NORTHERN EMPIRE RESOURCES CORP

TSX.V:NM

Condensed Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2017 and 2016

(Unaudited – expressed in Canadian Dollars)

NORTHERN EMPIRE RESOURCES CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

As at:	Notes		December 31, 2017		March 31, 2017
ASSETS					
Current assets					
Cash		**$**	**17,840,676**	$	2,824,871
Receivables			**93,389**		19,128
Prepaid expenses and other current assets			**263,422**		131,875
Inventory			**60,731**		-
Total current assets			**18,258,218**		2,975,874
Non-current assets					
Investments	5		**310,950**		261,300
Deferred acquisition costs	6		**-**		2,160,675
Exploration and evaluation assets	6		**13,743,139**		57,187
Reclamation bond	6		**4,265,300**		-
Building and equipment	7		**3,052,315**		-
Total assets		**$**	**39,629,922**	$	5,455,036
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	8	**$**	**285,947**	$	393,702
Convertible notes payable	9		**-**		4,394,404
Total current liabilities			**285,947**		4,788,106
Non-current liabilities					
Restoration, rehailitation and environmental obligations	10		**4,817,073**		-
Total liabilities			**5,103,020**		4,788,106
SHAREHOLDERS' EQUITY					
Capital stock	11		**60,988,355**		20,778,436
Reserves	11		**6,814,110**		5,146,781
Accumulated other comprehensive loss			**18,750**		(466,350)
Accumulated deficit			**(33,294,313)**		(24,791,937)
Total shareholders' equity			**34,526,902**		666,930
Total liabilities and shareholders' equity		**$**	**39,629,922**	$	5,455,036

Nature of operations (Note 1)

Subsequent Events (Note 16)

Approved on behalf of the Board:

Signed *"Darryl Cardey"*, Director Signed *"Michael G. Allen"*, Director

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

NORTHERN EMPIRE RESOURCES CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

		Three months ended December 31,		Nine months ended December 31,	
	Notes	**2017**	2016	**2017**	2016
Expenses					
Accretion expense		**$ 38,613**	$ -	**$ 888,717**	$ (1,386)
Consulting and management fees	8	**157,240**	28,500	**486,241**	116,457
Depreciation	6	**84,590**	-	**196,861**	-
Exploration and evaluation expenditures	6, 8	**1,172,773**	232,950	**2,713,722**	716,099
Office, rent, salary and miscellaneous	8	**718,532**	73,146	**1,606,665**	132,112
Professional and regulatory fees	8	**67,442**	17,482	**263,762**	81,952
Property investigation costs		**9,928**	64,537	**262,372**	90,158
Share-based compensation	8, 9	**284,604**	87,484	**1,052,812**	178,926
Shareholder communications		**105,466**	20,015	**543,521**	43,938
Travel and accomodation		**94,717**	-	**193,335**	7,279
Total expenses		**(2,733,905)**	(524,114)	**(8,208,008)**	(1,365,535)
Other income (loss)					
Foreign exchange gain (loss)		**(1,303)**	(359)	**108,493**	(1,050)
Interest income		**33,320**	475	**39,028**	1,082
Loss on impairment of investment		**(435,450)**	-	**(435,450)**	-
Gain (loss) on sale of mineral property interests	6	**(6,439)**	-	**(6,439)**	430,852
Loss for the period		**$ (3,143,777)**	$ (523,998)	**$ (8,502,376)**	$ (934,651)
Other comprehensive loss					
Unrealized gain (loss) on available for sale securities	5	**138,600**	(402,050)	**49,650**	(431,700)
Reclass adjustment for impairment included in net loss		**435,450**	-	**435,450**	-
Loss and comprehensive loss for the period		**$ (2,569,727)**	$ (926,048)	**$ (8,017,276)**	$ (9,868,727)
Loss per share - basic and diluted		**$ (0.06)**	$ (0.05)	**$ (0.30)**	$ (0.10)
Weighted average number of shares outstanding - basic (number)		**53,279,785**	10,810,532	**28,689,260**	9,757,057

