

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**

**Condensed Consolidated Interim Financial Statements**  
**March 31, 2017 and 2016**

(Unaudited – prepared by management)  
(Expressed in Canadian Dollars)

**NOTICE TO READER:**

These unaudited condensed consolidated interim financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Chartered Professional Accountants. This notice is being provided in accordance with National Instrument 52-102 – Continuous Disclosure Obligations.

**SPANISH MOUNTAIN GOLD LTD.**  
**March 31, 2017**

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**Spanish Mountain Gold Ltd.**  
**(An Exploration Stage Company)**  
**Condensed Consolidated Interim Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

|   | Note | March 31,<br>2017 | December 31,<br>2016 |
|---|------|-------------------|----------------------|
| <b>Assets</b>                               |      |                   |                      |
| <b>Current Assets</b>                       |      |                   |                      |
| Cash and cash equivalents                   | 4    | \$ 344,881        | \$ 1,296,824         |
| Short-term investments                      | 4    | 2,100,000         | 1,500,000            |
| Accounts receivable                         |      | 34,444            | 29,752               |
| Prepaid expenses                            |      | 27,674            | 22,077               |
|   |      | 2,506,999         | 2,848,653            |
| <b>Mineral Properties</b>                   | 6    | 73,707,226        | 73,502,815           |
| <b>Property and Equipment</b>               | 7    | 955,369           | 968,799              |
| <b>Deposits for Reclamation</b>             | 6    | 85,000            | 85,000               |
| <b>Rent Deposit</b>                         |      | 24,955            | 24,955               |
|   |      | \$ 77,279,549     | \$ 77,430,222        |
| <b>Liabilities and Shareholders' Equity</b> |      |                   |                      |
| <b>Current Liabilities</b>                  |      |                   |                      |
| Accounts payable and accrued liabilities    | 10   | \$ 381,856        | \$ 399,380           |
|   |      | 381,856           | 399,380              |
| <b>Returnable Security Deposits</b>         | 12   | 18,000            | 18,000               |
| <b>Deferred Income Tax Liabilities</b>      | 9    | 36,246            | 63,393               |
|   |      | 436,102           | 480,773              |
| <b>Shareholders' Equity</b>                 |      |                   |                      |
| Capital Stock                               | 8    | 86,459,252        | 86,459,252           |
| Share-Based Payments Reserve                | 8(c) | 1,819,574         | 1,706,818            |
| Deficit                                     |      | (11,435,379)      | (11,216,621)         |
|   |      | 76,843,447        | 76,949,449           |
|   |      | \$ 77,279,549     | \$ 77,430,222        |

Approved on behalf of the Board:

*"Christopher Lattanzi"*  
..... Director  
Christopher Lattanzi

*"James Clare"*  
..... Director  
James Clare

See notes to condensed consolidated interim financial statements

**Spanish Mountain Gold Ltd.****(An Exploration Stage Company)****Condensed Consolidated Interim Statements of Operations and Comprehensive Loss****(Expressed in Canadian Dollars)****For the three months ended March 31**

|   | <b>Note</b> | <b>2017</b>         | <b>2016</b>        |
|---|-------------|---------------------|--------------------|
| <b>Expenses</b>                                   |             |                     |                    |
| Share based payments                              | 8(c), 10    | 100,902             | -                  |
| Salaries and wages                                | 10          | \$ 91,171           | \$ 90,822          |
| Investor relations, travel and filing fees        |             | 26,131              | 4,090              |
| Rent  |             | 14,173              | 13,641             |
| Legal and accounting                              |             | 9,419               | 6,055              |
| Office and administrative                         | 10          | 8,854               | 13,268             |
| Depreciation                                      | 7           | 2,560               | 2,535              |
| <b>Loss Before Other Items</b>                    |             | <b>(253,210)</b>    | <b>(130,411)</b>   |
| <b>Other Items</b>                                |             |                     |                    |
| Interest income                                   |             | 7,306               | 338                |
| <b>Loss Before Deferred Income Tax</b>            |             | <b>(245,904)</b>    | <b>(130,073)</b>   |
| <b>Deferred Income Tax Recovery</b>               | 9           | <b>27,146</b>       | <b>33,769</b>      |
| <b>Net Loss and Comprehensive Loss for Period</b> |             | <b>\$ (218,758)</b> | <b>\$ (96,304)</b> |
| <b>Loss Per Share, basic</b>                      | 13          | <b>\$ (0.001)</b>   | <b>\$ (0.000)</b>  |
| <b>Loss Per Share, diluted</b>                    | 13          | <b>\$ (0.001)</b>   | <b>\$ (0.000)</b>  |
| <b>Weighted Average Number of Common Shares</b>   |             |                     |                    |
| <b>Outstanding, basic</b>                         |             | 218,114,373         | 218,114,373        |
| <b>Weighted Average Number of Common Shares</b>   |             |                     |                    |
| <b>Outstanding, diluted</b>                       |             | 230,365,299         | 220,892,151        |

