SCORPIO

GOLD CORPORATION

Consolidated Financial Statements of

Scorpio Gold Corporation

For the years ended December 31, 2017 and December 31, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Scorpio Gold Corporation

We have audited the accompanying consolidated financial statements of Scorpio Gold Corporation, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, these consolidated financial statements present fairly, in all material respects, the financial position of Scorpio Gold Corporation as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Scorpio Gold Corporation's ability to continue as a going concern.

Other Matters

The consolidated financial statements of Scorpio Gold Corporation for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on April 21, 2017.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

April 24, 2018

Scorpio Gold Corporation
Consolidated statements of comprehensive income
Years ended December 31, 2017 and December 31, 2016
(In thousands of US dollars except for shares and per share amounts)

	2017	2016
	$	$
Revenue	**26,993**	42,759
Cost of sales excluding depletion and amortization (Note 5)	**(22,298)**	(31,515)
Inventory write-down (Note 9)	**(830)**	(51)
Depletion and amortization	**(1,289)**	(1,555)
Mine operating earnings	**2,576**	9,638
Expenses		
General and administrative (Note 6)	**(1,224)**	(1,172)
Care and maintenance - Goldwedge	**(705)**	(709)
Net loss on disposal and write-off of assets	**(4)**	(1,432)
Impairment of mining assets (Note 3b))	**(4,104)**	(3,624)
Loss on litigation (Note 20)	**-**	(1,015)
Operating (loss) earnings	**(3,461)**	1,686
Other (expenses) income		
Finance costs (Note 7)	**(778)**	(785)
Finance income	**3**	6
	(775)	(779)
(Loss) earnings before income taxes	**(4,236)**	907
Income tax recovery (expense) (Note 12)	**12**	(568)
Net (loss) earnings and comprehensive income	**(4,224)**	339
Net (loss) earnings and comprehensive income attributable to:		
Shareholders of the Company	**(3,682)**	(390)
Non-controlling interest	**(542)**	729
	(4,224)	339
Basic and diluted loss per share	**(0.03)**	(0.00)
Basic and diluted weighted average number of shares outstanding (Note 8)	**124,948,235**	124,948,235

See accompanying notes to the consolidated financial statements

Scorpio Gold Corporation
Consolidated statements of financial position
As at December 31,
(In thousands of US dollars)

	2017	2016
	$	$
Assets		
Current assets		
Cash	**939**	3,816
Restricted cash (Note 20)	**-**	2,307
Trade and other receivables	**188**	162
Prepaid expenses and other	**548**	817
Inventories (Note 9)	**2,457**	7,111
Total current assets	**4,132**	14,213
Producing mining assets (Note 10)	**5,121**	4,929
Non-producing mining assets and other (Note 11)	**2,710**	2,630
Reclamation bonds (Note 14a))	**5,745**	5,742
Total assets	**17,708**	27,514
Equity and liabilities		
Current liabilities		
Trade and other payables	**1,007**	4,118
Provision for litigation (Note 20)	**-**	1,015
Income taxes payable	**274**	574
Current portion of long-term debt and financing lease (Note 13)	**6,056**	121
Total current liabilities	**7,337**	5,828
Long-term debt and financing lease (Note 13)	**50**	6,009
Provision for environmental rehabilitation (Note 14b))	**4,854**	4,684
Deferred income tax liability (Note 12)	**53**	348
Total liabilities	**12,294**	16,869
Equity		
Share capital (Note 15)	**51,449**	51,449
Equity reserve	**6,555**	6,555
Investment valuation reserve	**(2)**	(2)
Foreign currency translation reserve	**(194)**	(194)
Deficit	**(48,535)**	(44,853)
Equity attributable to shareholders of the Company	**9,273**	12,955
Non-controlling interest	**(3,859)**	(2,310)
Total equity	**5,414**	10,645
Total liabilities and equity	**17,708**	27,514

Statement of compliance, basis of presentation and going concern (Note 2)
Commitments (Note 21)

APPROVED BY THE BOARD

Director

Director

See accompanying notes to the consolidated financial statements

Scorpio Gold Corporation
Consolidated statements of changes in equity
Years ended December 31, 2017 and December 31, 2016
(In thousands of US dollars, shares in thousands)

	Share capital				Foreign currency			
	Number	Amount	Equity reserve	Investment valuation reserve	translation reserve	Deficit	Non-controlling interest	Total equity
		$	$	$	$	$	$	$
Balance, December 31, 2016	124,948	51,449	6,555	(2)	(194)	(44,853)	(2,310)	10,645
Net loss and comprehensive income for the year	-	-	-	-	-	(3,682)	(542)	(4,224)
Distributions to non-controlling interest	-	-	-	-	-		(1,007)	(1,007)
Balance, December 31, 2017	124,948	51,449	6,555	(2)	(194)	(48,535)	(3,859)	5,414

	Share capital				Foreign currency			
	Number	Amount	Equity reserve	Investment valuation reserve	translation reserve	Deficit	Non-controlling interest	Total equity
		$	$	$	$	$	$	$
Balance, December 31, 2015	124,948	51,449	6,388	(2)	(194)	(44,463)	(3,030)	10,148
Net (loss) earnings and comprehensive income for the year	-	-	-	-	-	(390)	729	339
Distributions to non-controlling interest	-	-	-	-	-	-	(351)	(351)
Contributions by non-controlling interest	-	-	-	-	-	-	342	342
Share-based compensation	-	-	167	-	-	-	-	167
Balance, December 31, 2016	124,948	51,449	6,555	(2)	(194)	(44,853)	(2,310)	10,645

See accompanying notes to the consolidated financial statements

Scorpio Gold Corporation
Consolidated statements of cash flows
Years ended December 31, 2017 and December 31, 2016
(In thousands of US dollars)

	2017	2016
	$	$
Operating activities		
(Loss) earnings for the year before taxes	**(4,236)**	907
Adjustment for:		
Income tax paid	**(583)**	(133)
Environmental rehabilitation expenditures	**-**	(7)
Items not involving cash:		
Finance costs	**778**	785
Finance income	**(3)**	(5)
Loss on litigation (Note 20)	**-**	1,015
Impairment of mining assets (Note 3e))	**4,104**	3,624
Net loss on disposal and write-off of assets	**4**	1,432
Inventory write-down (Note 3e)2)i)a))	**830**	-
Depletion and amortization	**1,297**	1,580
Share-based compensation	**-**	167
Cash flows from operating activities before movements in working capital:	**2,191**	9,365
Change in working capital items (Note 16)	**1,249**	1,635
	3,440	11,000
Investing activities		
Decrease (increase) in restricted cash (Note 20)	**1,307**	(2,307)
Additions to non-producing mining assets	**(2,870)**	(3,701)
Proceeds from disposal of assets	**2**	221
Additions to producing mining assets	**(3,021)**	(2,910)
	(4,582)	(8,697)
Financing activities		
Repayment of long-term debt and financing lease	**(128)**	(149)
Interest paid	**(600)**	(602)
Distributions to non-controlling interest	**(1,007)**	(351)
Contributions by non-controlling interest	**-**	342
	(1,735)	(760)
(Decrease) increase in cash	**(2,877)**	1,543
Cash, beginning of year	**3,816**	2,273
Cash, end of year	**939**	3,816

Supplemental cash flow information (Note 16)

See accompanying notes to the consolidated financial statements

1. Continuation of operations

Scorpio Gold Corporation ("Scorpio Gold" or the "Company") and its subsidiaries conduct mineral exploitation, exploration and development activities in the United States.

