
PROSPER GOLD CORP.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2016 and 2015
(EXPRESSED IN CANADIAN DOLLARS)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF PROSPER GOLD CORP.

We have audited the accompanying financial statements of Prosper Gold Corp., which comprise the statements of financial position as at October 31, 2016 and 2015 and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Prosper Gold Corp. as at October 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

Chartered Professional Accountants

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January 23, 2017

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PROSPER GOLD CORP.

Statements of Financial Position (Expressed in Canadian Dollars)

| | Note | October 31, 2016 | October 31, 2015 |
|--|------|---------------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | \$ 1,280,910 | \$ 317,479 |
| Amounts receivable | | 73,782 | 8,341 |
| Prepaid expenses and deposit | 11 | 207,331 | 53,439 |
| | | 1,562,023 | 379,259 |
| Non-current assets | | | |
| Reclamation deposit | 6 | 190,000 | 190,000 |
| Equipment | 7 | 35,919 | 7,953 |
| Mineral properties | 8 | 690,516 | 444,152 |
| | | \$ 2,478,458 | \$ 1,021,364 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 12 | \$ 317,860 | \$ 19,400 |
| | | 317,860 | 19,400 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 9 | 10,286,049 | 7,419,949 |
| Reserves | | 1,130,885 | 937,746 |
| Deficit | | (9,256,336) | (7,355,731) |
| | | 2,160,598 | 1,001,964 |
| | | \$ 2,478,458 | \$ 1,021,364 |

These financial statements were approved by the Board of Directors and authorized for issue on January 23, 2017. They are signed on behalf of the Board of Directors by:

/s/ "Peter Bernier"

Peter Bernier
Director

/s/ "Sharon Lee"

Sharon Lee
Director

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

PROSPER GOLD CORP.
Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

| | Note | Years ended | |
|---|-----------|---------------------|-------------------|
| | | October 31, 2016 | October 31, 2015 |
| Expenses | | | |
| Exploration expenditures (recovery) | 8, 12 | \$ 1,265,895 | \$ (368,445) |
| General and administrative | 12 | 328,490 | 209,658 |
| Management salaries and fees | 12 | 141,660 | 58,929 |
| Professional fees | | 17,055 | 21,819 |
| Share-based payments | 10(b), 12 | 126,024 | 229,045 |
| Transfer agent, listing and filing fees | | 18,429 | 22,536 |
| | | 1,897,553 | 173,542 |
| Other income and loss | | | |
| Interest income | | (1,035) | (2,522) |
| Loss on disposal of equipment | | 4,087 | - |
| Net loss and comprehensive loss for year | | \$ 1,900,605 | \$ 171,020 |
| Loss per share | | | |
| Basic and diluted | 14 | \$ 0.053 | \$ 0.005 |

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

PROSPER GOLD CORP.

Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars)

| | Number of Shares | Share Capital | Reserves | | Total | Deficit | Total |
|---|---------------------|---------------------|-------------------|------------------|-------------------|-----------------------|---------------------|
| | | | Options | Other | | | |
| Balance at October 31, 2014 | 31,061,042 | \$ 7,395,949 | \$ 625,838 | \$ 99,613 | \$ 725,451 | \$ (7,201,461) | \$ 919,939 |
| Shares issued in connection to option agreement with Firesteel (note 8) | 200,000 | 24,000 | - | - | - | - | 24,000 |
| Share-based payments (note 10(b)) | - | - | 229,045 | - | 229,045 | - | 229,045 |
| Share options expired (note 10(b)) | - | - | (16,750) | - | (16,750) | 16,750 | - |
| Net loss | - | - | - | - | - | (171,020) | (171,020) |
| Balance at October 31, 2015 | 31,261,042 | \$ 7,419,949 | \$ 838,133 | \$ 99,613 | \$ 937,746 | \$ (7,355,731) | \$ 1,001,964 |

| | Number of Shares | Share Capital | Reserves | | Total | Deficit | Total |
|---|---------------------|---------------------|-------------------|-------------------|---------------------|-----------------------|---------------------|
| | | | Options | Other | | | |
| Balance at October 31, 2015 | 31,261,042 | \$ 7,419,949 | \$ 838,133 | \$ 99,613 | \$ 937,746 | \$ (7,355,731) | \$ 1,001,964 |
| Shares issued in connection to option agreements (note 8) | 450,000 | 96,000 | - | - | - | - | 96,000 |
| Units issued for private placements | 7,588,850 | 1,551,655 | - | - | - | - | 1,551,655 |
| Flow-through units issued for private placement | 4,840,000 | 1,452,000 | - | - | - | - | 1,452,000 |
| Shares issued on exercise of warrants | 10,000 | 2,500 | - | - | - | - | 2,500 |
| Share issue costs | - | (236,055) | - | 67,115 | 67,115 | - | (168,940) |
| Share-based payments (note 10(b)) | - | - | 126,024 | - | 126,024 | - | 126,024 |
| Net loss | - | - | - | - | - | (1,900,605) | (1,900,605) |
| Balance at October 31, 2016 | 44,149,892 | \$10,286,049 | \$ 964,157 | \$ 166,728 | \$ 1,130,885 | \$ (9,256,336) | \$ 2,160,598 |

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

PROSPER GOLD CORP.

Statements of Cash Flows

(Expressed in Canadian Dollars)

| | Years ended | |
|--|---------------------|-------------------|
| | October 31, 2016 | October 31, 2015 |
| Cash provided by (used in): | | |
| Operating activities | | |
| Net loss | \$ (1,900,605) | \$ (171,020) |
| Adjustments for items not involving cash | | |
| Amortization | 7,398 | 3,011 |
| Loss on disposal of equipment | 4,087 | - |
| Reversal of accrued management fee | - | (20,833) |
| Share-based payments | 126,024 | 229,045 |
| Net change in non-cash working capital | | |
| Amounts receivable | (65,441) | 43,510 |
| Prepaid expenses and deposit | (153,892) | 52,604 |
| Accounts payable and accrued liabilities | 298,460 | (107,992) |
| | (1,683,969) | 28,325 |
| Investing activities | | |
| Acquisition of equipment | (39,451) | (6,709) |
| Acquisition of mineral property | (150,364) | (200,000) |
| | (189,815) | (206,709) |
| Financing activities | | |
| Issuance of units and flow-through units in connection with private placements, net of share issue costs | 2,834,715 | - |
| Issuance of shares from exercise of warrants | 2,500 | - |
| | 2,837,215 | - |
| Increase (decrease) in cash | 963,431 | (178,384) |
| Cash, beginning of year | 317,479 | 495,863 |
| Cash, end of year | \$ 1,280,910 | \$ 317,479 |
| Supplemental cash flow information | | |
| Common shares issued in connection with property option agreements (note 8) | \$ 96,000 | \$ 24,000 |
| Fair value of warrants issued for finders' fees for private placements (note 9) | \$ 67,115 | \$ - |