See notes to condensed consolidated interim financial statements

**Spanish Mountain Gold Ltd.****(An Exploration Stage Company)****Condensed Consolidated Interim Statements of Changes in Shareholders' Equity****(Expressed in Canadian Dollars)**

|                                   | <b>Number of<br/>Common<br/>Shares</b> | <b>Capital Stock</b> | <b>Share-Based<br/>Payments<br/>Reserved</b> | <b>Deficit</b>  | <b>Total Equity</b> |
|-----------------------------------|--|----------------------|--|-----------------|---------------------|
| <b>Balance, December 31, 2015</b> | 218,114,373                            | \$ 86,459,252        | \$ 2,477,229                                 | \$ (13,509,369) | \$ 75,427,112       |
| Fair value of expired options     | -                                      | -                    | (376,992)                                    | 376,992         | -                   |
| Net loss for period               | -                                      | -                    | -  | (96,304)        | (96,304)            |
| <b>Balance, March 31, 2016</b>    | 218,114,373                            | 86,459,252           | 2,100,237                                    | (13,228,681)    | 75,330,808          |
| Fair value of expired options     | -                                      | -                    | (636,416)                                    | 636,416         | -                   |
| Share-based payments              | -                                      | -                    | 242,997                                      | -               | 242,997             |
| Net Loss for period               | -                                      | -                    | -  | 1,375,644       | 1,375,644           |
| <b>Balance, December 31, 2016</b> | 218,114,373                            | 86,459,252           | 1,706,818                                    | (11,216,621)    | 76,949,449          |
| Share-based payments              | -                                      | -                    | 112,756                                      | -               | 112,756             |
| Net Loss for period               | -                                      | -                    | -  | (218,758)       | (218,758)           |
| <b>Balance, March 31, 2017</b>    | 218,114,373                            | \$ 86,459,252        | \$ 1,819,574                                 | \$ (11,435,379) | \$ 76,843,447       |

See notes to condensed consolidated interim financial statements

**Spanish Mountain Gold Ltd.**  
**(An Exploration Stage Company)**  
**Condensed Consolidated Interim Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**  
**For the three months ended March 31**

|   | 2017              | 2016              |
|---|-------------------|-------------------|
| <b>Operating Activities</b>   |                   |                   |
| Net loss for period   | \$ (218,758)      | \$ (96,304)       |
| Items not involving cash  |                   |                   |
| Depreciation  | 2,560             | 2,535             |
| Share based payments  | 100,902           | -                 |
| Deferred income tax recovery  | (27,146)          | (33,769)          |
|   | (142,442)         | (127,538)         |
| Changes in non-cash working capital                                     |                   |                   |
| Accounts receivable   | (4,692)           | (2,552)           |
| Prepaid expenses  | (5,597)           | 2,009             |
| Accounts payable and accrued liabilities                                | (52,750)          | 2,113             |
|   | (63,039)          | 1,570             |
| <b>Cash Used in Operating Activities</b>                                | <b>(205,481)</b>  | <b>(125,968)</b>  |
| <b>Investing Activities</b>   |                   |                   |
| Short-term investments  | (600,000)         | -                 |
| Expenditures on mineral properties                                      | (146,462)         | (34,007)          |
| <b>Cash Used in Investing Activities</b>                                | <b>(746,462)</b>  | <b>(34,007)</b>   |
| <b>Decrease in Cash</b>   | <b>(951,943)</b>  | <b>(159,975)</b>  |
| <b>Cash and Cash Equivalents, Beginning of Period</b>                   | <b>1,296,824</b>  | <b>413,098</b>    |
| <b>Cash and Cash Equivalents, End of Period</b>                         | <b>\$ 344,881</b> | <b>\$ 253,123</b> |
| <b>Supplemental Cash Flow Information</b>                               |                   |                   |
| Non-cash items:   |                   |                   |
| Mineral properties included in accounts payable and accrued liabilities | \$ 93,075         | \$ 468,302        |
| Depreciation included in mineral properties                             | \$ 10,870         | \$ 12,358         |
| Share-based payments included in mineral properties                     | \$ 11,854         | \$ -              |

See notes to condensed consolidated interim financial statements

# **SPANISH MOUNTAIN GOLD LTD.**

(An Exploration Stage Company)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2017 and 2016

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## **1. NATURE OF OPERATIONS AND GOING CONCERN**

Spanish Mountain Gold Ltd. (the "Company") is an exploration stage resource company incorporated under the *Business Corporations Act* (Alberta) and continued into British Columbia under the *Business Corporations Act* (British Columbia). The head office and principal address of the Company are located at 1120 - 1095 West Pender Street, Vancouver, British Columbia V6E 2M6. The address of the Company's registered office is 1500 - 1055 West Georgia Street, Vancouver, British Columbia V6E 4N7.

These unaudited condensed consolidated interim financial statements ("financial statements") have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Accordingly, these consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

The Company is an exploration stage resource company, which does not generate any revenue and has been relying on equity-based financing to fund its operations. While the Company expects to meet its financial obligations in the near term, it will require additional financing to meet its administrative costs and to continue to explore and develop its mineral properties. There is no assurance that future funding will be available to sufficiently conduct further exploration and development of its mineral properties. At, March 31, 2017 the Company has working capital of \$2,125,143 (December 31, 2016 - \$2,449,273), and an accumulated deficit of \$11,435,379 (December 31, 2016 - \$11,216,621).

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and maintain an adequate level of financial resources to discharge its on-going obligations. There is no assurance that sufficient future funding will be available on a timely basis or on terms acceptable to the Company. Management seeks to raise capital, when necessary, to meet its funding requirements and has undertaken available cost-cutting measures. There can be no assurance that management's plan will be successful as it is dependent on prevailing capital market conditions and the availability of other financing opportunities. These conditions indicate the existence of material uncertainties that cast significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

## **2. BASIS OF PREPARATION**

### **(a) Approval of the Condensed Consolidated Interim financial statements**

The financial statements of Spanish Mountain Gold Ltd. for the period ended March 31, 2017 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on May 29, 2017.