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

NORTHERN EMPIRE RESOURCES CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

	Notes	Nine months ended December 31, 2017	2016
Cash flow from operating activities			
Loss for the period		**$ (8,502,376)**	$ (934,651)
Items not involving cash:			
Accretion expense		**888,581**	(1,386)
Depreciation		**196,861**	-
Loss on impairment of investment		**435,450**	-
Gain on sale of mineral property interests		**-**	(430,852)
Unrealized foreign exchange		**(174,852)**	-
Share-based compensation		**1,052,812**	178,926
Change in non-cash working capital items:		**-**	
Change in receivables		**(74,261)**	3,458
Change in prepaid expenses		**(131,547)**	11,834
Change in inventory		**10,082**	-
Change in accounts payable and accrued liabilities		**(107,755)**	(88,467)
Net cash flows used in operating activities		**(6,407,005)**	(1,261,138)
Cash flow used in investing activities			
Acquisition of Sterling Property	6	**(13,648,132)**	-
Exploration and evaluation asset acquisition		**(62,640)**	-
Acquisition of building and equipment		**(118,890)**	-
Net cash used in investing activities		**(13,829,662)**	-
Cash flow provided by financing activities			
Proceeds from shares issued		**34,557,724**	1,357,995
Share issue costs paid		**(1,141,357)**	(58,586)
Proceeds from options exercised		**85,499**	-
Proceeds from warrants exercised		**1,750,606**	-
Net cash provided by financing activities		**35,252,472**	1,299,409
Change in cash		**15,015,805**	38,271
Cash, beginning of period		**2,824,871**	149,701
Cash, end of period		**$ 17,840,676**	$ 187,972
Non-cash investing and financing activities			
Allocation of fair value of exercised warrants from reserves to share capital		**$ 61,750**	$ -
Allocation of fair value of exercised options from reserves to share capital		**356,856**	-
Unrealized gain (loss) on investments allocated to other comprehensive income		**49,650**	(431,700)
Fair value of warrants allocated to share issue costs		**145,940**	24,000
Fair value of warrants issued pursuant to private placement		**-**	253,995
Allocation of deferred acquisition costs on closing of Sterling Property acquisition		**2,160,675**	-
Fair value of shares issued on acquisition of exploration and evaluation asset		**1,841,820**	-
Fair value of convertible notes payable upon conversion to common shares		**5,193,900**	-
Fair value of warrants associated with conversion of convertible notes payable		**887,183**	-
Non-cash investing and financing activities			
Interest and income taxes paid		**$ -**	$ -

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

NORTHERN EMPIRE RESOURCES CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

			Reserves				
	Number of Shares	Capital Stock	Share-based Payments Reserve	Warrant Reserve	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at March 31, 2016	**7,792,766**	**$ 19,623,057**	**$ 1,897,819**	**$ 2,127,657**	**$ (1,250)**	**$ (23,038,292)**	**$ 608,991**
Shares issued pursuant to private placement	3,017,765	1,104,000	-	253,995	-	-	1,357,995
Share issue costs - cash	-	(58,586)	-	-	-	-	(58,586)
Share issue costs - warrants	-	(24,000)	-	24,000	-	-	-
Share-based compensation	-	-	178,926	-	-	-	178,926
Unrealized loss on investments	-	-	-	-	(431,700)	-	(431,700)
Loss for the period	-	-	-	-	-	(934,652)	(934,652)
Balance at December 31, 2016	**10,810,531**	**$ 20,644,471**	**$ 2,076,745**	**$ 2,405,652**	**$ (432,950)**	**$ (23,972,944)**	**$ 720,974**
Balance at March 31, 2017	**11,027,199**	**$ 20,778,436**	**$ 2,131,286**	**$ 3,015,495**	**$ (466,350)**	**$ (24,791,937)**	**$ 666,930**
Shares issued pursuant to purchase agreement	1,666,666	1,250,000	-	-	-	-	1,250,000
Shares issued pursuant to private placement	26,076,649	19,557,724	-	-	-	-	19,557,724
Shares issued pursuant to private placement	16,666,667	15,000,000					15,000,000
Shares issued pursuant to purchase agreement	657,577	591,819	-	-	-	-	591,819
Share-based compensation	-	-	1,052,812	-	-	-	1,052,812
Convertible debenture	6,925,189	4,306,717	-	887,183	-	-	5,193,900
Options exercised	158,332	147,248	(61,749)	-	-	-	85,499
Warrants exercised	2,686,971	2,107,468	-	(356,857)	-	-	1,750,611
Other comprehensive income	-	-	-	-	485,100	-	485,100
Share issuance costs	-	(2,751,057)	-	145,940	-	-	(2,605,117)
Loss for the period	-	-	-	-	-	(8,502,376)	(8,502,376)
Balance at December 31, 2017	**65,865,250**	**$ 60,988,355**	**$ 3,122,349**	**$ 3,691,761**	**$ 18,750**	**$ (33,294,313)**	**$ 34,526,902**

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

1. NATURE OF OPERATIONS

Northern Empire Resources Corp. (the "Company" or "Northern Empire") was incorporated on September 10, 2010 under the Canada Business Corporation Act and maintains its corporate head office at Suite 1020, 800 West Pender Street, Vancouver, British Columbia, V6C 2V6. The Company's common shares are listed on the TSX Venture Exchange (TSX.V: NM) in Canada and on the Over-the-Counter market (USOTC: PSPGF) in the United States of America.

The Company is a gold exploration and development company focused on an emerging heap leach gold district in southern Nevada. Northern Empire recently acquired a 100% interest in the Sterling Gold Project (the "Sterling Property"), which hosts four distinct deposits, including the fully permitted, heap leach Sterling Mine. The Company is currently involved in a comprehensive exploration program at the Sterling Property.

The business of mining exploration involves a high degree of risk and there is no assurance that current exploration projects will result in future profitable mining operations. The Company has significant cash requirements to meet its overhead, pay its liabilities and continue to advance and explore its exploration and evaluation assets ("E&E"), including the Sterling Property. The recoverability of amounts shown as E&E assets is dependent on several factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties and future profitable production or proceeds from the disposition of E&E assets.

