
Issuance of shares	12.1	3,164,156	2,436,400	-	-	-	2,436,400
Issuance cost of units	12.1	-	(762,806)	-	-	-	(762,806)
Share-based compensation	12.3	-	-	-	58,660	-	58,660
Net loss and comprehensive loss for the period		-	-	-	-	(8,861,426)	(8,861,426)
Balance as at December 31, 2017		<u>100,469,254</u>	<u>152,843,312</u>	<u>1,224,523</u>	<u>11,656,703</u>	<u>(125,339,796)</u>	<u>40,384,742</u>

The accompanying notes are an integral part of these financial statements

METANOR RESOURCES INC.
STATEMENTS OF CASH FLOWS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

	Notes	Six Months Ended December 31, 2017	Year Ended June 30, 2017
		\$	\$
OPERATING ACTIVITIES			
Income (Loss) before income taxes		(10,449,608)	87,232
Adjustments for:			
Share-based compensation		58,660	1,177,275
Depreciation of property, plant and equipment		126,404	134,388
Loss on disposal of non-financial assets		15,403	19,697
Gain on settlement of streaming contract	10	(1,686,278)	-
Unrealized gain on derivative financial instrument		-	(322,770)
Interest on finance leases		4,437	2,639
Gold income - accounting adjustment to the unearned revenue		(420,464)	(2,756,548)
Reversal of other provisions		-	(1,884,972)
Accretion expense		36,566	50,396
Depreciation and depletion		3,040,702	7,480,913
Interest on long term debt and convertible debentures		4,890	2,262,523
Interest paid		(4,890)	(1,533,454)
Interest income		(35,896)	(164,144)
Interest income received		35,896	164,144
Changes in working capital items	16	(1,839,341)	1,908,388
Cash flows from (used by) operating activities		<u>(11,113,519)</u>	<u>6,625,707</u>
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(3,512,749)	(4,494,449)
Security and contract deposits		(1,412,097)	(1,082,432)
Disposal of property, plant and equipment		46,275	130,226
Tax credits received		-	(119,478)
Cash flows used by investing activities		<u>(4,878,571)</u>	<u>(5,566,133)</u>
FINANCING ACTIVITIES			
Payment of long-term debt		(203,567)	(152,643)
Payment of obligations under leases		(601,261)	(290,290)
Payment of the debenture		-	(9,000,000)
Exercise of warrants		-	1,045,721
Issuance of shares and units		11,424,910	26,282,006
Issuance costs of units		(762,806)	(1,440,491)
Cash flows from financing activities		<u>9,857,276</u>	<u>16,444,303</u>
Net change in cash and cash equivalents		(6,134,814)	17,503,877
Cash and cash equivalents, beginning of period		<u>19,392,815</u>	<u>1,888,938</u>
Cash and cash equivalents, end of period		<u><u>13,258,001</u></u>	<u><u>19,392,815</u></u>

Additional information on cash flows

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The accompanying notes are an integral part of these financial statements

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

1. INCORPORATION AND NATURE OF OPERATIONS

Metanor Resources Inc. (the “Company”) is incorporated under the Canada Business Corporations Act. The Company’s registered office and its principal place of business is 2872 Sullivan Road, Suite 2, Val-d’Or, Quebec, Canada. The Company is engaged in the production and sale of gold, as well as the exploration and development of mining properties. The recoverability of the amounts shown for mining properties is dependent upon the existence of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of its properties. The Company’s shares trade on the TSX-V exchange under the symbol “MTO”.

1.1. Basis of presentation

These financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 2. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. The Company changed its fiscal year end from June 30 to December 31. As such, the period ended December 31, 2017, is a stub year, comprised of the six month period from July 1, 2017 to December 31, 2017. The comparative audited year ended June 30, 2017, comprises July 1, 2016 to June 30, 2017.

1.2. Statement of compliance

The Company prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”). IFRS represents standards and interpretations approved by the International Accounting Standards Board (“IASB”), and are comprised of IFRS, International Accounting Standards (“IASs”), and interpretations issued by the IFRS Interpretations Committee (“IFRICs”). The Company requires the use of certain critical judgments and accounting estimates. It also requires management to exercise judgment when applying the Company’s accounting policies (Note 3). The financial statements for the six month period ended December 31, 2017 (including the comparative financial statements) were approved and authorized for issue by the Board of Directors on April 27, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Overall considerations

The financial statements have been prepared using accounting policies specified by IFRS in effect as at December 31, 2017.

The significant accounting policies that have been applied in the preparation of these financial statements are summarized below.

2.2. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company.

IFRS 9 – Financial instruments (IFRS 9)

In July 2014, the International Accounting Standards Board (“IASB”) published IFRS 9 which replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 introduces improvements which include a logical model for classification and measurement of financial assets, a single, forward-looking “expected loss” impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company does not anticipate any significant impact inherent to the adoption of this Standard on its financial statement.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company. (continued)

IFRS 15 – Revenues from contracts with Customers (IFRS 15)

In May 2014, the IASB published IFRS 15 which replaces IAS 18 Revenue, IAS 11 Construction Contracts and some revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized at a point in time or over time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company anticipates an impact on the previous unearned revenue balance following the adoption of this Standard.

IFRS 16 – Leases (IFRS 16)

In January 2016, the IASB published IFRS 16 which replaces IAS 17 Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statements of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The Company has yet to assess the impact of this new standard on its financial statements.

2.3. Foreign currency translation

The Company's financial statements are presented in Canadian dollars, which represents the functional currency.

Foreign currency transactions are translated into the functional currency using the prevailing exchange rates on the date of each transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of comprehensive loss.

2.4. Materials, supplies and gold inventory

Materials, supplies, gold doré and gold in-circuit are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and selling costs.

For the above items, cost is determined on the following basis:

- Gold doré inventory includes doré bars in transit to, or being held at the refineries and is valued at average production cost;
- Gold in-circuit is valued at the average cost of production of the material that is currently in the process of being converted to a gold doré;
- Materials and supplies, including mine and mill operating supplies, are valued using the weighted average cost.

Any provision for obsolescence is determined by reference to specific items of materials. A review is undertaken at each reporting period to determine the extent of any provision for obsolescence. The average cost of production includes all costs directly attributable to the mineral extraction and processing process, including the systematic allocation of general fees incurred during the process. The cost of inventories expensed during the year amount to \$19,456,188 (\$43,881,268 at June 30, 2017).

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Unearned revenue

The Company concluded a gold sale agreement with Sandstorm Gold Ltd. ("Sandstorm"), in 2012. The Company received advances that were recorded as unearned revenue. The initial advances received were for the future delivery of gold ounces at contractual prices. As the Company proceeds with the delivery of the gold to Sandstorm, it recognized the revenue prorated by the quantity of gold delivered over the estimated quantity of gold to be delivered over the term of the contract. On September 28, 2017 the Company re-structured the streaming contract. As a result the unearned revenue has been eliminated. See Note 10.

2.6. Post-employment benefits and short-term employee benefits

The Company provides post-employment benefits through a defined contribution plan. A defined contribution plan is a pension plan under which the Company makes contributions, established according to a percentage of the employee's salary, to an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution during the employment period.

Short-term employee benefits, including vacation entitlement, are current liabilities included in "trade and other payables", and are measured at the undiscounted amount that the Company expects to pay.

2.7. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and financial liabilities are measured initially at fair value and their subsequent measurement depends on their classification as described below:

Financial assets

For the purpose of subsequent measurement, financial assets are classified into the following category upon initial recognition:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. Cash and cash equivalents and other receivables and securities fall into this category of financial instruments.

Impairment of loans and receivables

All financial assets measured at amortized cost are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract such as a default of interest or principal payment; or
- increased probability that the borrower will enter into a bankruptcy or financial reorganization.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial instruments (continued)

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables is presented in profit or loss within other expenses, if applicable.

Financial liabilities

The Company's financial liabilities include trade and other payables, other liabilities, royalties payable and long-term debt. Financial liabilities are measured at amortized cost using the effective interest method. All interest-related charges are reported in profit or loss within financial expenses, if applicable.

2.8. Basic and diluted loss per share

Basic loss per share is calculated by dividing the loss attributable to common equity holders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the loss attributable to common equity holders of the Company, and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which include options and warrants. Dilutive potential common shares shall be deemed to have been converted into common shares at the beginning of the period or, if later, at the date of issue of the potential common shares.

For the purpose of calculating diluted loss per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of common shares at the average market price of common shares during the period. For the periods presented, the diluted loss per share is equal to the basic loss per share as a result of the anti-dilutive effect of the outstanding options and warrants as explained in Note 12.

2.9. Credit on duties refundable and refundable tax credit for resources

The Company is entitled to a refundable tax credit on qualified expenditures incurred in the province of Quebec. The refundable tax credits may reach 15% of qualified exploration expenditures incurred.

In accordance with IAS 20, Accounting for government grants and disclosure of government assistance, the exploration tax credits have been applied against the costs incurred.

2.10. Royalties payable

Royalties payable are recognized initially at fair value in accordance with the terms of each royalty agreement.

2.11. Exploration and evaluation expenditures

Exploration costs, net of tax credits, are charged to operations in the period incurred.

2.12. Commercial Production

The Company assesses the stage of each mine site to determine when a mine has moved into the commercial production phase. During the production phase of a mine, costs incurred relating to mining assets, additions or improvements or mineable reserve development are assessed to determine whether capitalization is appropriate.

2.13. Property, plant and equipment

Producing properties

Producing properties include the mine development expenditures, estimated costs of restoring the sites of the Company's producing and mines under development and are measured at cost less accumulated depletion and impairment.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2. 13. Property, plant and equipment (continued)

Mine development expenditures

Mine development costs, which include vertical and horizontal development of the mine infrastructure, incurred after the commencement of production are capitalized to the extent that these costs benefit the entire ore body. Costs incurred to access single ore blocks are expensed as incurred.

Plant and equipment

The initial cost of an asset is comprised of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, and the borrowing costs incurred during its construction for the asset. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Repairs and maintenance of plant and equipment are expensed as incurred. Costs incurred to enhance the service potential of plant and equipment are capitalized and depreciated over the remaining useful life of the improved asset.

Depreciation and depletion

Management determines the appropriate method to depreciate mining assets over their estimated useful life taking into account the nature of a particular ore body and the method of mining that ore body. To achieve this, the following calculation method is used:

- Producing properties, including mine development expenditures and deferred stripping costs, are amortized over the life-of-mine using the unit-of-production method. The depreciation rate of producing properties is calculated based on the number of ounces sold. The life-of-mine is based on the proven and probable mineral reserves and a portion of measured, indicated and inferred resources that the Company considers highly likely to be able to convert into reserves. The depreciation calculation takes into account the development costs that will be incurred in the future to be able to access these reserves and resources.

Depreciation is recognized on a straight-line basis to amortize the cost to its estimated residual value, with a constant charge over the useful life of the asset. The depreciation periods are as follows:

	Years
Buildings	8 - 15
Equipment and tools	8 - 10
Office equipment	8
Rolling stock	8 - 15
Leasehold improvements	5

The asset retirement costs of the mill are depleted on a straight-line basis over a 15-year period.

The residual value, depreciation method and the useful life of each asset are reviewed at least at each reporting period.

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized.

2. 14. Financing fees

The financing fees related to long-term debt are presented as an offset to long-term debt and amortized using the effective interest rate method.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2. 15. Impairment of property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level.

Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an asset or cash-generating unit is reviewed for impairment.

An impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset of a cash-generating unit is the higher of its fair value less cost to sell and its value in use.

An impairment charge is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2. 16. Provisions and contingent liabilities

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

Provision relating to the asset retirement obligations of property, plant and equipment

The Company reports the present value of the necessary estimated costs to settle its obligations arising from environmentally acceptable closure plans, relating notably to dismantling or demolition of infrastructures, removal of residual matter and site restoration, in the period in which the obligations are incurred. The asset retirement obligations of the property, plant and equipment are mainly related to the site restoration and the dismantling of the facilities at the mining site in production after the closure in accordance with the mining plan (Note 2.20).

Other provisions

Other provisions related to the renunciation of exploration expenses related to the issuance of flow-through shares. The Company is not eligible for any reimbursement by third parties in this regard. As the timing of settlement of these claims is to a large extent dependent on the pace of negotiation with various counterparties and governmental authorities, the Company cannot reliably estimate the amounts that will eventually be paid in settlement after more than twelve months from the reporting date. Therefore, the amount was classified as current.

	\$
Carrying amount at June 30, 2016	1,987,683
Provision reversed during the year	(1,884,972)
Amounts paid during the year	(3,111)
Carrying amount at June 30, 2017 and December 31, 2017	<u><u>99,600</u></u>

Management does not expect that the outcome of any of the remaining cases will give rise to any significant loss beyond the amounts recognized as at December 31, 2017.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17. Income and mining taxes

Current income and mining tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred taxation is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at future anticipated tax rates, which have been enacted or substantively enacted at the reporting date.

Deferred tax is recognized as income or expense and included in earnings for the period, except to the extent that the tax arises from a transaction or event which is recognized, in the same or a different period directly in components of equity, or a business combination that is an acquisition.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off the tax assets and tax liability and the deferred income taxes relate to the same taxable entity and the same taxation authority. A reduction in respect of the benefit of a future tax asset is recorded against any future tax asset if it is probable that the asset will not be realized.

Income taxes related to flow-through shares

According to the provisions of tax legislation relating to flow-through shares, the Company has to transfer its right to tax deductions for expenses related to exploration activities to the benefit of the investors. When the Company has fulfilled its obligation to transfer its right, which happens when the Company has incurred eligible expenditures and has the firm intention to renounce its right to tax deductions, a deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures and its tax basis.

2.18. Equity

Share capital represents the amount received on the issue of shares, less issuance costs. If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus and reserve for warrants.

Warrants

Proceeds from issuance of units are allocated between shares and reserve for warrants issued using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to reserve warrants. The fair value of the warrants issued to lenders and brokers is determined by using the Black-Scholes pricing model.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2. 18. Equity (continued)

Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its Canadian exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax recovery for the amount of tax reduction renounced to the shareholders, if it has sufficient tax assets to do so.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's reporting year is disclosed separately as flow-through share premium liability.

Flow through premium liability

For the purposes of calculating the tax effect of any premium related to the issuance of the flow-through shares, the Company reviewed the share price of the Company's common shares and compared it to determine if there was a premium paid on the shares. As at December 31, 2017, the remaining liability is estimated at \$638,134 (June 30, 2017 \$1,417,500).

Other elements of equity

Contributed surplus includes charges related to share based compensation and warrants until such equity instruments are exercised and charges related to expired warrants. When the share options are exercised, the corresponding charges are transferred to share capital.

Warrants include charges related to the issuance of warrants until such equity instruments are exercised or expired. When the warrants are exercised, the corresponding charges are transferred to share capital. When the warrants expire, the corresponding charges are transferred to contributed surplus.

Deficit includes all current and prior period retained profits or losses.

2. 19. Share-based compensation

The Company operates equity-settled share-based compensation plans for its eligible directors, employees, officers and consultants. None of the Company's plans feature any options for a non cash settlement.

All goods and services received in exchange for the grant of any share-based compensation are measured at their fair value, unless that fair value cannot be reliably estimated. If the entity cannot reliably estimate the fair value of the goods or services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and others providing similar services, the Company measured the fair value of the services received by reference to the fair value of the equity instruments granted.

All equity-settled share-based compensation (except units issued to brokers) are ultimately recognized as an expense in the profit or loss with a corresponding credit to contributed surplus. Equity-settled share-based compensation to brokers, with respect of an equity financing are recognized as issuance costs of the equity instruments with a corresponding credit to contributed surplus.

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different to that estimated on vesting.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2. 20. Asset retirement obligations

Asset retirement obligations are recorded as liabilities when those obligations are incurred and are measured as the present value, if a reasonable estimate of the expected costs to settle the liability can be determined, discounted at a current pre-tax rate specific to the liability. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings while changes resulting from the revisions to either the timing or the amount of the original estimate of the undiscounted cash flows are accounted for as part of the carrying amount of the related long-lived asset. The carrying amount of the asset retirement obligations is reviewed to reflect current estimates and changes in the discount rate.

2. 21. Revenue Recognition

Revenue include sales of gold doré bars which are physically delivered to customers in the period they are produced with their sales price based on prevailing spot market metal prices. Revenue from sales is recognized when all the following conditions have been satisfied:

- The significant risks and rewards of ownership have been transferred;
- Neither continued managerial involvement to the degree usually associated with ownership, nor effective control over metals sold, has been retained;
- The amount of revenue can be measured reliably;
- It is probable the economic benefits associated with the transaction will flow to the Company;
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

These conditions are generally met when the sales price is fixed and the title has passed to the customer.

Revenue from the sales of other metal products are credited to operating costs. Interest revenue is recognized as it accrues, using the effective interest method.

2. 22. Leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of finance expenses.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

2. 23. Borrowing costs

Interest and other financing costs that are directly attributable to the acquisition or construction of an asset are capitalized. Capitalization of borrowing costs ceases when all the activities necessary to prepare the asset for its intended use or sale are substantially complete.

To the extent that funds are part of general borrowing or are borrowed specifically for the purpose of constructing an asset, the amount of borrowing costs eligible for capitalization on that asset is determined as the actual borrowing costs incurred on that borrowing during the period. Interest earned on the temporary investment of borrowed funds is deducted from interest paid on the borrowed funds in arriving at the amounts so capitalized. These costs are amortized on the same basis as the asset. No amounts were capitalized during the last two financial periods.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2. 24. Segmented information

The Company operates a producing gold mine in Val-d'Or as well as several exploration and evaluation properties in the same area.

The Company presents and discloses segmented information based on information that is regularly reviewed by the chief operating decision-maker, i.e. the Chief Financial Officer. The Company has determined that there are three segments, being the producing Bachelor Lake Property, the sector of exploration and evaluation of other mineral properties and corporate expenses. (See Note 18).

2. 25. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short-term investments maturing in less than 3 months following the date of the statement of financial position. Included in cash and cash equivalents are short-term investments totaling \$10,001,249, bearing interest between 1.38% and 1.62% and maturing between January and March 2018 (June 30, 2017 - \$nil). The market value of these investments approximates their carrying value as of December 31, 2017.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, revenue and expenses for each period presented. Changes in the estimates and assumptions will occur based on additional information and the occurrence of future events and actual results could differ from those estimates. The more significant areas requiring the use of management estimates and assumptions relate to mineral reserves that are the basis of future cash flow estimates and unit-of-production depreciation, depletion and amortization calculations, environmental, reclamation and closure obligations, estimates of recoverable gold and other materials in in-circuit inventory, asset impairments, write-downs of inventory to net realizable value, share-based compensation, the fair value and accounting treatment of derivative financial instruments and deferred income and mining taxes.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial period are discussed below.