### **(b) Statement of compliance**

These financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Certain disclosures included in the annual audited consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the IASB have been condensed or omitted and these unaudited financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016.

## **SPANISH MOUNTAIN GOLD LTD.**

(An Exploration Stage Company)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2017 and 2016

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### **2. BASIS OF PREPARATION (Continued)**

#### **(c) Basis of measurement**

These financial statements have been prepared on a historical cost basis, except for certain financial instruments carried at fair value. In addition, these consolidated financial statements have also been prepared using the accrual basis of accounting, except for cash flow information.

The accounting policies set out in note 3 have been applied consistently by the Company and its subsidiary for all periods presented.

#### **(d) Use of judgments and estimates**

The Company's management makes critical judgments in the process of applying its accounting policies that have a significant effect on the amounts recognized in the Company's financial statements. The significant judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimation uncertainties, that have the most significant effect include, but are not limited to:

- Impairment of property and equipment and mineral properties

Assets or cash-generating units ("CGUs") are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's property and equipment and mineral properties.

In respect of the carrying value of property and equipment recorded on the consolidated statements of financial position, management has determined that it continues to be appropriately recorded as there have been no obsolescence or physical damage of the assets, and there are no indications that the value of the assets have declined more than what is expected from the passage of time or from normal use.

In respect of costs incurred for its mineral properties, management has determined that exploratory drilling, evaluation, development and related costs incurred, which have been capitalized, continue to be appropriately recorded on the consolidated statements of financial position at its carrying value. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit, including geologic and metallurgic information, economics assessment/studies, accessible facilities and existing permits. Management has determined there are no indicators of impairment for its mineral properties as at March 31, 2017 and December 31, 2016.

- Mining exploration tax credits and flow-through expenditures

The Company is eligible for refundable tax credits on qualified resource expenditures incurred in the province of British Columbia. Management's judgment is applied in determining whether the resource expenditures are eligible for claiming such credits.



## **SPANISH MOUNTAIN GOLD LTD.**

(An Exploration Stage Company)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2017 and 2016

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### **2. BASIS OF PREPARATION (Continued)**

#### **(d) Use of judgments and estimates (Continued)**

- Mining exploration tax credits and flow-through expenditures (Continued)

The Company is also required to spend proceeds received from the issuance of flow-through shares on qualifying resources expenditures. Management judgment is applied in determining whether qualified expenditures have been incurred.

Differences in judgment between management and regulatory authorities may result in disallowed expenditures by the tax authorities. Any amount disallowed may result in the Company's required expenditures not being fulfilled (note 9).

- Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include:

- the expected life of property and equipment;
- the determination of asset retirement and environmental obligations;
- the utilization of deferred income tax assets; and
- the determination of the variables used in the Black-Scholes option pricing model to calculate the fair value of options and warrants.

While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies:

#### **(a) Principles of consolidation**

These financial statements include the accounts of the Company and its wholly owned Canadian subsidiary, Wildrose Resources Ltd. ("Wildrose"). A subsidiary is an entity in which the Company has control, where control requires exposure or rights to variable returns and the ability to affect those returns through power over the investees. All intercompany transactions and balances have been eliminated on consolidation.

## SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2017 and 2016

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (b) Cash, cash equivalents and short-term investments

Cash and cash equivalents comprise cash, bank deposits or highly liquid temporary investments that are readily convertible into known amounts of cash. Term deposits with an original maturity greater than three months and that are non-redeemable are classified as short-term investments.

#### (c) Presentation currency

The Company's presentation currency is the Canadian dollar, which is also the functional currency for both the Company and its subsidiary Wildrose.

#### (d) Mineral properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse. Costs accumulated relating to projects that are abandoned are written off in the period in which a decision to discontinue the project is made.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, costs will be depleted using the unit-of-production method over the estimated life of the ore body based upon recoverable ounces to be mined from estimated proven and probable reserves.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded until the payments are made or received. Proceeds received on the sale or option of the Company's property interest is recorded as a reduction of the mineral property cost. When proceeds received in respect of a property exceed its carrying cost, such excess is recognized in net income (loss).

#### (e) Property and equipment

Property and equipment are recorded at cost and depreciated using the declining-balance basis at the following annual rates:

|                               |     |
|-------------------------------|-----|
| Building                      | 4%  |
| Computer equipment            | 30% |
| Furniture and field equipment | 20% |
| Vehicles                      | 30% |
| Office equipment              | 20% |

## SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2017 and 2016

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Property and equipment (Continued)

Depreciation on leasehold improvements is recorded on a straight-line basis over the term of the lease.

Additions during the year are depreciated on a pro-rated basis. Depreciation on property and equipment used directly on exploration projects is capitalized to mineral properties.

#### (f) Impairment of non-current assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflow from other assets or groups of assets). The recoverable amount of the asset (or CGU) is the greater of the asset's (or CGU's) fair value less costs to sell and its value in use to which the assets belong.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized in profit or loss for the period, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions on reserves and expected future production revenues and expenses.

Where an impairment loss subsequently reverses, the carrying amount of the asset (the CGU) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### (g) Provision for closure and reclamation

The Company assesses its mine rehabilitation provision at each reporting date. Changes to estimated future costs are recognized in the statements of financial position by either increasing or decreasing the rehabilitation liability and asset to which it relates if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*.

