
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-36908

PARAMOUNT GOLD NEVADA CORP.



(Exact name of Registrant as specified in its Charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

665 Anderson Street
Winnemucca, NV
(Address of principal executive offices)

98-0138393
(I.R.S. Employer
Identification No.)

89445
(Zip Code)

Registrant's telephone number, including area code: (775) 625-3600

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a small reporting company) Small reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares of Registrant's Common Stock outstanding, \$0.01 par value per share, as of February 6, 2017 was 15,689,954.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

**PARAMOUNT GOLD NEVADA CORP.
Condensed Consolidated Interim Balance Sheets
as at December 31, 2016 and June 30, 2016
(Unaudited)**

| | As at December 31, 2016 | As at June 30, 2016 |
|--|----------------------------|------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,813,694 | \$ 5,874,258 |
| Prepaid and deposits | 418,835 | 175,383 |
| Accounts receivable | 15,060 | — |
| Promissory note receivable (Note 3) | — | 808,187 |
| Other assets | — | 561,997 |
| Prepaid insurance (Note 9) | — | 24,517 |
| Total Current Assets | <u>2,247,589</u> | <u>7,444,342</u> |
| Non-Current Assets | | |
| Mineral properties (Note 7) | 46,460,386 | 25,674,658 |
| Property and equipment (Note 8) | 14,839 | 14,896 |
| Reclamation bond (Note 9) | 2,293,874 | 2,350,131 |
| Total Non-Current Assets | <u>48,769,099</u> | <u>28,039,685</u> |
| Total Assets | <u>\$ 51,016,688</u> | <u>\$ 35,484,027</u> |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 248,617 | \$ 175,801 |
| Reclamation and environmental obligation, current portion (Note 9) | 384,099 | 384,099 |
| Total Current Liabilities | <u>632,716</u> | <u>559,900</u> |
| Non-Current Liabilities | | |
| Reclamation and environmental obligation, non-current portion (Note 9) | 1,023,813 | 1,017,940 |
| Total Liabilities | <u>1,656,529</u> | <u>1,577,840</u> |
| Stockholders' Equity | | |
| Common stock, par value \$0.01, 50,000,000 authorized shares, 15,689,954 issued and outstanding at December 31, 2016 and 8,518,791 issued and outstanding at June 30, 2016 | 156,900 | 85,188 |
| Additional paid in capital | 80,397,039 | 65,143,383 |
| Deficit | (31,193,780) | (31,322,384) |
| Total Stockholders' Equity | <u>49,360,159</u> | <u>33,906,187</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 51,016,688</u> | <u>\$ 35,484,027</u> |

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

PARAMOUNT GOLD NEVADA CORP.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss (Income)
for the Three and Six Month Period ended December 31, 2016 and 2015
(Unaudited)

| | For the Three Month Period Ended December 31, 2016 | For the Three Month Period Ended December 31, 2015 | For the Six Month Period Ended December 31, 2016 | For the Six Month Period Ended December 31, 2015 |
|--|--|--|--|--|
| Revenue | | | | |
| Other income (Note 10) | \$ 40,599 | \$ 125,722 | \$ 45,905 | \$ 130,924 |
| Total Revenue | <u>40,599</u> | <u>125,722</u> | <u>45,905</u> | <u>130,924</u> |
| Expenses | | | | |
| Exploration | 1,318,444 | 171,296 | 1,855,815 | 446,171 |
| Land holding costs | 122,288 | 101,591 | 276,900 | 195,237 |
| Professional fees | 51,869 | 108,581 | 99,860 | 150,286 |
| Salaries and benefits | 173,331 | 226,675 | 438,174 | 434,966 |
| Directors compensation | 38,754 | 58,183 | 83,783 | 109,448 |
| General and administrative | 126,060 | 109,738 | 268,115 | 167,954 |
| Insurance | 41,422 | 48,079 | 84,418 | 90,020 |
| Depreciation | 1,481 | 858 | 2,584 | 2,404 |
| Accretion (Note 9) | 34,322 | 36,998 | 68,644 | 73,996 |
| Total Expenses | <u>1,907,971</u> | <u>861,999</u> | <u>3,178,293</u> | <u>1,670,482</u> |
| Net Loss before other Expense (Income) | <u>1,867,372</u> | <u>736,277</u> | <u>3,132,388</u> | <u>1,539,558</u> |
| Other Expense (Income) | | | | |
| Interest income | (3,227) | (1,350) | (6,513) | (2,711) |
| Interest and service charges | 380 | 40 | 572 | 113 |
| Non recurring rebates | (39,633) | — | (39,633) | — |
| Net Loss before income taxes | <u>1,824,892</u> | <u>734,967</u> | <u>3,086,814</u> | <u>1,536,960</u> |
| Income taxes | | | | |
| Deferred tax recovery (Note 3) | — | — | (3,215,418) | — |
| Net Loss (Income) | <u>1,824,892</u> | <u>734,967</u> | <u>(128,604)</u> | <u>1,536,960</u> |
| Other comprehensive loss | | | | |
| Unrealized loss on available-for-sale-securities | — | 698 | — | 14,577 |
| Total Comprehensive Loss (Income) for the Period | <u>\$ 1,824,892</u> | <u>\$ 735,665</u> | <u>\$ (128,604)</u> | <u>\$ 1,551,537</u> |
| Loss (Income) per Common Share | | | | |
| Basic | \$ 0.12 | \$ 0.09 | \$ (0.01) | \$ 0.18 |
| Diluted | \$ 0.12 | \$ 0.09 | \$ (0.01) | \$ 0.18 |
| Weighted Average Number of Common Shares Used in Per Share Calculations | | | | |
| Basic | 15,689,954 | 8,518,791 | 15,417,138 | 8,518,791 |
| Diluted | 15,689,954 | 8,518,791 | 15,622,782 | 8,518,791 |

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

PARAMOUNT GOLD NEVADA CORP.