Estimates

i) Mineral reserves estimate

Mineral reserves are estimates of the amount of product that can be economically and legally extracted from the Company's properties. In order to calculate the reserves and resources that the Company considers highly likely to be able to convert into reserves, which form the life-of-mine of producing mining properties of the Company, estimates and assumptions are required about a range of geological, technical and economic factors, including but not limited to quantities, grades, production techniques and recovery rates.

Estimating the quantity and grade of the mineral reserves requires the size, shape and depth of ore bodies to be determined by analyzing geological data such as the logging and assaying of drill samples. This process may require complex and sophisticated geological models and calculations to interpret the data.

The Company is required to determine and report on the mineral reserves in accordance with the requirements of the Canadian Institute of Mining Standards. Estimates of mineral reserves may change from period to period due to the change in economic assumptions used to estimate ore reserves and due to additional geological data becoming available during the course of operations. Changes in reported proven and probable mineral reserves and a portion of measured, indicated and inferred resources that the Company expects to convert into reserves may significantly affect the Company's financial results and position in a number of ways, including the following:

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimates (continued)

i) Mineral reserves estimate (continued)

- Asset carrying values may be affected due to changes in estimated cash flows;
- Depreciation and amortization charges to the statement of comprehensive loss may change as these are calculated on the unit-of production method, or where the useful economic lives of assets change;
- Asset retirement obligations and environmental provisions may change where changes in ore reserves affect expectations about the timing or cost of these activities.

Included in the life-of-mine estimate are measured, indicated and inferred resources that are not converted in reserves but over which the Company has a high expectation to convert to reserves in the future. The inclusion of these resources is an estimate that has a significant impact on the above-mentioned items impacted by the life-of-mine estimate.

As at November 1, 2017, the Company adjusted the life-of-mine estimate of its mining properties in production based on updated geological data. Consequently, the life-of-mine estimate was decreased, which will result in an increase of the yearly depreciation of property, plant and equipment amortized over the life-of-mine.

ii) Asset retirement obligations

The Company assesses its asset retirement obligations annually. Determining these obligations requires significant estimates and assumptions due to the numerous factors that affect the amount ultimately payable. Such factors include estimates of the scope and cost of restoration activities, legislative amendments, known environmental impacts, the effectiveness of maintenance and restoration measures and changes in the discount rate. This uncertainty may lead to differences between the actual expense and the allowance. At the date of the statement of financial position, asset retirement obligations represent management's best estimate of the charge that will result when the actual obligations are terminated.

iii) Gold in-circuit

Given the non-observable nature of the asset, the determination of the ounces of gold in the circuit that ends up in the inventory for the statement of financial position of the Company represents a significant estimate. A sampling is performed at each stage of the production process and recalculates the total ounces of gold included in the circuit by using an established scientific model.

iv) Fair value of NSR agreements

As part of the Amending Agreement signed with Sandstorm (Note 10), Metanor granted NSR to Sandstorm for its Bachelor and Barry properties. The NSR were recorded at fair value against property plant and equipment and as recovery of exploration and evaluation expenses. The fair value was based on expected future discounted cash flows. The important assumptions in the calculation were as follows:

- Expected future production based on the life of mine calculation inherent to each property;
- Discount rate (between 5% and 8%);
- Future gold price (between \$1,604 and \$1,616).

A change in those assumptions may generate a significant impact on the outcome of the fair value calculated.

Judgements

i) Income and mining taxes

Significant judgement is required in determining the provision for income and mining taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and mining taxes and deferred tax provisions in the period in which such determination is made.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Judgements (continued)

i) Income and mining taxes (continued)

Management carries out a review of the carrying amount of deferred tax assets at each financial reporting date. The deferred tax assets will reduce to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit its ability to obtain tax deductions in future periods.

ii) Deferred tax liabilities and assets

Deferred tax liabilities and assets are measured at tax rates expected in the period during which the asset is realized or the liability is settled, based on tax rates (and tax laws) that are enacted or substantively enacted at the end of the reporting period of the financial information. The measurement of liabilities and deferred tax assets reflects the tax consequences that result from the manner in which the Company expects, at the end of the reporting period of the financial information, to recover or settle the carrying amount of its assets and liabilities.

iii) Provisions and contingent liabilities

Judgements are made as to whether a past event has led to a liability that should be recognized in the financial statements or disclosed as a contingent liability. Quantifying any such liability often involves judgments and estimations. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received from previous experience and the probability of a loss being realized. Several of these factors are a source of estimated uncertainty.

iv) Establishing cash-generating units ("CGU")

For the purpose of assessing impairment of its long-term assets, the Company determines the cash-generating units ("CGU"), defined as being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination of the CGU and the classification of the Company's assets to the determined CGU require significant judgement having a potentially significant incidence on the result of the subsequent impairment analysis.

The Company periodically reviews the determination of the CGU and the corresponding grouping of the Company's assets, including its assets classified as common assets.

v) Impairment of long-term assets

The evaluation if an impairment test in accordance with IAS 36 needs to be performed on its long-term assets requires judgement in determining whether it is likely that future economic benefits will be achieved at certain mining properties, which may be based on assumptions about future events or circumstances. If, after expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written down in the statement of comprehensive loss in the period when the new information becomes available.

4. MATERIALS, SUPPLIES AND GOLD INVENTORY

As at,	<u>December 31, 2017</u>	<u>June 30, 2017</u>
	\$	\$
Materials and supplies	2,137,746	1,984,381
Gold Doré	789,442	219,429
Gold in circuit	2,243,596	1,952,913
	<u>5,170,784</u>	<u>4,156,723</u>

METANOR RESOURCES INC.
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5. SECURITY AND CONTRACT DEPOSITS

As at December 31, 2017, the Company had \$4,343,563 (\$3,059,566 as at June 30, 2017) in deposits with the government of Quebec for the settlement of asset retirement obligations which is comprised of \$3,948,666 (\$2,681,123 at June 30, 2017) for the mill and \$394,897 (\$378,443 at June 30, 2017) for the Barry site and \$370,000 (\$370,000 at June 30, 2017) deposit with Hydro Quebec and others.

6. EXPLORATION AND EVALUATION PROPERTIES

a) Hewfran-2

The Company holds a 100% interest in 13 mining titles located near the Bachelor Lake property. It is subject to a 2% NSR.

b) Wahnapeitei

The Company holds a 90% interest in a property comprised of 2 mining leases and 3 concessions located in Sudbury, Ontario.

c) MJL – Hansen

The Company holds a 100% interest in 55 mining titles located near the Bachelor Lake property. It is subject to a 2% NSR, half of which is redeemable for \$1,000,000.

d) Barry

The Company holds a 100% interest in a mining lease and 7 mining titles in the Barry gold deposit, located 110 Km southeast of the Bachelor mine. It is subject to a 3% NSR.

e) Barry United

The Company holds a 100% interest in 93 mining titles located near the Barry property. It is subject to a NSR of 1% to 4%.

f) Barry Extension

The Company holds a 100% interest in 79 mining titles located near the Barry property. It is subject to a 2% NSR, half of which is redeemable for \$1,000,000 and the other half at conditions to be agreed upon by the parties.

g) MJL - 2

The Company holds a 100% interest in 51 mining titles located near the Bachelor Lake property. It is subject to a 2% NSR, half of which is redeemable for the sum of \$1,000,000 and the other half at conditions to be agreed upon by the parties.

h) Nelligan

The Company holds a 70% interest in 58 mining titles located near the Bachelor Lake property. It is subject to a 2% NSR, half of which is redeemable for \$1,000,000.

i) Barry-Souart

The Company holds a 100% interest in 21 mining titles located near the Barry Property. It is subject to a 3.5% NSR, half of which is redeemable for the sum of \$1,000,000 payable in cash or at the option of the seller by the issuance of shares.

j) Geonova

The Company holds a 100% interest in 35 mining titles located near the Bachelor Lake property. It is subject to a 2% or 3% NSR.

k) Moroy

The Company holds a 100% interest in 12 mining titles located near the Bachelor Lake property. It is subject to a 2% or 3% NSR.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
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6. EXPLORATION AND EVALUATION PROPERTIES (continued)

l) Coniagas

The Company holds a 100% interest in a mining lease located near the Bachelor Lake property.

7. PROPERTY, PLANT AND EQUIPMENT

The Bachelor Mine holds a 100% interest in a mining lease which is divided into two sectors:

- The Bachelor Lake sector is subject to a 1.25% NSR. On December 1st, 2013, the Company declared commercial production on this property.
- The Hewfran sector is subject to a 2% NSR. On December 1st, 2013, the Company declared commercial production on this property.

	Mining site in production See - (i) \$	Exploration See - (ii) \$	Capital finance leases / Mining site in production and exploration See - (iii) \$	Corporate office See - (iii) \$	Total \$
Gross carrying amount					
Balance at June 30, 2017	59,628,071	1,312,307	1,040,828	518,652	62,499,858
Transfers	(221,000)	221,000	-	-	-
Additions	3,066,865	531,657	662,644	93,317	4,354,483
Disposal	(844,026)	(8,500)	-	(87,590)	(940,116)
Balance at December 31, 2017	61,629,910	2,056,464	1,703,472	524,379	65,914,225
Depreciation and depletion					
Balance at June 30, 2017	30,502,256	871,817	45,856	444,475	31,864,404
Transfers	(107,507)	107,507	-	-	-
Additions	2,977,717	104,410	76,329	8,650	3,167,106
Disposal	-	(8,500)	-	(25,912)	(34,412)
Balance at December 31, 2017	33,372,466	1,075,234	122,185	427,213	34,997,098
Carrying amount at December 31, 2017	28,257,444	981,230	1,581,287	97,166	30,917,127

METANOR RESOURCES INC.
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7. PROPERTY, PLANT AND EQUIPMENT (continued)

I. Mining site in production

	Building	Equipment and tools	Underground Infrastructures	Vehicles	Assets retirement costs	Total
	\$	\$	\$	\$	\$	\$
Gross carrying amount						
Balance at June 30, 2017	24,946,735	7,693,194	21,682,685	1,645,759	3,659,698	59,628,071
Transfers	-	-	-	(221,000)	-	(221,000)
Additions	1,575,073	15,945	1,404,879	70,968	-	3,066,865
Adjustment (Note 10)	-	-	(765,961)	-	(78,065)	(844,026)
Balance at December 31, 2017	26,521,808	7,709,139	22,321,603	1,495,727	3,581,633	61,629,910
Depreciation and depletion						
Balance at June 30, 2017	12,855,918	3,013,344	12,032,607	599,859	2,000,528	30,502,256
Transfers	-	-	-	(107,507)	-	(107,507)
Additions	1,037,360	240,580	1,449,550	130,839	119,388	2,977,717
Balance at December 31, 2017	13,893,278	3,253,924	13,482,157	623,191	2,119,916	33,372,466
Carrying amount at December 31, 2017	12,628,530	4,455,215	8,839,446	872,536	1,461,717	28,257,444

II. Exploration

	Building	Equipment and tools	Underground Infrastructures	Vehicles	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance at June 30, 2017	835,452	362,743	-	114,112	1,312,307
Transfers	-	-	-	221,000	221,000
Additions	204,674	117,076	128,300	81,607	531,657
Adjustment	-	-	-	(8,500)	(8,500)
Balance at December 31, 2017	1,040,126	479,819	128,300	408,219	2,056,464
Depreciation and depletion					
Balance at June 30, 2017	573,853	222,743	-	75,221	871,817
Transfers	-	-	-	107,507	107,507
Additions	54,118	3,659	16,131	30,502	104,410
Adjustment	-	-	-	(8,500)	(8,500)
Balance at December 31, 2017	627,971	226,402	16,131	204,730	1,075,234
Carrying amount at December 31, 2017	412,155	253,417	112,169	203,489	981,230

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

7. PROPERTY, PLANT AND EQUIPMENT (continued)

III. Capital finance leases and Corporate office

	Capital finance leases			Corporate office			
	Mining site Production / Equipment	Exploration / Building	Total	Leasehold improvements	Office equipment	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Gross carrying amount							
Balance at June 30, 2017	902,750	138,078	1,040,828	88,078	332,340	98,234	518,652
Additions	210,000	452,644	662,644	-	-	93,317	93,317
Disposal	-	-	-	-	-	(87,590)	(87,590)
Balance at December 31, 2017	1,112,750	590,722	1,703,472	88,078	332,340	103,961	524,379
Depreciation and depletion							
Balance at June 30, 2017	45,137	719	45,856	88,078	332,340	24,057	444,475
Additions	62,984	13,345	76,329	-	-	8,650	8,650
Disposal	-	-	-	-	-	(25,912)	(25,912)
Balance at December 31, 2017	108,121	14,064	122,185	88,078	332,340	6,795	427,213
Carrying amount at December 31, 2017	1,004,629	576,658	1,581,287	-	-	97,166	97,166

	Mining site in production	Exploration	Capital finance leases / Mining site in production and exploration	Corporate office	Total
	See - (i)	See - (ii)	See - (iii)	See - (iii)	
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance at June 30, 2016	54,780,497	1,215,592	-	584,674	56,580,763
Additions	4,906,307	96,715	1,040,828	73,009	6,116,859
Disposal	(58,733)	-	-	(139,031)	(197,764)
Balance at June 30, 2017	59,628,071	1,312,307	1,040,828	518,652	62,499,858
Depreciation and depletion					
Balance at June 30, 2016	23,102,238	764,022	-	430,684	24,296,944
Additions	7,435,776	107,795	45,856	25,874	7,615,301
Disposal	(35,758)	-	-	(12,083)	(47,841)
Balance at June 30, 2017	30,502,256	871,817	45,856	444,475	31,864,404
Carrying amount at June 30, 2017	29,125,815	440,490	994,972	74,177	30,635,454

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

7. PROPERTY, PLANT AND EQUIPMENT (continued)

I. Mining site in production

	Building	Equipment and tools	Underground Infrastructures	Vehicles	Assets retirement costs	Total
	\$	\$	\$	\$	\$	\$
Gross carrying amount						
Balance at June 30, 2016	24,474,921	7,351,881	18,155,183	919,413	3,879,099	54,780,497
Additions	471,814	341,313	3,527,502	785,079	(219,401)	4,906,307
Disposal	-	-	-	(58,733)	-	(58,733)
Balance at June 30, 2017	<u>24,946,735</u>	<u>7,693,194</u>	<u>21,682,685</u>	<u>1,645,759</u>	<u>3,659,698</u>	<u>59,628,071</u>
Depreciation and depletion						
Balance at June 30, 2016	10,813,313	2,536,192	7,608,985	387,200	1,756,548	23,102,238
Additions	2,042,605	477,152	4,423,622	248,417	243,980	7,435,776
Disposal	-	-	-	(35,758)	-	(35,758)
Balance at June 30, 2017	<u>12,855,918</u>	<u>3,013,344</u>	<u>12,032,607</u>	<u>599,859</u>	<u>2,000,528</u>	<u>30,502,256</u>
Carrying amount at June 30, 2017	<u>12,090,817</u>	<u>4,679,850</u>	<u>9,650,078</u>	<u>1,045,900</u>	<u>1,659,170</u>	<u>29,125,815</u>

II. Exploration

	Building	Equipment and tools	Vehicles	Total
	\$	\$	\$	\$
Gross carrying amount				
Balance at June 30, 2016	781,950	362,743	70,899	1,215,592
Additions	53,502	-	43,213	96,715
Balance at June 30, 2017	<u>835,452</u>	<u>362,743</u>	<u>114,112</u>	<u>1,312,307</u>
Depreciation and depletion				
Balance at June 30, 2016	474,016	222,597	67,409	764,022
Additions	99,837	146	7,812	107,795
Balance at June 30, 2017	<u>573,853</u>	<u>222,743</u>	<u>75,221</u>	<u>871,817</u>
Carrying amount at June 30, 2017	<u>261,599</u>	<u>140,000</u>	<u>38,891</u>	<u>440,490</u>

METANOR RESOURCES INC.
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7. PROPERTY, PLANT AND EQUIPMENT (continued)

III. Capital finance leases and Corporate office

	Capital finance leases			Corporate office			
	Mining site Production / Equipment	Exploration / Building	Total	Leasehold improvements	Office equipment	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Gross carrying amount							
Balance at June 30, 2016	-	-	-	88,078	332,340	164,256	584,674
Additions	902,750	138,078	1,040,828	-	-	73,009	73,009
Disposal	-	-	-	-	-	(139,031)	(139,031)
Balance at June 30, 2017	902,750	138,078	1,040,828	88,078	332,340	98,234	518,652
Depreciation and depletion							
Balance at June 30, 2016	-	-	-	88,078	332,340	10,266	430,684
Additions	45,137	719	45,856	-	-	25,874	25,874
Disposal	-	-	-	-	-	(12,083)	(12,083)
Balance at June 30, 2017	45,137	719	45,856	88,078	332,340	24,057	444,475
Carrying amount at June 30, 2017	857,613	137,359	994,972	-	-	74,177	74,177

8. TRADE AND OTHER PAYABLES

As at,	December 31, 2017	June 30, 2017
	\$	\$
Trade payables	7,681,279	5,872,191
Payroll and vacation payable	1,459,318	1,476,716
Trade and other payables	9,140,597	7,348,907

9. LONG-TERM DEBT

As at,	December 31, 2017	June 30, 2017
	\$	\$
Notes payable, secured by rolling stock and mining equipment having a net book value of \$1,089,688, 0% to 6.24%, payable in monthly instalments, maturing at varying dates to 2022 (June 30, 2017 from 2018 to 2021)	954,579	979,055
Obligations under finance leases, 0% to 5.92%, payable in monthly instalments, maturing from 2018 to 2021	798,041	732,222
	1,752,620	1,711,277
Current portion on long term debt	(1,045,873)	(842,432)
	706,747	868,845

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
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9. LONG-TERM DEBT (continued)

The instalments on long-term debt for the forthcoming years are as follows:

	Obligations under finance leases	Notes payable
	\$	\$
2018	751,624	299,649
2019	33,904	259,849
2020	16,152	240,219
2021	4,038	139,153
2022	0	15,709
Total minimum payments	805,718	954,579
Amounts included in minimum payments		
Interest expenses	(7,677)	
	798,041	

10. UNEARNED REVENUE

In 2012, the Company entered into an agreement with Sandstorm where Sandstorm made advances totaling US\$20 million. In exchange, the Company is required to sell to Sandstorm 20% of the gold produced from its Bachelor Lake Property until 2052. For the first US\$20 million of sales, the Company will receive US\$500 per ounce, with the difference between the prevailing market price and the US\$500 reducing the US\$20 million deposit. The full amount of the deposit has been reduced to \$Nil, therefore, sales of gold to Sandstorm will be completed at the lesser of US\$500 and the prevailing market price per ounce of gold. The initial deposit was recorded as unearned revenue and is recognized on the basis of the ounces sold over the estimated quantity of gold to be delivered over the term of the contract. The revenue recognized under this original agreement for the period ended December 31, 2017, was \$638,773 (\$2,756,548 June 30, 2017).