The Company is incorporated under the Business Corporations Act (British Columbia) and is listed on the TSX Venture Exchange. The address of the Company's registered office is 206-595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5 and its administrative office is located at 1462, de la Quebecoise, Val-d'Or, Quebec, Canada, J9P 5H4.

2. Statement of compliance, basis of presentation and going concern

The Company's consolidated financial statements have been prepared on the going concern basis which assumes that the Company will continue to be able to meet its liabilities as they fall due for the foreseeable future.

The Company's only source of revenue, the 70% owned Mineral Ridge mine, suspended mining in November 2017 and management expects to generate limited revenues from residual but diminishing gold recoveries from the leach pads until approximately July 2018. As a result, the Company's revenues from operations have been and continue to be adversely affected, and cash flow from operations will soon be insufficient to support the Company. In addition, the principal of $6.0 million of the Company's long-term debt matures in August 2018. In light of this situation, the Company does not expect that it will be able to generate sufficient cash flows from its operations to continue as a going concern in the near future. The Company will need to raise additional capital in the coming months in order to support its operations and to settle its long-term debt. The Company is currently evaluating various business alternatives, which involve refinancing its long-term debt and raising the required capital to support its operations and for the construction of a new processing facility at the Mineral Ridge mine.

In October 2017, the Company announced a positive feasibility study for processing the heap leach mineral resource at Mineral Ridge. This economically positive study provides the foundation for recovering a substantial portion of the 117,000 ounces of gold proven and probable reserves contained on the heap leach pad. Additionally, due to higher expected recovery rates provided by the new milling circuit, the Company proceeded with a third-party analysis of its other known mineralization reserves. This study added additional mineral reserves of 156,000 ounces for a combined mineral reserves of 273,000 ounces in the proven and probable category. This is expected to extend the Mineral Ridge life of mine by an estimated total of 7.5 years' subject to the construction of the new processing facility. Further exploration at Mineral Ridge may also add additional resources.

On November 15, the Company announced the engagement of Bordeaux Capital Inc. to act as a financial advisor to Scorpio Gold in connection with a proposed financing for the construction of a new processing facility at Mineral Ridge, to re-finance the Company's current long-term debt and for general working capital purposes. Since then, Scorpio Gold has hired other financial advisory groups with a view to accessing more sources of potential financing. Bordeaux's term as financial advisor has now expired and as such they are no longer retained by the Company.

The successful completion of the refinancing of the Company's long-term debt, raising capital to finance construction of a new processing facility and to support operations during the period of construction; obtaining relevant permits to proceed with construction and to resume mining, provided it is economically viable to do so, and the ability to identify future profitable business operations is not entirely within the control of the Company. These factors create significant doubt and material uncertainty over the Company's ability to continue as a going concern in the foreseeable future.

The Company's consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments could be material.

2. Statement of compliance, basis of presentation and going concern (Continued)

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at December 31, 2017.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 24, 2018.

3. Significant accounting policies

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

a) Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis.

b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its United States based wholly-owned subsidiaries, Scorpio Gold (US) Corporation and Goldwedge LLC. They also include its United States based 70% owned subsidiary Mineral Ridge Gold LLC ("MRG"), the owner of the Mineral Ridge mine.

Control exists when the Company has the power over its investees, is exposed or has rights to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Profit and loss and each component of other comprehensive income are attributed to the shareholders of the Company and to the non-controlling interest.

All intercompany accounts, revenues and expenses transactions have been eliminated.

c) Change in accounting policies

i) Amendments to Statement of Cash Flows ("IAS 7")

On January 1, 2017, the Company adopted the amendments to *Statement of Cash Flows* ("IAS 7"). The amendments improve information provided to users of financial statements about the Company's financing activities. The adoption of these amendments resulted in new disclosures relating to the changes in financial liabilities arising from financing activities (Note16 (b)).

ii) Amendments to Disclosure of Interest in Other Entities ("IFRS 12")

On January 1, 2017, the Company adopted the narrow scope amendments to Disclosure of Interest in Other Entities ("IFRS 12"). The adoption of these amendments did not have any impact on the presentation of the Company's financial statements.

iii) Amendments to Income Taxes ("IAS 12)

On January 1, 2017, the Company adopted the narrow scope amendments to Income Taxes ("IAS 12"). The adoption of these amendments did not have any impact on the presentation of the Company's financial statements.

3. Significant accounting policies (Continued)

d) Foreign currency translation

Foreign currency transactions are recorded at the exchange rate as at the date of the transaction. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities in foreign currencies other than the functional currency are translated using the historical rate. All gains and losses on translation of these foreign currency transactions are included in the consolidated statements of operations.

e) Management judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

Information about critical judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

1) Critical judgments:

i) Capitalization of exploration and evaluation costs and determination of economic viability of a project

Management has determined that exploration, development and evaluation costs incurred which were capitalized have future economic benefits. Management uses several criteria in its assessment of economic recoverability and probability of future economic benefit including geological and metallurgical information, accessible facilities, existing permits and life of mine plans.

ii) Determination of functional currency

The functional currency of the Company and its US subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined that its functional currency and that of its US subsidiaries' functional currency is the US dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment in which the entity operates and the Company reconsiders functional currency if there is a change in events and conditions which determined the primary economic environment.

3. Significant accounting policies (Continued)

e) Management judgments and estimates (Continued)

1) Critical judgments: (Continued)

iii) Commencement of commercial production of an open pit

Prior to reaching commercial production for an open pit, costs incurred are capitalized as part of the costs of related non-producing mining assets. Depletion of capitalized costs for mining properties begins when commercial production has been reached.

In order to determine when commercial production of an open pit is deemed to have commenced, management considers various operating results compared to expectations, sustainability of those operating results and other qualitative factors.