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

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

1. Nature of operations and going concern

Prosper Gold Corp. ("Prosper" or the "Company") was incorporated under the *Business Corporations Act* (Ontario) on October 11, 2007, continued into British Columbia under the *Business Corporations Act* (British Columbia) and changed its name from Lander Energy Corporation on April 26, 2012. The registered office of the Company is located at 468 B Reid Street, Quesnel, British Columbia, V2J 2M6. Effective September 3, 2013, the Company's common shares were listed on the TSX Venture Exchange (the "Exchange"), trading under the symbol "PGX" upon completion of its Qualifying Transaction on August 30, 2013. Prior to September 3, 2013, the Company was classified as a capital pool company ("CPC") as defined under Policy 2.4 of the Exchange, and trading on the NEX board of the Exchange under the symbol "PGX-H".

The principal business activity of the Company is the acquisition, exploration and development of mineral properties. These financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and settle its liabilities in the normal course of business. The Company has not yet generated any revenues, has incurred losses and negative cash flows from operations since inception and has a deficit of \$9,256,336 as at October 31, 2016 (2015 - \$7,355,731). At October 31, 2016, the Company had cash of \$1,280,910 (2015 - \$317,479) and working capital of \$1,244,163 (2015 - \$359,859). The ability of the Company to continue as a going concern over a longer term is dependent on the Company's ability to complete financing to meet administrative overhead and to complete the exploration and development of its mineral property interest, or attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interest. However, there is no guarantee that the Company will establish economically recoverable reserves, profitable operations or positive cash flows from operations. The Company will continue to raise funding through equity financing to continue operations and has been successful to date, but there can be no assurance that adequate financing will be available in the future, or available on terms acceptable to the Company, and therefore, a material uncertainty exists that casts significant doubt over the Company's ability to continue as a going concern.

These financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

(b) Basis of presentation

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

(c) Presentation and functional currency

The presentation and functional currency of the Company is the Canadian dollar. All amounts in these financial statements are expressed in Canadian dollars, unless otherwise indicated.

(d) Critical accounting judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make certain critical accounting estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures. Actual results could differ from these judgments and estimates. Estimates and underlying assumptions are reviewed on an ongoing basis based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The impacts of changes to estimates are recognized in the period estimates are revised and in future periods affected. The critical judgment and assumptions applied in the preparation of these financial statements and other major sources of measurement uncertainty are discussed in note 4.

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are as follows:

(a) Financial instruments

Financial assets and financial liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provision of the financial instrument. On initial recognition, all financial assets and financial liabilities are recorded at fair value, net of transaction costs, except for financial assets and liabilities classified as fair value through profit or loss ("FVTPL"). The directly attributable transaction costs of financial assets and liabilities classified at FVTPL are expensed in the period in which they are incurred.

Subsequent measurement of financial assets and liabilities depends on the classifications of such assets and liabilities as set out below.

Financial assets

The Company classifies its financial assets into one of the following categories:

FVTPL – Financial assets are classified as FVTPL when: (i) they are acquired or incurred principally for short-term profit taking and/or meet the definition of a derivative; or (ii) they meet the criteria for being designated as FVTPL and have been designated as such on initial recognition. Financial assets classified as FVTPL are measured at fair value with changes in fair value recognized in profit or loss.

Loans and receivables – Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Financial assets classified as loans and receivables are measured at amortized cost. The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or amounts not collectible. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the effective interest income or interest expense over the term of the financial asset or financial liability, respectively.

Held-to-maturity – Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity are classified as held-to-maturity. Financial assets classified as held-to-maturity are measured at amortized cost using the effective interest method.

Available-for-sale – Non-derivative financial assets that are not classified as one of the above categories are classified as available-for-sale. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive income.

Impairment of financial assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired.

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative losses that have been previously recognized in other comprehensive income (loss) are reclassified to net income (loss) for the period. Impairment losses previously recognized for available-for-sale investments in equity securities are not subsequently reversed in profit or loss when the fair values of the investments increase.

When there is objective evidence that an impairment loss on a financial asset measured at amortized cost has been incurred, an impairment loss is recognized in net income (loss) for the period measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate at initial recognition. Individually significant loans and receivables are considered for impairment when they are past due or when there is objective evidence that a specific counterparty will default. Objective evidence of impairment of held-to-maturity financial assets is determined by reference to external credit ratings and other relevant indicators.

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(a) Financial instruments (continued)

Financial liabilities

The Company classifies its financial liabilities into one of the following two categories:

FVTPL – Financial liabilities are classified at FVTPL when: (i) they are acquired or incurred principally for short-term profit taking and/or meet the definition of a derivative; or (ii) they meet the criteria for being designated at FVTPL and have been designated as such on initial recognition. Financial liabilities classified at FVTPL are measured at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities – Financial liabilities other than those classified at FVTPL are classified as other financial liabilities. Other financial liabilities are measured at amortized cost using the effective interest method.

(b) Equipment

Equipment is recorded at cost less accumulated amortization and impairment charges. Amortization is recorded using the declining-balance method at a rate of 55% for computer equipment, 20% for office furniture and field equipment and 30% for vehicle. Additions during the year are amortized at one-half the applicable rate. Management reviews the estimated useful life and amortization method on an annual basis. Changes to the useful life or amortization method resulting from such review are accounted for prospectively.

(c) Mineral property

The costs of exploration and evaluation assets acquired through a business combination or an asset acquisition are capitalized, as are costs to acquire rights to a mineral property, including land and surface rights. Acquisition costs include cash consideration and the fair value of common shares and other equity instruments issued as consideration.

Mineral property is recorded at cost, less accumulated depletion and depreciation, and impairment losses. Capitalized acquisition costs are depleted when commercial production begins using the unit-of-production method. Capitalized acquisition costs are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverability of the carrying amount of mineral property is dependent on successful development and commercial exploitation or, alternatively, the sale of the respective areas of interest. When there is little prospect of further work on a property being carried out by the Company or its partners, when a property is abandoned or when the capitalized costs are no longer considered recoverable, the amounts capitalized are written down to management's estimate of the net recoverable amount.

Although the Company has taken steps to verify title to the mineral property in which it has an interest, these procedures do not guarantee the Company's title.

(d) Exploration and evaluation expenditures

Exploration and evaluation expenditures, other than for exploration and evaluation assets acquired through a business combination or an asset acquisition, or for the acquisition of land and surface rights, are expensed as incurred. The exploration and evaluation expenditures incurred prior to the Company obtaining the legal rights to explore an area of interest are recorded as property investigation, and expenditures from the date legal rights are obtained and approved by the Exchange are recorded as exploration expenditures.