On September 29, 2017, the Company entered into an Amending Agreement with Sandstorm Gold Ltd. effectively reducing the existing gold stream on the Bachelor mine (which required the Company to sell 20% of its gold production at the fixed price of US\$500) and replacing it with a 3.9% net smelter return royalty (NSR) on all minerals produced from the Bachelor and Barry properties (including the surrounding exploration properties held by the Company). 2.1% of the royalty can be repurchased upon payment of US\$2M for each property, thereby reducing the NSR to 1.8%. These royalties become effective once the Company has delivered to Sandstorm, 12,000 ounces (minimum of 1,500 ounces quarterly) of gold at the fixed price of \$US500. As of December 31, 2017, 1,192.34 ounces were delivered. As part of the consideration, the Company issued 3,164,156 common shares to Sandstorm with an aggregate value of \$2,436,400. As a result of the Amending Agreement the company incurred a non-cash net recovery of exploration and evaluation expenses in the amount of \$1,686,278, reduced property plant and equipment by \$765,961 and eliminated the balance of the unearned revenue.

11. ASSET RETIREMENT OBLIGATIONS

The Company's production and exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment. The Company has recorded the asset retirement obligations on the basis of management's best estimates of future costs, based on information available on the reporting date. Best estimates of future cost are the amount the Company would reasonably pay to settle its obligation on the closing date.

The future costs are discounted using the risk-free interest rate of the Company and are recorded to liabilities. The counterpart of these obligations are capitalized to the property, plant and equipment which will be respectively depreciated in accordance with the unit-of-production method, based on the estimated life of the mine upon beginning of commercial production. The asset retirement obligations are adjusted for accumulated accretion in accordance with the expected timing of payment of the cash flows required to settle these obligations.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

11. ASSET RETIREMENT OBLIGATIONS (continued)

a) Changes in obligations

The following table sets forth the changes in the asset retirement obligations:

For the period ended	December 31, 2017	June 30, 2017
	\$	\$
Balance, as at the beginning of the period	4,727,129	4,896,134
Accretion expense	36,566	50,396
Changes to estimated cash flow and payment schedules	(78,065)	(219,401)
Balance	4,685,630	4,727,129

The estimated cash flows was recorded by decreasing the property, plant and equipment assets by \$78,065 (June 30, 2017 - decreasing \$219,401) and the exploration and evaluation - mining properties in exploration by \$6,923 (June 30, 2017 - increasing by \$20,108).

b) Information used in the calculation of obligations

The rate used to determine the future value is 2%, while the rate reflecting the current market assessments (adjusted for the risks specific to this liability) used to determine the actual value is 2.01% (1.84% at June, 2017). The schedule of payments was determined by taking into account the reserves and resources that the Company considers highly likely to be able to convert into reserves of related mining properties and the estimated annual production level. The Company plans to settle these obligations during the financial year ending in 2030.

c) Distribution of asset retirement obligations

The following table sets forth the changes in the asset retirement obligations:

As at,	December 31, 2017	June 30, 2017
	\$	\$
Barry Site	404,969	408,138
Mill	4,280,661	4,318,991
	4,685,630	4,727,129

12. EQUITY

12. 1. Share capital

The share capital of the Company consists of issued common shares.

Authorized:

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value, voting, issuable in series, the directors defining the rights and privileges of these shares upon issuance - None issued.

Six months ended December 31, 2017

On September 29, 2017 the Company issued 3,164,156 common shares to Sandstorm, at the deemed price of \$0.77 per common share, for an aggregate value of \$2,436,000 (non-cash).

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

12. EQUITY (continued)

12. 1. Share capital (continued)

Six months ended December 31, 2017 (continued)

On December 28, 2017, the Company completed a private placement of 12,243,000 units at \$0.70 each for gross proceeds of \$8,570,100. Each unit consisted of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one share of the Company at a price of \$0.90 each until December 28, 2019. In addition, 3,358,600 flow-through shares were issued at a price of \$0.85 each, for gross proceeds of \$2,854,810. A cash commission of 6% was paid.

Year ended June 30, 2017

During the year, the Company issued 1,725,056 common shares for a total amount of \$1,045,721 following the exercise of warrants. The fair value of the exercised warrants amounted to \$106,261.

On June 30, 2017, the Company completed a private placement of 5,250,000 flow-through shares at \$1.13 each for proceeds of \$5,932,500. An amount of \$1,417,500 related to the liability component was recorded within other liabilities in the statement of financial position. A cash commission of 6% was paid.

On April 21, 2017, the Company completed a private placement of 12,642,143 units at \$0.70 each for gross proceeds of \$8,849,500. Each unit consisted of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one share of the Company at a price of \$0.90 each until April 21, 2019. A cash commission of \$103,966 was paid.

On April 13, 2017, the Company completed a consolidation of its issued and outstanding common shares on a 10-to-1 basis ("Share Consolidation"). The Share Consolidation affected all shareholders, option holders and warrant holders uniformly and thus did not materially affect any security holder's percentage of ownership interest. All references in these financial statements to common shares, options and share purchase warrants have been retroactively adjusted to reflect the Share Consolidation.

On March 21, 2017, the Company completed a private placement of 17,920,052 units at \$0.60 each for gross proceeds of \$10,752,031. Each unit consisted of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one share of the Company at a price of \$0.90 each until March 21, 2019. In addition, 997,300 flow-through shares were issued at a price of \$0.75 each, for gross proceeds of \$747,975. A cash commission of 6.5% was paid and 567,521 broker warrants were issued. These broker warrants may be exercised at a price of \$0.65 for a period of 24 months and have a fair value of \$170,256.

12. 2. Warrants

Outstanding warrants entitle their holders to subscribe to an equivalent number of common shares, as follows:

<i>Investors</i>	<u>December 31, 2017</u>		<u>June 30, 2017</u>	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance at beginning	20,751,273	0.83	7,168,631	0.62
Granted	6,121,500	0.90	15,281,098	0.90
Exercised	-	-	(1,698,456)	0.61
Balance at end	<u>26,872,773</u>	<u>0.84</u>	<u>20,751,273</u>	<u>0.83</u>

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

12. EQUITY (continued)

12.2. Warrants (continued)

<i>Brokers</i>	<u>December 31, 2017</u>		<u>June 30, 2017</u>	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance at beginning	690,354	0.63	149,433	0.55
Granted	-	-	567,521	0.65
Exercised	-	-	(26,600)	0.58
Balance at end	<u>690,354</u>	<u>0.63</u>	<u>690,354</u>	<u>0.63</u>

Outstanding warrants are as follows:

<i>Investors</i>	<u>Expiry date</u>	<u>Exercise price</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
			Number	Number
		\$		
	March 27, 2018	0.55	1,527,975	1,527,975
	November 6, 2018	0.65	3,925,500	3,925,500
	November 19, 2018	0.65	16,700	16,700
	March 21, 2019	0.90	8,960,026	8,960,026
	April 21, 2019	0.90	6,321,072	6,321,072
	December 28, 2019	0.90	6,121,500	-
			<u>26,872,773</u>	<u>20,751,273</u>

<i>Brokers</i>	<u>Expiry date</u>	<u>Exercise price</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
			Number	Number
		\$		
	November 6, 2018	0.55	33,600	33,600
	November 19, 2018	0.55	89,233	89,233
	March 21, 2019	0.65	567,521	567,521
			<u>690,354</u>	<u>690,354</u>

12.3. Shared-based compensation

On July 14, 2017, the Company granted to an officer 100,000 stock options exercisable at \$0.81 per share valid for 5 years. The fair value of these share options amount to \$ 58,660 for an estimated weighted-average fair value of \$0.59 per option. The fair value of the options granted was estimated using the Black-Scholes option pricing model with no expected dividend yield, 1.41% weighted-average risk-free interest rate, 105.12% weighted-average expected volatility and 4.15 years weighted-average expected life. Stock options are exercisable at date of grant.

On May 15, 2017, the Company granted 1,800,000 stock options exercisable at \$0.88 per share for 5 years. The fair value of these share options amounted to \$1,152,738. The fair value of the options granted was estimated using the Black-Scholes option pricing model with no expected dividend yield, 0.91% risk-free interest rate, 106.9% expected volatility and 5 years expected life. Stock options are exercisable at date of grant.

METANOR RESOURCES INC.
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12. EQUITY (continued)

12.3. Shared-based compensation (continued)

On March 21, 2017, the Company granted 45,000 stock options exercisable at \$0.70 per share for 5 years. The fair value of these share options amounted to \$23,409. The fair value of the options granted was estimated using the Black-Scholes option pricing model with no expected dividend yield, 1.16% risk-free interest rate, 99.82% expected volatility and 5 years expected life. Stock options are exercisable at date of grant. An amount of \$nil (\$49,158 in June 30, 2017), \$58,660 (\$1,064,076 in June 30, 2017) and of \$nil (\$64,041 in June 30, 2017) of the share-based compensation was recorded respectively in operating costs, administrative expenses and in exploration and evaluation expenses and credited to contributed surplus.

For the period ended	December 31, 2017		June 30, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, at the beginning	3,303,500	2.06	1,613,500	3.60
Granted	100,000	0.81	1,845,000	0.88
Expired	(34,500)	2.50	(155,000)	4.02
Outstanding, at end of period	<u>3,369,000</u>	<u>2.02</u>	<u>3,303,500</u>	<u>2.06</u>
Exercisable, at end of period	<u>3,369,000</u>	<u>2.02</u>	<u>3,303,500</u>	<u>2.06</u>

The following table summarizes certain information for stock options outstanding and exercisable as at December 31, 2017:

Exercise price	Outstanding options			Exercisable options	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
\$			\$		\$
0.50 to 2.49	2,472,500	3.83	0.93	2,472,500	0.93
2.50 to 4.99	502,400	4.57	2.57	502,400	2.57
5.50 to 10.00	394,100	1.33	8.14	394,100	8.14
0.50 to 10.00	3,369,000	3.65	2.02	3,369,000	2.02

The weighted fair value of the granted options of \$0.81 (June 30, 2017 - \$0.64) was determined using the Black-Scholes option pricing model and is based on the following weighted-average assumptions:

	December 31, 2017	June 30, 2017
Expected dividend yield	-	-
Expected weighted volatility	105.12%	106.9%
Risk-free average interest rate	1.41%	0.91%
Expected average life	4.15 years	4.13 years

The underlying expected volatility was determined by reference to historical data of the Company's shares. No special features inherent to the options granted were incorporated into measurement of fair value.

METANOR RESOURCES INC.
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13. FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and liabilities

The carrying amounts and fair values of financial instruments presented in the statement of financial position are as follows:

As at,	December 31, 2017		June 30, 2017	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets	\$	\$	\$	\$
Loans and receivables				
Cash and cash equivalents	13,258,001	13,258,001	19,392,815	19,392,815
Other receivables and securities	151,800	151,800	31,959	31,959

Categories of financial assets and liabilities

The carrying amounts and fair values of financial instruments presented in the statement of financial position are as follows:

As at,	December 31, 2017		June 30, 2017	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial liabilities	\$	\$	\$	\$
Financial liabilities measured at amortized cost				
Trade and other payables	9,140,597	9,140,597	7,348,907	7,348,907
Other liabilities	638,134	638,134	1,417,500	1,417,500
Royalties payable	635,146	635,146	677,847	677,847
Long-term debt	954,579	954,579	979,055	979,055

Financial instruments measured at fair value

The following presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

There have been no significant transfers between Levels in the reporting periods.

The method and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting periods.

The financial liability at fair value that is classified at level 3 is the derivative financial instrument which is described in note 13.

There were no financial liability measured at fair value as at December 31, 2017 and June 30, 2017.

METANOR RESOURCES INC.
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14. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period divided by the weighted - average number of shares outstanding during the period. In calculating the diluted loss per share, dilutive potential common shares such as share options and warrants have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future are disclosed in Note 12.

Both the basic and diluted loss per share have been calculated using the net loss as the numerator, i.e. no adjustment to the net loss was necessary for the six month period ended December 31, 2017.

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Net loss	(8,861,426)	(404,245)
Weighted-average number of common shares	83,659,134	51,674,370
Basic and diluted loss per share	(0.106)	(0.008)

15. INCOME TAXES

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Income taxes (recovery)		
Mining and income tax expense consists of:		
Current taxes	134,706	520,000
Deferred taxes	(1,722,888)	(28,523)
	<u>(1,588,182)</u>	<u>491,477</u>

The reconciliation of the income tax expense, calculated using the statutory income tax rates of the federal government and the Province of Quebec to the income tax expense as per the financial statements, is as follows:

For the period ended	<u>December 31, 2017</u>	<u>June 30, 2017</u>
	\$	\$
Income (Loss) before income taxes	<u>(10,449,608)</u>	<u>87,232</u>
Combined federal and provincial income tax rate at 26.9% (26.9% as at June 30, 2017)	(2,800,495)	23,422
Increase (decrease) in income taxes resulting from the following elements:		
Tax effect of renounced flow-through shares expenses	936,717	557,656
Non-deductible expenses for income tax purposes and others	(441,580)	(223,778)
Flow-through premium	(1,417,500)	(333,910)
Change in the tax effect of temporary differences not recognized	1,652,399	(808,146)
Adjustment due to the change in deferred income tax rate	-	450,846
Tax effect of the streaming agreement	652,958	-
	<u>(1,417,501)</u>	<u>(333,910)</u>
Provision for mining taxes	(170,681)	825,387
Income taxes (recovery)	<u>(1,588,182)</u>	<u>491,477</u>

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

15. INCOME TAXES (continued)

Composition of deferred income taxes in the statement of comprehensive loss

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Recording and reversal of temporary differences	(2,894,504)	555,877
Tax effect of renounced flow-through shares expenses	936,717	557,656
Flow-through premium	(1,417,500)	(333,910)
Change in the tax effect of temporary differences not recognized	1,652,399	(808,146)
	<u>(1,722,888)</u>	<u>(28,523)</u>

As at December 31, 2017, the Company has accumulated, for federal and provincial income tax purposes, non-capital losses for which no deferred tax asset was recorded, which can be applied against future years' taxable income and which will expire as follows:

	<u>Federal</u>	<u>Quebec</u>
	\$	\$
2037	438,661	-
2032	6,003,185	5,988,363
2031	7,566,063	8,166,299
2030	8,984,233	9,163,193
2029	5,336,541	6,675,902
	<u>28,328,683</u>	<u>29,993,757</u>

A deferred tax asset was partially recognized for non-capital federal losses. There is an amount of \$28,328,683 of non-capital losses for which no deferred tax asset has been recognized. No deferred tax asset has been recognized on non-capital losses in Quebec.

The Company has \$180,812 (\$180,812 as at June 30, 2017) of investment tax credits that have not been recognized. These credits can be used to reduce federal income taxes and expire at different dates between 2027 and 2034.

The Company has \$Nil (\$337,241 as at June 30, 2017) of non-refundable tax credits for resources that have not been recognized.

Significant components of the Company's deductible temporary differences for which no deferred tax asset was recorded are as follows:

As at,	December 31, 2017		
	<u>Federal</u>	<u>Quebec</u>	<u>Mining Tax</u>
	\$	\$	\$
Exploration and evaluation expenditures	11,879,428	55,056,983	1,787,590
Non-capital losses	28,328,683	29,993,757	-
Share issue expenses	1,988,380	1,988,380	-
Asset retirement obligations	4,685,630	4,685,630	4,685,630
Provision for bonus payable	500,000	500,000	-
Property, plant and equipment	32,305,490	34,098,856	-
	<u>79,687,611</u>	<u>126,323,606</u>	<u>6,473,220</u>

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

15. INCOME TAXES (continued)

As at,	June 30, 2017		
	Federal	Quebec	Mining Tax
	\$	\$	\$
Exploration and evaluation expenditures	10,970,752	47,778,000	-
Non-capital losses	30,006,330	30,106,110	-
Share issue expenses	1,554,823	1,554,823	-
Asset retirement obligations	4,727,129	4,727,129	4,727,129
Mining rights	305,387	305,387	-
Provision for bonus payable	500,000	500,000	-
Property, plant and equipment	28,846,919	28,846,919	-
	<u>76,911,340</u>	<u>113,818,368</u>	<u>4,727,129</u>

16. ADDITIONAL INFORMATION - CASH FLOWS

The changes in working capital items are detailed as follows:

For the period ended	December 31, 2017	June 30, 2017
	\$	\$
Sales tax receivable	(1,410,064)	(687,163)
Other receivables	(119,841)	(4,034)
Mining tax credits receivable	(957,508)	-
Prepaid expenses	48,919	23,597
Material, supplies and gold inventory	(1,014,061)	2,127,683
Trade and other payables	1,791,690	760,771
Other provisions	-	(3,111)
Royalties payable	(42,701)	(87,640)
Mining taxes payable	(135,775)	(221,715)
	<u>(1,839,341)</u>	<u>1,908,388</u>

Non-cash investing and financing activities:

Asset retirement costs capitalized to property, plant and equipment	(78,065)	(219,401)
Tax credits receivable in reduction of exploration and evaluation expenses	957,508	71,679
Shares issued in counterpart of unearned revenue	2,436,400	-
Issuance of broker warrants in counterpart of issuance cost	-	170,256
Acquisition of property, plant and equipment through long-term debt	179,090	808,983
Acquisition of property, plant and equipment through capital finance leases	662,644	1,019,873
Restructuring of streaming contract -reduction of acquisition of property, plant and equipment	765,961	-
Gain on settlement of streaming contract	(1,686,278)	-

17. RELATED PARTY TRANSACTIONS

The Company's related parties include companies under common control and joint key management, as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

17. RELATED PARTY TRANSACTIONS (continued)

Transactions with key management

Key management includes members of the Board of Directors and executive officers of the Company consisting of the President and Chief Operating Officer, General Director and Chief Financial Officer. The remuneration of key management includes the following expenses:

For the period ended	December 31, 2017	June 30, 2017
	\$	\$
Wages, directors' fees, bonuses and benefits (included in operating costs and salaries and fringe benefits)	780,134	921,759
Professional fees (included in professional fees and investors' relations)	130,432	292,905
Defined contribution pension plan (included in operating costs and salaries and fringe benefits)	14,678	47,552
Severance compensation	-	1,300,000
Share-based compensation (included in operating costs and share-based compensation)	58,660	1,017,173
Employee benefits expense	983,904	3,579,389

Resulting from the above-mentioned transactions, an amount of \$500,000 for the period ending December 31, 2017 (\$716,538 at June 30, 2017) is included in trade and other payables.