2) Estimates:

i) Asset carrying values and impairment

The Company performs impairment testing when impairment indicators are present. In the determination of carrying values and impairment charges, management considers the recoverable amount which is the greater of fair value less costs of disposal and value in use in the case of mining assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

a) Mineral Ridge mine

The fact that the carrying amount of the net assets of the Company was higher than the Company's market capitalization as of December 31, 2017 and that mining at Mineral Ridge was suspended in November 2017 are indicators of impairment. In determining the recoverable amount of the Mineral Ridge cash-generating unit ("CGU"), the Company determined the recoverable value using fair value less costs of disposal. Impairment testing is performed using cash flow projections derived from expected future production, which incorporate reasonable estimates of precious metal production, future metal prices, operating costs, capital expenditures and the residual values of the assets. The determination of the recoverable value used Level 3 valuation inputs.

Based on its assessment the Company determined that the recoverable value using fair value less costs of disposal was $5.6 million. During the year ended December 31, 2017, the Company recorded non-cash impairment charges for Mineral Ridge of $3.6 million.

The Company has performed a sensitivity analysis to identify the impact of changes in forecasted revenues which is the key assumption that impacts the impairment calculation mentioned above. Using the foregoing impairment testing model, a 10% change in the forecasted revenues and holding all other assumptions constant has no impact on the impairment as the residual value of the assets remains constant.

The recoverability analysis over the Company's inventory as at September 30, 2017, using a gold price assumption of $1,275, indicated that their net realizable value was lower than the costs of production. As a result, a write-down on inventory was recognized in cost of sales for an amount of $0.8 million during the year ended December 31, 2017. No additional write-down on inventory was required during the year ended December 31, 2017.

3. Significant accounting policies (Continued)

e) Management judgments and estimates (Continued)

2) Estimates (Continued):

i) Asset carrying values and impairment (Continued)

a) Mineral Ridge mine (Continued)

During the year ended December 31, 2016, based on its assessment, using a discount rate of 9% along with an average gold price assumption of $1,225 for 2017, the Company determined that the recoverable value using fair value less costs of disposal was $5.7 million. During the year ended December 31, 2016, the Company recorded non-cash impairment charges for Mineral Ridge of $3.1 million.

b) Goldwedge property and mill

The fact the carrying amount of the net assets of the Company was higher than the Company's market capitalization as of December 31, 2017 is an indicator of impairment. In determining the recoverable amount of the Goldwedge CGU, the Company determined the recoverable value using the fair value less costs of disposal using Level 3 valuation inputs. The Company also includes in its estimate an estimated amount for costs to sell the CGU. Based on its assessment, the Company recorded a non-cash impairment charge of $0.5 million (2016: $0.5 million) during the year ended December 31, 2017.

ii) Estimation of asset lives and residual values

Depletion, depreciation and amortization expenses are allocated based on assumed asset lives and estimated residual values. Should the asset life, residual values, depletion rates or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statements of operations.

iii) Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operations.

3. Significant accounting policies (Continued)

e) Management judgments and estimates (Continued)

2) Estimates (Continued):

iv) Recognition of deferred taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax 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. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company’s control, and are feasible and implementable without significant obstacles. 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. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates may occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized deferred income tax assets.

v) Estimation of environmental rehabilitation and the timing of expenditure and related accretion

The Company’s provision for environmental rehabilitation represents management’s best estimate of the present value of the future cash outflows required to settle estimated reclamation and closure costs at the end of mine’s life. The provision reflects estimates of future costs, inflation and assumptions of risks associated with the future cash outflows, and the applicable interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company.

Changes to the provision for environmental rehabilitation are recorded with a corresponding change to the carrying amounts of related mining properties. Adjustments to the carrying amounts of related mining properties can result in a change to future depletion expense.

vi) Stripping activity asset

In the determination of its stripping activity asset and depreciation charge, management uses mineral reserve estimates which are subject to numerous uncertainties inherent in estimating mineral reserves and mineral resources. Differences between management's estimates in mineral reserves and resources could have a material effect in the future on the Company's financial position and results of operation. Changes in estimated strip ratios can also result in a change to the future capitalization of stripping activity asset.

3. Significant accounting policies (Continued)

e) Management judgments and estimates (Continued)

2) Estimates (Continued):

vii) Inventories

In determining cost of inventories, management makes estimates of quantities of ore stacked on the leach pad and in process and the recoverable gold in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in cost of sales excluding depletion and amortization of future periods and carrying amounts of inventories.

f) Revenue recognition

Revenue from the sale of metals is recognized when all the following conditions have been satisfied:

a) significant risks and rewards of ownership have been transferred to the buyer;
b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
c) the amount of revenue can be measured reliably;
d) it is probable that the economic benefits associated with the transaction will flow to the Company; and
e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sales of precious metals prior to mine commissioning or commencement of commercial production of a pit is recorded as a reduction of non-producing mining assets if it can be reliably measured separately from other sales. Since the Company has operated a single leach pad, revenue is recorded in the statement of operations. Subsequent to the commissioning of a mine, revenues are recognized in operations.

From time to time, some of the Company's sales are made under provisional pricing arrangements where the final sale prices are determined by quoted market prices in a period subsequent to the date of sale. In these circumstances, revenue from sales is recorded at period end based on latest information about prices and quantities available to management for the expected date of final settlement. Under such arrangements, the Company's receivable changes as the underlying commodity market price varies, this component of the contract is an embedded derivative which is recognized at fair value with changes in fair value recognized in revenues and receivables. Subsequent variations in prices and metal quantities are recognized as revenue adjustments as they occur.

3. Significant accounting policies (Continued)

g) Inventories

Supplies are recorded at the lower of cost, using the weighted average cost formula, and net realizable value. In the event that the cost of ore inventory produced using these supplies exceeds its net realizable value, then the supplies are written down to net realizable value. In such circumstances, the Company uses replacement cost as the best available measure of the net realizable value of supplies.

Inventories consisting of ore stockpile, in process and finished goods are valued at the lower of the cost of production and net realizable value. Net realizable value is calculated as the difference between estimated costs to complete production into a saleable form and the estimated future precious metal selling price based on prevailing metal prices.

The cost of production includes an appropriate proportion of depreciation and overhead. Inventories in process represent inventories that are currently in the process of being converted to a saleable product. The assumptions used in the valuation of in process inventories include estimates of metal contained and recoverable in the ore stacked on the leach pad, the amount of metal included in carbon that is expected to be recovered and an assumption of the precious metal price expected to be realized when the precious metal is recovered. If the cost of inventories is not recoverable due to a decline in selling prices or the costs of completion or the estimated costs to be incurred to make the sale have increased, the Company would be required to write-down the recorded value of its in process inventories to net realizable value.