**Condensed Consolidated Interim Statements of Stockholders' Equity
for the Six Month Period Ended December 31, 2016 and Years ended June 30, 2016 and 2015
(Unaudited)**

| | Shares (#) | Common Stock | Additional Paid- In Capital | Deficit | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|--|-------------------|----------------------|-----------------------------------|-----------------------|---|-------------------------------|
| Balance at June 30, 2014 | 1,000 | \$ 29,701,475 | \$ 6,545,714 | \$(20,749,005) | \$ 60,149 | \$ 15,558,333 |
| Returned to treasury by PGSC for Spin-off | (1,000) | (29,701,475) | — | — | — | (29,701,475) |
| Capital issued for Spin-off transaction | 8,101,371 | 81,014 | 29,620,461 | — | — | 29,701,475 |
| Contributed capital by PGSC - Cash | — | — | 8,445,860 | — | — | 8,445,860 |
| Contributed capital by PGSC - Loan reclassified to equity | — | — | 15,866,870 | — | — | 15,866,870 |
| Capital issued for financing | 417,420 | 4,174 | 1,465,826 | — | — | 1,470,000 |
| Stock based compensation | — | — | 375,788 | — | — | 375,788 |
| Imputed interest on loans due to PGSC | — | — | 2,252,027 | — | — | 2,252,027 |
| Unrealized loss on marketable securities | — | — | — | — | (8,711) | (8,711) |
| Transfer on realized gain on sale of marketable securities | — | — | — | — | (106,631) | (106,631) |
| Net loss | — | — | — | (5,231,207) | — | (5,231,207) |
| Balance at June 30, 2015 | 8,518,791 | 85,188 | 64,572,546 | (25,980,212) | (55,193) | 38,622,329 |
| Stock based compensation | — | — | 570,837 | — | — | 570,837 |
| Unrealized loss on marketable securities | — | — | — | — | 55,193 | 55,193 |
| Net loss | — | — | — | (5,342,172) | — | (5,342,172) |
| Balance at June 30, 2016 | 8,518,791 | 85,188 | 65,143,383 | (31,322,384) | — | 33,906,187 |
| Stock based compensation | — | — | 122,502 | — | — | 122,502 |
| Capital issued for acquisition (Note 3) | 7,171,163 | 71,712 | 15,131,154 | — | — | 15,202,866 |
| Net income | — | — | — | 128,604 | — | 128,604 |
| Balance at December 31, 2016 | 15,689,954 | 156,900 | 80,397,039 | (31,193,780) | — | 49,360,159 |

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

PARAMOUNT GOLD NEVADA CORP.
Condensed Consolidated Interim Statements of Cash Flows
for the Six Month Period ended December 31, 2016 and 2015
(Unaudited)

| | For the Six Month Period Ended December 31, 2016 | For the Six Month Period Ended December 31, 2015 |
|--|---|---|
| Net Income (Loss) | \$ 128,604 | \$ (1,536,960) |
| Adjustment for: | | |
| Depreciation | 2,584 | 2,404 |
| Stock based compensation | 122,502 | 279,094 |
| Accretion expense (Note 9) | 68,644 | 73,996 |
| Interest earned on reclamation bond | (6,514) | (8,865) |
| Insurance expense | 24,517 | 24,518 |
| Deferred tax recovery | (3,215,418) | — |
| (Increase) decrease in accounts receivable | (15,060) | 37,071 |
| (Increase) decrease in prepaid expenses | (243,452) | (130,653) |
| Increase (decrease) in accounts payable | 72,816 | (108,013) |
| Cash used in operating activities | (3,060,777) | (1,367,408) |
| Acquisition of Calico | (1,001,623) | — |
| Cash acquired in Calico transaction | 4,363 | — |
| Purchase of equipment | (2,527) | (8,365) |
| Cash used in investing activities | (999,787) | (8,365) |
| Cash provided by financing activities | — | — |
| Change in cash during period | (4,060,564) | (1,375,773) |
| Cash at beginning of period | 5,874,258 | 9,282,534 |
| Cash at end of period | \$ 1,813,694 | \$ 7,906,761 |

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

PARAMOUNT GOLD NEVADA CORP.
Notes to Condensed Consolidated Interim Financial Statements

Note 1. Description of Business and Summary of Significant Accounting Policies

Paramount Gold Nevada Corp. (the “Company” or “Paramount”), incorporated under the General Corporation Law of the State of Nevada, and its wholly-owned subsidiaries are engaged in the acquisition, exploration and development of precious metal properties. The Company’s wholly owned subsidiaries include New Sleeper Gold LLC, Sleeper Mining Company, LLC, and Calico Resources USA Corp (“Calico”). The Company is in the process of exploring its mineral properties in Nevada and Oregon, United States. The Company’s activities are subject to significant risks and uncertainties, including failing to secure additional funding to advance its projects and to date has not determined whether these properties contain reserves that are economically recoverable. The Company’s shares of common stock trade on the NYSE MKT LLC under the symbol “PZG”.

Basis of Presentation and Preparation

The unaudited condensed consolidated interim financial statements are prepared by management in accordance with accounting principles for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the disclosures required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. In the opinion of management, all the normal and recurring adjustments necessary to fairly present the interim financial information set forth herein have been included. The results of operations for interim periods are not necessarily indicative of the operating results of a full year or future years.