18. SEGMENTED INFORMATION

The Company operates a gold mine in Quebec as well as several exploration and evaluation properties in the same area. These operating sites are managed separately given their different locations. The Company assesses the performance of each segment. Accounting policies for each segment are the same as those used for the preparation of the financial statements. There were no differences between December 31, 2017 and June 30 2017 on the basis of segmentation or the basis of evaluation of segment results.

December 31, 2017	Mining site	Exploration	Corporate	Total
Segmented information concerning the statement of comprehensive loss	\$	\$	\$	\$
Revenue	18,647,281	-	-	18,647,281
Operating costs	(16,388,649)	-	-	(16,388,649)
Royalties	(436,647)	-	-	(436,647)
Depreciation and depletion	(3,040,702)	-	-	(3,040,702)
Gross profit	(1,218,717)	-	-	(1,218,717)
Exploration and evaluation	(2,614,613)	(5,973,823)	-	(8,588,436)
Administration	-	-	(2,294,683)	(2,294,683)
Depreciation of property, plant and equipment	-	-	(8,650)	(8,650)
Loss on disposal of non-financial assets	-	-	(15,403)	(15,403)
Gain on settlement of streaming contract	-	1,686,278	-	1,686,278
	(2,614,613)	(4,287,545)	(2,318,736)	(9,220,894)
Operating loss	(3,833,330)	(4,287,545)	(2,318,736)	(10,439,611)
Financial expenses	(44,308)	(1,024)	(561)	(45,893)
Financial revenues	-	-	35,896	35,896
Loss before income taxes	(3,877,638)	(4,288,569)	(2,283,401)	(10,449,608)
Addition of property, plant and equipment	3,276,865	984,301	93,317	4,354,483

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

18. SEGMENTED INFORMATION (continued)

June 30, 2017	Mining site	Exploration	Corporate	Total
Segmented information concerning the income statement	\$	\$	\$	\$
Revenue	56,292,643	-	-	56,292,643
Operating costs	(36,307,780)	-	-	(36,307,780)
Royalties	(1,136,966)	-	-	(1,136,966)
Depreciation and depletion	(7,480,913)	-	-	(7,480,913)
Gross profit	11,366,984	-	-	11,366,984
Exploration and evaluation	(400,771)	(5,590,125)	-	(5,990,896)
Administration	-	-	(4,146,349)	(4,146,349)
Depreciation of property, plant and equipment	-	-	(25,874)	(25,874)
Loss on disposal of non-financial assets	(10,975)	-	(8,722)	(19,697)
	(411,746)	(5,590,125)	(4,180,945)	(10,182,816)
Operating income (loss)	10,955,238	(5,590,125)	(4,180,945)	1,184,168
Financial expenses	(1,410,642)	12,129	(185,337)	(1,583,850)
Financial revenues	284,038	-	202,876	486,914
Income (loss) before income taxes	9,828,634	(5,577,996)	(4,163,406)	87,232
Addition of property, plant and equipment	5,809,057	234,793	73,009	6,116,859

19. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's capital management objectives are:

- to increase the value of the assets of the Company;
- to provide an adequate return to shareholders.

These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them through to production or sale and cash flow, either with partners or by the Company's own means.

The Company monitors capital on the basis of the carrying amount of equity.

The Company is not exposed to any externally-imposed capital requirements, except when the Company issues flow-through shares for which an amount should be used for exploration work as summarized in Notes 12.1 and 21.

The Company finances its exploration and evaluation activities principally by raising additional capital either through private placements or debt.

When financing conditions are not optimal, the Company may enter into option agreements or other solutions to continue its activities or may slow its activities until conditions improve.

20. FINANCIAL INSTRUMENT RISKS

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in Note 13. The main types of risks the Company is exposed to are currency risk, commodity price risk, credit risk and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to currency risk and commodity price risk. The Company focuses on actively securing short- to medium-term cash flows by minimizing the exposure to financial markets. The Company does not actively engage in the trading of financial instruments for speculative purposes.

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

20. FINANCIAL INSTRUMENT RISKS (continued)

The most significant financial risks to which the Company is exposed are described below. During the year, there were no changes in significant risks described below.

20. 1. Market risk

Foreign currency risk sensitivity

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Most of the Company's transactions are carried out in Canadian dollars. Exposure to currency risk arises from revenues from the sale of precious metals that are realized in U.S. dollars because the price of gold is established in U.S. dollars.

The Company does not enter into arrangements to hedge its foreign exchange risk.

Commodity price risk sensitivity

The commodity price risk is the risk of fluctuation of the gold price. The Company did not enter into any hedging programs.

20. 2. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

As at December 31, 2017 and June 30, 2017, the Company's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date, as summarized below:

As at,	<u>December 31, 2017</u>	<u>June 30, 2017</u>
	\$	\$
Cash and cash equivalents	13,258,001	19,392,815
Other receivables	131,800	11,959
Carrying amounts	<u>13,389,801</u>	<u>19,404,774</u>

20. 3. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has financing sources for a sufficient amount. Over the period, the Company has financed its exploration and evaluation programs, its working capital requirements and acquisitions of mining properties through private placements, flow-through financings and debt.

The following table presents contractual maturities (including interest payments where applicable) of the Company's liabilities:

December 31, 2017	<u>Less than twelve months</u>	<u>Between one and five years</u>
	\$	\$
Trade and other payables	9,140,597	-
Other liabilities	638,134	-
Royalties payable	635,146	-
Long-term debt (including interest payments)	1,053,269	715,133
Total	<u>11,467,146</u>	<u>715,133</u>

METANOR RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
Six Months ended December 31, 2017 and the Year ended June 30, 2017

20. FINANCIAL INSTRUMENT RISKS (continued)

20.3. Liquidity risk (continued)

June 30, 2017	Less than twelve months	Between one and five years
	\$	\$
Trade and other payables	7,348,907	-
Other liabilities	1,417,500	-
Royalties payable	677,847	-
Long-term debt (including interest payments)	315,147	720,789
Total	9,759,401	720,789

20.4. Interest rate risk

The interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Long-term debt bear interest at a fixed rate, thus exposing the Company to the risk of changes in fair value arising from interest rate fluctuations.

21. CONTINGENCY AND COMMITMENTS

Commitments

1) The Company is partially financed through the issuance of flow-through shares and, according to tax rules regarding this type of financing, the Company is committed to performing mining exploration work. These tax rules also set deadlines for carrying out the exploration work, which must be performed no later than the earlier of the following dates:

- Two years following the flow-through placements; and
- One year after the Company has renounced the tax deductions relating to the exploration work.

However, there is no guarantee that the Company's exploration expenses will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors. The Company will renounce qualifying expenses for an amount of \$5,932,500 for the six month period ended December 31, 2017. Management is required to fulfil its commitments within the stipulated deadline of one year from these dates. As at December 31, 2017, exploration work of \$2,854,810 must be spent before December 31, 2018.

2) On September 9, 2013, the Ministry of Natural Resources of Quebec approved the update of the restoration plan of the Bachelor mine. The financial guarantee covering the restoration costs amount to \$4,000,103 of which, \$3,948,666 has already been paid for a net balance owing of \$51,437 as at December 31, 2017.

Contingency

The Company was involved in a legal action; a criminal claim in relation to a workplace accident. On December 8, 2017 Metanor was found not guilty of the charges of criminal negligence causing death, in relation to the workplace fatalities which occurred in October of 2009.

METANOR

Condensed Unaudited Interim Financial Statements
For the three and six month periods ended June 30, 2018 and 2017
(Expressed in Canadian dollars)

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying condensed unaudited interim financial statements of Metanor Resources Inc. (the "Company") are the responsibility of the management and Board of Directors of the Company.

The condensed unaudited interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the condensed unaudited interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the condensed unaudited interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 Interim Financial Reporting of International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced. The Board of Directors is responsible for reviewing and approving the condensed unaudited interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the condensed unaudited interim financial statements together with other financial information of the Company.

The Audit Committee reports its findings to the Board of Directors for its consideration in approving the condensed unaudited interim financial statements together with other financial information of the Company for issuance to the shareholders. Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Greg Gibson" (signed)

Chief Executive Officer

"James Fairbairn" (signed)

Chief Financial Officer

Notice to reader

The accompanying condensed unaudited interim financial statements of the Company have been prepared by and are the responsibility of management. The condensed unaudited interim statements for the three and six month periods ended June 30, 2018 and 2017 have not been reviewed by the Company's auditors.

METANOR RESOURCES INC.
Condensed Unaudited Interim Statements of Financial Position
(Expressed in Canadian dollars)

As at	Notes	2018-06-30	2017-12-31
		\$	\$
LIABILITIES			
Current			
Trade and other payables	8	15,103,598	9,140,597
Other liabilities		-	638,134
Other provisions	2.16	99,600	99,600
Royalties payable		485,931	635,146
Mining taxes payable		1,054,706	1,054,706
Current portion on long term debt	9	1,078,804	1,045,873
		<u>17,822,639</u>	<u>12,614,056</u>
Non-current			
Long-term debt	9	1,451,606	706,747
Unearned revenue	10	3,862,411	-
Asset retirement obligations	11	4,732,720	4,685,630
Total liabilities		<u>27,869,376</u>	<u>18,006,433</u>
Equity			
Share Capital	12.1	153,611,606	152,843,312
Reserve for warrants	12.2	1,177,182	1,224,523
Contributed surplus	12.3	11,656,703	11,656,703
Deficit		(146,518,194)	(125,339,796)
Total equity		<u>19,927,297</u>	<u>40,384,742</u>
Total liabilities and equity		<u>47,796,673</u>	<u>58,391,175</u>

Contingency and commitments (Note 21)

Subsequent Events (Note 22)

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

Signed
Akiba Leisman - Director

Signed
Tina Ouellette - Director

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

METANOR RESOURCES INC.
Condensed Unaudited Interim Statements of Comprehensive Loss
For the three and six month periods ended June 30, 2018 and 2017
(Expressed in Canadian dollars)

	Notes	Three month ended 2018-06-30	Three month ended 2017-06-30	Six month ended 2018-06-30	Six month ended 2017-06-30
		\$	\$	\$	\$
OPERATIONS					
Revenue		7,273,285	11,450,316	16,826,685	27,754,680
Operating costs		8,491,104	8,455,433	16,711,724	18,930,094
Royalties		85,480	239,706	317,886	545,477
Depreciation and depletion		1,556,600	2,325,843	3,113,852	4,221,601
Cost of sales		10,133,184	11,020,982	20,143,462	23,697,172
GROSS PROFIT (NEGATIVE)		(2,859,899)	429,334	(3,316,777)	4,057,508
OTHER EXPENSES					
Administration					
Salaries and fringe benefits		335,022	410,526	623,519	745,967
Severance compensation		-	1,300,000	-	1,300,000
Share-based compensation		-	1,040,667	-	1,064,076
Professional fees		263,416	226,436	443,345	378,878
Investors' relations and information to shareholders		107,525	154,109	248,973	313,993
Travel and entertainment		89,457	60,285	254,784	121,244
Office expenses and insurance		95,583	147,235	232,116	255,637
Maintenance, rental and depreciation		24,964	31,921	49,877	59,530
Part XII.6 income taxes (recovery)		-	(135)	-	12,689
Provision for compensation		-	(1,884,972)	-	(1,884,972)
Exploration and evaluation - Properties in production	6	754,471	1,249,492	2,630,097	1,724,490
Exploration and evaluation – Properties in exploration		5,433,546	1,748,809	9,238,396	2,855,874
Loss on disposal of non-financial assets		-	19,697	-	19,697
		7,103,984	4,504,070	13,721,107	6,967,103
OPERATING INCOME (LOSS)		(9,963,883)	(4,074,736)	(17,037,884)	(2,909,595)
FINANCIAL EXPENSES					
Interest on long-term debt		222,131	391,428	225,792	774,735
Accretion expense		23,545	(2,482)	47,091	15,144
		(245,676)	(388,946)	(272,883)	(789,879)
FINANCIAL REVENUES					
Unrealized gain on derivative financial instrument		-	2,444	-	110
Interest income		11,098	17,515	59,869	149,374
		11,098	19,959	59,869	149,484
LOSS BEFORE INCOME TAXES		(10,198,461)	(4,443,723)	(17,250,897)	(3,549,990)

METANOR RESOURCES INC.
Condensed Unaudited Interim Statements of Comprehensive Loss
For the three and six month periods ended June 30, 2018 and 2017
(Expressed in Canadian dollars)

Recovery (income taxes)	15	-	<u>(775,523)</u>	<u>638,134</u>	<u>(775,523)</u>
NET LOSS AND COMPREHENSIVE LOSS		<u>(10,198,461)</u>	<u>(5,219,246)</u>	<u>(16,612,763)</u>	<u>(4,325,513)</u>
LOSS PER SHARE					
Basic and diluted loss per share	14	<u>(0.100)</u>	<u>(0.119)</u>	<u>(0.164)</u>	<u>(0.099)</u>
Weighted average number of common shares outstanding		<u>101,947,229</u>	<u>43,808,168</u>	<u>101,381,763</u>	<u>43,878,595</u>

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

METANOR RESOURCES INC.
Condensed Unaudited Interim Statements of Changes in Equity
For the three and six month periods ended June 30, 2018 and 2017
(Expressed in Canadian dollars)

	Notes	Number of shares	Share capital	Reserve for Warrants	Contributed surplus	Deficit	Total equity
			\$	\$	\$	\$	\$
Balance as at January 1, 2018		100,469,254	152,843,312	1,224,523	11,656,703	(125,339,796)	40,384,742
Issuance of units	12.1	-	-	-	-	-	-
Issuance of flow-through shares	12.1	-	-	-	-	-	-
Issuance of shares	12.1	-	-	-	-	-	-
Issuance cost of units		-	(91,933)	-	-	-	(91,933)
Exercise of warrants		1,477,975	812,886	-	-	-	812,886
Exercise of warrants		-	47,341	(47,341)	-	-	-
Share-based compensation	12.3	-	-	-	-	-	-
		<u>101,947,229</u>	<u>153,611,606</u>	<u>1,177,182</u>	<u>11,656,703</u>	<u>(125,339,796)</u>	<u>41,105,695</u>
Net loss and comprehensive loss for the period		-	-	-	-	(16,612,763)	(16,612,763)
IFRS 15 Adjustment		-	-	-	-	(4,565,635)	(4,565,635)
Balance as at June 30, 2018		<u><u>101,947,229</u></u>	<u><u>153,611,606</u></u>	<u><u>1,177,182</u></u>	<u><u>11,656,703</u></u>	<u><u>(146,518,194)</u></u>	<u><u>19,927,297</u></u>
Balance as at January 1, 2017		43,878,595	116,908,213	669,688	10,421,896	(112,152,857)	15,846,940
Issuance of shares		30,562,195	19,601,531	-	-	-	19,601,531
Issuance of flow-through shares		6,247,300	5,213,110	-	-	-	5,213,110
Issuance cost of shares		-	(1,610,747)	170,256	-	-	(1,440,491)
Exercise of warrants		1,015,408	760,555	(105,141)	-	-	655,414
Share-based compensation		-	-	-	1,176,147	-	1,176,147
		<u>81,703,498</u>	<u>140,872,662</u>	<u>734,803</u>	<u>11,598,043</u>	<u>(112,152,857)</u>	<u>41,052,651</u>
Net loss and comprehensive loss for the period		-	-	-	-	(4,325,513)	(4,325,513)
Balance as at June 30, 2017		<u><u>81,703,498</u></u>	<u><u>140,872,662</u></u>	<u><u>734,803</u></u>	<u><u>11,598,043</u></u>	<u><u>(116,478,370)</u></u>	<u><u>36,727,138</u></u>

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

METANOR RESOURCES INC.
Condensed Unaudited Interim Statements of Cash Flow
For three and six month periods ended June 30, 2018 and 2017
(Expressed in Canadian dollars)

	Notes	Six month ended 2018-06-30	Six month ended 2017-06-30
		\$	\$
OPERATING ACTIVITIES			
Loss before income taxes		(17,250,897)	(3,549,990)
Adjustments for:			
Share-based compensation		-	1,064,076
Depreciation of property, plant and equipment		259,009	71,986
Unrealized gain on derivative financial instrument		-	(110)
Loss on disposal of non-financial assets		-	19,697
Interest on finance leases		141,156	2,639
Gold income - accounting adjustment to the unearned revenue		(784,310)	(1,481,523)
Reversal of other provisions		-	(1,884,972)
Accretion expense		47,091	15,144
Depreciation and depletion		3,113,851	4,221,601
Interest on unearned revenue		81,086	-
Interest on long term debt		3,550	1,503,804
Interest paid		(3,550)	(1,074,735)
Interest income		(59,870)	(149,374)
Interest income received		59,870	149,374
Changes in working capital items	16	5,913,374	5,121,463
Cash flows from (used by) operating activities		<u>(8,479,640)</u>	<u>4,029,080</u>
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(3,253,624)	(3,136,552)
Security and contract deposits		(51,438)	(735,953)
Disposal of property plant and equipment		-	130,226
Tax credits received		-	(119,478)
Cash flows used by investing activities		<u>(3,305,062)</u>	<u>(3,861,757)</u>
FINANCING ACTIVITIES			
Payment of long-term debt		(151,599)	(74,402)
Payment of obligations under leases		(1,077,325)	(290,290)
Payment of debenture		-	(9,000,000)
Exercise of warrants		812,886	655,414
Issuance of shares and units		-	26,282,006
Issuance costs of units		(91,933)	(1,440,491)
Cash flows from financing activities		<u>(507,971)</u>	<u>16,132,237</u>
Net change in cash and cash equivalents		<u>(12,292,673)</u>	<u>16,299,560</u>
Cash and cash equivalents, beginning of period		<u>13,258,001</u>	<u>3,093,255</u>
Cash and cash equivalents, end of period		<u><u>965,328</u></u>	<u><u>19,392,815</u></u>

Additional information on cash flows

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

METANOR RESOURCES INC.
Notes to the Condensed Unaudited Interim Financial Statements
For the three and six month periods ended June 30, 2018 and 2017
(Expressed in Canadian dollars)

1. INCORPORATION AND NATURE OF OPERATIONS

Metanor Resources Inc. (the “Company”) is incorporated under the Canada Business Corporations Act. The Company’s registered office and its principal place of business is 2872 Sullivan Road, Suite 2, Val-d’Or, Quebec, Canada. The Company is engaged in the production and sale of gold, as well as the exploration and development of mining properties. The recoverability of the amounts shown for mining properties is dependent upon the existence of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of its properties. The Company’s shares trade on the TSX-V exchange under the symbol “MTO”.