Ore in stockpile is comprised of ore extracted from the mine and available for further processing. Costs are added to ore in stockpile at the current mining cost and removed at the accumulated average cost per tonne. Costs are added to ore on the heap leach pad based on current processing costs and removed from the heap leach pad as ounces are recovered in process at the plant based on the average cost per recoverable ounce on the heap leach pad. Although the quantity of recoverable gold placed on the heap leach pad is reconciled by comparing the grades of ore placed on the heap leach pad to the quantities of gold actually recovered, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As such, engineering estimates are refined based on actual results over time. Variances between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realizable value are accounted for on a prospective basis. The ultimate recovery of gold from the heap leach pad will not be known until the leaching process is concluded.

h) Mining assets

(i) Producing mining assets

Upon reaching commercial production levels, acquisition costs of mining interests, related exploration and development expenditures, accumulated depreciation and write-downs are moved from non-producing to producing assets. Producing mining costs are depleted and charged to operations using the unit of production method as a proportion of estimated recoverable mineral reserves.

The Company reviews and evaluates the carrying values of its mining interests and related costs associated with them whenever events or changes in circumstances indicate a possible impairment.

When such conditions exist for its producing mining assets, management looks at the recoverable amount which is the greater of fair value less costs of disposal and value in use using life of mine discounted after-tax cash flow projections derived from expected future production, which incorporate reasonable estimates of future metal prices, operating costs and capital expenditures.

Definition drilling and related costs are charged to operations in the period incurred.

3. Significant accounting policies (Continued)

h) Mining assets (Continued)

(ii) Non-producing mining assets

The Company follows the method of accounting for its mineral properties whereby all costs relating to the acquisition, exploration and development are deferred and capitalized by property up to the point of commercial production. Costs relating to areas of interest abandoned are written off when such a decision is made.

The Company reviews the carrying values of its non-producing mining assets whenever events or changes in circumstances indicate that their carrying values may exceed their estimated recoverable amounts. The recoverability of amounts shown is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to finance the development of the properties, and on the future profitable production or proceeds from the disposal thereof. An impairment loss is recognized when the carrying value of those assets exceeds its estimated net recoverable amount, which is the higher of fair value less costs of disposal and value in use.

Costs incurred for general exploration that are not project-specific are charged to operations.

(iii) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization and impairment loss, if any. Amortization of plant and equipment is calculated using either the straight-line or unit of production method over the shorter of the estimated useful life of the asset or the life of mine. The significant classes of depreciable property, plant and equipment and their estimated useful lives are as follows:

Plant and equipment	life of mine
Mobile equipment	5-7 years straight-line
Furniture and office equipment	3-4 years straight-line

The cost of an item of property, plant and equipment includes the purchase price or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and borrowing costs related to the acquisition or construction of qualifying assets.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized and the component being replaced is derecognized on disposal or when there are no future economic benefits. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use.

The amortization method, useful life and residual values are assessed at least annually.

Construction in progress is carried at cost and depreciation will start when the asset is brought to a working condition for its intended use. The cost of self-constructed assets includes the cost of materials and direct labour.

3. Significant accounting policies (Continued)

h) Mining assets (Continued)

(iii) Property, plant and equipment (Continued)

The Company compares the carrying value of property, plant and equipment to its recoverable amount whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is determined based on the expected use of the property, plant and equipment in the conduct of operation activity, and its potential resale value. Impairment in value would be indicated if the asset's carrying value exceeds its estimated recoverable amount.

(iv) Leases

Leases in which the Company assumes substantially all risks and rewards of ownership are classified as financing leases. Assets held under financing leases are recognized at the lower of the fair value and the present value of minimum lease payments at inception of the lease. All other leases are classified as operating leases. Operating lease payments are recognized as an operating cost in statement of operations.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

i) Provision for environmental rehabilitation

The Company recognizes contractual, statutory, legal and constructive obligations associated with retirement of mining properties when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for provision for environmental rehabilitation is recognized at its fair value in the period in which it is incurred which is the best estimate of the consideration required to settle the present obligation at the end of the reporting period. Upon initial recognition of the liability, the corresponding environmental rehabilitation cost is added to the carrying amount of that asset and the cost is amortized as an expense over the economic life of the related asset. Following the initial recognition of the provision for environmental rehabilitation, the carrying amount of the liability is increased for the passage of time and adjusted for changes in regulatory requirements and assumptions regarding the amount or timing of the underlying cash flows to settle the obligation and changes to the discount rate.

j) Share-based compensation

The Company's stock option plan allows the Company's employees (including directors and officers) and consultants to acquire common shares of the Company. A maximum of 10% of the common shares issued may be granted. The exercise price of each option shall not be less than the closing market price for the common shares on the trading day prior to the date of the grant. Options may have a maximum term of ten years. Vesting conditions of options is at the discretion of the Board of Directors at the time the options are granted. The fair value of the option is either charged to operations or capitalized to non-producing mining assets, depending on the recipient of the options, with a corresponding increase in equity reserve.

Where equity instruments are issued for goods or services, the consideration is the fair value of the goods or services received unless the value of the goods or services cannot be specifically identified, then consideration is measured at the fair value of the share-based compensation.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

3. Significant accounting policies (Continued)

j) Share-based compensation (Continued)

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date up to the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for awards that do not ultimately vest.

k) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) attributable to shareholders of the Company by the weighted average number of common shares outstanding for the year. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the year, if dilutive. The number of additional shares is calculated using the assumed proceeds upon the exercise of stock options that are used to purchase common shares at the average market price during the reporting periods if dilutive.

l) Financial instruments

The Company classifies its financial instruments into one of the following categories: fair value through profit or loss ("FVTPL") (assets and liabilities), assets available-for-sale, loans and receivables, assets held-to-maturity and other financial liabilities. All financial instruments are measured at fair value on initial recognition.

Financial assets and liabilities designated as FVTPL are subsequently measured at fair value with changes in fair value recognized in earnings. Financial assets designated as "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. Transaction costs for FVTPL financial assets and liabilities are recognized in earnings when incurred.

Financial assets that meet the criteria to be classified as "held-to-maturity" or "loans and receivables", and financial liabilities designated as "other financial liabilities" are recorded at amortized cost. Transaction costs from loans and receivables and other financial liabilities offset the carrying amount of the related financial assets or liabilities.

Cash, restricted cash, trade and other receivables as well as reclamation bonds are classified as "loans and receivables", and trade and other payables as well as long-term debt are classified as "other financial liabilities".

m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred. Interest payments are presented as financing activities in the statement of cash flows.

3. Significant accounting policies (Continued)

n) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

o) Contingencies

Contingencies can be either possible assets or possible liabilities arising from past events which, by their nature, will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential impact of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

p) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

q) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statement of operations, except where it relates to items that are recognized in other comprehensive income or directly in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred taxes are recorded using the liability method, where deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax assets and liabilities are measured using the substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the deferred tax benefit.