The condensed consolidated interim financial statements have been prepared in accordance with U.S. GAAP and follow the same accounting policies and methods of their application as the most recent annual financial statements. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. The condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and related footnotes for the year ended June 30, 2016.

Use of Estimates

The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates made by management in the condensed consolidated interim financial statements include the adequacy of the Company’s asset retirement obligations, valuation of deferred tax asset, and valuation of mineral properties.

Cash and Cash Equivalents

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash and cash equivalents. The carrying amount of these securities approximates fair value because of the short-term maturity of these instruments.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and amounts receivable. The Company maintains cash in accounts which may, at times, exceed federally insured limits. At December 31, 2016, the balances of approximately \$1.5 million were in excess of federally insured limits. We deposit our cash with financial institutions which we believe have sufficient credit quality to minimize the risk of loss.

Fair Value Measurements

The Company has adopted FASB ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. The Company applies fair value accounting for all financial assets and liabilities and non – financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

PARAMOUNT GOLD NEVADA CORP.
Notes to Condensed Consolidated Interim Financial Statements — Continued

The Company has adopted FASB ASC 825, Financial Instruments, which allows companies to choose to measure eligible financial instruments and certain other items at fair value that are not required to be measured at fair value. The Company has not elected the fair value option for any eligible financial instruments.

Stock Based Compensation

The Company has adopted the provisions of FASB ASC 718, “*Stock Compensation*” (“ASC 718”), which establishes accounting for equity instruments exchanged for employee services. Under the provisions of ASC 718, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee’s requisite service period (generally the vesting period of the equity grant). Shares of the Company’s common stock will be issued for any options exercised.

Mineral Properties

Mineral property acquisition costs are capitalized when incurred and will be amortized using the units-of-production method over the estimated life of the reserve following the commencement of production. If a mineral property is subsequently abandoned or impaired, any capitalized costs will be expensed in the period of abandonment or impairment.

Acquisition costs include cash consideration and the fair market value of shares issued on the acquisition of mineral properties.

Exploration Costs

Exploration costs, which include maintenance, development and exploration of mineral claims, are expensed as incurred. When it is determined that a mineral deposit can be economically developed as a result of establishing proven and probable reserves, the costs incurred after such determination will be capitalized and amortized over their useful lives. To date, the Company has not established the commercial feasibility of its exploration prospects; therefore, all exploration costs are being expensed.

Property and Equipment

Equipment is recorded at cost less accumulated depreciation. All equipment is depreciated over its estimated useful life at the following annual rates:

| | |
|--------------------|-----------------------|
| Computer equipment | 30% declining balance |
| Equipment | 20% declining balance |

Asset Retirement Obligations

The Company follows the provisions of ASC 440, “*Asset Retirement and Environmental Obligations*”, which establishes the standards for the initial measurement and subsequent accounting for obligations associated with the sale, abandonment, or other disposal of long-lived tangible assets arising from the acquisition, construction or development and for normal operations of such assets. The Company’s asset retirement obligations are further described in Note 10.

Loss/Income per Common Share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during each period. Diluted loss per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

For the three month period ended December 31, 2016 and 2015 and the six month period ended December 31, 2015, the shares of common stock equivalents related to outstanding stock options have not been included in the diluted per share calculation as they are anti-dilutive as the Company has recorded a net loss from continuing operations for the period.

For the six month period ended December 31, 2016, the shares of common stock equivalents related to outstanding stock options have been included in the diluted per share calculation as the Company has recorded a net income from continuing operations for the period.

PARAMOUNT GOLD NEVADA CORP.
Notes to Condensed Consolidated Interim Financial Statements — Continued

Revenue Recognition

Revenue is recognized when persuasive evidence that an agreement exists, the risks and rewards of ownership pass to the purchaser, the selling price is fixed and determinable; or collection is reasonably assured. The passing of title to the purchaser is based on the terms of the purchase and sale agreement.

Note 2. Recent Accounting Guidance

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230)*,” which provides guidance on presentation and classification of certain cash receipts and payments in the statement of cash flows. These changes become effective for the Company's fiscal year beginning July 1, 2018. The Company is currently evaluating the potential impact of implementing these changes on the Company's consolidated cash flows.

Note 3. Acquisitions

On July 7, 2016, the Company completed the acquisition of Calico, which held mining claims and the Grassy Mountain Gold Project in Oregon, USA. Upon closing of the transaction, Calico became a wholly-owned subsidiary of the Company, and each issued and outstanding share of Calico common stock was converted into 0.07 shares of Paramount common stock.

The transaction was accounted for as an asset acquisition, as Calico is an exploration stage project, which requires that the total purchase price be allocated to the assets acquired and liabilities assumed based on their relative fair values. Transaction advisory fees and other acquisition costs incurred prior to the closing of the transaction were recorded as Other Assets on the Balance Sheet. The purchase price and acquired assets and liabilities were as follows:

| | |
|---|----------------------|
| Common shares issued (7,171,163 at \$2.12) | \$ 15,202,866 |
| Transaction advisory fees and other acquisition costs | 795,925 |
| Total purchase price | <u>15,998,791</u> |
| Assets: | |
| Cash | 4,363 |
| Receivables and other current assets | 28,093 |
| Mineral properties | <u>20,785,728</u> |
| | 20,818,184 |
| Liabilities: | |
| Accounts payable and accrued liabilities | 1,603,975 |
| Deferred income taxes | <u>3,215,418</u> |
| | 4,819,393 |
| Net assets acquired | <u>\$ 15,998,791</u> |

A loan was granted to Calico prior to the acquisition in exchange for a promissory note. As at June 30, 2016, the balance was \$808,187 and has been eliminated on consolidation.