1. 1. Basis of presentation

These financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 2. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. The Company changed its fiscal year end from June 30 to December 31. As such, the period ended December 31, 2017, is a stub year, comprised of the six month period from July 1, 2017 to December 31, 2017.

1. 2. Statement of compliance

The Company prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”). IFRS represents standards and interpretations approved by the International Accounting Standards Board (“IASB”), and are comprised of IFRS, International Accounting Standards (“IASs”), and interpretations issued by the IFRS Interpretations Committee (“IFRICs”). The Company requires the use of certain critical judgments and accounting estimates. It also requires management to exercise judgment when applying the Company’s accounting policies (Note 3). The audited financial statements for the six month period ended December 31, 2017 (including the comparative financial statements) were approved and authorized for issue by the Board of Directors on August 28, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2. 1. Overall considerations

The financial statements have been prepared using accounting policies specified by IFRS in effect as at June 30, 2018.

The significant accounting policies that have been applied in the preparation of these financial statements are summarized below.

2. 2. Standards, amendments and interpretations to existing standards that are effective and have been adopted early by the Company.

IFRS 9 – Financial instruments (IFRS 9)

The Company has adopted IFRS 9 effective January 1, 2018 and elected not to retroactively restate comparative periods. There was no impact on carrying values and equity as at January 1, 2018 and no measurement differences as a result of adopting IFRS 9.

The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”) for classification and measurement of financial liabilities were carried forward in IFRS 9. IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company’s financial statements. The Company’s financial instruments are accounted for as follows under IFRS 9 as compared to the Company’s previous policy in accordance with IAS 39:

METANOR RESOURCES INC.
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2. SIGNIFICANT ACCOUNTING POLICIES (Continues)

2.2. Standards, amendments and interpretations to existing standards that are effective and have been adopted early by the Company. (Continues)

IFRS 9 – Financial instruments (IFRS 9) (Continues)

IAS 39	IAS 39	IFRS 9
Cash & cash Equivalents	Fair Value through profit or loss	Fair Value through profit or loss
Reclamation deposits	Loans and Receivables, measured at amortized cost	Amortized cost
Accounts receivable	Loans and Receivables, measured at amortized cost	Amortized cost
Investments	Available for sale	Financial asset at fair value through other comprehensive income
Trade and other payables, Due to related parties, Lease payables	Financial liabilities at amortized cost	Financial liabilities at amortized cost

As a result of the adoption of IFRS 9, the Company's accounting policy for financial instruments has been updated as follows:

1. Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), amortized cost, or fair value through other comprehensive income ("FVOCI). The Company determines the classification of its financial assets at initial recognition.

(1.1) FVTPL

Financial assets are classified at FVTPL if they are acquired for the purpose of selling in the near term. Gains or losses on these items are recognized in net earnings or loss.

(1.2) Amortized cost

Financial assets are classified at amortized cost if both of the following criteria are met and the financial assets are not designated as at FVTPL: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows and 2) the asset's contractual cash flows represent "solely payments of principal and interest". The Company's amounts receivables are recorded at amortized cost as they meet the required criteria. A provision is recorded when the estimated recoverable amount of the financial asset is lower than the carrying amount. At each statement of financial position date, the Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. When sold or impaired, any accumulated fair value adjustments previously recognized are included in profit or loss.

(1.3) FVOCI

Listed and unlisted bonds were reclassified from available for sale to FVOCI, as the Company's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continues)

2.2. Standards, amendments and interpretations to existing standards that are effective and have been adopted early by the Company. (Continues)

IFRS 9 – Financial instruments (IFRS 9) (Continues)

For equity securities that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at FVOCI, with all subsequent changes in fair value being recognized in other comprehensive income (“OCI”). This election is available for each separate investment. Under this new FVOCI category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. On disposal of the investment, the cumulative fair value change remains in OCI and is not recycled to net earnings or loss.

(1.4) Reclassifications Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

2. Financial liabilities

For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and since the Company does not have any financial liabilities designated at FVTPL, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities. Trade and other payables, due to related parties and lease payable are accounted for at amortized cost.

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

IFRS 15 – Revenues from contracts with Customers (IFRS 15)

IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”) replaces 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. The Company adopted IFRS 15 as at January 1, 2018.

The Company adopted IFRS 15 on January 1, 2018 using the modified retrospective approach. Under the modified retrospective approach, the Company recognizes transition adjustments, if any, in retained earnings on the date of initial application (January 1, 2018), without restating the financial statements on a retrospective basis. The Company has reviewed its sales contracts with customers using the five-step analysis under IFRS 15 and there are no material changes to the amounts and timing of revenue recognized. No adjustment to opening retained earnings was, therefore, required on transition to IFRS 15.

As a result of the adoption of IFRS 15, the Company has changed its accounting policy for revenue recognition as detailed below.

Revenue

Metal sales includes sales of gold doré, which is generally physically delivered to customers in the period in which it is produced, with the sales price based on prevailing spot market gold prices. The Company recognizes revenue when it transfers control of the gold doré to a customer. Generally, transfer of control occurs when the goods have been delivered to the customer. Payment is received on the date of or within a few days of transfer of control.

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2 SIGNIFICANT ACCOUNTING POLICIES (Continues)

2. 2. Standards, amendments and interpretations to existing standards that are effective and have been adopted early by the Company. (Continues)

IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* (“**IFRIC 22**”) was issued on December 8, 2016. IFRIC 22 clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt.

IFRS 16 – Leases (IFRS 16)

In January 2016, the IASB published IFRS 16 which replaces IAS 17 Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statements of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17’s approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The Company has yet to assess the impact of this new standard on its financial statements.

IFRIC 23 – *Uncertainty Over Income Tax Treatments* (“**IFRIC 23**”) was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

2. 3. Foreign currency translation

The Company’s financial statements are presented in Canadian dollars, which represents the functional currency.

Foreign currency transactions are translated into the functional currency using the prevailing exchange rates on the date of each transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of comprehensive loss.

2. 4. Materials, supplies and gold inventory

Materials, supplies, gold doré and gold in-circuit are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and selling costs.

For the above items, cost is determined on the following basis:

- Gold doré inventory includes doré bars in transit to, or being held at the refineries and is valued at average production cost;
- Gold in-circuit is valued at the average cost of production of the material that is currently in the process of being converted to a gold doré;
- Materials and supplies, including mine and mill operating supplies, are valued using the weighted average cost.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continues)

2. 4. Materials, supplies and gold inventory (Continues)

Any provision for obsolescence is determined by reference to specific items of materials. A review is undertaken at each reporting period to determine the extent of any provision for obsolescence. The average cost of production includes all costs directly attributable to the mineral extraction and processing process, including the systematic allocation of general fees incurred during the process

2. 5. Unearned revenue

The Company concluded a gold sale agreement with Sandstorm Gold Ltd. ("Sandstorm"), in 2012. The Company received advances that were recorded as unearned revenue. The initial advances received were for the future delivery of gold ounces at contractual prices. As the Company proceeds with the delivery of the gold to Sandstorm, it recognized the revenue prorated by the quantity of gold delivered over the estimated quantity of gold to be delivered over the term of the contract. On September 28, 2017 the Company re-structured the streaming contract. As a result the unearned revenue has been eliminated. See Note 10.

2. 6. Post-employment benefits and short-term employee benefits

The Company provides post-employment benefits through a defined contribution plan. A defined contribution plan is a pension plan under which the Company makes contributions, established according to a percentage of the employee's salary, to an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution during the employment period.

Short-term employee benefits, including vacation entitlement, are current liabilities included in "trade and other payables", and are measured at the undiscounted amount that the Company expects to pay.

2. 7. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and financial liabilities are measured initially at fair value and their subsequent measurement depends on their classification as described below:

Financial assets

For the purpose of subsequent measurement, financial assets are classified into the following category upon initial recognition:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. Cash and cash equivalents and other receivables and securities fall into this category of financial instruments.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continues)

2.7. Financial instruments (Continues)

Impairment of loans and receivables

All financial assets measured at amortized cost are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract such as a default of interest or principal payment; or
- increased probability that the borrower will enter into a bankruptcy or financial reorganization.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables is presented in profit or loss within other expenses, if applicable.

Financial liabilities

The Company's financial liabilities include trade and other payables, other liabilities, royalties payable and long-term debt. Financial liabilities are measured at amortized cost using the effective interest method. All interest-related charges are reported in profit or loss within financial expenses, if applicable.

2.8. Basic and diluted loss per share

Basic loss per share is calculated by dividing the loss attributable to common equity holders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the loss attributable to common equity holders of the Company, and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which include options and warrants. Dilutive potential common shares shall be deemed to have been converted into common shares at the beginning of the period or, if later, at the date of issue of the potential common shares.

For the purpose of calculating diluted loss per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of common shares at the average market price of common shares during the period. For the periods presented, the diluted loss per share is equal to the basic loss per share as a result of the anti-dilutive effect of the outstanding options and warrants as explained in Note 12.

2.9. Credit on duties refundable and refundable tax credit for resources

The Company is entitled to a refundable tax credit on qualified expenditures incurred in the province of Quebec. The refundable tax credits may reach 15% of qualified exploration expenditures incurred.

In accordance with IAS 20, Accounting for government grants and disclosure of government assistance, the exploration tax credits have been applied against the costs incurred.

2.10. Royalties payable

Royalties payable are recognized initially at fair value in accordance with the terms of each royalty agreement.

2.11. Exploration and evaluation expenditures

Exploration costs, net of tax credits, are charged to operations in the period incurred.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continues)

2. 12. Commercial Production

The Company assesses the stage of each mine site to determine when a mine has moved into the commercial production phase. During the production phase of a mine, costs incurred relating to mining assets, additions or improvements or mineable reserve development are assessed to determine whether capitalization is appropriate.

2. 13. Property, plant and equipment

Producing properties

Producing properties include the mine development expenditures, estimated costs of restoring the sites of the Company's producing and mines under development and are measured at cost less accumulated depletion and impairment.

Mine development expenditures

Mine development costs, which include vertical and horizontal development of the mine infrastructure, incurred after the commencement of production are capitalized to the extent that these costs benefit the entire ore body. Costs incurred to access single ore blocks are expensed as incurred.

Plant and equipment

The initial cost of an asset is comprised of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, and the borrowing costs incurred during its construction for the asset. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Repairs and maintenance of plant and equipment are expensed as incurred. Costs incurred to enhance the service potential of plant and equipment are capitalized and depreciated over the remaining useful life of the improved asset.

Depreciation and depletion

Management determines the appropriate method to depreciate mining assets over their estimated useful life taking into account the nature of a particular ore body and the method of mining that ore body. To achieve this, the following calculation method is used:

- Producing properties, including mine development expenditures and deferred stripping costs, are amortized over the life-of-mine using the unit-of-production method. The depreciation rate of producing properties is calculated based on the number of ounces sold. The life-of-mine is based on the proven and probable mineral reserves and a portion of measured, indicated and inferred resources that the Company considers highly likely to be able to convert into reserves. The depreciation calculation takes into account the development costs that will be incurred in the future to be able to access these reserves and resources.

Depreciation is recognized on a declining balance basis to amortize the cost to its estimated residual value. The depreciation rate are as follows:

	%
Buildings	10-15
Equipment and tools	20
Office equipment	10
Rolling stock	20
Leasehold improvements	15

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2. SIGNIFICANT ACCOUNTING POLICIES (Continues)

2. 13. Property, plant and equipment (Continues)

The asset retirement costs of the mill are depleted on a 20% declining balance basis.

The residual value, depreciation method and the useful life of each asset are reviewed at least at each reporting period.

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized.

2. 14. Financing fees

The financing fees related to long-term debt are presented as an offset to long-term debt and amortized using the effective interest rate method.

2. 15. Impairment of property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level.

Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an asset or cash-generating unit is reviewed for impairment.

An impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset of a cash-generating unit is the higher of its fair value less cost to sell and its value in use.

An impairment charge is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2. 16. Provisions and contingent liabilities

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

Provision relating to the asset retirement obligations of property, plant and equipment

The Company reports the present value of the necessary estimated costs to settle its obligations arising from environmentally acceptable closure plans, relating notably to dismantling or demolition of infrastructures, removal of residual matter and site restoration, in the period in which the obligations are incurred. The asset retirement obligations of the property, plant and equipment are mainly related to the site restoration and the dismantling of the facilities at the mining site in production after the closure in accordance with the mining plan (Note 2.20).

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2. SIGNIFICANT ACCOUNTING POLICIES (Continues)

2. 16. Provisions and contingent liabilities (Continues)

Other provisions

Other provisions related to the renunciation of exploration expenses related to the issuance of flow-through shares. The Company is not eligible for any reimbursement by third parties in this regard. As the timing of settlement of these claims is to a large extent dependent on the pace of negotiation with various counterparties and governmental authorities, the Company cannot reliably estimate the amounts that will eventually be paid in settlement after more than twelve months from the reporting date. Therefore, the amount was classified as current.

Carrying amount at December 31, 2017 and June 30, 2018

99,600

Management does not expect that the outcome of any of the remaining cases will give rise to any significant loss beyond the amounts recognized as at June 30, 2018.

2. 17. Income and mining taxes

Current income and mining tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred taxation is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at future anticipated tax rates, which have been enacted or substantively enacted at the reporting date.

Deferred tax is recognized as income or expense and included in earnings for the period, except to the extent that the tax arises from a transaction or event which is recognized, in the same or a different period directly in components of equity, or a business combination that is an acquisition.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off the tax assets and tax liability and the deferred income taxes relate to the same taxable entity and the same taxation authority. A reduction in respect of the benefit of a future tax asset is recorded against any future tax asset if it is probable that the asset will not be realized.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continues)

2. 17. Income and mining taxes (Continues)

Income taxes related to flow-through shares

According to the provisions of tax legislation relating to flow-through shares, the Company has to transfer its right to tax deductions for expenses related to exploration activities to the benefit of the investors. When the Company has fulfilled its obligation to transfer its right, which happens when the Company has incurred eligible expenditures and has the firm intention to renounce its right to tax deductions, a deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures and its tax basis.

2. 18. Equity

Share capital represents the amount received on the issue of shares, less issuance costs. If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus and reserve for warrants.

Warrants

Proceeds from issuance of units are allocated between shares and reserve for warrants issued using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to reserve warrants. The fair value of the warrants issued to lenders and brokers is determined by using the Black-Scholes pricing model.

Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its Canadian exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax recovery for the amount of tax reduction renounced to the shareholders, if it has sufficient tax assets to do so.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's reporting year is disclosed separately as flow-through share premium liability.

Flow through premium liability

For the purposes of calculating the tax effect of any premium related to the issuance of the flow-through shares, the Company reviewed the share price of the Company's common shares and compared it to determine if there was a premium paid on the shares. As at June 30, 2018, the remaining liability is estimated at \$Nil (Dec. 31, 2017 \$638,134).

Other elements of equity

Contributed surplus includes charges related to share based compensation and warrants until such equity instruments are exercised and charges related to expired warrants. When the share options are exercised, the corresponding charges are transferred to share capital.

Warrants include charges related to the issuance of warrants until such equity instruments are exercised or expired. When the warrants are exercised, the corresponding charges are transferred to share capital. When the warrants expire, the corresponding charges are transferred to contributed surplus.

Deficit includes all current and prior period retained profits or losses.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continues)

2. 19. Share-based compensation

The Company operates equity-settled share-based compensation plans for its eligible directors, employees, officers and consultants. None of the Company's plans feature any options for a non cash settlement.

All goods and services received in exchange for the grant of any share-based compensation are measured at their fair value, unless that fair value cannot be reliably estimated. If the entity cannot reliably estimate the fair value of the goods or services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and others providing similar services, the Company measured the fair value of the services received by reference to the fair value of the equity instruments granted.

All equity-settled share-based compensation (except units issued to brokers) are ultimately recognized as an expense in the profit or loss with a corresponding credit to contributed surplus. Equity-settled share-based compensation to brokers, with respect of an equity financing are recognized as issuance costs of the equity instruments with a corresponding credit to contributed surplus.

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different to that estimated on vesting.

2. 20. Asset retirement obligations

Asset retirement obligations are recorded as liabilities when those obligations are incurred and are measured as the present value, if a reasonable estimate of the expected costs to settle the liability can be determined, discounted at a current pre-tax rate specific to the liability. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings while changes resulting from the revisions to either the timing or the amount of the original estimate of the undiscounted cash flows are accounted for as part of the carrying amount of the related long-lived asset. The carrying amount of the asset retirement obligations is reviewed to reflect current estimates and changes in the discount rate.

2. 21. Revenue Recognition

Revenue include sales of gold doré bars which are physically delivered to customers in the period they are produced with their sales price based on prevailing spot market metal prices. Revenue from sales is recognized when all the following conditions have been satisfied:

- The significant risks and rewards of ownership have been transferred;
- Neither continued managerial involvement to the degree usually associated with ownership, nor effective control over metals sold, has been retained;
- The amount of revenue can be measured reliably;
- It is probable the economic benefits associated with the transaction will flow to the Company;
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

These conditions are generally met when the sales price is fixed and the title has passed to the customer.

Revenue from the sales of other metal products are credited to operating costs. Interest revenue is recognized as it accrues, using the effective interest method.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continues)

2. 22. Leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of finance expenses.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

2. 23. Borrowing costs

Interest and other financing costs that are directly attributable to the acquisition or construction of an asset are capitalized. Capitalization of borrowing costs ceases when all the activities necessary to prepare the asset for its intended use or sale are substantially complete.

To the extent that funds are part of general borrowing or are borrowed specifically for the purpose of constructing an asset, the amount of borrowing costs eligible for capitalization on that asset is determined as the actual borrowing costs incurred on that borrowing during the period. Interest earned on the temporary investment of borrowed funds is deducted from interest paid on the borrowed funds in arriving at the amounts so capitalized.

These costs are amortized on the same basis as the asset. No amounts were capitalized during the last two financial periods.

2. 24. Segmented information

The Company operates a producing gold mine in Val-d'Or as well as several exploration and evaluation properties in the same area.

The Company presents and discloses segmented information based on information that is regularly reviewed by the chief operating decision-maker, i.e. the Chief Financial Officer. The Company has determined that there are three segments, being the producing Bachelor Lake Property, the sector of exploration and evaluation of other mineral properties and corporate expenses. (See Note 18).