3. Significant accounting policies (Continued)

q) Income taxes (Continued)

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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.

r) Non-controlling interest

Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interest consists of the non-controlling interest at the date of the original acquisition plus the non-controlling interest's share of operating results and cash contributions less cash distributions since the date of acquisition.

s) Accounting standards issued but not effective

Certain amendments and new standards were issued by the International Accounting Standards Board ("IASB") or the IFRS Interpretations Committee ("IFRIC"). Those not applicable to or that do not have a significant impact on the Company have been excluded from the list below. The following is a description of the new or amended standards that have not yet been adopted by the Company.

a) Financial instruments ("IFRS 9")

Financial instruments ("IFRS 9") was issued by the IASB and will replace *Financial instruments: recognition and measurement* ("IAS 39"). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. 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. Final amendments also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The impact of this new standard will be increased disclosure in the financial statements.

3. Significant accounting policies (Continued)

s) Accounting standards issued but not effective (Continued)

b) Revenue from contracts with customers ("IFRS 15")

The core principle of this new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. These amendments are effective for annual periods beginning after January 1, 2018. This standard will have no significant effect on the presentation and disclosure of the financial statements.

c) Leases ("IFRS 16")

Leases ("IFRS 16") was issued by the IASB and will replace *Leases* ("IAS 17"). IFRS 16 requires most leases to be reported on a company's balance sheet as assets and liabilities. IFRS 16 is effective 1 January 2019. Early application is permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers*. The Company is currently assessing the impact of this new standard on its financial statements.

d) Uncertainty over Income Tax Treatments ("IFRIC 23")

Uncertainty over Income Tax Treatments ("IFRIC 23") was issued by IASB on June 7, 2017 to clarify the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit/loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 *Income Taxes*. IFRIC 23 is effective January 1, 2019. The Company is currently assessing the impact of this new standard on its financial statements.

(Tabular amounts in thousands of US dollars unless otherwise noted)

4. Financial instruments

a) Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(i) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is attributable to cash, trade and other receivables and reclamation bonds. The credit risk on cash, as well as reclamation bonds is limited because the Company invests its cash and reclamation bonds in deposits with well capitalized financial institutions with strong credit ratings. Trade receivables on regular precious metal sales are generally received within a week after delivery. The Company has no past due accounts and has not recorded a provision for doubtful accounts.

(ii) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's current policy to manage liquidity risk is to keep cash in bank accounts.

The following table outlines the expected maturity of the Company's significant financial liabilities into relevant maturity grouping based on the remaining period from the date of the statement of financial position to the contractual maturity date:

	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
	$	$	$	$	$
Trade and other payables	1,007	1,007	-	-	-
Principal and interest on long-term debt and financing lease	6,544	6,493	51	-	-
Provision for environmental rehabilitation	5,337	-	413	4,352	572

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and price risk.

1) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's senior secured, non-revolving credit facility is fixed at an interest rate of 10% per annum and accordingly is not subject to cash flow interest rate risk due to changes in the market rate of interest. The Company does not use financial derivatives to manage its exposure to interest rate risk.

4. Financial instruments (Continued)

a) Financial risk factors (Continued)

(iii) Market risk (Continued)

2) Currency Risk
The Company is exposed to foreign currency risk through the following financial assets and liabilities denominated in Canadian dollars ("CAD$") and presented in thousands of US dollars.

	2017	2016
	$	$
Cash	**114**	117
Value added tax and other receivables	**3**	3
Trade and other payables	**(26)**	(10)

A reasonably possible change in the USD/CAD exchange rate of 10%, would not have a significant impact on net earnings or comprehensive income.

The Company does not use derivatives to manage its exposure to currency risk.

3) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market. The Company is not exposed to any significant price risk as at December 31, 2017. The Company does not use derivatives to manage its exposure to price risk.

b) Fair Value

The fair value of cash, trade and other receivables, reclamation bonds as well as trade and other payables approximate their carrying amount due to their short-term nature. Fair value of long-term debt is not significantly different from its carrying since most of it matures in August 2018.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.

- Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company has no financial instruments classified as Level 1, Level 2 or Level 3. There has been no transfers between levels of the fair value hierarchy.

(Tabular amounts in thousands of US dollars unless otherwise noted)

5. Cost of sales

Cost of sales excluding depletion and amortization includes the following:

	2017	2016
	$	$
Contractor charges	**6,876**	12,715
Labour	**5,806**	7,298
Fuel and reagents	**1,838**	2,439
Mechanical parts	**1,492**	2,678
Change in ore stockpile, metals in process and finished goods inventories	**3,731**	3,226
Royalties	**17**	201
Utilities, permits and other	**2,538**	2,958
	22,298	31,515

6. General and administrative

	2017	2016
	$	$
Salaries and benefits	**600**	634
Investor relations	**148**	50
Directors fees	**146**	140
Professional fees	**127**	90
Insurance, travel and office related	**102**	111
Project evaluation	**50**	17
Consultants	**30**	31
Transfer agent and listing fees	**21**	21
Share-based compensation	**-**	72
Amortization	**-**	6
	1,224	1,172

(Tabular amounts in thousands of US dollars unless otherwise noted)

7. Other expenses

	2017	2016
	$	$
Interest on long-term debt	**600**	603
Amortization of debt issue cost	**97**	88
Unwinding of discount of provision for environmental rehabilitation	**74**	88
Interest on financing lease	**7**	6
	778	785

8. Weighted average number of shares and dilutive share equivalents

	2017	2016
Basic weighted average number of shares	**124,948,235**	124,948,235

All of the potentially dilutive securities were excluded from the dilutive number of shares outstanding for years ended December 31, 2017 and December 31, 2016 as they are anti-dilutive.

9. Inventories

	2017	2016
	$	$
Supplies	**771**	865
Ore stockpile	**-**	244
Metals in process	**1,661**	3,328
Finished goods	**25**	2,674
	2,457	7,111

During the year ended December 31, 2017, inventory included as cost of sales is $24.4 million (2016: $32.9 million). During the year ended December 31, 2017 the Company recognized a write-down of inventory of $830,045 (2016: $51,331) as a result of recoverability analysis performed.