Pursuant to the acquisition of Calico, the Company recorded a deferred tax liability of \$3,215,418. Subsequent to the acquisition, the Company determined that it would be able to utilize the benefit of its tax operating loss carryforwards and adjusted its valuation allowance to recognize the benefit of these previously unrecognized deferred tax assets and offset the deferred tax liability. Accordingly, the Company recognized a deferred tax recovery of \$3,215,418.

Note 4. Fair Value Measurements

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization with the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

PARAMOUNT GOLD NEVADA CORP.
Notes to Condensed Consolidated Interim Financial Statements — Continued

The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs that are both significant to the fair value measurement and unobservable.

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| Assets | Total | Fair Value at December 31, 2016 | | | June 30, 2016 |
|---------------------------|--------------|---------------------------------|---------|---------|---------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | \$ 1,813,694 | 1,813,694 | — | — | \$ 5,874,258 |

The Company's cash and cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The cash and cash equivalents that are valued based on quoted market prices in active markets are primarily comprised of commercial paper, short-term certificates of deposit and U.S. Treasury securities.

Note 5. Non-Cash Transactions

During the six month period ended December 31, 2016, the Company issued 7,171,163 shares of its common stock with a value of \$15,202,866 for the acquisition of Calico Resources Corp.

Note 6. Capital Stock

Authorized Capital

Authorized capital stock consists of 50,000,000 common shares with par value of \$0.01 per common share (June 30, 2016 – 50,000,000 common shares with par value \$0.01 per common share). At December 31, 2016 there were 15,689,954 common shares issued and outstanding (June 30, 2016- 8,518,791 common shares).

Stock Options and Stock Based Compensation

Paramount's 2015 and 2016 Stock Incentive and Compensation Plans, which are shareholder-approved, permits the grant of share options and shares to its employees for up to 1.569 million shares of common stock. Option awards are generally granted with an exercise price equal to the market price of Paramount's stock at the date of grant and have contractual lives of 5 years. To better align the interests of its key executives and employees with those of its shareholders, a significant portion of those share option awards will vest contingent upon meeting certain stock price appreciation performance goals. Option and share awards provide for accelerated vesting if there is a change in control (as defined in the employee share option plan).

The fair value of option awards that have market conditions are estimated on the date of grant using a Monte-Carlo Simulation valuation model. The award's grant date fair value is determined by taking the average of the grant date fair values under each of many Monte Carlo trials. The key assumptions used in the simulations were as follows:

| | 2016 | 2015 |
|--|---------|------|
| Weighted average risk-free interest rate | 1.26% | — |
| Weighted average volatility | 70.26% | — |
| Weighted average fair value | \$ 1.22 | — |

The fair value of option awards that do not have market conditions are estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. Because Black-Scholes option valuation models incorporate

PARAMOUNT GOLD NEVADA CORP.
Notes to Condensed Consolidated Interim Financial Statements — Continued

ranges of assumptions for inputs, those ranges are disclosed. Given Paramount's short history as a public company, expected volatilities are based on, historical volatilities from five proxy companies' stock. Paramount uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding; the range given below results from certain groups of employees exhibiting different behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

| | 2016 | 2015 |
|--|---------|------|
| Weighted average risk-free interest rate | 1.26% | — |
| Weighted-average volatility | 70.26% | — |
| Expected dividends | \$ 0.00 | — |
| Weighted average expected term (years) | 5.00 | — |
| Weighted average fair value | \$ 1.23 | — |

A summary of option activity under the Stock Incentive and Compensation Plan as of December 31, 2016, and changes during the six month period ended is presented below.

| Options | Options | Weighted Average Exercise Price | Weighted- Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value (\$) |
|----------------------------------|------------------|---------------------------------------|--|--------------------------------------|
| Outstanding at July 1, 2016 | 995,000 | \$ 1.53 | — | — |
| Granted | 50,000 | 2.12 | — | — |
| Exercised | — | — | — | — |
| Forfeited or expired | — | — | — | — |
| Outstanding at December 31, 2016 | <u>1,045,000</u> | <u>\$ 1.56</u> | <u>3.70</u> | <u>\$ 477,600</u> |
| Exercisable at December 31, 2016 | <u>680,005</u> | <u>\$ 1.53</u> | <u>4.25</u> | <u>\$ 318,404</u> |

A summary of the status of Paramount's non-vested shares as of July 1, 2016 and changes during the six month period ended December 31, 2016 is presented below.

| Non-vested Options | Shares | Weighted- Average Grant- Date Fair Value |
|---------------------------------|---------|--|
| Non-vested at July 1, 2016 | 663,330 | \$ 1.13 |
| Granted | 50,000 | 1.23 |
| Vested | 348,335 | 1.14 |
| Forfeited | — | — |
| Non-vested at December 31, 2016 | 364,995 | \$ 1.14 |

As of December 31, 2016, there was \$120,928 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the employee share option plan. That cost is expected to be recognized over a weighted-average period of 0.67 years. The total fair value of share based compensation arrangements vested during the six month period ended December 31, 2016 and 2015, was \$351,236 and \$nil, respectively.