The Company records the present value of estimated costs of legal and constructive obligations required to restore mining operations in the period in which the obligation is incurred. The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mine; dismantling operating facilities; closure of plant and waste sites; and restoration, reclamation and vegetation of affected areas.

## **SPANISH MOUNTAIN GOLD LTD.**

(An Exploration Stage Company)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2017 and 2016

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(g) Provision for closure and reclamation (Continued)**

Present value is used where the effect of the time value of money is material. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, and the amount or timing of the underlying cash flows needed to settle the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

#### **(h) Mining exploration tax recoveries**

The Company recognizes mining exploration tax recoveries in the period in which there is reasonable expectation, based on management's estimate, of receiving a refund. The amount of tax credit receivable is subject to review and approval by the taxation authorities and is adjusted for in the period when such approval is confirmed.

#### **(i) Non-monetary transactions**

Shares issued for consideration other than cash are valued at the fair value of assets received or services rendered. If the fair value of assets received or services rendered cannot be reliably measured, shares issued for consideration will be valued at the quoted market price at the date of issuance.

#### **(j) Unit issuance**

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants. For those unexercised warrants that expire, the recorded value is transferred to deficit.

#### **(k) Share-based payments**

The Company has a stock option plan that is described in note 8(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as capital stock and the related amount originally recorded in share-based payments reserve is transferred to capital stock. For those unexercised options that expire, the recorded value is transferred to deficit.

## SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2017 and 2016

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (l) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. For all periods presented, the earnings (loss) available to common shareholders equal the reported earnings (loss). The computation of diluted earnings per share reflects the potential dilution that could occur on the exercise of outstanding options, warrants and similar instruments. The Company uses the treasury stock method to determine the dilutive effect of options, warrants and other dilutive instruments. Under this method, only "in the money" dilutive instruments impact the calculations in computing diluted earnings per share. However, the calculation of diluted loss per share excludes the effects of conversions or exercise of options and warrants if they would be anti-dilutive.

#### (m) Income taxes

The Company follows the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, losses carried forward and other tax deductions. Deferred income tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income (loss) in the period in which the change is enacted or substantively enacted. The amount of deferred income tax assets is limited to the amount of the benefit that is probable that the related tax benefit will be realized.

#### (n) Financial instruments

##### (i) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Management determines the classification of its financial instruments at initial recognition. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* ("FVTPL") – This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in net income (loss).

*Loans and receivables* – These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. 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.

*Held-to-maturity investments* – These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method.

## SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2017 and 2016

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) Financial instruments (Continued)

##### (i) Financial assets (Continued)

If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in net income (loss).

*Available-for-sale* – Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income as a component of equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in net income (loss).

All financial assets, except for those classified as FVTPL, 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. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Transactions costs related to financial instruments classified as FVTPL are expensed as incurred. All other transaction costs related to financial instruments are recorded as part of the instruments and are amortized using the effective interest rate.

##### (ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories. The Company's accounting policy for each category is as follows:

*FVTPL* – This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in net income (loss).

*Other financial liabilities* – This category includes non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the consolidated statements of operations and comprehensive income (loss) over the period to maturity using the effective interest method.

##### (iii) Fair value hierarchy

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs, other than quoted prices in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 Unobservable inputs that are not based on observable market data.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) New accounting pronouncements

The new and revised standards described below may be early-adopted. The standards that may have a significant impact on the Company are discussed below. The Company is currently assessing the impact from adopting these standards.

##### *IFRS 9 Financial Instruments*

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a “fair value through other comprehensive income” category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity’s own credit risk.
- Impairment. The 2014 version of IFRS 9 introduces an “expected credit loss” model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- De-recognition. The requirements for the de-recognition of financial assets and liabilities are carried forward from IAS 39.

This is applicable to the Company’s annual period beginning on January 1, 2018.

##### *IFRS 16 Leases*

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

This is applicable to the Company’s annual period beginning on January 1, 2019.

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### 4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

- Cash and cash equivalents, as FVTPL;
- Short-term investments, as FVTPL;
- Rent deposit and deposits for reclamation, as loans and receivables; and
- Accounts payable and accrued liabilities and returnable security deposits, as other financial liabilities.

The carrying values of accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The carrying value of deposits for reclamation approximates fair value since amounts held earn interest at market rates.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

#### (a) Credit risk

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations and arises principally from the Company's holdings of cash and cash equivalents. The Company manages credit risk in respect of cash and cash equivalents and short-term investments by holding these at a major Canadian financial institution with strong investment-grade ratings by a recognized agency.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents and short-term investments, as all amounts are held at a major Canadian financial institution. The Company's cash and cash equivalents and short-term investments at March 31, 2017 and December 31, 2016 are as follows:

|                            | March 31,<br>2017 | December 31,<br>2016 |
|----------------------------|-------------------|----------------------|
| Cash held in bank accounts | \$ 54,881         | \$ 96,117            |
| Term deposits              | 290,000           | 1,200,707            |
| Short-term investments     | 2,100,000         | 1,500,000            |
|                            | \$ 2,444,881      | \$ 2,796,824         |

As at March 31, 2017 the Company had \$290,000 (December 31, 2016 - \$1,200,707) invested in Canadian dollar denominated guaranteed investment certificates ("GIC") with various terms of maturity and \$2,100,000 (December 31, 2016 - \$1,500,000) in non-redeemable GICs with original maturity greater than three months. Interest is accrued during the GIC term. Accrued interest at March 31, 2017 was \$11,948 (December 31, 2016 - \$9,903).