(Tabular amounts in thousands of US dollars unless otherwise noted)

10. Producing mining assets

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Total
Cost	$	$	$	$	$
Balance, December 31, 2015	67,806	23,330	1,520	779	93,435
Transfer from non-producing mining assets	594	111	12	-	717
Additions	2,554	172	500	19	3,245
Disposal	-	(431)	(59)	-	(490)
Change in provision for environmental rehabilitation	(794)	-	-	-	(794)
Balance, December 31, 2016	70,160	23,182	1,973	798	96,113
Transfer from non-producing mining assets	1,284 [1]	135	-	11	1,430
Additions	2,728	78	213	7	3,026
Disposal	-	(66)	-	-	(66)
Change in provision for environmental rehabilitation	89	-	-	-	89
Balance, December 31, 2017	74,261	23,329	2,186	816	100,592

Accumulated depreciation and impairment

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Total
Balance, December 31, 2015	67,768	18,913	954	776	88,411
Transfer from non-producing mining assets	238	81	-	-	319
Depletion and amortization	1,472	22	71	3	1,568
Impairments	682	300	222	11	1,215
Disposal	-	(280)	(49)	-	(329)
Balance, December 31, 2016	70,160	19,036	1,198	790	91,184
Transfer from non-producing mining assets	856[1]	-	-	8	864
Depletion and amortization	1,288	8	1	-	1,297
Impairment	1,957	155	64	6	2,182
Disposal	-	(56)	-	-	(56)
Balance, December 31, 2017	74,261	19,143	1,263	804	95,471
Net book value					
December 31, 2016	-	3,991	930	8	4,929
December 31, 2017	-	4,186	923	12	5,121

[1] The Brodie SE and Bluelite South pits at the Mineral Ridge project entered into the production phase during 2017, and therefore the related asset and impairment balances have been transferred from non-producing mining assets to producing mining assets.

(Tabular amounts in thousands of US dollars unless otherwise noted)

10. Producing mining assets (Continued)

Producing mining assets is detailed by property as follows:

	Mineral Ridge	Goldwedge	Total
Cost	$	$	$
Balance, December 31, 2015	90,807	2,628	93,435
Transfer from non-producing mining assets	698	19	717
Additions	3,238	7	3,245
Disposal	(485)	(5)	(490)
Change in provision for environmental rehabilitation	(794)	-	(794)
Balance, December 31, 2016	93,464	2,649	96,113
Transfer from non-producing mining assets	1,295	135	1,430
Additions	3,021	5	3,026
Disposal	(66)	-	(66)
Change in provision for environmental rehabilitation	89	-	89
Balance, December 31, 2017	97,803	2,789	100,592

Accumulated depreciation and impairment

	Mineral Ridge	Goldwedge	Total
Balance, December 31, 2015	86,445	1,966	88,411
Transfer from non-producing mining assets	319	-	319
Depletion and amortization	1,555	13	1,568
Impairments	1,124	91	1,215
Disposal	(325)	(4)	(329)
Balance, December 31, 2016	89,118	2,066	91,184
Transfer from non-producing mining assets	864	-	864
Depletion and amortization	1,289	8	1,297
Impairment	2,088	94	2,182
Disposal	(56)	-	(56)
Balance, December 31, 2017	93,303	2,168	95,471

Net book value			
December 31, 2016	4,346	583	4,929
December 31, 2017	4,500	621	5,121

(Tabular amounts in thousands of US dollars unless otherwise noted)

11. Non-producing mining assets and other

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Construction in progress	Total
Cost	$	$	$	$	$	$
Balance, December 31, 2015	15,177	685	604	43	744	17,253
Transfer to producing mining assets	(594)	-	-	-	(123)	(717)
Additions	3,850	-	-	-	123	3,973
Write-off	(2,782)	-	-	-	(3)	(2,785)
Disposal	-	-	-	(6)	-	(6)
Change in provision for environmental rehabilitation	(11)	-	-	-	-	(11)
Balance, December 31, 2016	15,640	685	604	37	741	17,707
Transfer to producing mining assets	(1,284)	-	-	-	(146)	(1,430)
Additions	1,766	4	-	-	791	2,561
Disposal	-	-	-	(4)	-	(4)
Change in provision for environmental rehabilitation	7	-	-	-	-	7
Balance, December 31, 2017	16,129	689	604	33	1,386	18,841

Accumulated depreciation and impairment

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Construction in progress	Total
Balance, December 31, 2015	12,549	515	455	34	721	14,274
Transfer to producing mining assets	(238)	-	-	-	(81)	(319)
Write-off	(1,296)	-	-	-	-	(1,296)
Amortization	-	5	1	6	-	12
Impairments	2,280	-	44	-	85	2,409
Disposal	-	-	-	(3)	-	(3)
Balance, December 31, 2016	13,295	520	500	37	725	15,077
Transfer to producing mining assets	(856)	-	-	-	(8)	(864)
Impairment	1,217	-	36	-	669	1,922
Disposal	-	-	-	(4)	-	(4)
Balance, December 31, 2017	13,656	520	536	33	1,386	16,131
Net book value						
December 31, 2016	2,345	165	104	-	16	2,630
December 31, 2017	2,473	169	68	-	-	2,710

Depreciation of certain plant and equipment will commence when such plant and equipment are in the condition and location necessary for their intended use.

(Tabular amounts in thousands of US dollars unless otherwise noted)

11. Non-producing mining assets and other (Continued)

Non-producing mining interest is detailed by property as follows:

	Mineral Ridge	Goldwedge[(a)]	Other	Total
Cost	$	$	$	$
Balance, December 31, 2015	6,106	11,107	40	17,253
Transfer to producing mining assets	(698)	(19)	-	(717)
Additions	3,749	214	10	3,973
Write-off	(2,686)	(99)	-	(2,785)
Disposal	-	-	(6)	(6)
Change in provision for environmental rehabilitation	-	(11)	-	(11)
Balance, December 31, 2016	6,471	11,192	44	17,707
Transfer to producing mining assets	(1,295)	(135)	-	(1,430)
Additions	1,947	603	11	2,561
Disposals	-	-	(4)	(4)
Change in provision for environmental rehabilitation	-	7	-	7
Balance, December 31, 2017	7,123	11,667	51	18,841

Accumulated depreciation and impairment

	Mineral Ridge	Goldwedge	Other	Total
Balance, December 31, 2015	6,086	8,156	32	14,274
Transfer to producing mining assets	(319)	-	-	(319)
Write-off	(1,296)	-	-	(1,296)
Amortization	-	6	6	12
Impairments	2,000	409	-	2,409
Disposal	-	-	(3)	(3)
Balance, December 31, 2016	6,471	8,571	35	15,077
Transfer to producing mining assets	(864)	-	-	(864)
Impairment	1,516	406	-	1,922
Disposal	-	-	(4)	(4)
Balance, December 31, 2017	7,123	8,977	31	16,131

Net book value				
December 31, 2016	-	2,621	9	2,630
December 31, 2017	-	2,690	20	2,710

(a) As part of the acquisition of the Goldwedge property, the Company granted Waterton a 2% NSR royalty. The NSR may be reduced by half (to a 1% NSR) for a cash payment to Waterton of $1 million, and then eliminated for a further cash payment of $2 million. Certain areas of the Goldwedge property are further subject to net smelter return royalties of up to 4% payable to other parties.