Note 7. Mineral Properties

The Company has capitalized acquisition costs on mineral properties as follows:

| | December 31, 2016 | June 30, 2016 |
|-----------------|----------------------|----------------------|
| Sleeper | \$ 25,674,658 | \$ 25,674,658 |
| Grassy Mountain | 20,785,728 | — |
| | <u>\$ 46,460,386</u> | <u>\$ 25,674,658</u> |

PARAMOUNT GOLD NEVADA CORP.
Notes to Condensed Consolidated Interim Financial Statements — Continued

Sleeper:

Sleeper is located in Humboldt County, Nevada approximately 26 miles northwest of the town of Winnemucca. The Sleeper Gold Mine consists of 2,322 unpatented mining claims totaling approximately 38,300 acres.

Grassy Mountain:

The Grassy Mountain Project is located in Malheur County, Oregon, approximately 22 miles south of Vale, Oregon, and roughly 70 miles west of Boise, Idaho. It consists of 418 unpatented lode claims, 3 patented lode claims, 9 mill site claims, 6 association placer claims, and various leased fee land surface and surface/mineral rights, all totaling approximately 9,300 acres.

Note 8. Property and Equipment:

At December 31, 2016, and June 30, 2016, property and equipment consisted of the following:

| | <u>December 31, 2016</u> | <u>June 30, 2016</u> |
|--------------------------|--------------------------|----------------------|
| Computer equipment | \$ 21,333 | \$ 18,806 |
| Equipment | 1,329 | 1,329 |
| Subtotal | 22,662 | 20,135 |
| Accumulated depreciation | (7,823) | (5,239) |
| Total | <u>\$ 14,839</u> | <u>\$ 14,896</u> |

During the six month period ended December 31, 2016, net additions to property, and equipment were \$2,527 (2015- \$8,365). During the six month period ended December 31, 2016 the Company recorded depreciation of \$2,584 (2015-\$2,404).

Note 9. Reclamation and Environmental:

The Company holds an insurance policy which is in effect until 2033 related to its Sleeper Gold Project. The policy covers reclamation costs up to an aggregate of \$25 million in the event the Company's bond is insufficient to cover any mandated reclamation obligations. The unamortized insurance premium was amortized to December 31, 2016 .

As a part of its insurance policy, the Company has funds in a commutation account which is used to reimburse reclamation costs and indemnity claims. The balance of the commutation account at December 31, 2016 is \$2,293,874 (June 30, 2016 - \$2,350,131).

Reclamation and environmental costs are based principally on legal requirements. Management estimates costs associated with reclamation of mineral properties and properties under mine closure. On an ongoing basis the Company evaluates its estimates and assumptions; however, actual amounts could differ from those based on estimates and assumptions.

The asset retirement obligation at the Sleeper Gold Project has been measured using the following variables: 1) Expected costs for earthwork, re-vegetation, in-pit water treatment, on-going monitoring, labor and management, 2) Inflation adjustment, and 3) Market risk premium. The sum of the expected costs by year is discounted using the Company's credit adjusted risk free interest rate from the time it expects to pay the retirement obligation to the time it incurs the obligation. The reclamation and environmental obligation recorded on the balance sheet is equal to the present value of the estimated costs.

The current undiscounted estimate of the reclamation costs for existing disturbances at the Sleeper Gold Project is \$3,835,050 as required by U.S Bureau of Land Management and the Nevada Department of Environmental Protection. Assumptions used to compute the asset retirement obligations as at December 31, 2016 and June 30, 2016 for the Sleeper Gold Project included a credit adjusted risk free rate and inflation rate of 9.76% (June 30, 2016 – 9.76%) and 2.0% (June 30, 2016 – 2.0%), respectively. Expenses are expected to be incurred between the years 2017 and 2056.

PARAMOUNT GOLD NEVADA CORP.
Notes to Condensed Consolidated Interim Financial Statements — Continued

Changes to the Company's asset retirement obligations for the six month period ended December 31, 2016 and the year ended June 30, 2016 are as follows:

| | Six Month Period | June 30, 2016 |
|---|---------------------|---------------------|
| Balance at beginning of period | \$ 1,402,039 | \$ 1,294,497 |
| Accretion expense | 68,644 | 147,992 |
| Payments | (62,771) | (161,018) |
| Change in estimate of existing obligation | — | 120,568 |
| Balance at end of period | <u>\$ 1,407,912</u> | <u>\$ 1,402,039</u> |

The balance of the asset retirement obligation of \$1,407,912 (June 30, 2016 -\$1,402,039) is comprised of a current portion of \$384,099 (June 30, 2016 -\$384,099) and a non-current portion of \$1,023,813 (June 30, 2016 -\$1,017,940).

Note 10. Other Income

The Company's other income details were as follows:

| | Six Month Period 2016 | Six Month Period 2015 |
|--|--------------------------|--------------------------|
| Re-imbursment of reclamation costs | \$ 40,599 | \$ 125,222 |
| Gain on disposal of fixed assets | — | 500 |
| Leasing of water rights to third party | 5,306 | 5,202 |
| Total | <u>\$ 45,905</u> | <u>\$ 130,924</u> |

Note 11. Segmented Information:

Segmented information has been compiled based on the material mineral properties in which the Company performs exploration activities.