#### (b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company maintains sufficient cash, cash equivalents and short-term investments at March 31, 2017 in the amount of \$2,444,881 (December 31, 2016 - \$2,796,824), in order to meet short-term liabilities. At March 31, 2017 the Company had accounts payable and accrued liabilities of \$381,856 (December 31, 2016 - \$399,380), which have contractual maturities of 90 days or less.



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### **4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)**

#### **(c) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The Company is exposed to interest rate risk, foreign currency risk and other price risk as follows:

##### **(i) Interest rate risk**

The Company's cash, cash equivalents and short-term investments are held in bank accounts and earn interest at variable interest rates. Due to the short-term nature of these financial instruments and the prevailing interest rate environment, fluctuations in market rates do not have a significant impact on estimated fair values or cash flows as of March 31, 2017 and December 31, 2016.

##### **(ii) Foreign currency risk**

The Company's operations are located in Canada with substantially all transactions denominated in Canadian dollars, and accordingly, the Company is not exposed to significant foreign currency risk.

##### **(iii) Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not significantly exposed to other price risk with respect to its financial instruments, as their fair values and future cash flows are not impacted materially by fluctuations in market prices.

### **5. CAPITAL MANAGEMENT**

The Company's primary source of funds has been obtained through the issuance of capital stock. The Company does not use other sources of financing that require fixed payments of interest and principal, and is not subject to any externally imposed capital requirements.

The Company defines its capital as all components of shareholders' equity. Capital requirements are determined by the Company's exploration activities on its mineral property interests and administrative overhead. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet strategic goals.

In accordance with its investment policy, the Company periodically invests its capital in liquid investments to obtain returns that are considered reasonable under prevailing market conditions. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital.

Although the Company has been successful at raising funds in the past through the issuance of capital stock, there can be no assurances that it will continue into the future.

There were no changes in the Company's approach to capital management during the period ended March 31, 2017.

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### 6. MINERAL PROPERTIES

Acquisition and exploration expenditures incurred on mineral properties are as follows:

|                                   | Spanish Mountain<br>Gold Project |
|-----------------------------------|----------------------------------|
| Balance, December 31, 2015        | \$ 76,885,146                    |
| Additions during the year         |                                  |
| Deferred exploration costs        |                                  |
| Assaying                          | 12,798                           |
| Camp materials and supplies       | 37,975                           |
| Contract wages                    | 68,770                           |
| Depreciation                      | 49,746                           |
| First Nations Community Relations | 250                              |
| Geological consulting             | 138,199                          |
| Land tenure                       | 4,054                            |
| Maps and reports                  | 7,760                            |
| Share-based payments              | 28,402                           |
| Travel and accommodation          | 13,555                           |
| Total additions during the year   | 361,509                          |
| BC METC recovery (note 9)         | (3,743,840)                      |
| Balance, December 31, 2016        | \$ 73,502,815                    |
| Additions during the period       |                                  |
| Deferred exploration costs        |                                  |
| Assaying                          | 11,895                           |
| Camp materials and supplies       | 10,563                           |
| Contract wages                    | 23,293                           |
| Depreciation                      | 10,870                           |
| Environmental Assessment          | 32,749                           |
| Geological consulting             | 52,375                           |
| Maps and reports                  | 50,812                           |
| Share-based payments              | 11,854                           |
| Total additions during the period | 204,411                          |
| Balance, March 31, 2017           | \$ 73,707,226                    |

#### (a) Spanish Mountain Property, British Columbia

The property is subject to various net smelter returns ("NSR") at 2.5%. The Company may, at its option, reduce the NSR to 1.0% or 1.5% dependent on the underlying mineral claims with a maximum aggregate payment of \$1,000,000 to the vendors.

On June 15, 2010, the Company acquired a 100% undivided interest in the Cedar Creek property, which is contiguous to the Spanish Mountain property. The wholly owned property is subject to a 2.5% NSR in favour of a third party. The NSR may be purchased by the Company for \$500,000 per 1.0% NSR. On May 23, 2011, the Company acquired two additional mineral claims that are adjacent to the Cedar Creek property for \$110,000 cash. The claims are subject to a 3.0% NSR, 2.5% of which may be purchased for \$1,000,000.

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### **6. MINERAL PROPERTIES (Continued)**

#### **(a) Spanish Mountain Property, British Columbia (Continued)**

On August 21, 2012, the Company completed the acquisition of a 100% undivided interest in an additional group of mineral claims for consideration of \$500,000 in cash and 2,000,000 common shares with a fair value of \$740,000. The property is subject to an aggregate 4.0% NSR. The Company has the option to reduce the net NSR to 2.0% by paying a one-time cash payment of \$2,000,000 to the royalty holders.

In accordance with regulatory requirements, the Company holds a number of GIC's aggregating in the sum of \$85,000, in safekeeping for the Government of British Columbia. The security will be released once the Company performs its obligations pursuant to its Mineral Exploration Permit.