(Tabular amounts in thousands of US dollars unless otherwise noted)

12. Income taxes

The provision for income taxes differs from the amount that would have resulted by applying the Canadian federal and provincial statutory Income tax rates of 26.8% (2016: 26.9%) to applicable earnings by the following items:

	2017	2016
	$	$
(Loss) earnings before income taxes	**(4,236)**	907
Expected tax expense (benefit)	**(1,135)**	244
Effect of higher tax rate in foreign jurisdiction	**(327)**	89
Tax deductions in excess of accounting amounts and non-deductible amounts	**(181)**	(403)
Deferred tax assets not recognized	**965**	(400)
True-ups	**443**	401
Tax attributable to non-controlling interest	**235**	69
Nevada net proceeds tax	**(12)**	568
Total income tax (recovery) expense	**(12)**	568
Current income tax expense	**283**	664
Deferred income tax recovery	**(295)**	(96)

(Tabular amounts in thousands of US dollars unless otherwise noted)

12. Income taxes (continued)

The significant components of the Company's deferred tax liabilities and recognized deferred tax assets are as follows:

	2017	2016
	$	$
Provision for environmental rehabilitation	**205**	76
Interest deductions upon payment and other	**90**	29
Recognized deferred tax assets	**295**	105
Producing mining assets	**(149)**	(20)
Non-producing mining assets and other	**(200)**	(433)
Deferred tax liabilities	**(348)**	(453)
Net deferred income tax liability recognized	**(53)**	(348)

Significant components of the Company's deductible temporary differences and unused tax losses, the benefits of which have not been recognized, are as follows:

	2017	2016
	$	$
Share issue costs and financing costs	**602**	174
Non-capital loss carryforwards	**38,961**	36,655
Provision for environmental rehabilitation	**2,519**	3,157
Non-producing mining assets and other	**8,110**	9,152
Producing mining assets	**1,052**	857
Capital losses	**1,490**	1,490
Share based compensation	**1,481**	1,481
Interest deductions upon payment	**6,410**	5,629
	60,625	58,595

The Company's tax loss expiry dates are as follows:

	Canada	USA	Total
	$	$	$
2029	74	1	75
2030	706	4,130	4,836
2031	549	11,158	11,707
2032	15	1,737	1,752
2033	-	3,584	3,584
2034	-	7,924	7,924
2035	428	2,234	2,662
2036	124	1,976	2,100
2037	247	4,074	4,321
	2,143	36,818	38,961

(Tabular amounts in thousands of US dollars unless otherwise noted)

13. Long-term debt

	2017	2016
	$	$
Senior secured credit facility, repayable in August 2018, bearing interest at a rate of 10% per annum payable quarterly, secured by a first priority security interest over all of the Company's assets, net of debt issue cost of $62,000 [a)]	**5,938**	5,841
Financing lease on mobile equipment having a net book value of $150,000, payable by monthly installments of $10,115 including interest at a rate of 3.2% per annum until May 2019 [b)]	**168**	282
Loan, repaid during the year	**-**	7
Current portion	**(6,056)**	(121)
Long-term portion	**50**	6,009

Future long-term debt principal repayments are as follows:

2018: $6,000

a) On August 14, 2015, the Company executed definitive agreements with Waterton Precious Metals Fund II Cayman, LP (“Waterton Fund”), an affiliate of Elevon, LLC, for a loan in the principal amount of $6 million (the “Loan”). The Company paid Waterton Fund a $0.12 million structuring fee and incurred $0.16 million of other related issue costs. The Loan matures and is payable 36 months after the date of advancement, but may be voluntarily prepaid by the Company at any time, provided that upon such prepayment the Company shall pay the lesser of 24 months of interest on the principal amount, or such interest as would be payable between the date of such prepayment and the maturity date of the Loan. Also, the Loan is subject to mandatory prepayment in certain circumstances, including upon a change of control of the Company, as defined in the definitive agreement.

There are certain restrictions placed on the Company pursuant to the Loan, including, among others, a limitation on additional debt that can be incurred by the Company and the requirement that the Company’s trade payables not exceed $8.0 million. The Company has complied with all restrictions pursuant to the Loan as at December 31, 2017.

b) Future minimum capital payments on the financing lease are as follows:

	$
2018	**121**
2019	**51**
Total minimum lease payments	**172**
Less: amount representing interest	**(4)**
	168

(Tabular amounts in thousands of US dollars unless otherwise noted)

14. Reclamation bonds and provision for environmental rehabilitation

a) Reclamation bonds

	2017	2016
	$	$
Mineral Ridge	**5,531**	5,528
Goldwedge	**214**	214
	5,745	5,742

The Company has reclamation bonds of $11.5 million and entered into an agreement with a surety under which the cash collateral is $5.7 million. In January 2018, the reclamation bonds were increased by $0.5 million and the cash collateral by $0.25 million.

b) Provision for environmental rehabilitation

The provision for environmental rehabilitation consists of mine closure, reclamation and retirement obligations for mine facilities and infrastructure. The Company has recorded the following provision for environmental rehabilitation.

	2017	2016
	$	$
Balance, beginning of year	**4,684**	5,408
Unwinding of discount	**74**	88
Reclamation activities	**-**	(7)
Change in estimates	**96**	(805)
Balance, end of year	**4,854**	4,684

The total undiscounted amount of estimated cash flows required to settle the provision for environmental rehabilitation at Mineral Ridge is approximately $4.9 million (2016: $4.6 million). The total undiscounted amount of estimated cash flows required to settle the provisions for environmental rehabilitation at Goldwedge is approximately $0.4 million (2016: $0.4 million). The present value of the obligation was determined using a weighted average discount rate of 2.1% and an average inflation rate of 2.3%. The settlement of the obligations is estimated to occur through to 2025 and 2031, for Mineral Ridge and Goldwedge, respectively. All environmental rehabilitation obligations are intended to be funded from cash balances at the time of the rehabilitation and from reclamation bonds once related rehabilitation work has been approved by the relevant authorities and related funds returned to the Company.

15. Share capital

(a) Authorized

Authorized share capital consists of an unlimited number of common shares without par value.