Expenses and mineral property carrying values by material project for the six month period ended December 31, 2016:

| | Exploration Expenses | Land Holding Costs | Mineral Properties As at December 31, 2016 |
|-------------------------|-------------------------|-----------------------|--|
| Sleeper Gold Project | \$ 342,951 | \$ 219,280 | \$ 25,674,658 |
| Grassy Mountain Project | 1,512,864 | 57,620 | 20,785,728 |
| | <u>\$ 1,855,815</u> | <u>\$ 276,900</u> | <u>\$ 46,460,386</u> |

Expenses for the six month period ended December 31, 2015 and mineral property carrying values as at June 30, 2016 by material project:

| | Exploration Expenses | Land Holding Costs | Mineral Properties As at June 30, 2016 |
|-------------------------|-------------------------|-----------------------|--|
| Sleeper Gold Project | \$ 446,171 | \$ 195,237 | \$ 25,674,658 |
| Grassy Mountain Project | — | — | — |
| | <u>\$ 446,171</u> | <u>\$ 195,237</u> | <u>\$ 25,674,658</u> |

PARAMOUNT GOLD NEVADA CORP.
Notes to Condensed Consolidated Interim Financial Statements — Continued

Note 12. Commitments and Contingencies:

Lease Commitments

During the six month period ended December 31, 2016, the Company has office premises leases that expire at various dates until June 30, 2018. The aggregate minimum rentals payable for these operating leases are as follows:

| | Year | Total Amount |
|------|------|--------------|
| 2017 | | \$ 8,722 |
| 2018 | | \$ 18,400 |

During the six month period ended December 31, 2016, \$7,951 was recognized as rent expense in the statement of operations and comprehensive loss/income.

Note 13. Subsequent Events:

On February 6, 2017, the Company entered into definitive agreements with accredited investors to issue common stock and warrants in a private transaction (the “Transaction”). Under the terms of the Transaction, Paramount has agreed to sell an aggregate of 2,090,000 units at \$1.75 per unit for aggregate proceeds of \$3,657,500. Each unit will consist of one share of common stock and one warrant to purchase one-half of a share of common stock. Each warrant will have a two-year term and will be exercisable at the following exercise prices: in the first year at \$2.00 per share or in the second year at \$2.25 per share.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Certain statements in this Quarterly Report on Form 10-Q ("Form 10-Q") constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give the Company's current expectations and forecasts of future events. All statements other than statements of current or historical fact contained in this quarterly report, including statements regarding the Company's future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. The words "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "plan," and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. These statements are based on the Company's current plans, and the Company's actual future activities and results of operations may be materially different from those set forth in the forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements made. Any or all of the forward-looking statements in this quarterly report may turn out to be inaccurate. The Company has based these forward-looking statements largely on its current expectations and projections about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs. The forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and assumptions. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Form 10-Q, and in the risk factors on Form 10-K that was filed with the U.S. Securities and Exchange Commission (SEC) on September 16, 2016. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

Overview

We are an emerging growth company engaged in the business of acquiring, exploring and developing precious metal projects in the United States of America. Paramount owns advanced stage exploration projects in the states of Nevada and Oregon. We enhance the value of our projects by implementing exploration and engineering programs that are likely to expand and upgrade known mineralized material to reserves. The following discussion updates our outlook and plan of operations for the foreseeable future. It also analyzes our financial condition and summarizes the results of our operations for the three and six months ended December 31, 2016 and compares these results to the results of the prior year three and six months ended December 31, 2015.

Operating Highlights:

As previously announced on March 14, 2016, Paramount Gold Nevada Corp. ("Paramount") and Calico Resources Corp. ("Calico") entered into an Arrangement Agreement (the "Agreement") providing for the acquisition of Calico by Paramount (the "Transaction"). On July 7, 2016, pursuant to the terms and conditions of the Agreement, Calico became a wholly-owned subsidiary of Paramount.

On July 7, 2016, Paramount and Calico completed the transaction contemplated by the Agreement, pursuant to which Calico became a wholly-owned subsidiary of Paramount. Pursuant to the Agreement, at the effective time, each issued and outstanding share of Calico common share, no par value per share, was converted into the right to receive 0.07 of a share of common stock of Paramount, par value \$0.01 per share. No cash or other compensation was paid for fractional shares. Paramount issued approximately 7.2 million shares of Paramount common stock as consideration in the transaction. Based on the closing price of Paramount common stock on July 6, 2016 as reported on the New York Stock Exchange MKT, the aggregate value of the consideration paid or payable to former holders of Calico's common shares is approximately \$15.2 million.

The requisite approval of the Plan of Arrangement by the Calico shareholders was obtained at annual and special meeting of the Calico shareholders held on June 29, 2016. On July 5, 2016, a final order (the "Final Order") was entered by the Supreme Court of British Columbia (the "Court") in connection with the Plan of Arrangement (Vancouver Registry No. S-105075).

In November, 2016, Paramount received approval from the Oregon Department of Geology and Mineral Industries ("DOGAMI") under Division 37 guidelines to commence its 29 hole drill program at its 100%-owned Grassy Mountain Gold Project in Eastern Oregon. The drill program is a key component of its Pre-Feasibility Study ("PFS") that the Company began in August. Drilling was commenced in late November and is expected to be completed in the Company's third quarter. Paramount has reported some of the results of the drill program in the subsequent quarter and final results are expected during the Company's third and fourth quarters.

Outlook and Plan of Operation:

We believe that investors will gain a better understanding of our company if they understand how we measure and talk about our results. As a non-producing company, we do not generate cash flow from our operations, we recognized the importance managing our liquidity and capital resources. We pay close attention to non-discretionary cash expenses and look for ways to minimize them when

possible. We ensure we have sufficient cash on hand to meet our annual land holding costs as the maintenance of mining claims and leases are essential to preserve the value of our mineral property assets.

For the fiscal year ending June 30, 2017, we have undertaken or intend to undertake the following:

Sleeper Gold Project:

The Company is expected to focus its efforts on its reclamation and claim management activities. For these activities, the Company has budgeted approximately \$690,000.