#### **(b) Title to mineral property interests**

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

#### **(c) Realization of assets**

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

#### **(d) Environmental**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental issues related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

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### 7. PROPERTY AND EQUIPMENT

|                                 | Land              | Building            | Computer<br>Equipment | Furniture<br>and Field<br>Equipment | Vehicles         | Office<br>Equipment | Leasehold<br>Improvements | Total               |
|---------------------------------|-------------------|---------------------|-----------------------|-------------------------------------|------------------|---------------------|---------------------------|---------------------|
| <b>Cost</b>                     |                   |                     |                       |                                     |                  |                     |                           |                     |
| Balance, December 31, 2015      | \$ 127,441        | \$ 1,112,739        | \$ 153,296            | \$ 151,201                          | \$ 72,727        | \$ 21,170           | \$ 19,463                 | \$ 1,658,037        |
| Additions                       | -                 | -                   | 1,928                 | -                                   | -                | -                   | -                         | 1,928               |
| Disposals                       | -                 | -                   | -                     | -                                   | -                | -                   | -                         | -                   |
| Balance, December 31, 2016      | 127,441           | 1,112,739           | 155,224               | 151,201                             | 72,727           | 21,170              | 19,463                    | 1,659,965           |
| Additions                       | -                 | -                   | -                     | -                                   | -                | -                   | -                         | -                   |
| Disposals                       | -                 | -                   | -                     | -                                   | -                | -                   | -                         | -                   |
| <b>Balance, March 31, 2017</b>  | <b>\$ 127,441</b> | <b>\$ 1,112,739</b> | <b>\$ 155,224</b>     | <b>\$ 151,201</b>                   | <b>\$ 72,727</b> | <b>\$ 21,170</b>    | <b>\$ 19,463</b>          | <b>\$ 1,659,965</b> |
| <b>Accumulated Depreciation</b> |                   |                     |                       |                                     |                  |                     |                           |                     |
| Balance, December 31, 2015      | \$ -              | \$ 325,755          | \$ 127,392            | \$ 95,330                           | \$ 49,344        | \$ 17,124           | \$ 10,952                 | \$ 625,897          |
| Additions                       | -                 | 31,539              | 7,771                 | 11,174                              | 7,033            | 809                 | 6,943                     | 65,269              |
| Disposals                       | -                 | -                   | -                     | -                                   | -                | -                   | -                         | -                   |
| Balance, December 31, 2016      | -                 | 357,294             | 135,163               | 106,504                             | 56,377           | 17,933              | 17,895                    | 691,166             |
| Additions                       | -                 | 7,481               | 1,467                 | 2,180                               | 1,209            | 158                 | 935                       | 13,430              |
| Disposals                       | -                 | -                   | -                     | -                                   | -                | -                   | -                         | -                   |
| <b>Balance, March 31, 2017</b>  | <b>\$ -</b>       | <b>\$ 364,775</b>   | <b>\$ 136,630</b>     | <b>\$ 108,684</b>                   | <b>\$ 57,586</b> | <b>\$ 18,091</b>    | <b>\$ 18,830</b>          | <b>\$ 704,596</b>   |
| <b>Carrying Amounts</b>         |                   |                     |                       |                                     |                  |                     |                           |                     |
| At December 31, 2016            | \$ 127,441        | \$ 755,445          | \$ 20,061             | \$ 44,697                           | \$ 16,350        | \$ 3,237            | \$ 1,568                  | \$ 968,799          |
| <b>At March 31, 2017</b>        | <b>\$ 127,441</b> | <b>\$ 747,964</b>   | <b>\$ 18,594</b>      | <b>\$ 42,517</b>                    | <b>\$ 15,141</b> | <b>\$ 3,079</b>     | <b>\$ 633</b>             | <b>\$ 955,369</b>   |

### 8. CAPITAL STOCK

#### (a) Authorized

- (i) Unlimited number of common voting shares without par value
- (ii) Unlimited number of first preferred shares
- (iii) Unlimited number of second preferred shares

The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

#### (b) Stock options

The Company has a fixed number stock option plan that reserves a specified number of shares up to a maximum of 20% of the Company's issued shares as at the date of shareholder approval. The maximum number of options that has been currently approved by the Company's shareholders is 17,401,903. The exercise price of any option granted shall not be less than the fair market value of the shares at the time of the grant. The expiry date for each option, set by the Board of Directors at the time of issue, shall not be more than five years after the grant date. Unless stipulated by the Board of Directors, options granted generally vest 25% on the date of grant and a further 25% vest every six months and expire after five years.

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**8. CAPITAL STOCK (continued)****(b) Stock options (continued)**

Changes in the Company's stock options during the period ended March 31, 2017 and 2016 are summarized as follows:

|                                | March 31, 2017    |                                 | December 31, 2016 |                                 |
|--------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 6,625,000         | \$ 0.42                         | 4,845,000         | \$ 0.61                         |
| Granted                        | -                 | \$ -                            | 3,850,000         | \$ 0.16                         |
| Expired                        | -                 | \$ -                            | (2,070,000)       | \$ 0.74                         |
| Outstanding, end of period     | 6,625,000         | \$ 0.42                         | 6,625,000         | \$ 0.42                         |

A summary of the Company's stock options outstanding and exercisable at March 31, 2017 and December 31, 2016 is as follows:

| Expiry Date        | March 31, 2017 |                   |                               | December 31, 2016 |                   |                               |
|--------------------|----------------|-------------------|-------------------------------|-------------------|-------------------|-------------------------------|
|                    | Exercise Price | Number of Options | Number of Options exercisable | Exercise Price    | Number of Options | Number of Options exercisable |
| April 11, 2017     | \$ 0.44        | 1,000,000         | 1,000,000                     | \$ 0.44           | 1,000,000         | 1,000,000                     |
| April 23, 2017     | \$ 0.55        | 1,775,000         | 1,775,000                     | \$ 0.55           | 1,775,000         | 1,775,000                     |
| September 23, 2021 | \$ 0.16        | 3,850,000         | 1,925,000                     | \$ 0.16           | 3,850,000         | 962,500                       |
|                    |                | 6,625,000         | 4,700,000                     |                   | 6,625,000         | 3,737,500                     |

The weighted average remaining contractual life of outstanding options as at March 31, 2017 is 2.63 (December 31, 2016 - 2.87) years.