The Company estimates it has sufficient working capital to continue operations for the upcoming year. Although the Company has been successful in the past in obtaining financing, there can be no assurances that the Company will continue to obtain the additional financial resources necessary and/or achieve profitability or positive cash flows from its future operations. If the Company is unable to obtain adequate additional financing, the Company would be required to curtail its planned operations, exploration and development activities.

On May 31, 2017, the Company consolidated its share capital on a basis of 3 common shares were converted to 1 common share of the Company. Outstanding common shares, options and warrants in these interim consolidated financial statements have been adjusted on the basis of the same ratio retrospectively.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

a) *Statement of Compliance and Approval of the Financial Statements*

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standards 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). The accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's financial statements for the year ended March 31, 2017. These condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2017, which were prepared in accordance with IFRS as issued by the IASB.

These unaudited condensed interim consolidated financial statements have been prepared on an accrual basis and an historical basis except for financial instruments classified as available-for-sale and financial assets at fair value through profit or loss, which are stated at their fair values.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Company's Board of Directors on February 26, 2018.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE - continued

b) Basis of Consolidation

The Company consolidates its subsidiaries on the basis that it controls the subsidiaries through its ability to govern its financial and operating policies. All intercompany transactions and balances with the Company's subsidiaries have been eliminated. These consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries: 1) Northern Empire Minerals Inc. ("NEM"), incorporated and located in Canada, 2) Bluestone Resources (Alaska) Inc., incorporated and located in Alaska, USA and 3) Rockford Mining (US) Corp., incorporated and located in Nevada, USA.

During the three months ended December 31, 2017, the Company sold its wholly-owned subsidiary, Northern Empire de Mexico, S.A. de C.V. ("NE Mexico"), incorporated and located in Mexico. NE Mexico was sold for a nominal amount which resulted in a loss on sale of mineral property interests of $6,439.

c) Functional and Presentation Currency

The functional currency of a company is the currency of the primary economic environment in which the Company operates. The presentation currency for a company is the currency in which the company chooses to present its financial statements. These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation and functional currency. The functional currencies of the Company's subsidiaries do not differ from that of the parent company.

Transactions in foreign currencies are translated into the functional currency at exchange rates as at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss. Foreign currency monetary assets and liabilities are translated at the functional currency exchange rate at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date of acquisition. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

d) Recent Accounting Pronouncements

The following new standards have been issued by the IASB, but are not yet effective:

- IFRS 9 Financial Instruments ("IFRS 9") partially replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for years beginning on or after January 1, 2018.

- IFRS 15 Revenue from Contracts with Customers ("IFRS 15") is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. IFRS 15 is effective for years beginning on or after January 1, 2018.

3. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE - continued

d) Recent Accounting Pronouncements

- IFRS 16 Leases ("IFRS 16") is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. IFRS 16 eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. IFRS 16 is effective for years beginning on or after January 31, 2019.

The Company expects the new standards will have no significant impact the financial statements upon adoption, except for an increase note disclosure.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. The most significant accounts that require estimates as the basis for determining the stated amounts include: exploration and evaluation assets; provision for environmental rehabilitation, inputs used in the valuation of share-based payments and accounting for the acquisition of the Sterling Property.

Significant estimates with the most significant effect on the amounts recognized in the financial statements include:

a) Exploration and Evaluation Assets

The Company capitalizes mining property acquisition costs. The carrying value of the Company's mineral property is reviewed by management at least annually, or whenever events or circumstances indicate that its carrying value may not be recovered. If impairment is determined to exist, a formal estimate of the recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount.

b) Provision for Environmental Rehabilitation

The Company assesses its provision for restoration, rehabilitation and environmental obligations on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for decommissioning and restoration provisions requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. Actual costs incurred may differ from those amounts estimated. In addition, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future decommissioning and restoration provision. The actual future expenditures may differ from the amounts currently provided.

(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - continued

c) S*hare-based payments*

The Company uses the Black-Scholes Option Pricing Model to calculate the fair value of stock options and of common share purchase warrants issued. The model requires the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and common share purchase warrants.

d) Acquisition of the Sterling Property

The Company acquired the Sterling property and related assets and liabilities through the payment of cash and issuance of shares. The Company determined the acquisition was an asset acquisition and fair value was based on the consideration provided. Based on a number of factors, the property was considered to be in the exploration stage except for the building and equipment acquired.