2. 25. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short-term investments maturing in less than 3 months following the date of the statement of financial position. Included in cash and cash equivalents are short-term investments totaling \$NIL (Dec. 31, 2017 - \$10,001,249).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, revenue and expenses for each period presented. Changes in the estimates and assumptions will occur based on additional information and the occurrence of future events and actual results could differ from those estimates.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continues)

The more significant areas requiring the use of management estimates and assumptions relate to mineral reserves that are the basis of future cash flow estimates and unit-of-production depreciation, depletion and amortization calculations, environmental, reclamation and closure obligations, estimates of recoverable gold and other materials in in-circuit inventory, asset impairments, write-downs of inventory to net realizable value, share-based compensation, the fair value and accounting treatment of derivative financial instruments and deferred income and mining taxes.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial period are discussed below.

Estimates

i) Mineral reserves estimate

Mineral reserves are estimates of the amount of product that can be economically and legally extracted from the Company's properties. In order to calculate the reserves and resources that the Company considers highly likely to be able to convert into reserves, which form the life-of-mine of producing mining properties of the Company, estimates and assumptions are required about a range of geological, technical and economic factors, including but not limited to quantities, grades, production techniques and recovery rates.

Estimating the quantity and grade of the mineral reserves requires the size, shape and depth of ore bodies to be determined by analyzing geological data such as the logging and assaying of drill samples. This process may require complex and sophisticated geological models and calculations to interpret the data.

The Company is required to determine and report on the mineral reserves in accordance with the requirements of the Canadian Institute of Mining Standards. Estimates of mineral reserves may change from period to period due to the change in economic assumptions used to estimate ore reserves and due to additional geological data becoming available during the course of operations. Changes in reported proven and probable mineral reserves and a portion of measured, indicated and inferred resources that the Company expects to convert into reserves may significantly affect the Company's financial results and position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated cash flows;
- Depreciation and amortization charges to the statement of comprehensive loss may change as these are calculated on the unit-of production method, or where the useful economic lives of assets change;
- Asset retirement obligations and environmental provisions may change where changes in ore reserves affect expectations about the timing or cost of these activities.

Included in the life-of-mine estimate are measured, indicated and inferred resources that are not converted in reserves but over which the Company has a high expectation to convert to reserves in the future. The inclusion of these resources is an estimate that has a significant impact on the above-mentioned items impacted by the life-of-mine estimate.

As at November 1, 2017, the Company adjusted the life-of-mine estimate of its mining properties in production based on updated geological data. Consequently, the life-of-mine estimate was decreased, which will result in an increase of the yearly depreciation of property, plant and equipment amortized over the life-of-mine.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continues)

ii) Asset retirement obligations

The Company assesses its asset retirement obligations annually. Determining these obligations requires significant estimates and assumptions due to the numerous factors that affect the amount ultimately payable. Such factors include estimates of the scope and cost of restoration activities, legislative amendments, known environmental impacts, the effectiveness of maintenance and restoration measures and changes in the discount rate. This uncertainty may lead to differences between the actual expense and the allowance. At the date of the statement of financial position, asset retirement obligations represent management's best estimate of the charge that will result when the actual obligations are terminated.

iii) Gold in-circuit

Given the non-observable nature of the asset, the determination of the ounces of gold in the circuit that ends up in the inventory for the statement of financial position of the Company represents a significant estimate. A sampling is performed at each stage of the production process and recalculates the total ounces of gold included in the circuit by using an established scientific model.

iv) Fair value of NSR agreements

As part of the Amending Agreement signed with Sandstorm (Note 10), Metanor granted a NSR to Sandstorm for its Bachelor and Barry properties. The NSR's were recorded at fair value against property plant and equipment and as recovery of exploration and evaluation expenses. The fair value was based on expected future discounted cash flows. The important assumptions in the calculation were as follows:

- Expected future production based on the life of mine calculation inherent to each property;
- Discount rate (between 5% and 8%);
- Future gold price (between \$1,604 and \$1,616).

A change in those assumptions may generate a significant impact on the outcome of the fair value calculated.

Judgements

i) Income and mining taxes

Significant judgement is required in determining the provision for income and mining taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and mining taxes and deferred tax provisions in the period in which such determination is made.

Management carries out a review of the carrying amount of deferred tax assets at each financial reporting date. The deferred tax assets will reduce to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit its ability to obtain tax deductions in future periods.

ii) Deferred tax liabilities and assets

Deferred tax liabilities and assets are measured at tax rates expected in the period during which the asset is realized or the liability is settled, based on tax rates (and tax laws) that are enacted or substantively enacted at the end of the reporting period of the financial information. The measurement of liabilities and deferred tax assets reflects the tax consequences that result from the manner in which the Company expects, at the end of the reporting period of the financial information, to recover or settle the carrying amount of its assets and liabilities.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continues)

Judgements (Continues)

iii) Provisions and contingent liabilities

Judgements are made as to whether a past event has led to a liability that should be recognized in the financial statements or disclosed as a contingent liability. Quantifying any such liability often involves judgments and estimations. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received from previous experience and the probability of a loss being realized. Several of these factors are a source of estimated uncertainty.

iv) Establishing cash-generating units (“CGU”)

For the purpose of assessing impairment of its long-term assets, the Company determines the cash-generating units (“CGU”), defined as being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination of the CGU and the classification of the Company’s assets to the determined CGU require significant judgement having a potentially significant incidence on the result of the subsequent impairment analysis.

The Company periodically reviews the determination of the CGU and the corresponding grouping of the Company’s assets, including its assets classified as common assets.

v) Impairment of long-term assets

The evaluation if an impairment test in accordance with IAS 36 needs to be performed on its long-term assets requires judgement in determining whether it is likely that future economic benefits will be achieved at certain mining properties, which may be based on assumptions about future events or circumstances. If, after expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written down in the statement of comprehensive loss in the period when the new information becomes available.

4. MATERIALS, SUPPLIES AND GOLD INVENTORY

AS at,	<u>2018-06-30</u>	<u>2017-12-31</u>
	\$	\$
Materials and supplies	2,092,788	2,137,746
Gold Doré	1,011,769	789,442
Gold in circuit	<u>2,113,654</u>	<u>2,243,596</u>
	<u>5,218,211</u>	<u>5,170,784</u>

5. SECURITY AND CONTRACT DEPOSITS

As at June 30, 2018, the Company had \$4,395,001 (\$4,343,563 as at Dec. 31, 2017) in deposits with the government of Quebec for the settlement of asset retirement obligations which is comprised of \$4,000,104 (\$3,948,666 at Dec, 31, 2017) for the mill and \$394,897 (\$394,897 at Dec. 31, 2017) for the Barry site and \$370,000 (\$370,000 at Dec. 31, 2017) deposit with Hydro Quebec and others.

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6. EXPLORATION AND EVALUATION PROPERTIES

a) *Hewfran-2*

The Company holds a 100% interest in 13 mining titles located near the Bachelor Lake property. It is subject to a 2% NSR.

b) *Wahnapipei*

The Company holds a 90% interest in a property comprised of 2 mining leases and 3 concessions located in Sudbury, Ontario.

c) *MJL – Hansen*

The Company holds a 100% interest in 55 mining titles located near the Bachelor Lake property. It is subject to a 2% NSR, half of which is redeemable for \$1,000,000.

d) *Barry*

The Company holds a 100% interest in a mining lease and 7 mining titles in the Barry gold deposit, located 110 Km southeast of the Bachelor mine. It is subject to a 3% NSR.

e) *Barry United*

The Company holds a 100% interest in 93 mining titles located near the Barry property. It is subject to a NSR of 1% to 4%.

f) *Barry Extension*

The Company holds a 100% interest in 79 mining titles located near the Barry property. It is subject to a 2% NSR, half of which is redeemable for \$1,000,000 and the other half at conditions to be agreed upon by the parties.

g) *MJL - 2*

The Company holds a 100% interest in 51 mining titles located near the Bachelor Lake property. It is subject to a 2% NSR, half of which is redeemable for the sum of \$1,000,000 and the other half at conditions to be agreed upon by the parties.

h) *Nelligan*

The Company holds a 70% interest in 58 mining titles located near the Bachelor Lake property. It is subject to a 2% NSR, half of which is redeemable for \$1,000,000.

i) *Barry-Souart*

The Company holds a 100% interest in 21 mining titles located near the Barry Property. It is subject to a 3.5% NSR, half of which is redeemable for the sum of \$1,000,000 payable in cash or at the option of the seller by the issuance of shares.

j) *Geonova*

The Company holds a 100% interest in 35 mining titles located near the Bachelor Lake property. It is subject to a 2% or 3% NSR.

k) *Moroy*

The Company holds a 100% interest in 12 mining titles located near the Bachelor Lake property. It is subject to a 2% or 3% NSR.

l) *Coniagas*

The Company holds a 100% interest in a mining lease located near the Bachelor Lake property.

*See note 10 for additional information on NSR's.

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7. PROPERTY, PLANT AND EQUIPMENT

The Bachelor Mine holds a 100% interest in a mining lease which is divided into two sectors: The Bachelor Lake sector is subject to a 1.25% NSR. On December 1st, 2013, the Company declared commercial production on this property. (*See note 10 for additional information on NSR's.)

- The Hewfran sector is subject to a 2% NSR. On December 1st, 2013, the Company declared commercial production on this property.

	Mining site in production See - (i)	Exploration See - (ii)	Capital finance leases / Mining site in production and exploration See - (iii)	Corporate office See - (iii)	Total
	\$	\$	\$	\$	\$
Gross carrying amount Balance at December 31, 2017	61,629,910	2,056,464	1,703,472	524,379	65,914,225
Transfers	183,102	682,541	(865,643)	-	-
Additions	2,046,209	1,207,416	1,865,556	-	5,119,181
Disposal	-	-	-	-	-
Balance at June 30, 2018	63,859,221	3,946,421	2,703,385	524,379	71,033,406
Depreciation and depletion Balance at December 31, 2017	33,372,467	1,075,234	122,185	427,212	34,997,098
Transfers	(43,895)	95,073	(51,178)	-	-
Additions	3,023,792	175,253	164,098	9,717	3,372,860
Disposal	-	-	-	-	-
Balance at June 30, 2018	36,352,364	1,345,560	235,105	436,929	38,369,958
Carrying amount at June 30, 2018	27,506,857	2,600,861	2,468,280	87,450	32,663,448

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7. PROPERTY, PLANT AND EQUIPMENT (Continues)

I. Mining site in production

(i)	Mining site in production					Total
	Building	Equipment and tools	Underground Infrastructures	Vehicles	Assets retirement costs	
	\$	\$	\$	\$	\$	\$
Gross carrying amount Balance at December 31, 2017	26,521,808	7,709,139	22,321,603	1,495,727	3,581,633	61,629,910
Transfers	-	413,000	-	(229,898)	-	183,102
Additions	299,767	108,495	1,598,948	38,999	-	2,046,209
Balance at June 30, 2018	26,821,575	8,230,634	23,920,551	1,304,828	3,581,633	63,859,221
Depreciation and depletion Balance at December 31, 2017	13,893,279	3,253,924	13,482,157	623,191	2,119,916	33,372,467
Transfers	-	46,462	-	(90,357)	-	(43,895)
Additions	663,467	214,815	1,925,063	74,275	146,172	3,023,792
Balance at June 30, 2018	14,556,746	3,515,201	15,407,220	607,109	2,266,088	36,352,364
Carrying amount at June 30, 2018	12,264,829	4,715,433	8,513,331	697,719	1,315,545	27,506,857

II. Exploration

(ii)	Exploration				Total
	Buildings	Equipment and tools	Underground Infrastructures	Vehicles	
	\$	\$	\$	\$	\$
Gross carrying amount Balance at December 31, 2017	1,040,126	479,819	128,300	408,219	2,056,464
Transfers	452,643	-	-	229,898	682,541
Additions	617,983	568,870	(93)	20,656	1,207,416
Balance at June 30, 2018	2,110,752	1,048,689	128,207	658,773	3,946,421
Depreciation and depletion Balance at December 31, 2017	627,971	226,402	16,131	204,730	1,075,234
Transfers	4,716	-	-	90,357	95,073
Additions	86,930	39,785	13,202	35,336	175,253
Balance at June 30, 2018	719,617	266,187	29,333	330,423	1,345,560
Carrying amount at June 30, 2018	1,391,135	782,502	98,874	328,350	2,600,861

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7. PROPERTY, PLANT AND EQUIPMENT (Continues)

III. Capital finance leases and Corporate office

(iii)	Capital finance leases			Corporate office			
	Mining site Production / Equipment	Exploration / Building & equipment	Total	Leasehold improvements	Office equipment	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Gross carrying amount Balance at December 31, 2017	1,112,750	590,722	1,703,472	88,078	332,340	103,961	524,379
Transfers	(413,000)	(452,643)	(865,643)	-	-	-	-
Additions	525,000	1,340,556	1,865,556	-	-	-	-
Balance at June 30, 2018	1,224,750	1,478,635	2,703,385	88,078	332,340	103,961	524,379
Depreciation and depletion Balance at December 31, 2017	108,121	14,064	122,185	88,078	332,340	6,794	427,212
Transfers	(46,462)	(4,716)	(51,178)	-	-	-	-
Additions	90,059	74,039	164,098	-	-	9,717	9,717
Disposal	-	-	-	-	-	-	-
Balance at June 30, 2018	151,718	83,387	235,105	88,078	332,340	16,511	436,929
Carrying amount at June 30, 2018	1,073,032	1,395,248	2,468,280	-	-	87,450	87,450

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7. PROPERTY, PLANT AND EQUIPMENT (Continues)

	Mining site in production See - (i)	Exploration See - (ii)	Capital finance leases / Mining site in production and exploration See - (iii)	Corporate office See - (iii)	Total
	\$	\$	\$	\$	\$
Gross carrying amount Balance at June 30, 2017	59,628,071	1,312,307	1,040,828	518,652	62,499,858
Transfers	(221,000)	221,000	-	-	-
Additions	3,066,865	531,657	662,644	93,317	4,354,483
Disposal	(844,026)	(8,500)	-	(87,590)	(940,116)
Balance at December 31, 2017	61,629,910	2,056,464	1,703,472	524,379	65,914,225
Depreciation and depletion Balance at June 30, 2017	30,502,256	871,817	45,856	444,475	31,864,404
Transfers	(107,507)	107,507	-	-	-
Additions	2,977,717	104,410	76,329	8,650	3,167,106
Disposal	-	(8,500)	-	(25,912)	(34,412)
Balance at December 31, 2017	33,372,466	1,075,234	122,185	427,213	34,997,098
Carrying amount at December 31, 2017	28,257,444	981,230	1,581,287	97,166	30,917,127

I. Mining site in production

(i)

	Mining site in production					Total
	Building	Equipment and tools	Underground Infrastructures	Vehicles	Assets retirement costs	
	\$	\$	\$	\$	\$	\$
Gross carrying amount Balance at June 30, 2017	24,946,735	7,693,194	21,682,685	1,645,759	3,659,698	59,628,071
Transfers	-	-	-	(221,000)	-	(221,000)
Additions	1,575,073	15,945	1,404,879	70,968	-	3,066,865
Ajustment	-	-	(765,961)	-	(78,065)	(844,026)
Balance at December 31, 2017	26,521,808	7,709,139	22,321,603	1,495,727	3,581,633	61,629,910
Depreciation and depletion Balance at June 30, 2017	12,855,918	3,013,344	12,032,607	599,859	2,000,528	30,502,256
Transfers	-	-	-	(107,507)	-	(107,507)
Additions	1,037,360	240,580	1,449,550	130,839	119,388	2,977,717
Adjustment	-	-	-	-	-	-
Balance at December 31, 2017	13,893,278	3,253,924	13,482,157	623,191	2,119,916	33,372,466
Carrying amount at December 31, 2017	12,628,530	4,455,215	8,839,446	872,536	1,461,717	28,257,444

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7. PROPERTY, PLANT AND EQUIPMENT (Continues)

II. Exploration

(ii)	Exploration				Total
	Buildings	Equipment and tools	Underground Infrastructures	Vehicles	
	\$	\$	\$	\$	\$
Gross carrying amount Balance at June 30, 2017	835,452	362,743	-	114,112	1,312,307
Transfers	-	-	-	221,000	221,000
Additions	204,674	117,076	128,300	81,607	531,657
Disposal	-	-	-	(8,500)	(8,500)
Balance at December 31, 2017	1,040,126	479,819	128,300	408,219	2,056,464
Depreciation and depletion Balance at June 30, 2017	573,853	222,743	-	75,221	871,817
Transfers	-	-	-	107,507	107,507
Additions	54,118	3,659	16,131	30,502	104,410
Disposal	-	-	-	(8,500)	(8,500)
Balance at December 31, 2017	627,971	226,402	16,131	204,730	1,075,234
Carrying amount at December 31, 2017	412,155	253,417	112,169	203,489	981,230

Capital finance leases and Corporate office

(iii)	Capital finance leases			Corporate office			
	Mining site Production / Equipment	Exploration / Building	Total	Leasehold improvements	Office equipment	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Gross carrying amount Balance at June 30, 2017	902,750	138,078	1,040,828	88,078	332,340	98,234	518,652
Additions	210,000	452,644	662,644	-	-	93,317	93,317
Disposal	-	-	-	-	-	(87,590)	(87,590)
Balance at December 31, 2017	1,112,750	590,722	1,703,472	88,078	332,340	103,961	524,379
Depreciation and depletion Balance at June 30, 2017	45,137	719	45,856	88,078	332,340	24,057	444,475
Additions	62,984	13,345	76,329	-	-	8,650	8,650
Disposal	-	-	-	-	-	(25,912)	(25,912)
Balance at December 31, 2017	108,121	14,064	122,185	88,078	332,340	6,795	427,213
Carrying amount at December 31, 2017	1,004,629	576,658	1,581,287	-	-	97,166	97,166

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8. TRADE AND OTHER PAYABLES

	2018-06-30	2017-12-31
	\$	\$
Trade payables	13,465,455	7,681,279
Payroll and vacation payable	1,638,143	1,459,318
Trade and other payables	<u>15,103,598</u>	<u>9,140,597</u>

9. LONG-TERM DEBT

	2018-06-30	2017-12-31
	\$	\$
Notes payable, secured by rolling stock and mining equipment having a net book value of \$964,940 0% to 6.24%, payable in monthly instalments, maturing at varying dates to 2022 (December 31, 2017 to 2022)	802,980	954,579
Obligations under finance leases, 0% to 5.92%, payable in monthly instalments, maturing from 2018 to 2020	1,727,430	798,041
	<u>2,530,410</u>	<u>1,752,620</u>
Current portion on long term debt	<u>(1,078,804)</u>	<u>(1,045,873)</u>
	<u>1,451,606</u>	<u>706,747</u>

The instalments on long-term debt for the forthcoming years are as follows:

	Obligations under finance leases	Notes payable
	\$	\$
2018	962,349	288,305
2019	449,172	239,529
2020	320,634	240,917
2021	187,020	30,226
2022	<u>140,265</u>	<u>4,002</u>
Total minimum payments	2,059,440	<u>802,980</u>
Amount included in minimum payments		
Interest expenses	<u>(163,431)</u>	
	<u>1,896,009</u>	

10. UNEARNED REVENUE

In 2012, the Company entered into an agreement with Sandstorm where Sandstorm made advances totaling US\$20 million. In exchange, the Company is required to sell to Sandstorm 20% of the gold produced from its Bachelor Lake Property until 2052. For the first US\$20 million of sales, the Company will receive US\$500 per ounce, with the difference between the prevailing market price and the US\$500 reducing the US\$20 million deposit. The full amount of the deposit has been reduced to \$Nil, therefore, sales of gold to Sandstorm will be completed at the lesser of US\$500 and the prevailing market price per ounce of gold. The initial deposit was recorded as unearned revenue and is recognized on the basis of the ounces sold over the estimated quantity of gold to be delivered over the term of the contract.