**(c) Share purchase warrants**

A summary of the Company's share purchase warrants outstanding and exercisable at March 31, 2017 and December 31, 2016 is as follows:

| Expiry Date      | Exercise Price | March 31, 2017 | December 31, 2016 |
|------------------|----------------|----------------|-------------------|
| October 23, 2020 | \$ 0.05        | 16,666,667     | 16,666,667        |
|                  |                | 16,666,667     | 16,666,667        |

The weighted average remaining contractual life of outstanding warrants at March 31, 2017 is 3.57 (December 31, 2016 - 3.81) years.

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### 8. CAPITAL STOCK (Continued)

#### (d) Share-based payments

When the Company issues stock options, it records a share-based payment compensation ("SBC") expense in the year or period which the options are granted and/or vested. SBC expense is estimated using the following assumptions. The expected volatility assumption is based on the historical and implied volatility of the Company's common share price on the TSX Venture Exchange. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life. The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The Company has not paid and does not anticipate paying dividends on its common stock. Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 9% in determining the expense recorded in the accompanying consolidated statements of operations and comprehensive income (loss).

During the year ended December 31, 2016, the Company granted stock options to certain directors, employees and consultants to acquire up to 3,850,000 common shares with an exercise price of \$0.16 per share. The total fair value of these options was calculated at \$507,045. In accordance with the vesting schedule for these options \$112,756 has been recognized during the period ended March 31, 2017. No stock options were granted or vested during the period ended March 31, 2016, and as a result no SBC expenses were recorded.

The fair value of stock options granted is estimated using the Black-Scholes option pricing model with the following weighted average assumptions at March 31, 2017 and December 31, 2016 are as follows:

|                                 | March 31,<br>2017 | December 31,<br>2016 |
|---------------------------------|-------------------|----------------------|
| Risk-free interest rate         | 1.16%             | 0.62%                |
| Expected dividend yield         | -                 | -                    |
| Expected stock price volatility | 150.83%           | 148.52%              |
| Expected life in years          | 5.00              | 5.00                 |
| Expected forfeitures            | 9.00%             | 9.00%                |

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**9. INCOME TAXES**

The Company's combined statutory tax rate is currently at 26%, comprised of a federal corporate tax rate of 15% and a British Columbia corporate tax rate of 11%.

The reconciliation of income tax computed at the statutory tax rate to income tax recovery is as follows:

|  | <b>For the three months ended<br/>March 31</b> |                  |
|--|--|------------------|
|  | <b>2017</b>                                    | <b>2016</b>      |
| Loss before tax                              | \$ 245,904                                     | \$ 130,073       |
| Statutory income tax rate                    | 26%  | 26%              |
| Expected income tax recovery                 | 63,935   | 33,819           |
| Items non-deductible for income tax purposes | (26,322)                                       | (50)             |
| Changes in timing differences                | (10,467)                                       | -                |
| <b>Deferred income tax recovery</b>          | <b>\$ 27,146</b>                               | <b>\$ 33,769</b> |

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at March 31, 2017 and December 31, 2016 are presented below:

|   | <b>March 31,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|---|---------------------------|------------------------------|
| Deferred income tax assets                |                           |                              |
| Property and equipment                    | \$ 189,726                | \$ 186,234                   |
| Non-refundable mining income tax credit   | 2,182,225                 | 2,182,225                    |
| Share issue costs                         | 6,101                     | 9,280                        |
| Non-capital loss carried forward          | 4,390,144                 | 4,350,018                    |
|   | <b>6,768,196</b>          | <b>6,727,757</b>             |
| Deferred income tax liabilities           |                           |                              |
| Mineral properties                        | (6,804,442)               | (6,791,150)                  |
| <b>Deferred income tax liability, net</b> | <b>\$ (36,246)</b>        | <b>\$ (63,393)</b>           |

The Company recognizes tax benefits on losses or other deductible amounts where it is probable the Company will generate taxable income to utilize its deferred tax assets.

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### 9. INCOME TAXES (Continued)

The Company is eligible for British Columbia mining exploration tax credits ("BC METC"), based on qualified mineral exploration expenditures incurred for determining the existence, location, extent or quality of a mineral resource in the province of British Columbia. The tax credit is calculated as 30% (for the area in which the Company operates) of qualified mineral exploration expenditures incurred to the extent such expenditures are not renounced or committed with respect to issued flow-through shares, if any. The filing for the BC METC is subject to an assessment process, which may include an audit by the taxation authorities. The amount ultimately recoverable may be different from the amount claimed.