Grassy Mountain Project:

The Company commenced a NI 43-101 Pre-Feasibility Study (“PFS”) in late August 2016. The PFS will consist of detailed analysis of all the key parameters involved in constructing and operating a mine including projected capital and operating costs, production levels and expected returns under different scenarios. To complete the PFS, the Company has selected and engaged several consulting firms which will be responsible to provide the key data and analysis for their respective area of mining expertise.

In the Company’s second quarter, a drill program of approximately 15,000-20,000 feet will commence to achieve the following objectives for the PFS:

- Expand, better define and increase the confidence level in the inventory of high-grade underground mineralized material;
- Acquire material for PFS-level metallurgical testing and subsequent design of the recovery process; and
- Obtain geotechnical data on rock quality for underground mine design and mining methodology.

Paramount plans to provide the Federal Bureau of Land Management (“BLM”) with the mine Plan of Operation, including the location of infrastructure and mine facilities within both the privately and federally owned land, in 2017. Furthermore, the Company will initiate an Environmental Impact Statement (“EIS”) and commence the permitting process in 2017.

The Company has budgeted approximately \$4.5 million for these activities for the fiscal year ending June 30, 2017.

Comparison of Operating Results for the three and six months ended December 31, 2016 and 2015

Results of Operations

We did not earn any revenue from mining operations for the three and six months ended December 31, 2016 and 2015. During the six month period, we completed the acquisition of Calico and began the PFS. During the three month period, we completed 4 holes of a 29 hole drill program at our Grassy Mountain Project. Other normal course of business activities included filing annual mining claim fees with the BLM, reclamation work at the Sleeper mine site and on-going reviews of its mining claims were completed.

Net Income/Loss

Our net loss for the three months ended December 31, 2016 was \$1,824,892 compared to a net loss of \$734,967 in the previous year. The loss in the period was due to the operating expenses incurred as described below.

Our net gain for the six months ended December 31, 2016 was \$128,604 compared to a net loss of \$1,536,960 in the previous year. The gain in the period was due to the deferred tax recovery related to the acquisition of Calico of \$3,215,418 which was offset by operating expenses of \$3,178,293 as described below.

The Company expects to incur losses for the foreseeable future as we continue with our planned exploration programs.

Expenses

Exploration and Land Holding Costs

For the three months ended December 31, 2016, exploration expenses were \$1,318,444 compared to \$171,296 in the prior year. This represents an increase of 670% or by \$1,147,148. During the three month period the Company commenced a 29 hole drill program at its Grassy Mountain Project in Oregon where it incurred \$1,072,124 in expenses.

For the three months ended December 31, 2016, land holding costs increased by 20% or by \$20,697 to \$122,288 from the prior year. The increase was attributed to the annual mining claim and lease fees associated with the Grassy Mountain Project acquired in July 2016.

For the six months ended December 31, 2016, exploration expenses were \$1,855,815 compared to \$446,171 in the prior year. This represents an increase of \$1,409,644 or by 316%. During the six month period the Company commenced a PFS and drill program at its Grassy Mountain Project where it incurred \$1,512,864 in exploration expenses.

For the six months ended December 31, 2016, land holding costs increased by 42% or by \$81,663 to \$276,900 from the prior year. The increase was attributed to the annual mining claim and lease fees associated with the Grassy Mountain Project acquired in the period.

Human Capital

For the three months ended December 31, 2016, salary and benefits decreased by 24% or by \$53,344 to \$173,331 from the prior year's three months ended December 31, 2015. Salary and benefits is comprised of cash and stock based compensation of the Company's executive and corporate administration teams. The decrease reflects salary increases to the Company's salaried employees offset by decreases in stock based compensation from the comparable prior year period. Included in the salary and benefits expense amount for the three months ended December 31, 2016 and 2015 was a non-cash stock based compensation of \$30,431 and \$93,978, respectively.

For the six months ended December 31, 2016, salary and benefits increased by 1% or by \$3,208 to \$438,174 from the prior year's six months ended December 31, 2015. Increases in salaries in the current six month period were offset by decreases in stock based compensation to the comparable prior year period. Included in the salary and benefits expense amount for the six months ended December 31, 2016 and 2015 was a non-cash stock based compensation of \$60,862 and \$186,077, respectively.

Professional Fees and General and Administration

For the three month period ended December 31, 2016, professional fees were \$51,869 compared to \$108,581 in the prior year's comparable period. This represents a decrease of 52% or \$56,712.

For the six month period ended December 31, 2016, professional fees were \$99,860 compared to \$150,286 in the prior year's comparable period. The represents a decrease of 34% or \$50,426.

During the comparable prior year three and six month periods, the Company was incurring additional professional fee expenses as a result of its acquisition of Calico.

For the three month period ended December 31, 2016, general and administration expenses increase by 15% to \$126,060 from \$109,738 in the prior year comparable period. The increase reflects additional general and administration expenses assumed with the acquisition of Calico, increased compliance costs and increased travel and marketing expenses from the prior year comparable period.

For the six month period ended December 30, 2016, general and administration expenses increased by 60% to \$268,115 from \$167,954 in the prior year comparable period. The increase reflects additional general and administration expenses assumed with the acquisition of Calico, increased compliance costs and increased travel and marketing expenses from the prior year comparable period.

Liquidity and Capital Resources

As a non-revenue generating company, Paramount funds its operations, reclamation activities and discretionary exploration programs with its cash on hand. At December 31, 2016, we had cash and cash equivalents of \$1,813,694 compared to \$5,874,258 as at June 30, 2016. This decrease of \$4,060,564 was comprised mainly of the following material amounts:

- Cash used to fund our operations which included general and administration expenses, land holding costs, exploration programs and reclamation activities of \$3,060,777;
- Transaction expenses, payment of acquired accounts payable and integration costs related to the acquisition of Calico of \$1,001,623.