(e) Impairment of non-financial assets

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash inflows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit, the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, to which the asset belongs.

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(e) Impairment of non-financial assets (continued)

An asset or cash-generating unit's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or group of assets is reduced to its recoverable amount and an impairment loss is recognized in profit or loss. The allocation of an impairment loss for a group of assets is based on the relative carrying amounts of those assets at the date of impairment.

Where an impairment loss subsequently reverses, the carrying amount of the asset or group of assets is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or group of assets in prior years. A reversal of an impairment loss is recognized in profit or loss in the period the reversal occurs.

(f) Decommissioning provision

An obligation to incur future reclamation, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs, discounted to their net present value, are provided for and recorded as a liability with a corresponding amount capitalized and included in the carrying amount of the asset, when the obligation to incur such costs arises. A pre-tax discount rate that reflects the time value of money is used to calculate the net present value. The capitalized costs are charged to profit or loss over the economic life of the related asset, using either the unit-of-production or the straight-line method, depending on the nature of the related asset. The liability is adjusted at the end of each reporting period for the unwinding of the discount rate, and for changes to the current market-based discount rate and amount or timing of the underlying cash flows needed to settle the obligation. The unwinding of the discount is recorded as accretion expense and included in finance cost. Changes to the liability amount resulting from changes to the estimated future cash flows required to settle the obligation are also capitalized and included in the carrying amount of the related asset.

(g) Share capital

Common shares

Common shares issued are classified as equity. Transaction costs directly attributable to the issuance of common shares and other equity instruments of the Company are recognized as a deduction from share capital or other equity.

Equity units

The proceeds received on the issuance of units, comprised of common shares and warrants, are allocated using the residual value method. Under the residual value method, proceeds are allocated first to share capital up to the fair value of the common shares at the time of issuance, determined by reference to the quoted market price of the common shares on the issuance date, with the residual amount of proceeds, if any, allocated to the reserve for warrants.

Flow-through shares

The issuance of flow-through shares represents an issue of common shares and the sale of rights to tax deductions to the investors when the flow-through shares are issued. The sale of rights to tax deductions is deferred and presented as a liability in the statement of financial position. The proceeds received from flow-through shares are allocated between share capital, warrants, if any, and other liability using the residual method. Under the residual method, the proceeds are allocated first to share capital up to the fair value of the common shares at the time of issuance, determined by reference to the quoted market price of the common shares on the issuance date, with the residual amount of proceeds, if any, allocated to warrants and then to other liability.

The Company fulfils its obligation to the investors when it renounces the right to the tax deductions and the eligible expenditures are incurred. Upon fulfilment of the Company's obligation, the amount initially recognized as a liability is extinguished and recognized in profit or loss.

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(h) Share options and warrants

All share options and warrants are included in reserves, a component of equity, until exercised. Upon exercise, the consideration received plus the amounts in reserves attributable to the options and/or warrants being exercised are credited to share capital. When share options and warrants expire unexercised or are cancelled, other than cancellations resulting from forfeitures when vesting conditions are not satisfied, the amounts recognized in reserves are reclassified to deficit.

(i) Share-based payments

Share-based payment arrangements whereby the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

The fair value of options granted to employees, officers, directors and consultants providing similar services that are expected to eventually vest is recognized as share-based payment over the vesting period with a corresponding increase in reserves. The fair value is estimated using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted and using market related inputs as of the grant date. Each tranche of options granted with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of options that will eventually vest are accounted for prospectively at the end of each reporting date.

Equity instruments issued as consideration for the purchase of non-monetary assets are measured based on the quoted market price of the common shares on the date the shares are issued.

(j) Income taxes

Income tax on profit or loss comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on taxable income for the period.

Deferred tax is provided for using the asset and liability method of accounting, whereby deferred tax assets and liabilities are recognized for the future tax effects of differences between the carrying amounts of assets and liabilities in the statement of financial position and the tax bases of the assets and liabilities (temporary differences), unused tax losses and other income tax deductions. Temporary differences on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss are not provided for. Deferred tax assets and liabilities are measured based on the expected manner of realization or settlement of the carrying amounts of the related assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets are recognized for deductible temporary differences, unused tax losses and other income tax deductions only to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences, unused tax losses and other income tax deductions can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(k) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Shares subject to escrow restrictions are excluded from the weighted average number of shares when their release is subject to other than the passage of time.

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

4. Critical judgments in applying accounting policies and key sources of estimation uncertainty

Critical judgments

The Company has made the following critical judgments, apart from those involving estimations, in the process of applying its accounting policies that have the most significant effect on the amounts recognized in the financial statements:

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. See note 1 for more information.

Impairment of mineral properties

The Company's mineral property represents acquisition costs relating to the Company's mineral properties. At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset, which is the greater of the asset's value in use and fair value, less costs to sell. The Company considers both external and internal sources of information in assessing whether there are any indications that the Company's mineral properties are impaired. For the year ended October 31, 2016, management determined that there was no indication of impairment of the Company's mineral properties.

Key sources of estimation uncertainty

The key assumptions management has made about the future and other major sources of estimation uncertainty at the date of the statement of financial position that may have significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Provision for decommissioning

An obligation to incur future reclamation, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. As at October 31, 2016 and 2015, management has determined that the Company has no material obligation for decommissioning.

Income taxes

The Company recognizes deferred tax assets for deductible temporary differences, unused tax losses and other income tax deductions only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and other income tax deductions can be utilized. In assessing the probability of realizing the income tax benefits of deductible temporary differences, unused tax losses and other income tax deductions, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence.

As at October 31, 2016 and 2015, the Company has unused tax losses and other income tax deductions for which it has not recognized any deferred tax assets. Changes in any of the above-mentioned estimates can materially affect the amount of income tax assets recognized. In addition, where applicable tax laws and regulations are either unclear or subject to varying interpretations, changes in these estimates can occur that materially affect the amounts of income tax assets recognized. The Company reassesses unrecognized income tax assets at the end of each reporting period.

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

4. Critical judgments in applying accounting policies and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Share-based payments

Assumptions are used in determining share-based payments. The fair value of stock options and warrants are subject to the limitation of the Black-Scholes option pricing model that requires market data and estimates used by the Company in the assumptions. These inputs are subjective assumptions and changes in these inputs can materially affect the fair value estimated.