As at March 31, 2017, the Company has Canadian non-capital losses of \$16,711,970 that may be applied to reduce future Canadian taxable income purposes, expiring as follows:

|  | Spanish<br>Mountain | Wildrose   | Total         |
|--|---------------------|------------|---------------|
| Non-capital losses, expiring as follows: |                     |            |               |
| 2026                                     | \$ 723,138          | \$ 33,219  | \$ 756,357    |
| 2027                                     | 861,641             | -          | 861,641       |
| 2028                                     | 1,723,029           | 155,937    | 1,878,966     |
| 2029                                     | 1,410,811           | 55,965     | 1,466,776     |
| 2030                                     | 2,341,901           | 47,730     | 2,389,631     |
| 2031                                     | 2,399,357           | 25,888     | 2,425,245     |
| 2032                                     | 2,828,492           | 3,415      | 2,831,907     |
| 2033                                     | 1,763,239           | 1,000      | 1,764,239     |
| 2034                                     | 1,067,246           | 1,367      | 1,068,613     |
| 2035                                     | 774,116             | 1,570      | 775,686       |
| 2036                                     | 491,309             | 1,600      | 492,909       |
|  | \$ 16,384,279       | \$ 327,691 | \$ 16,711,970 |

### 10. RELATED PARTY TRANSACTIONS

- (a) Key management comprises directors and executive officers of the Company. Certain executive officers are entitled to termination benefits of up to two years' gross salary totalling maximum of approximately \$480,000 in the event of a change of control in the Company's ownership. The Company has no material post-employment benefits and other long-term employee benefits.



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### 10. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Compensation of key management personnel for the period ended March 31, 2017 and 2016 is summarized as follows:

|                      | For the three months ended |           |
|----------------------|----------------------------|-----------|
|                      | March 31                   |           |
|                      | 2017                       | 2016      |
| Salary and benefits  | 61,252                     | 61,341    |
| Consulting fees      | 15,408                     | 6,439     |
| Share-based payments | 96,595                     | -         |
|                      | \$ 173,255                 | \$ 67,780 |

The Company did not incur any termination benefits during the period ended March 31, 2017 and 2016.

(b) Accounts payable and accrued liabilities as at March 31, 2017 includes \$242,234 (December 31, 2016 - \$288,702) owed to certain directors and officers, of which \$12,980 (December 31, 2016 - \$59,448) are outstanding cash advances.

### 11. SEGMENTED INFORMATION

The Company has one operating segment, mineral exploration, and all of its long-term assets are located in Canada.

### 12. COMMITMENTS

The Company entered into a lease agreement for office premises that commenced June 1, 2012 and expires May 31, 2017. The total lease payment pursuant to the agreement is \$803,475 (including operating expenses of \$319,875), of which the remaining balance at March 31, 2017 is \$28,584 (including operating expenses of \$11,424).

The Company has entered into a sub-lease agreement to share its office premises with a third-party sub-tenant. The agreement commenced November 1, 2014 and expires May 31, 2017. The cumulative rental recovery pursuant to this agreement is expected to be \$293,310 (including operating expenses of \$115,306), of which the remaining balance at March 31, 2017 is \$19,395 (including operating expenses of \$7,752). Upon execution of the sub-lease agreement, the Company received a security deposit of \$18,000 from the sub-tenant. Pursuant to the sublease agreement, the sub-tenant may elect to terminate the agreement after November 2015 by providing a three-month notice to the Company.

In February 2017, the Company signed an Extension Agreement to renew the lease of its office premises. The new agreement commences June 1, 2017 and expires May 31, 2022. The total lease payment pursuant to the agreement is \$730,678 (including estimated operating expenses of \$342,622). Concurrently, the Company renewed an agreement to continue to sublease a portion of its office premises to a third-party sub-tenant. The agreement commences June 1, 2017 and expires May 31, 2020. The rental recovery is expected to be \$272,902 (including estimated operating expenses of \$139,531). Pursuant to the sublease agreement, the sub-tenant may elect to extend the agreement for another 24 months which they have the option to terminate by providing a three-month notice to the Company.

## SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2017 and 2016

### 12. COMMITMENTS (continued)

During the period ended, March 31, 2017 the Company incurred rent expense of \$43,266 (2016 - \$42,432) and received \$29,093 (2016 - \$28,791) in rental income from a third-party sub-tenant.

The Company's gross combined lease payments for office premises (including operating expenses and before potential recovery from sub-tenant) for the next five years are as follows:

|                          |                   |
|--------------------------|-------------------|
| 2017 (remainder of year) | 76,355            |
| 2018                     | 146,500           |
| 2019                     | 146,499           |
| 2020                     | 155,856           |
| 2021                     | 165,213           |
| 2022                     | 68,839            |
|                          | <u>\$ 759,262</u> |

### 13. EARNINGS (LOSS) PER SHARE

Financial instruments that could potentially dilute the Company's basic earnings (loss) per share in the future are as follows:

|  | March 31,<br>2017  | December 31,<br>2016 |
|--|--------------------|----------------------|
| Basic weighted average number of common shares outstanding   | 218,114,373        | 218,114,373          |
| Effect of dilutive securities:                               |                    |                      |
| Share options  | 213,889            | -                    |
| Warrants   | 12,037,037         | 9,722,222            |
| Diluted weighted average number of common shares outstanding | <u>230,365,299</u> | <u>227,836,595</u>   |

### 14. EVENTS AFTER THE REPORTING PERIOD

Subsequent to March 31, 2017, the following stock options expired without being exercised.

| Number of<br>Options | Exercise<br>Price | Expiry Date    |
|----------------------|-------------------|----------------|
| 1,000,000            | \$ 0.44           | April 11, 2017 |
| 1,775,000            | \$ 0.55           | April 23, 2017 |
| <u>2,775,000</u>     |                   |                |