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10. UNEARNED REVENUE (Continues)

On September 29, 2017, the Company entered into an Amending Agreement with Sandstorm Gold Ltd. effectively reducing the existing gold stream on the Bachelor mine (which required the Company to sell 20% of its gold production at the fixed price of US\$500) and replacing it with a 3.9% net smelter return royalty (NSR) on all minerals produced from the Bachelor and Barry properties (including the surrounding exploration properties held by the Company). 2.1% of the royalty can be repurchased upon payment of US\$2M for each property, thereby reducing the NSR to 1.8%. These royalties become effective once the Company has delivered to Sandstorm, 12,000 ounces (minimum of 1,500 ounces quarterly) of gold at the fixed price of \$US500. As of June 30, 2018, 1,500 ounces were delivered and 1,500 ounces were delivered on July 27th which related to the second quarter of 2018. As part of the consideration, the Company issued 3,164,156 common shares to Sandstorm with an aggregate value of \$2,436,400. As a result of the Amending Agreement the company incurred a non-cash net recovery of exploration and evaluation expenses in the amount of \$1,686,278, reduced property plant and equipment by \$765,961 and eliminated the previously recorded balance of the unearned revenue.

11. ASSET RETIREMENT OBLIGATIONS

The Company's production and exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment. The Company has recorded the asset retirement obligations on the basis of management's best estimates of future costs, based on information available on the reporting date. Best estimates of future cost are the amount the Company would reasonably pay to settle its obligation on the closing date.

The future costs are discounted using the risk-free interest rate of the Company and are recorded to liabilities. The counterpart of these obligations are capitalized to the property, plant and equipment which will be respectively depreciated in accordance with the unit-of-production method, based on the estimated life of the mine upon beginning of commercial production. The asset retirement obligations are adjusted for accumulated accretion in accordance with the expected timing of payment of the cash flows required to settle these obligations.

a) Changes in obligations

The following table sets forth the changes in the asset retirement obligations:

	2018-06-30	2017-12-31
	\$	\$
Balance, as at the beginning of the period	4 685 630	4 727 129
Accretion expense	47 090	36 566
Changes to estimated cash flow and payment schedules	-	(78 065)
Balance	<u>4 732 720</u>	<u>4 685 630</u>

The estimated cash flows was recorded by decreasing the property, plant and equipment assets by \$78,065 (June 30, 2017 - decreasing \$219,401) and the exploration and evaluation - mining properties in exploration by \$6,923 (June 30, 2017 - increasing by \$20,108).

b) Information used in the calculation of obligations

The rate used to determine the future value is 2%, while the rate reflecting the current market assessments (adjusted for the risks specific to this liability) used to determine the actual value is 2.01% (1.84% at June, 2017). The schedule of payments was determined by taking into account the reserves and resources that the Company considers highly likely to be able to convert into reserves of related mining properties and the estimated annual production level. The Company plans to settle these obligations during the financial year ending in 2030.

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11. ASSET RETIREMENT OBLIGATIONS (Continues)

c) Distribution of asset retirement obligations

The following table sets forth the changes in the asset retirement obligations:

	2018-06-30	2017-12-31
	\$	\$
Barry Site	409 039	404 969
Mill	4 323 681	4 280 661
	4 732 720	4 685 630

12. EQUITY

12. 1. Share capital

The share capital of the Company consists of issued common shares.

Authorized:

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value, voting, issuable in series, the directors defining the rights and privileges of these shares upon issuance - None issued.

Six months ended June 30, 2018

1,477,975 common shares were issued on the exercise warrants for a total value of \$812,886.

Six months ended December 31, 2017

On September 29, 2017 the Company issued 3,164,156 common shares to Sandstorm, at the deemed price of \$0.77 per common share, for an aggregate value of \$2,436,000 (non-cash).

On December 28, 2017, the Company completed a private placement of 12,243,000 units at \$0.70 each for gross proceeds of \$8,570,100. Each unit consisted of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one share of the Company at a price of \$0.90 each until December 28, 2019. In addition, 3,358,600 flow-through shares were issued at a price of \$0.85 each, for gross proceeds of \$2,854,810. A cash commission of 6% was paid.

Year ended June 30, 2017

During the year, the Company issued 1,725,056 common shares for a total amount of \$1,045,721 following the exercise of warrants. The fair value of the exercised warrants amounted to \$106,261.

On June 30, 2017, the Company completed a private placement of 5,250,000 flow-through shares at \$1.13 each for proceeds of \$5,932,500. An amount of \$1,417,500 related to the liability component was recorded within other liabilities in the statement of financial position. A cash commission of 6% was paid.

12. 1. Share capital

On April 21, 2017, the Company completed a private placement of 12,642,143 units at \$0.70 each for gross proceeds of \$8,849,500. Each unit consisted of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one share of the Company at a price of \$0.90 each until April 21, 2019. A cash commission of \$103,966 was paid.

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12. EQUITY (Continues)

12. 1. Share capital (Continues)

On April 13, 2017, the Company completed a consolidation of its issued and outstanding common shares on a 10-to-1 basis ("Share Consolidation"). The Share Consolidation affected all shareholders, option holders and warrant holders uniformly and thus did not materially affect any security holder's percentage of ownership interest. All references in these financial statements to common shares, options and share purchase warrants have been retroactively adjusted to reflect the Share Consolidation.

On March 21, 2017, the Company completed a private placement of 17,920,052 units at \$0.60 each for gross proceeds of \$10,752,031. Each unit consisted of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one share of the Company at a price of \$0.90 each until March 21, 2019. In addition, 997,300 flow-through shares were issued at a price of \$0.75 each, for gross proceeds of \$747,975. A cash commission of 6.5% was paid and 567,521 broker warrants were issued. These broker warrants may be exercised at a price of \$0.65 for a period of 24 months and have a fair value of \$170,256.

12. 2. Warrants

Outstanding warrants entitle their holders to subscribe to an equivalent number of common shares, as follows:

<i>Investors</i>	June 30, 2018		December 31, 2017	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Balance at beginning of period	26 872 773	0.84	20 751 273	0.83
Granted	-	0.90	6 121 500	0.90
Exercised	(1 477 975)	0.55	-	-
Expired	(50 000)	0.55	-	-
Balance at end of period	25 344 798	0.86	26 872 773	0.84

<i>Broker warrants</i>	June 30, 2018		December 31, 2017	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Balance at beginning of period	690 354	0.63	690 354	0.63
Granted	-	-	-	-
Exercised	-	-	-	-
Balance at end of period	690 354	0.63	690 354	0.63

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12. EQUITY (Continues)

12. 2. Warrants (Continues)

Outstanding warrants are as follows:

<i>Investors</i>		June 30, 2018	December 31, 2017
<u><i>Expiry date</i></u>	<u><i>Exercise price</i></u>	<u>Number</u>	<u>Number</u>
	\$		
March 27, 2018	0.55	-	1 527 975
November 6, 2018	0.65	3 925 500	3 925 500
November 19, 2018	0.65	16 700	16 700
March 21, 2019	0.90	8 960 026	8 960 026
April 21, 2019	0.90	6 321 072	6 321 072
December 28, 2019	0.90	6 121 500	6 121 500
		<u>25 344 798</u>	<u>26 872 773</u>
<i>Broker warrants</i>		June 30, 2018	December 31, 2017
<u><i>Expiry date</i></u>	<u><i>Exercise price</i></u>	<u>Number</u>	<u>Number</u>
	\$		
November 6, 2018	0.55	33 600	33 600
November 19, 2018	0.55	89 233	89 233
March 21, 2019	0.65	567 521	567 521
		<u>690 354</u>	<u>690 354</u>

12. 3. Shared-based compensation

On July 14, 2017, the Company granted to an officer 100,000 stock options exercisable at \$0.81 per share valid for 5 years. The fair value of these share options amount to \$ 58,660 for an estimated weighted-average fair value of \$0.59 per option. The fair value of the options granted was estimated using the Black-Scholes option pricing model with no expected dividend yield, 1.41% weighted-average risk-free interest rate, 105.12% weighted-average expected volatility and 4.15 years weighted-average expected life. Stock options are exercisable at date of grant.

On May 15, 2017, the Company granted 1,800,000 stock options exercisable at \$0.88 per share for 5 years. The fair value of these share options amounted to \$1,152,738. The fair value of the options granted was estimated using the Black-Scholes option pricing model with no expected dividend yield, 0.91% risk-free interest rate, 106.9% expected volatility and 5 years expected life. Stock options are exercisable at date of grant.

On March 21, 2017, the Company granted 45,000 stock options exercisable at \$0.70 per share for 5 years. The fair value of these share options amounted to \$23,409. The fair value of the options granted was estimated using the Black-Scholes option-pricing model with no expected dividend yield, 1.16% risk-free interest rate, 99.82% expected volatility and 5 years expected life. Stock options are exercisable at date of grant. An amount of \$nil (\$49,158 in June 30, 2017), \$58,660 (\$1,064,076 in June 30, 2017) and of \$nil (\$64,041 in June 30, 2017) of the share-based compensation was recorded respectively in operating costs, administrative expenses and in exploration and evaluation expenses and credited to contributed surplus.

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12. EQUITY (Continues)

12.3. Shared-based compensation (Continues)

	June 30, 2018		December 31, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, at the beginning	3 369 000	2.02	3 303 500	2.06
Granted	-	-	100 000	0.81
Expired	(167 800)	9.97	(34 500)	2.50
Outstanding, at end of period	<u>3 201 200</u>	1.60	<u>3 369 000</u>	2.02
Exercisable, at end of period	<u>3 201 200</u>	1.60	<u>3 369 000</u>	2.02

The following table summarizes certain information for stock options outstanding and exercisable as at June 30, 2018:

Exercise price	Outstanding options			Exercisable options	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
\$			\$		\$
0.50 to 2.49	2 472 500	3.33	0.93	2 472 500	0.93
2.50 to 4.99	502 400	4.08	2.57	502 400	2.57
5.50 to 10.00	226 300	1.75	6.79	226 300	6.79
0.50 to 10.00	<u>3 201 200</u>	<u>3.34</u>	<u>1.60</u>	<u>3 201 200</u>	<u>1.60</u>

The weighted fair value of the granted options of \$Nil (December 31, 2017 - \$0.81) was determined using the Black-Scholes option-pricing model and is based on the following weighted-average assumptions:

	<u>31-12-2017</u>
Expected dividend yield	-
Expected weighted volatility	105,12%
Risk-free average interest rate	1,41%
Expected average life	4.15 years

The underlying expected volatility was determined by reference to historical data of the Company's shares. No special features inherent to the options granted were incorporated into measurement of fair value.

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13. FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and liabilities

The carrying amounts and fair values of financial instruments presented in the statement of financial position are as follows:

	2018-06-30		2017-12-31	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	\$	\$	\$	\$
Financial assets				
Loans and receivables				
Cash and cash equivalents	965 328	965 328	13 258 001	13 258 001
Other receivables and securities	44 787	44 787	151 800	151 800

Categories of financial assets and liabilities

The carrying amounts and fair values of financial instruments presented in the statement of financial position are as follows:

Financial instruments measured at fair value

The following presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

	2018-06-30		2017-12-31	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	\$	\$	\$	\$
Financial liabilities				
Financial liabilities measured at amortized cost				
Trade and other payables	15,103,598	15,103,598	9,140,598	9,140,597
Other liabilities	-	-	-	638,134
Royalties payable	485,931	485,931	485,931	635,146
Long-term debt	802,980	802,980	802,980	954,579

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

There have been no significant transfers between Levels in the reporting periods.

The method and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting periods.

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13. FINANCIAL ASSETS AND LIABILITIES (Continues)

The financial liability at fair value that is classified at level 3 is the derivative financial instrument which is described in note 13.

There were no financial liability measured at fair value as at June 30, 2018.

14. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period divided by the weighted - average number of shares outstanding during the period. In calculating the diluted loss per share, dilutive potential common shares such as share options and warrants have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future are disclosed in Note 12.

Both the basic and diluted loss per share have been calculated using the net loss as the numerator, i.e. no adjustment to the net loss was necessary for the six month period ended June 30, 2018.

	2018-06-30	2017-06-30
Net loss	(16,612,763)	(4,325,513)
Weighted-average number of common shares	101,381,763	43,878,595
Basic and diluted loss per share	(0.164)	(0.099)

15. INCOME TAXES

	Six month period ended 2016-06-30	Six month period ended 2017-12-31
Recovery of Income taxes		
Mining and income tax expense consists of:		
Current taxes	-	134,706
Deferred taxes	638,134	(1,722,888)
	638,134	(1,588,182)

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16. ADDITIONAL INFORMATION - CASH FLOWS

The changes in working capital items are detailed as follows:

	Six month ended 2018-06-30	Six month ended 2017-06-30
	\$	\$
Sales tax receivable	1,257,459	(706,769)
Other receivables	(866,314)	114,911
Mining tax credits receivable	-	2,039,666
Prepaid expenses	(244,130)	455,557
Material, supplies and gold inventory	(47,427)	2,116,794
Trade and other payables	5,963,001	1,679,169
Royalties payable	(149,215)	(125,763)
Mining taxes payable	-	(452,102)
	<u>5,913,374</u>	<u>5,121,463</u>

	Six month ended 2018-06-30	Six month ended 2017-06-30
	\$	\$
Tax credits receivable in reduction of exploration and evaluation expenses	-	66,348
Acquisition of property, plant and equipment through capital finance leases	1,825,296	-

17. RELATED PARTY TRANSACTIONS

The Company's related parties include companies under common control and joint key management, as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with key management

Key management includes members of the Board of Directors and executive officers of the Company consisting of the President and Chief Operating Officer, General Director and Chief Financial Officer. The remuneration of key management includes the following expenses:

Resulting from the above-mentioned transactions, an amount of \$77,597 for the period ending June 30, 2018 (\$500,000 at Dec. 31, 2017) is included in trade and other payables.

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17. RELATED PARTY TRANSACTIONS (Continues)

	2018-06-30	2017-06-30
	\$	\$
Wages, directors' fees, bonuses and benefits (included in operating costs and salaries and fringe benefits)	290,210	453,131
Professional fees (included in professional fees and investors' relations)	38,296	127,845
Defined contribution pension plan (included in operating costs and salaries and fringe benefits)	9,409	22,190
Severance compensation	-	1,300,000
Share-based compensation (included in operating costs and share-based compensation)	-	1,016,046
Employee benefits expense	<u>337,915</u>	<u>2,919,212</u>

18. SEGMENTED INFORMATION

The Company operates a gold mine in Quebec as well as several exploration and evaluation properties in the same area. These operating sites are managed separately given their different locations. The Company assesses the performance of each segment. Accounting policies for each segment are the same as those used for the preparation of the financial statements. There were no differences between June 30, 2018 and Dec. 31, 2017 on the basis of segmentation or the basis of evaluation of segment results.

**Six months ended June 30,
2018**

Segmented information concerning the income statement	Mining site \$	Exploration \$	Corporate \$	Total \$
Revenue	16,826,685	-	-	16,826,685
Operating costs	(16,711,724)	-	-	(16,711,724)
Royalties	(317,886)	-	-	(317,886)
Depreciation and depletion	(3,113,852)	-	-	(3,113,852)
Gross profit	<u>(3,316,777)</u>	-	-	<u>(3,316,777)</u>
Exploration and evaluation	(2,630,097)	(9,238,396)	-	(11,868,493)
Administration	-	-	(1,842,897)	(1,842,897)
Depreciation of property, plant and equipment	-	-	(9,717)	(9,717)
	<u>(2,630,097)</u>	<u>(9,238,396)</u>	<u>(1,852,614)</u>	<u>(13,721,107)</u>
Operating loss	(5,946,874)	(9,238,396)	(1,852,614)	(17,037,884)
Financial expenses	(272,883)	-	-	(272,883)
Financial revenues	-	-	59,869	59,869
Income (loss) before income taxes	<u>(6,219,757)</u>	<u>(9,238,396)</u>	<u>(1,792,745)</u>	<u>(17,250,897)</u>
Addition of property, plant and equipment	2,571,209	2,547,972	-	5,119,181

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18. SEGMENTED INFORMATION (Continues)

**Six months ended June 30,
2017**

Segmented information concerning the income statement	Mining site \$	Exploration \$	Corporate \$	Total \$
Revenue	27,754,680		-	27,754,680
Operating costs	(18,930,094)	-	-	(18,930,094)
Royalties	(545,477)	-	-	(545,477)
Depreciation and depletion	(4,221,601)	-	-	(4,221,601)
Gross profit	4,057,508	-	-	4,057,508
Exploration and evaluation	(1,724,490)	(2,855,874)	-	(4,580,364)
Reversal of other provisions			1,884,972	1,884,972
Administration	-	-	(4,252,014)	(4,252,014)
			(19,697)	(19,697)
Depreciation of property, plant and equipment	-	-		-
	(1,724,490)	(2,855,874)	(2,386,739)	(6,967,103)
Operating (loss)	2,333,018	(2,855,874)	(2,386,739)	(2,909,595)
Financial expenses	(694,536)	(1,900)	(93,443)	(789,879)
Financial revenues	-	-	149,484	149,484
Income (loss) before income taxes	1,638,482	(2,857,774)	(2,330,698)	(3,549,990)
Addition of property, plant and equipment	4,461,802	234,793	62,367	4,758,962

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19. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's capital management objectives are:

- to increase the value of the assets of the Company;
- to provide an adequate return to shareholders.

These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them through to production or sale and cash flow, either with partners or by the Company's own means.

The Company monitors capital on the basis of the carrying amount of equity.

The Company is not exposed to any externally-imposed capital requirements, except when the Company issues flow-through shares for which an amount should be used for exploration work as summarized in Notes 12.1 and 21.

The Company finances its exploration and evaluation activities principally by raising additional capital either through private placements or debt.