5. INVESTMENTS

The Company records common shares of investments as available-for-sale financial assets. As at December 31, 2017, the Company owned 250,000 common shares of Sonoro Metals Corp. ("Sonoro") valued at $43,750 and 668,000 common shares of Montego Resources Inc. ("Montego") valued at $267,200. The following schedule provides a continuity of the fair value for each of Sonoro and Montego for the year ended March 31, 2017 and the nine months ended December 31, 2017:

	Montego	Sonoro	Total
Balance as at March 31, 2016	$ -	$ 25,000	$ 25,000
Acquisition of investments	701,400	-	701,400
Change in fair value	(467,600)	2,500	(465,100)
Balance as at March 31, 2017	233,800	27,500	261,300
Change in fair value	33,400	16,250	49,650
Balance as at December 31, 2017	$ 267,200	$ 43,750	$ 310,950

These investments have been revalued to their fair value based on their quoted market prices as at December 31, 2017. During the nine months ended December 31, 2017, $49,650 was recorded as an unrealized gain in other comprehensive income (nine months ended December 31, 2017 – an unrealized loss of $431,700). In relation to the Company's investment in Montego, $435,450 was reclassified from accumulated other comprehensive loss and recorded as a loss on the impairment of investments in other losses on the consolidated statement of loss for the three months ended December 31, 2017 as a result of the sale of Montego shares by the Company subsequent to December 31, 2017 (Note 16).

6. EXPLORATION AND EVALUATION ASSETS

The table below outlines the acquisition costs incurred during the nine months ended December 31, 2017:

	Sterling Property	Richardson Property	Total
Balance as at March 31, 2017	$ -	$ 57,187	$ 57,187
Acquisitions	13,685,952	-	13,685,952
Balance as at December 31, 2017	$ 13,685,952	$ 57,187	$ 13,743,139

6. EXPLORATION AND EVALUATION ASSETS - continued

The Company's interest in exploration and evaluation assets are located in the Nevada and Alaska, USA, and previously in Nunavut, Canada. The following discussion provides details on each of the projects and the option agreement particulars, where applicable:

a) Sterling Property

In May 2017, the Company completed the acquisition of the Sterling Property (the "Sterling Acquisition") from the Sterling Gold Mining Corporation ("SGMC"), a wholly-owned subsidiary of Imperial Metals Corporation ("Imperial Metals"). Pursuant to the terms of the Sterling Acquisition, the Company acquired the following:

- A 100%-interest in the Sterling Property, located in Nye County, Nevada.
- A 4% net smelter royalty ("NSR") on the Hoodoo Canyon Property, located in Nye County, Nevada.
- A 3% NSR, up to a limit of US$1,250,000, on the Tenabo Robertson Property, located in Ladner County, Nevada.
- A 10% net profits royalty interest ("NPI") on the Blue Moon Property located in Mariposa County, California. Subsequent to December 31, 2017, the Company reached an agreement with Blue Moon Zinc. Corp. ("Blue Moon") to return the NPI back to Blue Moon (Note 16).

To date, the Company has not received any royalties from any of the above noted properties acquired in the Sterling Acquisition.

On closing of the Sterling Acquisition, the Company paid or accrued to SGMC a total of $13,648,132 (US$10,100,000) and issued 1,666,666 common shares of the Company with a fair value of $1,250,000. The Company is obligated to issue additional common shares to SGMC, such that SGMC will continue to maintain its percentage ownership in the Company until the earlier of January 1, 2019 or the completion of construction financing to a maximum of an additional 1,666,666 common shares of the Company. Pursuant to the Company's obligation to maintain SGMC's percentage ownership in the Company, Northern Empire issued an additional 657,577 common shares during the nine months ended December 31, 2017 with a fair value of $591,819 in satisfaction of the underlying terms of the Sterling Acquisition agreement.

In addition, a 2% NSR was granted to SGMC, of which a 1% NSR can be purchased for US$7,500,000. A total of $2,160,675 in deferred acquisition costs incurred to March 31, 2017 were applied to the acquisition purchase.

The Company may elect to use specific technology developed by SGMC in an effort to recover mineral from heap leach pads on the Sterling Property. If elected, the Company would be required to pay SGMC: (a) full reimbursement of the technology costs incurred, (b) 50% of the net operating profits generated on existing pads, and (c) 10% of revenues generated on any new pads build. The Company has not assigned any values to this election.

(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

6. EXPLORATION AND EVALUATION ASSETS - continued

a) Sterling Property - continued

For accounting purposes, the Sterling Acquisition was treated as an asset acquisition. As such, effective as the date of closing, the fair value assigned to the identified assets and liabilities purchased are presented below:

Purchase Price	
Cash payments	$ 13,648,132
Common shares issued	1,250,000
Legal, regulatory, due diligence costs and other cash costs	696,919
Total purchase price	$ 15,595,051
Net assets acquired and allocation	
Assets	
Inventory	$ 70,813
Reclamation bonds	4,456,318
Building and equipment	3,130,286
Exploration and evaluation assets	13,031,492
Liabilities	
Future site reclamation provision	(5,093,858)
Total net assets acquired and allocated	$ 15,595,051

The Company has posted a bond with the Bureau of Land Management in relation to the Sterling Property valued at $4,265,300 as of December 31, 2017 (March 31, 2017 - $Nil).

b) Richardson Property, Alaska

The Richardson Property is located near the town of Fairbanks, Alaska. In October 2014, the Company entered into a property acquisition agreement with Northern Empire Minerals Inc. (“NEM”), a company related by way of a common director, to purchase a 100% interest in and title to the Richardson Property, subject to a 3% NSR. The Company issued 333,333 common shares (valued at $75,000) and was required to make advanced royalty payments of US$4,000 per month commencing November 2016 (payments are current). In March 2016, the Company acquired NEM from Chilcotin Capital Corp. (“Chilcotin”) in consideration for granting all of the Placer Rights back to Chilcotin and assuming liabilities of NEM of $81,198, which were recorded as exploration and evaluation expenditures.

c) Hilltop Gold Project, Alaska

The Hilltop Gold Property also near the town of Fairbanks, Alaska. This project is contiguous with the Richardson Property and consists of claims acquired from the Richardson Property and claims that were staked by the Company.