5. Accounting standards

Accounting standards not yet effective

IFRS 9 Financial Instruments

Issued by IASB

July 2014

Effective for annual periods beginning on or after

November 1, 2018

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9. However, for annual periods beginning before January 1, 2018, an entity may elect to apply those earlier versions instead of applying the final version of this new standard if its initial application date is before February 1, 2015.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*
Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- *Classification and measurement of financial liabilities:*
When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- *Impairment of financial assets:*
An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- *Hedge accounting:*
Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The Company is currently assessing the impact of the application of IFRS 9 on the Company's financial statements.

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

5. Accounting standards (continued)

Accounting standards not yet effective (continued)

IFRS 16 Leases

Issued by IASB

January 2016

Effective for annual periods beginning on or after

November 1, 2019

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers*.

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Company is currently assessing the impact of the application of IFRS 16 on the Company's financial statements.

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

Issued by IASB

January 2016

Effective for annual periods beginning on or after

January 1, 2017

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The Company is currently assessing the impact of the amendments to IAS 7 on the Company's financial statements.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12 *Income Taxes*)

Issued by IASB

January 2016

Effective for annual periods beginning on or after

January 1, 2017

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The Company is currently assessing the impact of the amendments to IAS 12 on the Company's financial statements.

PROSPER GOLD CORP.

Notes to the Financial Statements

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(Expressed in Canadian Dollars)

6. Reclamation deposit

The Company was required to post a security deposit of \$190,000 in favor of the British Columbia Ministry of Energy and Mines prior to commencement of surface work at the Star project. A security deposit for this amount was posted with a Canadian financial institution and bears interest at 0.5%.

7. Equipment

| | Computer Equipment | Office Furniture | Field Equipment | Vehicle | Total |
|-------------------------------------|-----------------------|---------------------|--------------------|------------------|------------------|
| Cost | | | | | |
| As at October 31, 2014 | \$ 5,869 | \$ - | \$ - | \$ - | \$ 5,869 |
| Additions | - | 6,709 | - | - | 6,709 |
| As at October 31, 2015 | 5,869 | 6,709 | - | - | 12,578 |
| Additions | 5,201 | - | 20,546 | 13,704 | 39,451 |
| Disposals | (1,420) | (4,473) | - | - | (5,893) |
| As at October 31, 2016 | \$ 9,650 | \$ 2,236 | \$ 20,546 | \$ 13,704 | \$ 46,136 |
| Accumulated Amortization | | | | | |
| As at October 31, 2014 | \$ 1,614 | \$ - | \$ - | \$ - | \$ 1,614 |
| Amortization | 2,340 | 671 | - | - | 3,011 |
| As at October 31, 2015 | 3,954 | 671 | - | - | 4,625 |
| Amortization | 2,483 | 805 | 2,054 | 2,056 | 7,398 |
| Disposal | (956) | (850) | - | - | (1,806) |
| As at October 31, 2016 | \$ 5,481 | \$ 626 | \$ 2,054 | \$ 2,056 | \$ 10,217 |
| Carrying value | | | | | |
| As at October 31, 2015 | \$ 1,915 | \$ 6,038 | \$ - | \$ - | \$ 7,953 |
| As at October 31, 2016 | \$ 4,169 | \$ 1,610 | \$ 18,492 | \$ 11,648 | \$ 35,919 |

8. Mineral properties

The Company capitalizes costs of mineral property option payments for cash and share issuances and the related transaction costs for the Ashley Gold Project in Ontario and the Star Property in British Columbia.

| Costs | Ashley Gold Project | | | | | Star | Total |
|----------------------------------|---------------------|------------------|------------------|------------------|-------------------|-------------------|-------|
| | Ashley | Matachewan | Wydee | Galahad | | | |
| Balance, October 31, 2014 | \$ - | \$ - | \$ - | \$ - | \$ 220,152 | \$ 220,152 | |
| Option payment | - | - | - | - | 200,000 | 200,000 | |
| Share issuance | - | - | - | - | 24,000 | 24,000 | |
| Balance, October 31, 2015 | - | - | - | - | 444,152 | 444,152 | |
| Option payments | 60,000 | - | - | 50,000 | - | 110,000 | |
| Share issuances | 40,000 | 15,000 | 15,000 | 26,000 | - | 96,000 | |
| Transaction costs | 16,513 | 7,211 | 7,560 | 7,517 | 1,563 | 40,364 | |
| Balance, October 31, 2016 | \$ 116,513 | \$ 22,211 | \$ 22,560 | \$ 83,517 | \$ 445,715 | \$ 690,516 | |

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

8. Mineral properties (continued)

(a) Ashley Gold Project, Ontario, Canada

The Company entered into three definitive agreements consisting of the options to earn a 100% interest to acquire the Ashley Gold Mine, a 90% interest in the extensive land position surrounding the Ashley Gold Mine and Young Davidson Mine Area in the Cadillac Larder Lake Fault Area and to acquire mineral claims surrounding the Ashley Gold Mine.

On February 22, 2016 ("Ashley Effective Date"), the Company entered into a definitive agreement (the "Ashley Option Agreement") with four arm's length individuals (collectively, the "Optionors"), whereby the Optionors have granted the Company the option to acquire a 100% interest in the Ashley Gold Mine and surrounding claims in central Ontario (the "Ashley Property"). The Ashley Option Agreement requires for the Company to make cash payments totaling \$700,000, the issuance of 1,700,000 Prosper shares and work expenditures totaling \$250,000 over three years in order for the Company to earn a 100% interest in the Ashley Property as follows:

- (i) Issue an aggregate 200,000 shares and pay an aggregate of \$30,000 on or before five business days of the approval of the Exchange (issued and paid) (note 9(c));
- (ii) Pay an aggregate \$30,000 on or before six months of the Ashley Effective Date (paid on August 5, 2016);
- (iii) Issue an aggregate 200,000 shares, make aggregate payments of \$80,000 and incur \$50,000 of exploration expenditures on or before 12 months of the Ashley Effective Date;
- (iv) Issue an aggregate 300,000 shares, make aggregate payments of \$120,000 and incur expenditures of \$100,000 on or before 24 months of the Ashley Effective Date; and
- (v) Issue an aggregate 1,000,000 shares, make aggregate payments of \$440,000 and incur expenditures of \$100,000 on or before 36 months of the Ashley Effective Date.

The option agreement is subject to a 3% net smelter returns royalty ("NSR"), 2% of which can be purchased by the Company upon payment of \$2,500,000 to the Optionors.

On February 25, 2016 ("Alexandria Effective Date"), the Company entered into a definitive agreement (the "Alexandria Option Agreement") with Alexandria Minerals Corporation ("Alexandria"), whereby Alexandria has granted the Company the option to acquire a 90% interest in the Wydee and Matachewan claims in central Ontario (collectively, the "Alexandria Properties"). The Alexandria Option Agreement requires the Company to issue 750,000 Prosper shares and for work expenditures totaling \$5,000,000 over five years in order for the Company to earn a 75% interest ("First Alexandria Option") in both the Wydee and Matachewan claims as follows:

- (i) Issue 150,000 shares (75,000 shares for Wydee and 75,000 shares for Matachewan) on or before five business days after the receipt of the required approval of the Exchange of the agreement (issued) (note 9(c));
- (ii) Incur \$120,000 (\$60,000 for Wydee and \$60,000 for Matachewan) in expenditures, including airborne survey on the property on or before six months after the Alexandria Effective Date (incurred);
- (iii) Issue 150,000 shares (75,000 shares for Wydee and 75,000 shares for Matachewan) on or before 24 months after the Alexandria Effective Date;
- (iv) Issued 150,000 shares (75,000 shares for Wydee and 75,000 shares for Matachewan) on or before 36 months after the Alexandria Effective Date;
- (v) Issue 150,000 shares (75,000 shares for Wydee and 75,000 shares for Matachewan) on or before 48 months after the Alexandria Effective Date; and
- (vi) Issue 150,000 shares (75,000 shares for Wydee and 75,000 shares for Matachewan) and incur an additional \$4,880,000 (\$2,440,000 for Wydee and \$2,440,000 for Matachewan) on expenditures on or before 60 months of the Alexandria Effective Date.

Upon the Company acquiring a 75% interest in the Alexandria properties, the Company and Alexandria will enter into a joint venture for the exploration and development of the Alexandria property. The Company may elect to exercise the First Alexandria Option to only one of the claims within 60 months of the Alexandria Effective Date by issuing an additional 125,000 shares to Alexandria.

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

8. Mineral properties (continued)

(a) Ashley Gold Project, Ontario, Canada (continued)

Subject to the First Alexandria Option, Alexandria grants the Company the exclusive irrevocable right and option to acquire an additional 15% interest ("Second Alexandria Option") upon the delivery of and acceptance by Alexandria of a resource estimate report that delineates a minimum of 1,500,000 ounces of gold on the property.

On April 20, 2016, the Company entered into a purchase agreement (the "Purchase Agreement") with JCML Resources Inc. ("JCML"), whereby the Company agreed to acquire 13 mineral claims ("Galahad") surrounding the Ashley Gold Mine for \$50,000 and 100,000 Prosper shares. The Company issued the 100,000 common shares (note 9(c)) at a price of \$0.26 per share and paid \$50,000 for the acquisition.

(b) Star Property, British Columbia, Canada

Pursuant to an option agreement dated July 15, 2013 between the Company and Firesteel Resources Inc. ("Firesteel") (the "Option Agreement"), the Company has the exclusive option to earn up to an 80% interest in 19 mining claims on the Star property (formerly the Sheslay property), a copper-gold discovery located northwest of Telegraph Creek, British Columbia, in the Stikine Arch area of northwestern British Columbia, in exchange for cash payments, the issuance of common shares and exploration expenditures over four years as follows:

Pursuant to the option agreement (the "First Option"), the Company has earned a 51% interest in the Star property by:

- Making cash payments to Firesteel totalling \$300,000 over 18 months (paid);
- Issuing a total of 300,000 Prosper common shares to Firesteel (issued); and
- Incurring exploration expenditures totalling \$1,000,000 over 18 months (incurred).

The Company has an additional option (the "Second Option") to earn an additional 19% interest, thereby increasing its total interest in the Property to 70%, which may be exercised by:

- Making cash payments to Firesteel totalling \$200,000 over 36 months (due by August 30, 2016) (unpaid);
- Issuing a total of 200,000 Prosper common shares to Firesteel over a period of 36 months (due by August 30, 2016) (unissued); and
- Incurring exploration expenditures totalling \$2,000,000 over 36 months (incurred).

The Company has an additional option (the "Third Option") to earn an additional 10% interest, thereby increasing its total interest in the Property to 80%, which may be exercised by:

- Making cash payments to Firesteel totalling \$500,000 over 48 months (due by August 30, 2017);
- Issuing a total of 500,000 Prosper common shares to Firesteel over a period of 48 months (due by August 30, 2017); and
- Incurring exploration expenditures totalling \$2,000,000 over 48 months (due by August 30, 2017).

Rather than making the Second Option payment and issuance of common shares due by August 30, 2016 and the Third Option payment and issuance of common shares due by August 30, 2017, the Company and Firesteel entered into a joint venture agreement on August 30, 2016. The Company holds 51% ownership of the Star Property. The joint venture agreement specifies that the Company and Firesteel will contribute funds to continue explorations on the Star Property pro-rata, based on their percentage of ownership; 51% to be contributed by Prosper and 49% to be contributed by Firesteel.

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

8. Mineral properties (continued)

(b) Star Property, British Columbia, Canada (continued)

The underlying royalty holders are entitled to a 2% NSR on the property. The Company has the option to purchase additional NSR for \$2,000,000.

The Option Agreement constituted the Company's Qualifying Transaction that was completed and approved by the Exchange on August 30, 2013. Total capitalized amount of \$445,715 (2015 - \$444,152) for mineral property includes cash payments of \$300,000, transaction costs of \$57,152 for the Qualifying Transaction and non-cash component for the fair value of the common shares issued, being \$63,000 for 100,000 common shares issued on August 30, 2013 and \$24,000 for 200,000 common shares issued on February 24, 2015 (note 9(c)). The addition of \$1,563 for the year was paid for legal fees for the joint venture agreement.

During the year ended October 31, 2016, the Company received \$34,020 (2015 - \$545,880) of British Columbia Exploration Mining Tax Credit ("BCMETS") related to exploration expenditures on the Star property, which has been offset against exploration expenditures.

Exploration and evaluation expenditures

During the years ended October 31, 2016 and 2015, the Company's exploration expenditures (recovery) consist of the following:

| | Ashley Gold Project | | Star Property | |
|------------------------------|---------------------|------------------|------------------|------------------|
| | October 31, 2016 | October 31, 2015 | October 31, 2016 | October 31, 2015 |
| Airborne survey | \$ 395,500 | \$ - | \$ - | \$ - |
| Assay and analysis | 193,460 | - | - | 12,434 |
| Drilling | 262,255 | - | - | - |
| Field costs (see note 12(b)) | 348,711 | - | 9,076 | 22,649 |
| Geological | 114,368 | - | - | 122,085 |
| Transportation and freight | 9,842 | - | 1,954 | 14,464 |
| Travel and accommodations | 36,749 | - | - | 8,303 |
| Cost recovery | - | - | (72,000) | (2,500) |
| Tax credit received | - | - | (34,020) | (545,880) |
| | \$ 1,360,885 | \$ - | \$ (94,990) | \$ (368,445) |

9. Share capital

(a) Authorized

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

(b) Private placements

- (i) On March 24, 2016, the Company completed the private placement for 3,500,000 non-flow-through units at a price of \$0.15 per unit for gross proceeds of \$525,000. Each unit consisted of one common share and one common share purchase warrant ("Warrant") with each Warrant exercisable by the holder into one common share of the Company at a price of \$0.25 for a period of 36 months. In the event that the Company's common shares trade at a closing price on the Exchange of greater than \$0.40 per share for a period of 20 consecutive trading days at any time after the closing date of the private placement, Prosper may accelerate the expiry date of the Warrants by giving notice to the holders thereof and in such case the Warrants will expire on the thirtieth day after the date on which such notice is given by the Company (the "Acceleration Provision") (note 10).

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

9. Share capital (continued)

(b) Private placements (continued)

(i) (continued)

In connection with the private placement, finders' fees of \$13,500 in cash were paid and 90,000 common share purchase warrants ("Finder Warrant") were issued with a fair value of \$7,668 included in share issue costs. Each Finder Warrant is non-transferable and exercisable for one common share for a period of 36 months following closing at an exercise price equal to \$0.25. The Finder Warrants contain the same Acceleration Provision as the Warrant comprising the unit. Additional costs of \$31,126 were incurred for the private placement, which included legal and transfer agent fees.

The total fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following assumptions: risk-free interest of 0.52%, expected volatility of 101%, expected life of 3 years, expected dividend yield of 0%, share price of \$0.16, exercise price of \$0.25, and expected forfeitures of 0%.

- (ii) On July 6, 2016, the Company closed the first tranche of the private placement of 4,000,000 non-flow-through units for gross proceeds of \$1,000,000 at \$0.25 per unit. The Company incurred share issue costs of \$50,054 consisting of cash payments of \$9,125 for finders' fees, \$24,332 for legal fees and filing fees, and issued 73,500 broker warrants with a fair value of \$16,597.

On August 5, 2016, the Company closed the final tranche of the private placement of 4,840,000 flow-through units at \$0.30 per unit and 88,850 non-flow-through units, for gross proceed of \$1,478,655. The Company incurred share issue costs of \$133,707, including cash payments of \$76,725 for finders' fees, \$14,132 for legal and filing fees, and issued 230,750 broker warrants with a fair value of \$42,850.

The total fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following assumptions: risk-free interest of 0.51%, expected volatility of 106%, expected life of 3 years, expected dividend yield of 0%, share price of \$0.28, exercise price of \$0.35, and expected forfeitures of 0%.

Each unit consisted of one common share and one transferable common share purchase warrant ("Warrant") with each Warrant exercisable by the holder into one common share of the Company at a price of \$0.35 for a period of 36 months from the closing date. In the event that the Company's common shares trade at a closing price on the Exchange of greater than \$0.60 per share for a period of 20 consecutive trading days at any time after the closing date of the private placement, the Company may accelerate the expiry date of the Warrants by giving notice to the holders thereof and in such case the Warrants will expire on the thirtieth day after the date on which such notice is given by the Company (the "Acceleration Trigger").

Each flow-through unit consisted of one common share of the Company that qualifies as a "flow-through share" for the purposes of the *Income Tax Act* (Canada) (a "FT Share") and one-half of one non-transferable non-flow-through common share purchase warrant (each whole warrant, a "NFT Warrant"). Each NFT Warrant will entitle the holder thereof to purchase one additional common share of the Company (a "NFT Warrant Share") at an exercise price of \$0.45 per NFT Warrant Share for a period of 36 months from the Closing Date. The NFT Warrant terms will contain the same Acceleration Trigger provision as described above.

As at October 31, 2016, the Company has spent \$1,190,000 on eligible expenditures relating to the flow-through financing and has a remaining obligation of \$262,000 to spend on eligible expenditures.

- (iii) On September 23, 2016, 10,000 common shares were issued for a gross proceeds of \$2,500 from the exercise of warrants at \$0.25 per warrant from the March 24, 2016 private placement.

PROSPER GOLD CORP.

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(Expressed in Canadian Dollars)

9. Share capital (continued)

(c) Shares issued for mineral properties

On February 24, 2015, the Company issued 200,000 common shares to Firesteel at \$0.12 per common share as part of the First Option payment for the Company to earn a 51% interest in the Star property (note 8(b)).

March 11, 2016, the Company issued 350,000 common shares at the market price of \$0.20 per share in connection with the option agreements for the Ashley Gold Project (note 8(a)).

On April 26, 2016, the Company issued 100,000 common shares at the market price of \$0.26 per share for the purchase of the Galahad mineral claims surrounding the Ashley Gold Mine (note 8(a)).

(d) Escrow

Pursuant to escrow agreements dated December 18, 2007 and August 30, 2013 (the "Escrow Agreements") and the requirements of the Exchange, certain of the common shares issued by the Company are held in escrow. A continuity schedule of the Company's escrowed common shares is as follows:

| | Number Outstanding |
|-------------------------------|-------------------------------|
| At October 31, 2014 | 4,562,529 |
| Released on February 28, 2015 | (1,140,632) |
| Released on August 30, 2015 | (1,140,632) |
| At October 31, 2015 | 2,281,265 |
| Released on February 29, 2016 | (1,140,632) |
| Released on August 30, 2016 | (1,140,633) |
| At October 31, 2016 | - |

Pursuant to the escrow agreements, 10% of the escrowed common shares were released from escrow on August 30, 2013 (the "Initial Release"), following the receipt of the Final Exchange Bulletin, the final approval from the Exchange of the Company's Qualifying Transaction (note 8). An additional 15% were released on each of the dates that are 6, 12, 18, 24, 30 and 36 months following the Initial Release.

10. Options and warrants

(a) Stock option plan

The Company has a stock option plan under which the Board of Directors may from time to time grant to directors, senior officers, consultants and employees options to acquire common shares, exercisable for a period of up to ten years from the date of grant. The stock option plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance for all purposes under the stock option plan shall not exceed 10% of the total issued and outstanding common shares. The maximum number of common shares that may be reserved for issuance to any individual insider pursuant to share options may not exceed 5% of the common shares issued and outstanding at the time of grant, and the number of common shares that may be reserved for issuance to all technical consultants pursuant to share options may not exceed 2% of the common shares issued and outstanding at the time of grant. Options become exercisable as long as the optionee holds office or continues to be employed by the Company and 90 days following the cessation of an optionee's position with the Company.

PROSPER GOLD CORP.

Notes to the Financial Statements

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10. Options and warrants (continued)

(b) Stock options

During the year ended October 31, 2015, the Company repriced the exercise price of certain outstanding stock options to \$0.20 resulting in an additional \$32,453 of share-based payment expense. There were no stock options granted during the year. In addition, 50,000 stock options were forfeited as the employees are no longer employed by the Company. The fair value of \$16,750 has been reclassified from options reserve to deficit, as they were unexercised 90 days after the termination date.

On May 31, 2016, the Company granted 721,104 stock options to directors and employees with an exercise price of \$0.24 for a period of five years with vesting at 25% every six months.

On September 2, 2016, the Company granted 800,000 stock options to directors and employees with an exercise price of \$0.345 for a period of five years with vesting at 25% every six months.

A continuity schedule of the Company's outstanding stock options under the stock option plan is as follows:

| | Number Outstanding | Weighted Average Exercise Price | Weight Average Exercise Price (Repriced) |
|----------------------------|--------------------|------------------------------------|--|
| At October 31, 2014 | 2,850,000 | \$ 0.45 | \$ 0.22 |
| Forfeited | (50,000) | \$ 0.42 | \$ 0.42 |
| At October 31, 2015 | 2,800,000 | \$ 0.45 | \$ 0.22 |
| Granted | 721,104 | \$ 0.24 | \$ 0.24 |
| Granted | 800,000 | \$ 0.345 | \$ 0.345 |
| At October 31, 2016 | 4,321,104 | \$ 0.45 | \$ 0.24 |

As at October 31, 2016, the Company had the following share purchase options outstanding and exercisable:

| Expiry Date | Exercise Price | Options Outstanding | Fair Value at Grant Date | Remaining Contractual Life (yrs) | Options Exercisable |
|-------------------|----------------|---------------------|--------------------------|----------------------------------|---------------------|
| August 30, 2018 | \$ 0.200 | 1,750,000 | \$ 0.335 | 1.83 | 1,750,000 |
| August 30, 2018 | \$ 0.420 | 100,000 | \$ 0.335 | 1.83 | 100,000 |
| January 31, 2019 | \$ 0.425 | 50,000 | \$ 0.326 | 2.25 | 50,000 |
| February 14, 2019 | \$ 0.200 | 25,000 | \$ 0.361 | 2.29 | 25,000 |
| May 20, 2019 | \$ 0.200 | 875,000 | \$ 0.354 | 2.55 | 875,000 |
| May 31, 2021 | \$ 0.240 | 721,104 | \$ 0.184 | 4.58 | - |
| September 2, 2021 | \$ 0.345 | 800,000 | \$ 0.267 | 4.84 | - |
| | | 4,321,104 | \$ 0.301 | 3.00 | 2,800,000 |

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

10. Options and warrants (continued)

(b) Stock options (continued)

As at October 31, 2015, the Company had the following share purchase options outstanding and exercisable:

| Expiry Date | Exercise Price | Options Outstanding | Fair Value at Grant Date | Remaining Contractual Life (yrs) | Options Exercisable |
|-------------------|----------------|---------------------|--------------------------|----------------------------------|---------------------|
| August 30, 2018 | \$ 0.200 | 1,750,000 | \$ 0.335 | 2.83 | 1,750,000 |
| August 30, 2018 | \$0.420 | 100,000 | \$ 0.335 | 2.83 | 100,000 |
| January 31, 2019 | \$ 0.425 | 50,000 | \$ 0.326 | 3.25 | 37,500 |
| February 14, 2019 | \$ 0.200 | 25,000 | \$ 0.361 | 3.29 | 18,750 |
| May 20, 2019 | \$ 0.200 | 875,000 | \$ 0.354 | 3.55 | 437,500 |
| | | 2,800,000 | \$ 0.341 | 3.07 | 2,343,750 |

The total fair value of the incentive options was calculated using the Black-Scholes option pricing model with the following weighted average assumptions and inputs:

| | October 31, 2016 | October 31, 2015 |
|-------------------------|------------------|------------------|
| Risk-free interest rate | 0.67% | 0.67% |
| Expected volatility | 108% | 115% |
| Expected life | 4.73 years | 3.92 years |
| Expected dividend yield | - | - |
| Share price | \$ 0.28 | \$ 0.25 |
| Exercise price | \$ 0.28 | \$ 0.25 |
| Expected forfeitures | 0.00% | 0.00% |

Expected stock price volatility was derived from an average volatility based on historical movements in the closing prices of comparable companies' stock for a length of time equal to the expected life of the options.

Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0.00% in determining the expense recorded in the accompanying statements of comprehensive loss.

The fair value of the incentive options during the year ended October 31, 2016 of \$126,024 (2015 - \$229,045) was recognized as share-based payments. The balance consists of \$104,569 (2015 - \$180,894) to directors and officers, \$6,017 (2015 - \$8,772) to employees and \$15,437 (2015 - \$39,379) to consultants.

(c) Warrants

During the year ended October 31, 2015, all the warrants that were issued with the August 30, 2013 private placement expired without exercise.

During the year ended October 31, 2016, the Company issued the following: 3,590,000 warrants with an exercise price of \$0.25 in connection with the private placement that closed on March 24, 2016; 4,073,500 warrants for the first tranche of the private placement that closed on July 6, 2016, and the final tranche of the private placement of 2,464,425 warrants with an exercise price of \$0.45 per warrant and 230,750 broker warrants with an exercise price of \$0.35 per warrants that closed on August 4, 2016.

On September 23, 2016, 10,000 warrants with an exercise price of \$0.25 per warrant from the March 24, 2016 private placement were exercised.

PROSPER GOLD CORP.

Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

10. Options and warrants (continued)

(c) Warrants (continued)

A continuity schedule of the Company's outstanding warrants is as follows:

| | Number Outstanding | \$ | Weighted Average Exercise Price |
|--|-----------------------|-----------|---------------------------------------|
| At October 31, 2014 | 7,576,533 | \$ | 0.66 |
| Expired | (4,476,533) | \$ | 0.60 |
| At October 31, 2015 | 3,100,000 | \$ | 0.74 |
| Issued - warrant from private placements | 9,964,425 | \$ | 0.34 |
| Issued – broker warrants | 394,250 | \$ | 0.33 |
| Exercised – warrant | (10,000) | \$ | (0.25) |
| At October 31, 2016 | 13,448,675 | \$ | 0.74 |

11. Financial instruments

The Company's financial instruments consist of cash, amounts receivable (other than GST receivable), deposit, reclamation deposit, and accounts payable and accrued liabilities. The Company's cash, amounts receivable (other than GST receivable) and deposit are classified as loans and receivables; the reclamation deposit is classified as held-to-maturity; and accounts payable and accrued liabilities are classified as other financial liabilities.

The fair values of the Company's cash, amounts receivable (other than GST receivable), deposit, and accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturities of these instruments.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, interest rate risk and foreign currency risk.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company considers its exposure to credit risk to be low, as its cash, amounts receivable, deposit and reclamation deposit are deposited with a large financial institution with a strong credit rating.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligations associated with its financial instruments. The Company manages liquidity risk by maintaining adequate cash and managing its capital. At October 31, 2016, the Company had accounts payable and accrued liabilities of \$317,860 (2015 - \$19,400) due within one year, and cash of \$1,280,910 (2015 - \$317,479).

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Floating interest earned on the Company's cash balances are considered to be at market interest rates. The deposit of \$35,296 (2015 - \$41,077) earns no interest and is deposited with a major bank for the Company's corporate credit card. The reclamation bond deposit of \$190,000 (2015 - \$190,000) earns interest at 0.5% and is deposited with a major bank as security in favor of the Ministry of Energy and Mines. Assuming that all variables remain constant, a change representing a 1% increase or decrease in the interest rate would be immaterial.

(d) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency. At October 31, 2016, the Company's monetary assets and liabilities are primarily denominated in Canadian dollars.

There has been no change to the Company's approach to risk management during the year ended October 31, 2016.

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12. Related party transactions and balances

The Company's related parties consist of its key management personnel, including its directors, their close family members and entities controlled by key management personnel. During the years ended October 31, 2016 and 2015, the Company had the following related party transactions:

(a) Key management compensation for the years ended October 31, 2016 and 2015 were as follows:

| | October 31, 2016 | October 31, 2015 |
|----------------------|------------------|------------------|
| Short-term benefits | \$ 266,229 | \$ 58,929 |
| Share-based payments | 104,569 | 180,894 |
| | \$ 370,798 | \$ 239,823 |

Short-term benefits include \$143,199 (2015 - \$58,929) in management fees and \$123,030 (2015 - \$nil) in geological exploration expenditures.

- (b) During the year ended October 31, 2016, the Company paid \$17,916 (2015 - \$26,000) for rental of premise and equipment and office services to a company owned by a director and officer of the Company. The Company paid \$2,400 (2015 - \$nil) for storage fees to a director and officer of the Company.
- (c) At October 31, 2016, accounts payable and accrued liabilities includes \$66,003 (2015 - \$1,312) due to a company owned by a director and officer of the Company and \$24,538 (2015 - \$nil) due to officers of the Company.

13. Income taxes

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

| | October 31, 2016 | October 31, 2015 |
|---|------------------|------------------|
| Net loss | \$ (1,900,605) | \$ (171,020) |
| Canadian federal and provincial statutory income tax rates | 26.25% | 26.00% |
| Income tax benefit based on Canadian statutory income tax rates | (498,909) | (44,465) |
| Effects of the following: | | |
| Other | - | 2,239 |
| Effect of renounced expenditures related to flow-through shares | 339,934 | - |
| Items not deductible for tax purposes | 36,783 | 60,848 |
| Change in income tax rates | (15,196) | - |
| Unused tax losses and tax offsets not recognized | 137,388 | (18,622) |
| Income tax recovery | \$ - | \$ - |

At October 31, the Company had unused tax losses and tax deductions for which no deferred tax assets have been recognized as follows:

| | October 31, 2016 | October 31, 2015 |
|-------------------------------|------------------|------------------|
| Non-capital losses | \$ 2,945,509 | \$ 2,457,446 |
| Mineral property | 3,235,539 | 3,168,638 |
| Property, plant and equipment | 305,440 | 293,208 |
| Cumulative eligible capital | 48,169 | 48,169 |
| Capital losses | 76,566 | 76,566 |
| Share issue costs | 257,177 | 123,677 |
| | \$ 6,868,400 | \$ 6,167,704 |

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13. Income taxes (continued)

The non-capital losses at October 31, 2016 expire as follows:

| Expiry date | Amount |
|-------------|---------------------|
| 2027 | \$ 8,719 |
| 2028 | 45,807 |
| 2029 | 107,629 |
| 2030 | 107,130 |
| 2031 | 146,071 |
| 2032 | 189,297 |
| 2033 | 569,564 |
| 2034 | 916,155 |
| 2035 | 367,074 |
| 2036 | 488,063 |
| | \$ 2,945,509 |

14. Loss per share

Loss per share for the years ended October 31, 2016 and 2015 were calculated based on basic loss per share. Due to the loss incurred for the year, diluted loss per share would be the same as basic loss per share, as the diluted earnings per share would be anti-dilutive for the years presented. The instruments that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share, are as follows:

| | October 31, 2016 | October 31, 2015 |
|--|-------------------|------------------|
| Basic weighted average number of common shares outstanding | 36,112,845 | 31,198,028 |
| Effect of dilutive securities that could dilute basic earnings per share: | | |
| Share options | 4,321,104 | 2,800,000 |
| Warrants | 13,448,675 | 3,100,000 |
| Weighted average number of common shares outstanding and potentially dilutive securities | 53,882,624 | 37,098,028 |

15. Segmented information

The Company has one reportable operating segment in two geographical locations, being the exploration and development of the Star property in British Columbia, Canada and exploration and development of the Ashley Mine Project in Ontario, Canada.

16. Management of capital

The Company's capital includes all amounts attributable to its shareholders. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure that optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may issue additional shares or debt. The Company is dependent on the capital markets as its primary source of operating capital, and the Company's capital resources are largely determined by the strength of the junior resource markets.

The Company is not subject to any capital requirements imposed by regulators or other third parties.

At October 31, 2016, the Company had cash of \$1,280,910 and working capital of \$1,244,163. The Company will require additional capital to fund its total obligations under the Option Agreement to purchase the Ashley Gold Project and the Star property (note 8) and general and administrative costs. However, there is no guarantee that such financing will be available to the Company or on suitable terms.

There were no changes in the Company's approach to capital management during the year ended October 31, 2016.

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Notes to the Financial Statements

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17. Subsequent event

On November 1, 2016, the Company closed a private placement for 4,772,357 flow-through units at \$0.35 per unit for gross proceeds of \$1,670,325. The flow-through units consist of one common share and one-half of one non-transferable non-flow-through common share purchase warrant. Each whole warrant is exercisable for one common share at \$0.55 to November 1, 2019. The Company incurred cash share issue costs of \$141,936 for finders' fees, legal fees and filing fees. Finders' fees include 286,341 warrants with an exercise price of \$0.55 per warrant with an expiry date of November 1, 2019. The fair value of the finders' warrants issued is \$42,833.

On January 23, 2017, the Company granted 521,000 stock options to directors, an officer, an employee and consultants with an exercise price of \$0.20, vesting term 25% every six months for a period of five years expiring January 23, 2022.