When financing conditions are not optimal, the Company may enter into option agreements or other solutions to continue its activities or may slow its activities until conditions improve.

20. FINANCIAL INSTRUMENT RISKS

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in Note 13. The main types of risks the Company is exposed to are currency risk, commodity price risk, credit risk and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to currency risk and commodity price risk. The Company focuses on actively securing short- to medium-term cash flows by minimizing the exposure to financial markets. The Company does not actively engage in the trading of financial instruments for speculative purposes.

The most significant financial risks to which the Company is exposed are described below. During the year, there were no changes in significant risks described below.

20. 1. Market risk

Foreign currency risk sensitivity

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Most of the Company's transactions are carried out in Canadian dollars. Exposure to currency risk arises from revenues from the sale of precious metals that are realized in U.S. dollars because the price of gold is established in U.S. dollars.

The Company does not enter into arrangements to hedge its foreign exchange risk.

Commodity price risk sensitivity

The commodity price risk is the risk of fluctuation of the gold price. The Company did not enter into any hedging programs.

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20. FINANCIAL INSTRUMENT RISKS (Continues)

20. 2. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

As at June 30, 2018 and Dec. 31, 2017, the Company's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date, as summarized below:

	2018-06-30	2017-12-31
	\$	\$
Cash and cash equivalents	965,328	13,258,001
Other receivables	1,018,114	151,800
Carrying amounts	<u>1,983,442</u>	<u>13,409,801</u>

20. 3. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has financing sources for a sufficient amount. Over the period, the Company has financed its exploration and evaluation programs, its working capital requirements and acquisitions of mining properties through private placements, flow-through financings and debt.

The following table presents contractual maturities (including interest payments where applicable) of the Company's liabilities:

	Less than twelve months	Between one and five years
	\$	\$
June 30, 2018		
Trade and other payables	15,103,598	-
Royalties payable	485,931	-
Long-term debt (including interest payments)	1,422,484	1,604,373
Total	<u>17,012,013</u>	<u>1,604,373</u>
December 31, 2017		
Trade and other payables	9,140,597	-
Other liabilities	638,134	-
Royalties payable	635,146	-
Long-term debt (including interest payments)	1,053,269	715,133
Total	<u>11,467,146</u>	<u>715,133</u>

The interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Long-term debt bear interest at a fixed rate, thus exposing the Company to the risk of changes in fair value arising from interest rate fluctuations.

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21. CONTINGENCY AND COMMITMENTS

Commitments

1) The Company is partially financed through the issuance of flow-through shares and, according to tax rules regarding this type of financing, the Company is committed to performing mining exploration work. These tax rules also set deadlines for carrying out the exploration work, which must be performed no later than the earlier of the following dates:

- Two years following the flow-through placements; and
- One year after the Company has renounced the tax deductions relating to the exploration work.

However, there is no guarantee that the Company's exploration expenses will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors. The Company will renounce qualifying expenses for an amount of \$3,804,849 for the six month period ended June 30, 2018. Management is required to fulfil its commitments within the stipulated deadline of one year from these dates. As at June 30, 2018 all exploration work was spent before December 31, 2018.

2) On September 9, 2013, the Ministry of Natural Resources of Quebec approved the update of the restoration plan of the Bachelor mine. The financial guarantee covering the restoration costs amount to \$4,000,104 which has been paid as at June 30, 2018.

Contingency

The Company was involved in a legal action; a criminal claim in relation to a workplace accident. On December 8, 2017 Metanor was found not guilty of the charges of criminal negligence, in relation to the workplace fatalities which occurred in October of 2009.

22. SUBSEQUENT EVENTS

On July 26, 2018, Metanor Resources Inc. entered into a loan agreement with Bonterra Resources Inc., which provided for the immediate advance of \$4,000,000, by Bonterra. The Loan bears interest at the rate of 10% per year (compounded monthly) and is repayable upon the earlier of six months from the date of the loan or upon demand. The Loan has been secured by way of hypothec on Metanor's Barry property.

On July 20, 2018, the Company entered into a definitive arrangement agreement to combine Bonterra and Metanor. The Transaction contemplates that Bonterra will acquire all of the issued and outstanding common shares of Metanor for C\$0.73 in equity consideration, at an exchange ratio of 1.6039 Bonterra shares for each Metanor share by way of plan of arrangement under the Canada Business Corporations Act. The Purchase Price represents a 40% premium to the 30-day VWAP of Metanor's common shares on the TSXV on June 15, 2018 and a premium of 30% to the closing price as of such date. Upon completion of the Transaction, existing Bonterra and Metanor shareholders will own approximately 58% and 42% of combined company, respectively.

Bonterra Resources Inc.

Pro-Forma

As at February 28, 2018 and for the Nine Months Ended February 28, 2018 and
Year Ended May 31, 2017

(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

Bonterra Resources Inc.
Pro-Forma Financial Statements
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)
February 28, 2018

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Bonterra Resources Inc.
Pro-Forma Statement of Financial Position
As at February 28, 2018
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

	Bonterra Resources Inc. February 28, 2018	Transfer of Larder Lake Business (note 2a)	Metanor Resources Inc. March 31, 2018	Notes	Pro-Forma Adjustments	Pro-Forma Bonterra Resources Inc. February 28, 2018
Assets						
Current						
Cash and cash equivalents	\$ 33,028,974	\$ (7,000,000)	\$ 6,382,338		\$ -	\$ 32,411,312
Receivables	635,649	-	3,002,544		-	3,638,193
Prepaid expenses	201,840	-	1,214,703		-	1,416,543
Materials, supplies and gold inventory	-	-	5,487,501		-	5,487,501
	33,866,463	(7,000,000)	16,087,086		-	42,953,549
Investment in Gatling	-	12,601,902	-	2b	(12,601,902)	-
Prepaid Expenses and Deposits	755,469	-	4,893,101		-	5,648,570
Property, Plant and Equipment	3,175,343	-	31,382,460		-	34,557,803
Exploration and Evaluation Assets	41,930,088	(5,601,902)	-	2c 2d	52,057,242 (24,988,819)	63,396,609
	\$ 79,727,363	\$ -	\$ 52,362,647		\$ 20,068,423	\$ 146,556,531
Liabilities						
Current						
Accounts payable and accrued liabilities	\$ 2,907,169	\$ -	\$ 11,263,753		\$ -	\$ 14,170,922
Other liabilities	6,154,993	-	-		-	6,154,993
Other provisions	-	-	99,600		-	99,600
Current portion of long-term debt	-	-	952,063		-	952,063
	9,062,162	-	12,315,416		-	21,377,578
Long-term Debt	-	-	611,238		-	611,238
Unearned Revenue	-	-	4,565,635		-	4,565,635
Asset Retirement Obligations	-	-	4,709,175		-	4,709,175
	9,062,162	-	22,201,464		-	31,263,626
Shareholders' Equity						
Share Capital	89,262,190	-	153,647,031	2b 2d 2d	(12,601,902) 57,229,606 (153,647,031)	133,889,894
Share-based Payments Reserve	7,812,945	-	12,833,885	2d	(12,833,885)	7,812,945
Deficit	(26,409,934)	-	(136,319,733)	2c 2d	52,057,242 84,262,491	(26,409,934)
	70,665,201	-	30,161,183		20,068,423	115,292,905
	\$ 79,727,363	\$ -	\$ 52,362,647		\$ 20,068,423	\$ 146,556,531

Approved on behalf of the Board:

"Robert Gagnon" Director *"Nav Dhaliwal"* Director
.....
Robert Gagnon Nav Dhaliwal

The accompanying notes are an integral part of these pro-forma financial statements.

Bonterra Resources Inc.
Pro-Forma Statements of Comprehensive Income (Loss)
For the Nine Months Ended February 28, 2018
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

	Bonterra Resources Inc. Nine Months Ended February 28, 2018	Transfer of Larder Lake Business (Note 2a)	Metanor Resources Inc. Reconstructed Nine Months Ended March 31, 2018	Notes	Pro-Forma Adjustments	Pro-Forma Bonterra Resources Inc. Nine Months Ended February 28, 2018
Revenue	\$ -	\$ -	\$ 28,200,680		\$ -	\$ 28,200,680
Operating Costs	-	-	24,609,269		-	24,609,269
Royalties	-	-	669,053		-	669,053
Depreciation and Depletion	-	-	4,597,953		-	4,597,953
Cost of Sales	-	-	29,876,275		-	29,876,275
Gross Profit (Loss)	-	-	(1,675,595)		-	(1,675,595)
Expenses						
Accretion	-	-	60,111		-	60,111
Consulting fees	864,957	(43,248)	-		-	821,709
Exploration and evaluation expenditures	-	-	14,268,912	2c	(14,268,912)	-
Interest on long-term debt	-	-	12,989		-	12,989
Maintenance, rental and depreciation	196,007	-	73,861		-	269,868
Management and director fees	698,000	(34,900)	-		-	663,100
Office and general	282,182	(14,109)	313,858		-	581,931
Professional fees	190,546	(9,527)	727,949		-	908,968
Rent	152,282	(7,614)	-		-	144,668
Salaries and fringe benefits	-	-	1,386,067		-	1,386,067
Share-based payments	557,355	(27,868)	58,660		-	588,147
Shareholder communications and investor relations	1,159,868	(57,993)	302,288		-	1,404,163
Transfer agent and filing fees	78,620	(3,931)	-		-	74,689
Travel	423,992	(21,200)	377,297		-	780,089
Income (Loss) Before Other Items	(4,603,809)	220,390	(19,257,587)		(14,268,912)	(9,372,094)
Other Items						
Other income	4,896,823	-	-		-	4,896,823
Interest income	193,822	-	84,668		-	278,490
Part XII.6 tax and penalties	(808)	-	-		-	(808)
Gain on settlement of streaming contract	-	-	1,686,278		-	1,686,278
Loss on disposal of non-financial assets	-	-	(15,403)		-	(15,403)
Recovery of income taxes	-	-	2,226,316		-	2,226,316
Net Income (Loss) and Comprehensive Income (Loss) for the Period	\$ 486,028	\$ 220,390	\$ (15,275,728)		\$ (14,268,912)	\$ (300,398)
Basic and Diluted Loss Per Share						\$ (0.00)
Weighted Average Number of Common Shares Outstanding – Basic and Diluted						351,733,649

The accompanying notes are an integral part of these pro-forma financial statements.

Bonterra Resources Inc.
Pro-Forma Statements of Comprehensive Income (Loss)
For the Year Ended May 31, 2017
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

	Bonterra Resources Inc. For the Year Ended May 31, 2017	Transfer of Larder Lake Business (Note 2a)	Metanor Resources Inc. For the Year Ended June 30, 2017	Notes	Pro-Forma Adjustments	Pro-Forma Bonterra Resources Inc. For the Year Ended May 31, 2017
Revenue	\$ -	\$ -	\$ 56,292,643		\$ -	\$ 56,292,643
Operating Costs	-	-	36,307,780		-	36,307,780
Royalties	-	-	1,136,966		-	1,136,966
Depreciation and Depletion	-	-	7,480,913		-	7,480,913
Cost of Sales	-	-	44,925,659		-	44,925,659
Gross Profit	-	-	11,366,984		-	11,366,984
Expenses						
Accretion	-	-	50,396		-	50,396
Consulting fees	735,541	(36,777)	-		-	698,764
Exploration and evaluation expenditures	-	-	5,990,896	2c	(5,990,896)	-
Interest on long-term debt	-	-	1,533,454		-	1,533,454
Maintenance, rental and depreciation	8,009	-	116,120		-	124,129
Management and director fees	741,000	(37,050)	-		-	703,950
Office and general	191,859	(9,593)	381,993		-	564,259
Professional fees	198,634	(9,932)	994,896		-	1,183,598
Rent	28,064	(1,403)	-		-	26,661
Reversal of other provisions	-	-	(1,884,972)		-	(1,884,972)
Salaries and fringe benefits	-	-	1,381,090		-	1,381,090
Severance compensation	-	-	1,300,000		-	1,300,000
Share-based payments	1,793,888	(89,694)	1,064,076		-	2,768,270
Shareholder communications and investor relations	1,100,179	(55,009)	455,693		-	1,500,863
Transfer agent and filing fees	35,631	(1,782)	101,640		-	135,489
Travel	423,093	(21,155)	248,998		-	650,936
Income (Loss) Before Other Items	(5,255,898)	262,395	(367,296)		(5,990,896)	630,097
Other Items						
Other income	1,859,636	-	-		-	1,859,636
Interest income	15,029	-	164,144		-	179,173
Part XII.6 tax and penalties	-	-	(12,689)		-	(12,689)
Income taxes	-	-	(491,477)		-	(491,477)
Loss on disposal of non-financial assets	-	-	(19,697)		-	(19,697)
Unrealized gain on derivative	-	-	322,770		-	322,770
Net Income (Loss) and Comprehensive Income (Loss) for the Period	\$ (3,381,233)	\$ 262,395	\$ (404,245)		\$ (5,990,896)	\$ 2,467,813
Basic and Diluted Earnings Per Share						\$ 0.01
Weighted Average Number of Common Shares Outstanding – Basic and Diluted						267,206,117

The accompanying notes are an integral part of these pro-forma financial statements.

Bonterra Resources Inc.

Notes to the Pro-Forma Financial Statements

February 28, 2018

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

1. PLAN OF ARRANGEMENT AND BASIS OF PRESENTATION

The accompanying pro-forma financial statements have been compiled for purposes of inclusion in an Information Circular of Metanor Resources Inc. (“Metanor”) dated August 17, 2018, which gives effect to an acquisition of Metanor by Bonterra Resources Inc. (the “Company” or “Bonterra”) by way of plan of arrangement (the “Acquisition”) under Section 192 of the *Canada Business Corporations Act* (the “CBCA”). Each holder of Metanor common shares will receive 1.6039 Bonterra common share for each Metanor share held.

Prior to the Acquisition, Bonterra intends to complete a plan of arrangement (“Arrangement”) whereby the Company would spin out its Larder Lake assets and liabilities in Ontario, Canada and \$7,000,000 in cash (the “Spin-Out”) in order to create a new exploration company (“Gatling”), by way of plan of arrangement under the *Business Corporations Act* (British Columbia) (the “BCBCA”). Each holder of Bonterra common shares will receive one Gatling common share for each seven Bonterra shares held.

The Acquisition and Spin-Out are subject to shareholder approval and the receipt of all regulatory and other required approvals, including approval of the TSX Venture Exchange (“TSX-V”).

In the opinion of management, the pro-forma financial statements presented include all of the adjustments and assumptions, contained in notes 2 to 4, necessary for fair presentation. The pro-forma statements of financial position and comprehensive income (loss) are not necessarily indicative of Bonterra at the time of closing the transaction referred to above. The pro-forma statements of financial position and comprehensive income (loss) should be read in conjunction with the audited annual financial statements of the Company for the year ended May 31, 2017, the interim unaudited financial statements of the Company for the nine months ended February 28, 2018, the interim unaudited financial statements of Metanor for the three months ended March 31, 2018, the audited financial statements of Metanor for the period ended December 31, 2017 and the year ended June 30, 2017, the interim unaudited financial statements of Larder Lake Business for the nine months ended February 28, 2018 and audited financial statements of Larder Lake Business for the years ended May 31, 2017 and 2016.

Metanor’s reconstructed statement of comprehensive income (loss) for the nine months ended March 31, 2018 is reconstructed by adding three months ended March 31, 2018 to six months ended December 31, 2017.

The unaudited pro-forma financial statements has been prepared by management using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as prescribed by the International Accounting Standards Board (“IASB”).

This unaudited pro-forma financial statements are presented for illustrative purposes and are not intended to reflect the financial position and operations that would have occurred if the events reflected therein had been in effect at the Transaction date.

The Acquisition will be accounted for as a business combination, as the operations of Metanor meet the definition of a business. Bonterra is identified as the acquirer.

Bonterra Resources Inc.
Notes to the Pro-Forma Financial Statements
February 28, 2018
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

2. PRO-FORMA ASSUMPTIONS

The unaudited pro-forma financial statements give effect to the spin-out of the Larder Lake Business and the acquisition of Metanor as if it had occurred at February 28, 2018 for purposes of the statement of financial position and as of the beginning of the period presented for purposes of the statements of comprehensive income (loss) and is based on the following assumptions:

- a) The Company would spin out its Larder Lake assets and liabilities in Ontario, Canada (estimated fair value of \$5,601,902) and invest \$7,000,000 in cash as working capital. The allocation of general and administrative expenses was calculated on the basis of the ratio of time spent on the Larder Lake Business as compared to time spent on Bonterra's other exploration and evaluation assets. \$12,601,902
- b) The Company will distribute, as a return of capital ("ROC") to its existing shareholders, an amount equal to the fair market value through a distribution of common shares of Gatling. \$12,601,902
- c) Adjustment to align Metanor's exploration and evaluation asset expenditure accounting policy with Bonterra's. For the periods presented, Bonterra's accounting policy was to capitalize its exploration and evaluation asset expenditures, while Metanor's policy was to expense its exploration and evaluation asset expenditures. \$52,057,242
- d) Bonterra will acquire Metanor by issuance of 163,513,161 shares to 101,947,229 existing Metanor shareholders in a ratio of 1 Metanor share for 1.6039 Bonterra shares. The estimated purchase price of \$57,229,606 is based on Bonterra's share price of \$0.35 per share. The purchase price is allocated on a preliminary basis to acquire Metanor's net assets as follows:

Cash and cash equivalents	\$	6,382,338
Receivables		3,002,544
Prepaid expenses and deposits		1,214,703
Materials, supplies and gold inventory		5,487,501
Prepaid expenses and deposits		4,893,101
Property, plant and equipment		31,382,460
Exploration & evaluation assets		27,068,423
Accounts payable and accrued liabilities		(11,263,753)
Other provisions		(99,600)
Current portion of long-term debt		(952,063)
Long-term debt		(611,238)
Unearned revenue		(4,565,635)
Asset retirement obligations		(4,709,175)
	<u>\$</u>	<u>57,229,606</u>

Bonterra Resources Inc.
Notes to the Pro-Forma Financial Statements
February 28, 2018
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

3. SHARE CAPITAL

	Number of Shares	Share Capital
Pre Pro-Forma Balance February 28, 2018	226,583,579	\$ 89,262,190
Bonterra will distribute Gatling shares as a ROC	-	(12,601,902)
Bonterra will issue shares to acquire Metanor	163,513,161	57,229,606
Pro-Forma Balance, February 28, 2018	390,096,740	\$ 133,889,894

4. INCOME TAX

It is unknown whether sufficient future taxable profits will be available to utilize any losses prior to expiry. No deferred tax assets has been recognized. The effective tax rate applicable to the Company will be 27%.