At December 31, 2016, we had net working capital of \$1,614,873. As previously reported on Form 10-K filed with the SEC on September 16, 2016, we anticipate our twelve month cash expenditures for our fiscal year ending June 30, 2017 to be as follows:

Non-Discretionary cash-budget

- \$1,750,000 on corporate administration expenses (expenses include executive management and employee salaries, legal, audit, marketing and other general and administrative expenses)
- \$690,000 on the Sleeper Gold Project (expenses include reclamation costs, employee salary and benefits, and land holding costs)
- \$570,000 on the Grassy Mountain Project (expenses include consulting fees, land holding costs and general and administration expenses)

Discretionary cash-budget

- \$4,500,000 on the Grassy Mountain Project to complete a PFS and commence mine permitting (expenses include exploration and geo technical drilling, mineralized material modelling, economic analysis, mine planning, mine design, mine permitting, environmental impact statement preparation, metallurgical testing, process design and hydrology model design)

Our anticipated non-discretionary cash-budget will be funded by our cash on hand. In order for us to complete our anticipated discretionary cash-budget, the company will require further capital resources. Historically, we and other similar exploration and development public companies have accessed capital through equity financing arrangements. If, however we are unable to obtain additional capital or financing, our exploration and development activities will be significantly adversely affected.

Critical Accounting Policies

Management considers the following policies to be most critical in understanding the judgments that are involved in preparing the Company's consolidated financial statements and the uncertainties that could impact the results of operations, financial condition and cash flows. Our financial statements are affected by the accounting policies used and the estimates and assumptions made by management during their preparation. Management believes the Company's critical accounting policies are those related to mineral property acquisition costs, exploration and development cost, stock based compensation, derivative accounting and foreign currency translation.

Estimate

The Company prepares its consolidated financial statements and notes in conformity to United States Generally Accepted Accounting Principles ("U.S. GAAP") and requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, management evaluates these estimates, including those related to allowances for doubtful accounts receivable and long-lived assets. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Mineral property acquisition costs

The Company capitalizes the cost of acquiring mineral properties and will amortize these costs over the useful life of a property following the commencement of production or expense these costs if it is determined that the mineral property has no future economic value or the properties are sold or abandoned. Costs include cash consideration and the fair market value of shares issued on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts of the specific mineral property at the time the payments are made.

The amounts recorded as mineral properties reflect actual costs incurred to acquire the properties and do not indicate any present or future value of economically recoverable reserves.

Exploration expenses

We record exploration expenses as incurred. When we determine that precious metal resource deposit can be economically and legally extracted or produced based on established proven and probable reserves, further exploration expenses related to such reserves

incurred after such a determination will be capitalized. To date, we have not established any proven or probable reserves and will continue to expense exploration expenses as incurred.

Stock Based Compensation

For stock option grants with market conditions that affect vesting, the Company uses a lattice approach incorporating a Monte Carlo simulation to value stock option granted.

For stock option grants that have no market conditions that affect vesting, the Company uses the Black-Scholes option valuation model to value stock options granted. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. For purposes of the calculation, the following assumptions were used for the fiscal years ended June 30, 2016 and 2015:

| | 2016 | 2015 |
|--------------------------------------|------|-------|
| WA Risk free interest rate | n/a | 0.98% |
| WA Expected dividend yield | n/a | 0% |
| WA Expected stock price volatility | n/a | 108% |
| WA Expected life of options in years | n/a | 3.75 |

Reclassification

Certain comparative figures have been reclassified to conform to the current year-end presentation.

Off-Balance Sheet Arrangements

We are not currently a party to, or otherwise involved with, any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Rate Risk

The Company holds cash balances in both U.S. and Canadian dollars. We transact most of our business in US dollars. We do not manage our foreign currency exchange rate risk through the use of financial or derivative instruments, forward contracts or hedging activities.

In general, the strengthening of the U.S. dollar will positively impact our expenses transacted in Canadian dollars. Conversely, any weakening of the U.S. dollar will increase our expenses transacted in Canadian dollars. We do not believe that any weakening of the U.S. dollar as compared to the Canadian dollar will have an adverse material effect on our operations.

Interest Rate Risk

The Company's investment policy for its cash and cash equivalents is focused on the preservation of capital and supporting the liquidity requirements of the Company. The Company's interest earned on its cash balances is impacted on the fluctuations of U.S. interest rates. We do not use interest rate derivative instruments to manage exposure to interest rate changes. We do not believe that interest rate fluctuations will have any material effect on our operations.

Item 4. Controls and Procedures.

a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) and determined that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. The evaluation considered the procedures designed to ensure that the information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods

specified in the SEC's rules and forms and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

(b) **Changes in Internal Control over Financial Reporting**

During the period covered by this Quarterly Report on Form 10-Q, there was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(d) and 13d-15(d) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(c) **Inherent Limitations of Disclosure Controls and Internal Controls over Financial Reporting**

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Projections of any evaluation or effectiveness to future periods are subject to risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II – OTHER INFORMATION

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for year ended June 30, 2016.

Item 4. Mine Safety Disclosures.

Not applicable.

PART IV

Item 6. Exhibits.

- (a) Index to Exhibits

| Exhibit Number | Description |
|---------------------------|---|
| 31.1* | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema Document |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith.

Exhibit Index

| Exhibit Number | Description |
|----------------|---|
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| 32.1* | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
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| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith.