

**NORTHERN EMPIRE RESOURCES CORP.  
(FORMERLY PROSPERITY GOLDFIELDS CORP.)**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2015 AND 2014  
(EXPRESSED IN CANADIAN DOLLARS)**

**(UNAUDITED - PREPARED BY MANAGEMENT)**

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed consolidated interim financial statements they must be accompanied by a notice indicating that these condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

**NORTHERN EMPIRE RESOURCES CORP. (FORMERLY PROSPERITY GOLDFIELDS CORP.)**  
**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**AS AT**

	December 31, 2015	March 31, 2015
<b>ASSETS</b>		
Current		
Cash	\$ 75,708	\$ 735,250
Receivables	16,052	44,770
Prepaid expenses (Note 9)	44,049	21,426
Marketable securities (Note 7)	13,750	-
Total current assets	149,559	801,446
Property and equipment (Note 5)	-	-
Mineral property interests (Note 6)	995,480	994,498
Total assets	\$ 1,145,039	\$ 1,795,944
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	\$ 175,321	\$ 206,551
Share subscriptions received (Note 10)	50,000	-
Total current liabilities	225,321	206,551
Restoration, rehabilitation and environmental obligations (Note 8)	613,064	616,808
Total liabilities	838,385	823,359
Shareholders' equity		
Capital stock (Note 10)	19,369,107	19,347,107
Reserves (Note 10)	3,923,476	3,923,476
Accumulated other comprehensive loss	(12,500)	-
Deficit	(22,973,429)	(22,297,998)
Total shareholders' equity	306,654	972,585
Total liabilities and shareholders' equity	\$ 1,145,039	\$ 1,795,944

**Nature and continuance of operations** (Note 1)  
**Commitments and contingencies** (Notes 6 and 13)  
**Subsequent event** (Note 15)

**Approved on behalf of the Board:**

“James Paterson”, Director

“Adrian Fleming”, Director

**See accompanying notes to the unaudited condensed consolidated interim financial statements.**

**NORTHERN EMPIRE RESOURCES CORP. (FORMERLY PROSPERITY GOLDFIELDS CORP.)**  
**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31**

	Note	Three months ended December 31, 2015	Three months ended December 31, 2014	Nine months ended December 31, 2015	Nine months ended December 31, 2014
<b>EXPENSES</b>					
Consulting and management fees	9	\$ 50,500	\$ 42,000	\$ 142,000	\$ 120,000
Exploration and evaluation expenditures	6	142,172	188,791	401,966	328,212
Office, rent, salary and miscellaneous	9	15,472	11,981	47,414	38,204
Professional fees		20,733	27,804	52,795	46,277
Property investigation costs		3,750	6,718	3,750	6,718
Shareholder communications and promotion		2,490	4,993	14,764	5,357
Transfer agent and filing fees		1,910	9,924	16,800	18,954
Travel and accommodation		477	-	2,502	-
<b>Loss before other items</b>		<b>(237,504)</b>	<b>(292,211)</b>	<b>(681,991)</b>	<b>(563,722)</b>
<b>OTHER ITEMS</b>					
Accretion expense		1,296	(1,869)	3,744	(5,617)
Foreign exchange gain (loss)		(245)	-	(950)	-
Interest income		299	866	2,601	3,420
Management fee income	6	4,579	-	26,165	-
Write-off of mineral property interests	6	(25,000)	-	(25,000)	-
<b>Net loss for the period</b>		<b>(256,575)</b>	<b>(293,214)</b>	<b>(675,431)</b>	<b>(565,919)</b>
Unrealized loss on marketable securities	7	-	-	(12,500)	-
<b>Comprehensive loss for the period</b>		<b>\$ (256,575)</b>	<b>\$ (293,214)</b>	<b>\$ (687,931)</b>	<b>\$ (565,919)</b>
<b>Loss per share – basic and diluted</b>		<b>\$ (0.01)</b>	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>	<b>\$ (0.10)</b>
<b>Weighted average number of common shares outstanding</b>		<b>19,778,299</b>	<b>7,601,212</b>	<b>19,704,481</b>	<b>5,397,852</b>

See accompanying notes to the unaudited condensed consolidated interim financial statements.

**NORTHERN EMPIRE RESOURCES CORP. (FORMERLY PROSPERITY GOLDFIELDS CORP.)**  
**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE NINE MONTH PERIODS ENDED DECEMBER 31**

	<b>2015</b>	<b>2014</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (675,431)	\$ (565,919)
Items not affecting cash:		
Accretion expense	(3,744)	5,617
Amortization	-	157,083
Write-off of mineral property interests	25,000	-
	<u>(654,175)</u>	<u>(403,219)</u>
Change in non-cash working capital items:		
Receivables	28,718	(582)
Prepaid expenses	(22,623)	(69,450)
Accounts payable and accrued liabilities	(31,230)	(1,704)
Net cash flows from operating activities	<u>(679,310)</u>	<u>(474,955)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral property acquisition costs	<u>(30,232)</u>	<u>(60,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from private placements	-	1,072,500
Share issue costs	-	(52,398)
Share subscriptions received	50,000	-
Net cash flows from financing activities	<u>50,000</u>	<u>1,020,102</u>
<b>Increase (decrease) in cash</b>	<b>(659,542)</b>	<b>485,147</b>
<b>Cash, beginning of period</b>	<b>735,250</b>	<b>402,294</b>
<b>Cash, end of period</b>	<b>\$ 75,708</b>	<b>\$ 887,441</b>

**Supplemental disclosure with respect to cash flows (Note 11)**

**See accompanying notes to the unaudited condensed consolidated interim financial statements.**

**NORTHERN EMPIRE RESOURCES CORP. (FORMERLY PROSPERITY GOLDFIELDS CORP.)**  
**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	Number of Shares	Capital Stock	Reserves		Accumulated Other Comprehensive Loss	Deficit	Total
			Equity settled share-based payments reserve	Warrant reserve			
Balance, March 31, 2014	4,290,152	\$ 18,206,111	\$ 1,897,819	\$ 1,811,157	\$ -	\$ (21,050,672)	\$ 864,415
Shares issued pursuant to mineral properties acquisition	4,013,147	301,644	-	-	-	-	301,644
Shares issued as finder's fee pursuant to mineral property acquisition	450,000	33,750	-	-	-	-	33,750
Shares issued pursuant to private placement	10,725,000	1,072,500	-	-	-	-	1,072,500
Fair value of warrants issued pursuant to private placement	-	(203,500)	-	203,500	-	-	-
Share issue costs – cash	-	(52,398)	-	-	-	-	(52,398)
Share issue costs – warrants	-	(11,000)	-	11,000	-	-	-
Net loss	-	-	-	-	-	(565,919)	(565,919)
Balance, December 31, 2014	19,478,299	19,347,107	1,897,819	2,025,657	-	(21,616,591)	1,653,992
Net loss	-	-	-	-	-	(681,407)	(681,407)
Balance, March 31, 2015	19,478,299	19,347,107	1,897,819	2,025,657	-	(22,297,998)	972,585
Shares issued pursuant to El Reventon Silver project acquisition	200,000	15,000	-	-	-	-	15,000
Shares issued pursuant to Manson Creek property acquisition	100,000	7,000	-	-	-	-	7,000
Unrealized loss on marketable securities	-	-	-	-	(12,500)	-	(12,500)
Net loss	-	-	-	-	-	(675,431)	(675,431)
Balance, December 31, 2015	19,778,299	\$ 19,369,107	\$ 1,897,819	\$ 2,025,657	\$ (12,500)	\$ (22,973,429)	\$ 306,654

See accompanying notes to the unaudited condensed consolidated interim financial statements.

**NORTHERN EMPIRE RESOURCES CORP. (FORMERLY PROSPERITY GOLDFIELDS CORP.)**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE NINE MONTHS ENDED DECEMBER 31, 2015 AND 2014**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Northern Empire Resources Corp., formerly Prosperity Goldfields Corp. (hereafter, the "Company" or "Northern Empire") was incorporated on September 10, 2010 under the Canada Business Corporations Act. On December 11, 2014 the Company changed its name from Prosperity Goldfields Corp. to Northern Empire Resources Corp. The Company's principal business is the acquisition and exploration of properties for the mining of precious and base metals. The Company's head office is located at 789 West Pender Street, Suite 800, Vancouver, British Columbia, V6C 1H2.

The recoverability of amounts shown as mineral properties is dependent upon the discovery of economically recoverable reserves, the Company's ability to obtain financing to develop the properties and the ultimate realization of profits through future production or sale of the properties. Realized values may be substantially different than carrying values as recorded in these financial statements.

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to continue its operation as a going concern for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. At December 31, 2015, the Company had not achieved profitable operations, had an accumulated deficit and a positive working capital. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

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

**2. BASIS OF PRESENTATION**

**a) Statement of Compliance**

These condensed interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations. Accordingly, these condensed interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes.

These consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale and financial assets at fair value through profit or loss, which are stated at their fair values. In addition, these financial statements have been prepared using the accrual basis of accounting.

**b) Approval of the Financial Statements**

The unaudited condensed consolidated interim financial statements were approved by the Board of Directors on February 29, 2016.

**c) Basis of Consolidation**

The Company consolidates its subsidiary on the basis that it controls the subsidiary through its ability to govern its financial and operating policies. All intercompany transactions and balances with the Company's subsidiary have been eliminated. These condensed consolidated interim financial statements include the financial statements of the Company and its wholly-owned subsidiary, Northern Empire de Mexico, S.A. de C.V., incorporated and located in Mexico.

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

### **d) Functional and Presentation Currency**

The functional currency of a company is the currency of the primary economic environment in which the company operates. The presentation currency for a company is the currency in which the company chooses to present its financial statements.

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation and functional currency. The functional currencies of the Company's subsidiaries do not differ from that of the parent company.

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

### **e) Share Consolidation**

On December 11, 2014, the Company consolidated its issued and outstanding common shares, stock options and share purchase warrants on the basis of one new share for every five existing shares.

All references to share capital, stock options and share purchase warrants presented in these financial statements and notes thereto are on a post-consolidation basis.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements do not include all of the significant accounting policies required by IFRS for complete financial statements for year-end reporting purposes. These financial statements should be read together with the audited financial statements for the year ended March 31, 2015 which in Note 3 detail all significant accounting policies adopted by the Company.

The Company's accounting policies have been applied consistently to all periods presented in these unaudited condensed interim financial statements.

### **Critical accounting judgments and estimates**

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. The most significant accounts that require estimates as the basis for determining the stated amounts include: impairment of mineral property; provision for environmental rehabilitation; inputs used in the valuation of share-based payments; and provision for deferred income tax, including the effects of flow-through shares.

Significant estimates that have the most significant effect on the amounts recognized in the financial statements are as follows:



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

#### **Critical accounting judgments and estimates (Continued)**

##### *Mineral property interests*

The Company capitalizes mining property acquisition costs that are to be amortized when the property becomes a development asset or the balance thereof written off should the property be disproven through exploration or abandoned. The carrying value of the Company's mineral property is reviewed by management at least annually, or whenever events or circumstances indicate that its carrying value may not be recovered. If impairment is determined to exist, a formal estimate of the recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is measured at fair value less costs to sell.

##### *Provision for Environmental Rehabilitation*

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

##### *Share-based payments*

The Company uses the Black-Scholes Option Pricing Model to calculate the fair value stock options and of common share purchase warrants issued. The model requires the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and common share purchase warrants. The assumptions and models used for estimating fair value of stock options and common share purchase warrants are disclosed in Note 9.

Information about critical judgments in applying accounting policies that have the most significant effect of amounts recognized in the consolidated financial statements is included in the following notes:

Note 1 – going concern assessment

Note 2 – functional currency

Note 6 – impairment of mineral property interests

#### **Recent accounting pronouncements**

##### *Recent Accounting Pronouncements not yet applied:*

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for future accounting periods. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

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

#### **Recent accounting pronouncements (Continued)**

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

IFRS 7 Financial Instruments - Disclosure (“IFRS 7”) has been amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on or after January 1, 2015.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (“IFRS 11”) has been amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. IFRS is effective on or after January 1, 2016.

IFRS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization (“IFRS 16 and IAS 38”) have been amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption for intangible assets. IFRS 16 and IAS 38 are effective on or after January 1, 2016.

### **4. CAPITAL MANAGEMENT**

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity comprised of issued capital stock and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements.

**NORTHERN EMPIRE RESOURCES CORP. (FORMERLY PROSPERITY GOLDFIELDS CORP.)**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE NINE MONTHS ENDED DECEMBER 31, 2015 AND 2014**

**5. PROPERTY AND EQUIPMENT**

	Buildings and other structures	Machinery and other equipment	Vehicles	Total
<b>Cost</b>				
Balance, March 31, 2014	\$ 734,952	\$ 441,262	\$ 466,842	\$ 1,643,056
Acquisitions (disposals)	5,214	2,317	4,056	11,587
Write-off	(740,166)	(443,579)	(470,898)	(1,654,643)
Balance, March 31 and December 31, 2015	\$ -	\$ -	\$ -	\$ -
<b>Accumulated amortization</b>				
Balance, March 31, 2014	\$ 584,300	\$ 272,303	\$ 243,520	\$ 1,100,123
Amortization	72,723	37,327	30,218	140,268
Write-off	(657,023)	(309,630)	(273,738)	(1,240,391)
Balance, March 31 and December 31, 2015	\$ -	\$ -	\$ -	\$ -
<b>Carrying Value</b>				
At March 31 and December 31, 2015	\$ -	\$ -	\$ -	\$ -

During the year ended March 31, 2015, the Company impaired property and equipment with a net book value of \$414,252.

**6. MINERAL PROPERTY INTERESTS**

**Mineral Properties Acquisition Costs**

Details of the cumulative acquisition expenditures incurred as at December 31 and March 31, 2015 are as follows:

	Kiyuk Lake Property	Eric Lake and Noomut River Properties	Richardson Property	El Reventon Property	Manson Creek Property	Total
Balance – March 31, 2014	\$ 599,104	\$ -	\$ -	\$ -	\$ -	\$ 599,104
Acquisition - cash	60,000	-	-	-	-	60,000
Acquisition - shares	1,644	225,000	75,000	-	-	301,644
Finders' fee- shares	-	25,313	8,437	-	-	33,750
Balance – March 31, 2015	\$ 660,748	\$ 250,313	\$ 83,437	\$ -	\$ -	\$ 994,498
Acquisition - cash	-	-	-	10,000	15,000	25,000
Acquisition - shares	-	-	-	15,000	7,000	22,000
Staking costs	-	-	-	-	5,232	5,232
Property option payment received – shares	-	-	(26,250)	-	-	(26,250)
Write-off	-	-	-	(25,000)	-	(25,000)
Balance – December 31, 2015	\$ 660,748	\$ 250,313	\$ 57,187	\$ -	\$ 27,232	\$ 995,480

**NORTHERN EMPIRE RESOURCES CORP. (FORMERLY PROSPERITY GOLDFIELDS CORP.)**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**FOR THE NINE MONTHS ENDED DECEMBER 31, 2015 AND 2014**

**6. MINERAL PROPERTY INTERESTS (Continued)**

**Kiyuk Lake Property, Nunvaut**

On October 26, 2010, the Company entered into an agreement with its then parent, Evolving, to acquire 100% of Evolving's interest in the Option Agreement dated August 1, 2009, on the Kiyuk Property near Nueltin Lake in Nunavut. As a result of the transfer, the Company assumed all the obligations and commitments under the Option Agreement. As the shareholders of Evolving ultimately continued to hold their respective interests in the Kiyuk Property, there was no resulting change of control. Consequently, the acquisition was accounted for using continuity-of-interest accounting. No fair value adjustments were made for the assets acquired by Northern Empire. The Kiyuk Property was reflected in the Company's records at Evolving's carrying value.

The original Option Agreement dated August 1, 2009, had a five year term of which four years were remaining at the time of the transfer. Under the terms of the Option Agreement, \$60,000 was to be paid and 40,000 Evolving shares were to be issued in each of the four remaining years. The Optionor retains a 2% NSR on the property which can be reduced by the payment of US\$2,000,000 for each 1% reduction in the NSR.

On October 8, 2010, the Company entered into an Amending Letter Agreement which revised the August 1, 2009 Option Agreement to reflect the transfer of the interest in the Kiyuk Property to Northern Empire and to revise certain financial terms. Under the terms of the Amending Letter Agreement, the Optionor will receive \$60,000 cash, 20,000 Evolving common shares and 3,000 Northern Empire post-consolidation common shares each year for the remaining four years of the Option Agreement. The Company will issue to Evolving, that number of the Company's common shares with an equivalent market value to the market value of the Evolving shares issued.

In September 2011, the second year anniversary payment was made. In October 2011, the Company issued 3,000 common shares valued at \$71,400 to the Optionor and issued 420 common shares valued at \$10,000 to Evolving as reimbursement for the 20,000 shares of Evolving issued to the Kiyuk Optionor.

In September 2012, the Company issued 3,000 common shares valued at \$13,200 to the Optionor and issued 1,262 common shares valued at \$5,555 to Evolving as reimbursement for the 20,000 shares of Evolving issued to the Kiyuk Optionor.

In September 2013, the Company issued 3,000 common shares valued at \$2,400 to the Optionor and issued 1,266 common shares valued at \$1,012 to Evolving as reimbursement for the 20,000 shares of Evolving issued to the Kiyuk Optionor.

In October 2014, the Company paid \$60,000 in option payment, issued 12,000 common shares valued at \$1,500 to Kiyuk Optionor and issued 1,147 common shares valued at \$144 to Evolving as reimbursement for the 20,000 shares of Evolving issued to the Kiyuk Optionor.

The following is a summary of the option payments:

	Cash Option Payments	Issuance of common shares of Evolving*	Issuance of common shares of the Company
On or before October 8, 2010*	\$ 60,000	40,000	-
On or before October 8, 2011**	60,000	20,000	3,000
On or before October 8, 2012**	60,000	20,000	3,000
On or before October 8, 2013**	60,000	20,000	3,000
On or before October 8, 2014**	60,000	20,000	12,000
Total	\$ 300,000	120,000	21,000

\* Completed by Evolving

\*\* Completed by the Company

## **6. MINERAL PROPERTY INTERESTS (Continued)**

### **Eric Lake and Noomut River Properties, Nunavut**

On October 30, 2014, the Company entered into an agreement to acquire 100% interest in two gold mineral exploration properties located in Nunavut, the Eric Lake and Noomut River properties.

Under the terms of Agreement, the Company is required to issue 3,000,000 common shares (issued at a value of \$225,000) and grant or pay:

For the Eric Lake Property:

- Grant a 2% NSR on future mineral production;
- Grant a 2% gross overriding royalty (“GOR”) on future diamond production; and
- Pay \$50,000 each year as advance royalty payments commencing September 1, 2015.

For the Noomut River Property:

- Grant a 2% NSR on future mineral production;
- Grant a 2% gross overriding royalty (“GOR”) on future diamond production; and
- Pay \$25,000 each year as advance royalty payments for three years ending in 2015.

The Company issued 337,500 common shares valued at \$25,313 as finder’s fee shares in connection with the acquisitions.

#### Thunderstruck Agreement - Eric Lake Property

The Eric Lake Property was subject to the Thunderstruck Option Agreement, dated January 27, 2014, whereby Thunderstruck Resources Ltd. (“Thunderstruck”) had an option to earn an undivided 60% interest in the Eric Lake Property by paying \$100,000 to the Company, issuing 600,000 common shares to the Company, incurring expenditures of \$6,000,000 on the property and paying all advance royalty payments. On January 19, 2015 the agreement was terminated.

#### Twyford Agreement - Noomut River Property

The Noomut River Property is subject to the Twyford Option Agreement, dated January 24, 2012 and amended on April 9, 2013, whereby Twyford Ventures Inc. (“Twyford”) has an option to earn an undivided 60% interest in the Noomut River Property. In order to acquire a 60% interest in the Noomut River Property, Twyford shall incur the following exploration expenditures:

On or before December 16, 2015*	\$	100,000
On or before December 16, 2016		100,000
On or before December 16, 2017		1,500,000
<b>Total</b>	<b>\$</b>	<b>1,700,000</b>

\* No exploration work was conducted on the property As at December 16, 2015. The Company is currently determining the most appropriate actions to take with respect to the Twyford Option Agreement and the property.

Twyford may accelerate the payments and thereby exercise the option early.

Twyford assumes the Company’s obligations under the agreement.

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**FOR THE NINE MONTHS ENDED DECEMBER 31, 2015 AND 2014**

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**6. MINERAL PROPERTY INTERESTS (Continued)**

**Richardson Property, Alaska**

On October 30, 2014, the Company entered into a property acquisition agreement with Northern Empire Minerals Inc., a company considered to be a related party by way of a common director, to purchase 100% beneficial right, interest and title to the Richardson Property located in Alaska. Under the terms of agreement, the Company will complete the following:

- Issue 1,000,000 common shares (issued at a value of \$75,000);
- Grant a 3% NSR; and
- Make advanced royalty payments of US\$4,000 per month commencing November 2016.

The Company issued 112,500 common shares valued at \$8,437 as finder's fee shares in connection with the property acquisition.

On May 15, 2015, the Company entered into a Share Sale and Placer Mining Rights Agreement with Chilcotin Capital Corp. ("Chilcotin") whereby the Company will acquire the 100% undivided interest and title to the Richardson Property through acquisition of all the issued and outstanding shares of NEM, which is 100% owned by Chilcotin in consideration for granting all of the Placer Rights back to Chilcotin.

**Hilltop Gold Project, Alaska**

On June 12, 2015, the Company signed a Definitive Agreement with Sonoro Metals Corp. ("Sonoro") to which Sonoro has been granted the option to acquire 60% interest in the Hilltop Gold Project in Alaska. The Hilltop Gold Project is contiguous with the Richardson Property and consists of claims acquired from the Richardson Property and claims that were staked by the Company.

To exercise the option and earn 60% interest in the Hilltop Gold Project, Sonoro must pay \$3,000,000 to the Company to be spent on exploration activities and issue 1,000,000 common shares of Sonoro as per the following schedule:

	Cash payments	Issuance of common shares
Within 60 days of the execution of the LOI	\$ 250,000*	250,000*
By December 31, 2017	500,000	250,000
By December 31, 2018	750,000	250,000
By December 31, 2019	1,500,000	250,000
Total	\$ 3,000,000	1,000,000

\*Completed. The 250,000 common shares of Sonoro received by the Company had a fair value of \$26,250, which was based on the stock price of Sonoro common shares at the date of the Definitive Agreement. The Company accounted the consideration received from Sonoro as a recovery to reduce the carrying value of the Richardson Property.

During the term of the option, the Company will be the operator of the project. During the nine months ended December 31, 2015, the Company earned \$26,165 of management fee which is based on 10% of the total exploration and evaluation expenditures on the property.

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**6. MINERAL PROPERTY INTERESTS (Continued)**

**El Reventon Silver Project, Mexico**

On December 19, 2014, and amended January 31, 2015, the Company entered into an assignment agreement with Northair Silver Corp. ("Northair") to acquire 100% interest in three mineral claims in the Mexican State of Durango, referred to as the El Reventon Silver Project. In consideration of the assignment, the Company has agreed to pay Northair the sum of \$10,000 (paid), issue 200,000 common shares (issued) of the Company and grant Northair a 1% NSR (granted). The Company will be entitled at any time to buy-back the full NSR by paying Northair \$1,000,000.

On January 29, 2016, the Company has applied to drop its concession of the three mineral claims making up the El Reventon Silver Project. Therefore, total acquisition costs of \$25,000 relating to the property were written off as at December 31, 2015.

**Manson Creek Property**

On June 23, 2015, the Company entered into a Letter Agreement with an individual to acquire 100% interest in the Manson Creek Property. To earn 100% interest in the Property, the Company must pay \$225,000 and issue 500,000 common shares as per the following schedule:

	Cash payments	Issuance of common shares
July 8, 2015	\$ 15,000*	100,000*
July 8, 2016	25,000	100,000
July 8, 2017	35,000	100,000
July 8, 2018	50,000	100,000
July 8, 2019	100,000	100,000
Total	\$ 225,000	500,000

\*Completed. The 100,000 common shares had a fair value of \$7,000, which was based on the stock price of the Company's common shares at the date of issuance.

The Property is subject to a 2% NSR, of which 1% can be purchased for \$1 million within the first 5 years and \$2 million thereafter. After the cash and shares have been paid out, an advance royalty payment in aggregate of \$25,000 is due annually, on or before the 5<sup>th</sup> anniversary of signing the Agreement.

During the nine months ended December 31, 2015, the Company spent \$5,232 on staking costs.

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**6. MINERAL PROPERTY INTERESTS (Continued)**

**Exploration and evaluation expenditures**

Details of cumulative exploration expenditures incurred for the nine months ended December 31, 2015 and the year ended March 31, 2015 are as follows:

	<b>Kiyuk Lake Property</b>	<b>Eric Lake and Noomut River Properties</b>	<b>Richardson Property</b>	<b>Hilltop Property</b>	<b>El Reventon Silver Property</b>	<b>Manson Creek</b>	<b>Total</b>
Exploration and evaluation							
Assays	\$ 1,959	\$ -	\$ 16,566	\$ 65,866	\$ -	\$ 8,437	\$ 92,828
Camp and general	3,013	-	127,698	85,171	23,300	-	239,182
Courier, freight, transportation and shipping	-	-	342	1,545	-	819	2,706
Field equipment and supplies	804	-	6,508	32,392	3,070	2,026	44,800
Foreign currency (gain) loss	-	-	(1,062)	1,177	-	-	115
Fuel	-	-	947	3,159	1,266	652	6,024
Geological consulting and other labour	12,784	-	62,105	156,784	22,901	9,875	264,449
Helicopter charter	21,105	-	1,956	1,956	-	-	25,017
Legal	-	-	6,269	-	7,381	-	13,650
Maps, orthophotos and reports	-	-	1,025	329	-	-	1,354
Office	2,328	-	2,152	4,999	8,896	-	18,375
Permits, claims and licenses	-	-	-	3,699	-	-	3,699
Royalty payments	-	-	14,888	-	-	-	14,888
Soil sampling	-	-	-	-	-	11,294	11,294
Travel, meals and accommodation	2,686	-	12,587	16,672	6,472	3,659	42,076
Exploration and evaluation costs	44,679	-	251,981	373,749	73,286	36,762	780,457
Recoveries received	-	-	-	(378,491)	-	-	(378,491)
Net exploration and evaluation costs (recovery)	\$ 44,679	\$ -	\$ 251,981	\$ (4,742)	\$ 73,286	\$ 36,762	\$ 401,966

**7. MARKETABLE SECURITIES**

As at December 31, 2015, the Company owned 250,000 common shares of Sonoro as part of the Definitive Agreement (Note 6). Management has determined it appropriate to record the common shares of Sonoro as available-for-sale financial assets. The initial investment was recorded at cost. The Company revalues the investments at each reporting period. Any changes in the fair value of the investments is recorded in other comprehensive income ("OCI") until the investments are sold or otherwise disposed, at which point any gains and losses recorded to date will be recognized through profit or loss.

The fair value of these common shares as at June 12, 2015, the date of the Definitive Agreement, was \$26,250. The fair value decreased to \$13,750 as at December 31, 2015, therefore \$12,500 was recorded as an unrealized loss on marketable securities during the nine months ended December 31, 2015.



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**8. RESTORATION, REHABILITATION AND ENVIRONMENTAL OBLIGATIONS**

As at December 31, 2015, the Company's restoration, rehabilitation and environmental obligations are estimated to be \$613,064 (March 31, 2015: \$616,808) and they relate to the dismantling and removal of its exploration camp and equipment at the Company's Kiyuk Lake property. The obligation was calculated using an inflation rate of 2% and a discount rate of approximately 0.48% with the assumption that the obligation will be settled in mid-2018.

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

Balance - March 31, 2014	\$	600,366
Increase in liabilities		11,587
Accretion expense		4,855
Balance - March 31, 2015		616,808
Change in estimate		(6,254)
Accretion expense		2,510
Balance - December 31, 2015	\$	613,064

It is possible the Company's estimate of its ultimate restoration, rehabilitation and environmental obligations could change due to possible changes in laws and regulations, changes in cost estimates and discount rates.

**9. RELATED PARTY TRANSACTIONS**

Related parties include the Board of Directors, Executive Officers and any companies owned or controlled by them.

**Compensation of Key Management Personnel**

Key management personnel consist of current and former directors and senior management including the President, Chief Executive Officer and former Chief Financial Officer. Key management personnel compensation for the nine months ended December 31, 2015 and 2014 includes:

	2015	2014
Consulting and management fees	\$ 101,500	\$ 79,000
Exploration and evaluation expenditures	4,000	-
Office, rent, salary and miscellaneous	22,500	28,500
Professional fees	31,500	27,000
	\$ 159,500	\$ 134,500

The accounts payable and accrued liabilities of the Company include the following amounts due to related parties as at December 31, 2015 and March 31, 2015:

	December 31, 2015	March 31, 2015
Key management personnel	\$ 53,000	\$ 9,000

As at December 31, 2015, the Company paid \$12,000 (March 31, 2015: \$12,000) as a rent deposit to a company partially controlled by a director, which is included in prepaid expenses.

## **10. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS**

### **Capital Stock**

The Company has authorized an unlimited number of common shares without par value. As at December 31, 2015, the Company had 19,778,299 (March 31, 2015: 19,478,299) common shares outstanding.

On December 11, 2014, the Company consolidated its issued and outstanding common shares, stock options and share purchase warrants on the basis of one new share for every five existing shares. All share and per share amounts have been restated to reflect the share consolidation.

On October 7, 2014, pursuant to the amending letter agreement for the Kiyuk Lake Property dated October 28, 2010, the Company paid \$60,000 and issued 12,000 common shares valued at \$1,500 to the Optionor. In addition, Evolving issued 20,000 common shares to the Optionor. The Company issued 1,147 shares valued at \$144 to Evolving as reimbursement. The value of the common shares was based on the market price of the shares at the time of issuance.

On December 11, 2014, the Company completed a non-brokered private placement of 10,725,000 units at a price of \$0.10 per unit for gross proceeds of \$1,072,500. Each unit consists of one common share and one-half warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.20 per share for a period of 3 years from December 11, 2014. Gross proceeds from this financing were allocated \$869,000 to capital stock and \$203,500 to warrant reserves based on their relative fair values.

The Company paid \$52,398 of share issue costs related to the private placement which was offset against capital stock. The Company issued 394,500 finder's fee warrants related to the private placement. Each warrant entitles the holder to purchase one additional common share at a price of \$0.20 per share for a period of 2 years from December 11, 2014. The fair value of warrants is \$11,000 based on Black-Scholes option pricing model and was recorded to warrant reserves and offset against capital stock.

On December 11, 2014, the Company issued 3,000,000 common shares valued at \$225,000, for the acquisition of the Eric Lake and Noomut River properties and issued 337,500 common shares, valued at \$25,313, as finder's fee in connection with the acquisitions.

On December 11, 2014, the Company issued 1,000,000 common shares, valued at \$75,000, for the acquisition of the Richardson Property and issued 112,500 common shares, valued at \$8,437, as finder's fee in connection with the acquisition.

On May 22, 2015, the Company issued 200,000 common shares, valued at \$15,000, for the acquisition of the El Reventon Silver Project. .

On July 8, 2015, the Company issued 100,000 common shares, valued at \$7,000 for the acquisition of the Manson Creek Property.

During the nine months ended December 31, 2015, the Company received \$50,000 as part of a non-brokered private placement of 3,600,000 units at \$0.10 per unit for gross proceeds of \$360,000 (Note 15) that was completed subsequent to December 31, 2015.

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**10. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)**

**Share purchase warrants**

The following is a summary of the warrant transactions for the nine months ended December 31, 2015 and the year ended March 31, 2015:

March 31, 2014	Issued	Expired	March 31 and December 31, 2015	Exercise Price	Expiry Date
403,125	-	(403,125)	-	\$5.60	May 19, 2014
-	394,500	-	394,500	\$0.20	December 11, 2016
-	5,362,500	-	5,362,500	\$0.20	December 11, 2017
403,125	5,757,000	(403,125)	5,757,000	\$0.20	

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants granted during the year ended March 31, 2015:

Risk-free interest rate	1.08%
Expected life of options	2.93 years
Expected annualized volatility	107.59%
Expected dividend rate	0%

**Stock options**

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

The following is a summary of the options transactions for the nine months ended December 31, 2015 and year ended March 31, 2015:

March 31, 2014	Issued	Expired	Forfeited	March 31 and December 31, 2015	Exercise Price	Expiry Date
56,435	-	(56,435)	-	-	\$ 4.00	May 19, 2014
67,500	-	-	-	67,500	\$ 5.00	March 4, 2016
37,683	-	-	(37,683)	-	\$10.00	April 4, 2016
65,000	-	-	-	65,000	\$10.00	July 25, 2016
7,500	-	-	(7,500)	-	\$17.00	August 12, 2016
9,398	-	-	(9,398)	-	\$10.00	September 12, 2016
53,250	-	-	(53,250)	-	\$10.20	April 24, 2017
296,766	-	(56,435)	(107,831)	132,500	\$ 7.45	

All of the stock options outstanding as at December 31, 2015 are exercisable.

**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions for the nine months ended December 31, 2015 consisted of:

- Issued 300,000 common shares at a fair value of \$22,000 for mineral property acquisitions.
- Received 250,000 common shares of Sonoro at a fair value of \$26,250 which was recorded as a reduction to the carrying value of mineral property interests.

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**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (Continued)**

Significant non-cash transactions for the nine months ended December 31, 2014 consisted of:

- c) Reduction of restoration, rehabilitation and environmental obligations of \$8,937 charged against property and equipment.
- d) Issued 13,147 post-consolidation common shares at a fair value of \$1,644 pursuant to the Amending Letter Agreement for the Kiyuk Lake property.
- e) Issued 3,000,000 post-consolidation common shares at a fair value of \$225,000 pursuant to the acquisition of the Eric Lake and Noomut River properties.
- f) Issued 1,000,000 post-consolidation common shares at a fair value of \$75,000 pursuant to the acquisition of the Richardson property.
- g) Issued 337,500 finder's fee common shares at a fair value of \$25,313 pursuant to the acquisition of the Eric Lake and Noomut River properties.
- h) Issued 112,500 finder's fee common shares at a fair value of \$8,437 pursuant to the acquisition of the Richardson property.

**12. SEGMENTED INFORMATION**

The Company's operations are primarily directed towards the acquisition of mineral properties and exploration for metals in Canada, United States and Mexico.

The Company's geographic information as at December 31, 2015 and March 31, 2015 are as follows:

As at December 31, 2015	Canada		United States		Mexico		Total
<u>Assets</u>							
Mineral property interests	\$	938,293	\$	57,187	\$	-	\$ 995,480
Other assets		128,772		-		20,787	149,559
Total	\$	1,067,065	\$	57,187	\$	20,787	\$ 1,145,039

As at March 31, 2015	Canada		United States		Mexico		Total
<u>Assets</u>							
Mineral property interests	\$	911,061	\$	83,437	\$	-	\$ 994,498
Other assets		801,446		-		-	8001,446
Total	\$	1,712,507	\$	83,437	\$	-	\$ 1,795,944

**13. COMMITMENTS AND CONTINGENCIES**

The Company's exploration and evaluation activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

#### **14. FINANCIAL INSTRUMENTS**

##### **a) Fair Values**

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

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The fair value of cash, amounts receivable, and accounts payables and accrued liabilities approximates their carrying value due to their short-term maturity. Cash is measured using level one of the fair value hierarchy.

##### **b) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. The Company's financial obligations are limited to accounts payable and accrued liabilities, all of which have contractual maturities of less than a year.

##### **c) Credit Risk**

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

##### **d) Political Risk**

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

##### **e) Foreign Currency Fluctuation Risk**

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

#### **15. SUBSEQUENT EVENT**

On February 17, 2016, the Company closed a non-brokered private placement of 3,600,000 units at a price of \$0.10 per unit for gross proceeds of \$360,000 of which \$50,000 was received during the nine months ended December 31, 2015. Each unit consists of one common share and one half share warrant. Each warrant entitles the holder to purchase one additional common share at \$0.15 per share until February 17, 2019. The Company paid \$1,500 and issued 15,000 warrants as finder's fees.