In June 2015, the Company signed a definitive agreement with Sonoro Metals Corp. (“Sonoro”), whereby Sonoro has been granted the option to acquire a 60% interest in the Hilltop Gold Project. Pursuant to the terms of the arrangement, to earn its 60% interest, Sonoro must pay $3,000,000 to the Company which is to be spent on exploration activities and issue a total of 1,000,000 common shares of Sonoro, as per the following schedule:

(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

6. EXPLORATION AND EVALUATION ASSETS - continued

c) Hilltop Gold Project, Alaska - continued

		Cash payments	Issuances of common shares
Within 60 days of the execution of the agreement [(1)]	$	250,000	250,000
By December 31, 2017		500,000	250,000
By December 31, 2018		750,000	250,000
By December 31, 2019		1,500,000	250,000
Total	**$**	**3,000,000**	**1,000,000**

(1) Northern Empire has received the initial cash payment of $250,000 and issuance of 250,000 common shares of Sonoro.

During the term of the option, the Company will be the operator of the project. Upon Sonoro having exercised the option a joint venture will be formed between the parties for the further management, exploration and development of the Hilltop Gold Property. Upon formation of the joint venture, the joint venture will assume responsibility for a 3% NSR that encumbers the project, and the joint venture will also maintain the right to buyback one-third of the NSR (1%) for a one-time cash payment of US$1,000,000.

Subsequent to December 31, 2017, the Company and Sonoro agreed to enable Sonoro to defer the balance of the 2017 exploration expenditures until 2018. As at December 31, 2017, Sonoro had contributed a total of $286,833 against the 2017 exploration budget of $500,000. In consideration for deferring the $213,167 balance of the 2017 exploration expenditures, Sonoro will issue 100,000 shares to Northern Empire, which the Company received subsequent to year end. Subsequent to December 31, 2017, Northern Empire also received 250,000 Sonoro common shares required under the terms of the original agreement, noted above, which were originally due by December 31, 2017.

d) Kiyuk Lake Property, Nunavut

During the year ended March 31, 2017, the Company entered into a purchase and sale agreement with Montego Resources Inc. ("Montego"), whereby Montego purchased the right, title and interest in the Kiyuk Lake Property, located in Nunavut. In consideration for the interest in the property, Montego issued to the Company 668,000 of its common shares. The shares had a fair value of $701,400 and resulted in a gain on sale of the project of $430,852 during the year ended March 31, 2017, calculated as follows:

Purchase Price		
Fair value of the Montego shares	$	701,400
Allocation		
Assumption of restoration, rehabilitation and environmental obligations		394,018
Write-off of carrying value of accumulated acquisition costs		(660,748)
Legal costs associated with the property sale		(3,818)
Gain on sale of the Kiyuk Lake Property	$	430,852

e) Eric Lake and Noomut River Properties, Nunavut

During the year ended March 31, 2017, the Company abandoned the project at Eric Lake and Noomut River in Nunavut.

(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

7. BUILDINGS AND EQUIPMENT

On May 31, 2017, the Company acquired buildings and equipment as part of the Sterling Property (Note 6). Mine infrastructure and buildings are depreciated at 5% per annum on a declining basis. Furniture and fixed and mobile equipment are depreciated at 20% per annum on a declining basis. The following schedule outlines the movements in buildings and equipment for the nine months ended December 31, 2017:

Cost	Mine Infrastructure	Buildings	Furniture and Fixtures	Mobile Equipment	Total
Balance as at March 31, 2017	$ -	$ -	$ -	$ -	$ -
Acquisitions	1,587,778	324,988	96,074	1,240,336	3,249,176
Balance as at December 31, 2017	$ 1,587,778	$ 324,988	$ 96,074	$ 1,240,336	$ 3,249,176

Depreciation	Mine Infrastructure	Buildings	Furniture and Fixtures	Mobile Equipment	Total
Balance as at March 31, 2017	$ -	$ -	$ -	$ -	$ -
Additions	43,371	8,877	10,101	134,512	196,861
Balance as at December 31, 2017	$ 43,371	$ 8,877	$ 10,101	$ 134,512	$ 196,861

Net Book Value	Mine Infrastructure	Buildings	Furniture and Fixtures	Mobile Equipment	Total
As at March 31, 2017	$ -	$ -	$ -	$ -	$ -
As at December 31, 2017	$ 1,544,407	$ 316,111	$ 85,973	$ 1,105,824	$ 3,052,315

8. RELATED PARTY TRANSACTIONS

Key management personnel of the Company are current and former members of the Board of Directors, as well as senior management, including current and former President and Chief Executive Officer. Key management personnel compensation includes:

	December 31, 2017	December 31, 2016
Consulting and management fees	$ 178,200	$ 83,957
Exploration and evaluation expenditures	-	10,707
Office, rent, salary, and miscellaneous	395,000	46,000
Share-based payments	749,891	147,822
Professional fees	-	31,500
	$ 1,323,091	$ 319,986

As at December 31, 2017, included in accounts payable and accrued liabilities is $14,017 (as at March 31, 2017 - $74,459) payable to related parties for salaries, wages, and reimbursable expenses incurred on behalf of the Company. As at December 31, 2017, included in prepaid expenses is $2,611 (as at March 31, 2017 - $5,910) as rent deposit to companies controlled or partially controlled by a former officer of the Company.

(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

9 CONVERTIBLE NOTES PAYABLE

During the year ended March 31, 2017, the Company issued convertible notes payable for proceeds of $5,193,900. The notes were convertible into units consisting of one common share and one half common share purchase warrant. Each whole warrant will be exercisable into one common share at a price of $1.00 per share until March 29, 2019. On July 21, 2017 the convertible note of $5,193,900 were converted into common shares at $0.75 per share resulting in 6,925,189 common shares being issued. In connection with the above, the Company paid finder's fees of $173,010 and issued 2,894,950 agent warrants valued at $646,308, exercisable at $1.00 per warrant until March 29, 2019.

10. RESTORATION, REHABILITATION AND ENVIRONMENTAL OBLIGATIONS

As at September 30, 2017, the Company's restoration, rehabilitation and environmental obligations are related to the dismantling and removal of the mine and equipment at the Company's Sterling property (Note 5 and 6). The obligation was calculated using an inflation rate of 2% and a discount rate of approximately 3.34% with the assumption that the obligation would be settled in the years 2018 through 2023.

Significant closure activities include land rehabilitation, water treatment, demolition of facilities, monitoring and other costs. The amounts and timing of closure items will vary depending on the number of factors including exploration success and alternative mining plans.

A summary of transactions impacting the restoration, rehabilitation and environmental obligations is as follows:

Balance on acquisition - May 31, 2017 (Note 5 and 6)	$	5,093,858
Acretion expense		78,888
Foreign exchange translation		(355,673)
Balance as at December 31, 2017	$	4,817,073

11. SHARE CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

On May 31, 2017, the Company consolidated its share capital on a basis of 3 common shares were converted to 1 common share of the Company. Outstanding common shares, options and warrants in these interim consolidated financial statements have been adjusted on the basis of the same ratio retrospectively.

b) Private Placements and Share Issuances

On May 31, 2017, the Company issued 1,666,666 common shares valued at $1,250,000 to acquire the Sterling Property. In addition, during the nine months ended December 31, 2017, the Company issued a total of 657,577 common shares with a fair value of $591,819 pursuant to the terms of the original Sterling Property acquisition agreement as discussed in Note 6.

On July 21, 2017, the Company issued 6,925,189 units upon the conversion of convertible notes payable (Note 9). Each unit comprises one common share and one-half share purchase warrant, with each whole warrant exercisable at a price of $1.00 expiring on March 29, 2019. The warrants were assigned a fair value of $887,183.

(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

11. SHARE CAPITAL – continued

b) Private Placements and Share Issuances - continued

On July 21, 2017, the Company issued 26,076,649 common shares upon the qualification of previously issued subscription receipts. In connection with the transaction, the Company issued 700,178 broker warrants valued at $145,940, exercisable at a price of $1.00 for a period of two years from the date of grant. The fair value of the broker warrants was determined using the Black-Scholes pricing model with a risk-free interest rate of 0.70%, an expected life of 2 years, an expected annualized volatility of 105%, and an expected dividend rate of 0%.

On November 28, 2017, the Company completed a private placement through the issuance of 16,666,667 common shares at a price of $0.90 per share for aggregate gross proceeds of $15,000,000. As consideration for the completion of the placement, the Company paid cash commissions totaling 6% of the gross proceeds other than in connection with certain president's list purchasers, in which case the fee was reduced to 1.5%. In total the Company paid cash commissions totaling $806,035.

During the nine months ended December 31, 2017, the Company issued 2,686,971 common shares for $1,750,611 on the exercise of warrants and issued 158,332 common shares for $85,499 on the exercise of share options.

c) Warrants

During the nine months ended December 31, 2017, the Company issued a total of 4,162,772 warrants and broker warrants at an average exercise price of $1.00 in conjunction with certain equity and convertible debenture financings completed during the period. There was a total of 2,720,317 warrants exercised during the period for a total of 2,686,971 common shares issued for total gross proceeds of $1,750,611. An additional 33,346 common shares were issued subsequent to the end of the period for warrants which were exercised prior to December 31, 2017 but for which proceeds totaling $20,000 were received subsequent to the end of the period.

The following is a summary of warrant transactions during the nine months ended December 31, 2017 as well as details on the warrants outstanding and exercisable as at December 31, 2017:

Balance as at March 31, 2017	Issued	Exercised	Expired/ Cancelled	Balance as at December 31, 2017	Exercise Price	Expiry Date
1,787,500	-	(1,787,500)	-	-	$ 0.60	December 11, 2017
388,334	-	(5,000)	-	383,334	$ 0.45	February 17, 2019
1,608,747	-	(927,817)	-	680,930	$ 0.75	January 5, 2018
2,894,950	-	-	(2,665,670)	229,280	$ 1.00	March 29, 2019
-	700,178	-	-	700,178	$ 1.00	May 30, 2019
-	3,462,594	-	-	3,462,594	$ 1.00	March 29, 2019
6,679,531	4,162,772	(2,720,317)	(2,665,670)	5,456,316	$ 0.93	
$ 0.80	$ 1.00	$ 0.65	$ 1.00	$ 0.93	$ 0.93	Weighted Average Price

d) Stock Options

The Company may grant stock options pursuant to a Stock Option Plan (the "Plan") which was established in accordance with the policies of the TSX Venture Exchange. The Board of Directors administers the Plan, pursuant to which the Board of Directors may grant from time to time incentive stock options up to an aggregate maximum of 10% of the issued and outstanding shares of the Company to directors, officers, employees, consultants, and advisors. The options can be granted for a maximum of ten years and vest at the discretion of the Board of Directors.

(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

11. SHARE CAPITAL - continued

d) *Stock Options - continued*

On October 10, 2017, the Company granted a total of 75,000 to a consultant of the Company. The options had a fair value of $41,372 or $0.55 per option and expired on October 10, 2020. The options vest 25% on grant, 25% six months after grant, 25% 12 months after grant, and 25% 24 months after grant.

On June 12, 2017, the Company granted 2,650,000 stock options with a fair value of $1,234,425 or $0.47 per option to its directors, officers and consultants at an exercise price of $0.79 per share until June 12, 2020. The options vest 25% on grant, 25% six months after grant, 25% 12 months after grant, and 25% 24 months after grant.

On July 10, 2016, the Company granted 941,667 stock options with a value of $360,261 or $0.38 per option to its directors, officers and consultants at an exercise price of $0.54 per share until July 10, 2019. 333,333 of the stock options vest as follows: 10% on July 10, 2016, 15% on January 10, 2017, and 25% every six months after. 608,334 of the stock options vests as follows: 25% every six months starting January 10, 2017.

The following is a summary of stock option transactions during the nine months ended December 31, 2017 as well as details on the options outstanding and exercisable as at December 31, 2017:

Issued and Outstanding							
Balance as at March 31, 2017	Issued	Exercised	Expired/ Cancelled	Balance as at December 31, 2017	Exercisable as at December 31, 2017	Exercise Price	Expiry Date
158,332	-	(158,332)	-	-	-	$ 0.54	September 29, 2017
783,328	-	-	-	783,328	595,825	$ 0.54	July 11, 2019
-	2,650,000	-	(25,000)	2,625,000	1,311,500	$ 0.79	June 12, 2020
-	75,000	-	-	75,000	18,750	$ 0.83	October 10, 2020
941,660	2,725,000	(158,332)	(25,000)	3,483,328	1,926,075	$ 0.73	
$ 0.54	$ 0.79	$ 0.54	$ 0.79	$ 0.73	$ 0.71	$ 0.73	Weighted Average Price

The Company amortizes the total fair value of options granted over their vesting schedule. The total compensation expense recognized for options granted during the nine months ended December 31, 2017 was $1,052,812 (nine months ended December 31, 2016 - $178,926). The options granted during the nine months ended December 31, 2017 were fair valued using the Black-Scholes option pricing model using a weighted average risk-free interest rate of 0.88%, an expected life of options of 3 years, an expected annualized volatility of 121%, and an expected dividend rate of 0%. The options granted during the nine months ended December 31, 2016 were fair valued using the Black-Scholes option pricing model using a weighted average risk-free interest rate of 0.47%, an expected life of options of 1.84 years, an expected annualized volatility of 124%, and an expected dividend rate of 0%.

(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

12. EXPLORATION AND EVALUATION EXPENDITURES

The following provides a detailed breakdown of the exploration expenditures incurred during the nine months ended December 31, 2017:

	Sterling Property	Richardson Property	Hilltop Gold Property	Total
Assays	$ 256,760	$ 213	$ -	$ 256,973
Camp and general	393,275	-	-	393,275
Claim fees	361,621	191,923	-	553,544
Courier, freight and shipping	30,503	-	-	30,503
Drilling	518,744	-	-	518,744
Field equipment and supplies	342,076	-	-	342,076
Fuel	7,302	-	-	7,302
Geological consulting and other labour	422,900	2,400	3,600	428,900
Geophysics	34,876	-	-	34,876
Leaching expenses	10,278	-	-	10,278
Office	5,497	-	-	5,497
Permits and licenses	1,647	-	-	1,647
Royalty payments	-	58,143	-	58,143
Site costs	35,674	-	-	35,674
Travel, meals and accommodation	36,290	-	-	36,290
Total exploration and evaluation costs	2,457,443	252,679	3,600	2,713,722
Cost recoveries	-	-	-	-
Net exploration and evaluation costs	$ 2,457,443	$ 252,679	$ 3,600	$ 2,713,722

The following provides a detailed breakdown of the exploration expenditures incurred during the nine months ended December 31, 2016:

	Richardson Property	Hilltop Gold Property	Other	Total
Assays	$ 91,709	$ 308	$ 1,131	$ 93,148
Camp and general	167,992	41,512	9,317	218,821
Courier, freight and shipping	1,454	-	-	1,454
Field equipment and supplies	54,183	-	-	54,183
Foreign currency translation	4,617	292	-	4,909
Fuel	3,319	-	-	3,319
Geological consulting and other labour	305,420	-	12,614	318,034
Helicopter Charter	19,976	-	-	19,976
Maps, orthophotos and reports	-	-	100	100
Office	4,726	-	(5,322)	(596)
Permits and licenses	-	-	614	614
Property taxes	3,530	-	-	3,530
Royalty payments	25,658	-	-	25,658
Travel, meals and accommodation	14,461	-	-	14,461
Total exploration and evaluation costs	697,045	42,112	18,454	757,611
Cost recoveries	-	(41,512)	-	(41,512)
Net exploration and evaluation costs	$ 697,045	$ 600	$ 18,454	$ 716,099

(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

13. SEGMENTED INFORMATION

The Company currently operates in one reportable segment, being the acquisition, exploration, and development of mineral properties, which is conducted primarily in the United States of America. The Company has no reportable segment revenues for any periods presented in these financial statements. The following data includes geographic information for the nine months ended December 31, 2017 and the year ended March 31, 2017:

Assets - As at December 31, 2017	Canada	United States	Mexico	Total
Exploration and evaluation assets	$ -	$ 13,743,139	$ -	$ 13,743,139
Building and equipment	-	3,052,315	-	3,052,315
Other assets	18,191,864	4,642,604	-	22,834,468
Total	$ 18,191,864	$ 21,438,058	$ -	$ 39,629,922

Assets - As at March 31, 2017	Canada	United States	Mexico	Total
Exploration and evaluation assets	$ -	$ 57,187	$ -	$ 57,187
Other assets	3,233,609	2,160,675	3,565	5,397,849
Total	$ 3,233,609	$ 2,217,862	$ 3,565	$ 5,455,036

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair Values

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

- Level 1 - Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3 - Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The fair value of cash, receivables, and accounts payables and accrued liabilities approximates their carrying value due to their short-term maturity. The Company's available-for-sale investments are measured at fair value with changes recorded in other comprehensive income. Cash and investments are measured using level one of the fair value hierarchy.

b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. The Company estimates it has sufficient working capital to continue operations for the upcoming year.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued

c) *Credit Risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and amounts receivable. Cash is held with a major Canadian and a major U.S. financial institution and the receivables are due from Government entities. Management is of the view that all amounts are fully collectible.

d) *Interest Rate Risk*

The Company is nominally exposed to interest rate risk. The Company's bank account earns interest income at variable rates. The Company's future interest income is exposed to short-term rates.

e) *Political Risk*

The Company previously had a subsidiary in Mexico. This operation was potentially subject to a number of political, economic and other risks that may affect the Company's future operations and financial position.

f) *Foreign Currency Fluctuation Risk*

The Company has vendors in Canada and the United States; therefore, the Company's operations are affected by the currency fluctuations in these jurisdictions. The Company's exposure to foreign currency fluctuations is minimal.

15. CAPITAL MANAGEMENT

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of equity comprised of issued capital stock, reserves and accumulated deficit. The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements.

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2017, the Company:

a) received a total of 350,000 common shares of Sonoro, in accordance with the extension agreement discussed in Note 6 on the Hilltop Gold Project in Alaska.

b) sold a 10% net profits royalty interest ("NPI") on the Blue Moon Property located in Mariposa County, California (originally acquired as part of the Sterling Property purchase described in Note 6). Pursuant to the terms of the sale with Blue Moon Zinc. Corp. ("Blue Moon"), Northern Empire agreed to return the NPI back to Blue Moon for $20,000 and 3 million common shares of Blue Moon, which were both received following the end of the period.

16. SUBSEQUENT EVENTS - continued

c) granted a total of 2,380,000 options to various directors, employees and consultants engaged by Norther Empire. The options granted have an exercise price of $1.16 per share and expire on January 15, 2021. The options are scheduled to vest over a two year period from the date of grant.

d) issued a total of 683,192 common shares on exercise of warrants and stock options for total gross proceeds of $519,146. In addition, a total of 78,902 warrants with an exercise price of $0.75 expired unexercised.

e) entered into a new office lease agreement for its corporate head office in Vancouver. The office lease was for a 5 year term commencing on April 1, 2018 with monthly lease payments of approximately $16,000 per month.

f) sold its entire position in Montego, for which the Company received total gross proceeds of $260,000 for the sale of 668,000 Montego shares.