(b) Stock option plan

A summary of changes in the Company's outstanding stock options for the years ended December 31, 2017 and December 31, 2016, are as follows:

	2017		2016	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
	(in thousands)	**CAD$**	(in thousands)	CAD$
Outstanding, beginning of year	**10,890**	**0.27**	10,545	0.49
Granted	**-**	**-**	4,140	0.085
Expired	**(3,953)**	**(0.47)**	(3,795)	(0.69)
Outstanding, end of year	**6,937**	**0.16**	10,890	0.27

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2017:

Exercise price	Weighted average remaining contractual life	Outstanding and exercisable
CAD$	(in years)	(in thousands)
0.085	3.67	2,842
0.145	2.04	2,180
0.205	0.52	100
0.275	5.43	1,815
		6,937

(Tabular amounts in thousands of US dollars unless otherwise noted)

15. Share capital (Continued)

(c) Share-based compensation

The Company used the Black-Scholes model to estimate fair value using the following weighted average assumptions. Expected stock price volatility is based on the historical share price volatility.

	2017	2016
Expected dividend yield	-	Nil %
Expected stock price volatility	-	91%
Risk free interest rate	-	0.6%
Expected life	-	4 years
Expected forfeiture rate	-	0.00%
Share-based compensation:	$	$
Included in general and administrative expenses	-	72
Included in cost of sales	-	95
Total share-based compensation	-	167

16. Supplemental cash flow information

(a) Information regarding change in working capital items is as follows:

	2017	2016
	$	$
Increase in trade and other receivables	**(26)**	(140)
Decrease in prepaid expenses and other	**269**	64
Decrease in inventories	**3,824**	3,428
Decrease in trade and other payables	**(2,818)**	(1,717)
	1,249	1,635

(b) Change in liabilities arising from financing activities are as follows:

	2017
	$
Long-term debt and financing lease, beginning of year	**6,130**
Cash flows: Principal repayment	**(121)**
Non-cash: Amortization of debt issue cost	**97**
Long-term debt and financing lease, end of year	**6,106**

(c) Supplementary information regarding other non-cash investing and financing transactions

	2017	2016
	$	$
Acquisition of mobile equipment financed by financing lease	**-**	347
Accounts payable included in non-producing mining asset	**21**	329

(Tabular amounts in thousands of US dollars unless otherwise noted)

17. Capital management

Capital is defined as equity attributable to equity shareholders and long-term debt (including the short-term portion thereof). The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern and to maximize the value for its shareholders.

The Company's activities have been primarily funded so far through cash flows from operating activities and equity and debt financing based on cash needs. The Company typically sells its shares by way of private placement.

The Company manages its capital structure and determines its capital requirements in light of the changing economic conditions and the risk characteristics of its assets. To reach its objectives, the Company may need to maintain or adjust its capital structure by issuing new share capital or new debt.

At this stage of its development, it is the Company's policy to preserve cash to fund its operations and not to pay dividends. The Company is subject to and has complied with externally imposed capital requirements as described in Note 13.

The following summarizes the Company's capital structure:

	2017	2016
	$	$
Long-term debt, including current portion	**6,106**	6,130
Equity attributable to shareholders of the Company	**9,273**	12,955
Capital	**15,379**	19,085

(Tabular amounts in thousands of US dollars unless otherwise noted)

18. Segmented information

(a) Industry information

The Company is engaged in mining exploitation, exploration and development and has one operating mine and a toll milling facility. The Company has two reportable segments being Mineral Ridge and Goldwedge. The Other category is composed of head office and Scorpio Gold (US) Corporation. Segments are operations reviewed by the CEO who is considered to be the chief operating decision maker.

Operating segment details are as follows:

				Year ended December 31, 2017
	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Revenue from precious metal sales	26,989	-	-	26,989
Revenue from toll milling	-	4	-	4
Inter-segment (expense) - management fees	(716)	-	716	-
Cost of sales excluding depletion and amortization	(23,125)	(3)	-	(23,128)
Depletion and amortization	(1,289)	-	-	(1,289)
Mine operating earnings	1,859	1	716	2,576
Expenses				
General and administrative	-	(5)	(1,219)	(1,224)
Care and maintenance	-	(697)	-	(697)
Care and maintenance- amortization	-	(8)	-	(8)
Loss on disposal of assets	(6)	-	2	(4)
Impairment of mining assets	(3,604)	(500)	-	(4,104)
Operating loss	(1,751)	(1,209)	(501)	(3,461)
Other expenses				
Finance costs	(74)	(7)	(697)	(778)
Finance income	3	-	-	3
Loss before income taxes	(1,822)	(1,216)	(1,198)	(4,236)
Income tax recovery	12	-	-	12
Net loss and comprehensive income	(1,810)	(1,216)	(1,198)	(4,224)

(Tabular amounts in thousands of US dollars unless otherwise noted)

18. Segmented information (Continued)

				Year ended December 31, 2016
	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Revenue from precious metal sales	42,759	-	-	42,759
Inter-segment (expense) - management fees	(1,085)	-	1,085	-
Cost of sales excluding depletion and amortization	(31,566)	-	-	(31,566)
Depletion and amortization	(1,555)	-	-	(1,555)
Mine operating earnings	8,553	-	1,085	9,638
Expenses				
General and administrative	(2)	(14)	(1,150)	(1,166)
Care and maintenance	-	(690)	-	(690)
Care and maintenance amortization	-	(19)	-	(19)
Amortization	-	-	(6)	(6)
Net (loss) gain on disposal and write-off of mining assets	(1,334)	(100)	2	(1,432)
Impairments of mining assets	(3,124)	(500)	-	(3,624)
Loss on litigation	(1,015)	-	-	(1,015)
Operating earnings (loss)	3,078	(1,323)	(69)	1,686
Other (expenses) income				
Finance costs	(89)	(7)	(689)	(785)
Finance income	6	-	-	6
	(83)	(7)	(689)	(779)
Earnings (loss) before income taxes	2,995	(1,330)	(758)	907
Income tax expense	(568)	-	-	(568)
Net earnings (loss) for the year	2,427	(1,330)	(758)	339

				As at December 31, 2017
	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Total assets	13,683	3,592	433	17,708
Total liabilities	5,667	389	6,238	12,294

				As at December 31, 2016
	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Total assets	23,619	3,485	410	27,514
Total liabilities	10,282	395	6,192	16,869

(Tabular amounts in thousands of US dollars unless otherwise noted)

18. Segmented information (Continued)

(b) Geographic information

All revenue from the sale of precious metals for the years ended December 31, 2017 and December 31, 2016 were earned in the United States of America. Substantially all of the Company's revenues are with one customer.

All of the Company's non-current assets are located in the United States of America as at December 31, 2017 and December 31, 2016.

19. Related party transactions

a) Compensation of key management personnel and directors

The Company considers its key management personnel to be the CEO and the individuals having the authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

The remuneration of directors and key management personnel during the years ended December 31, 2017 and December 31, 2016 is as follows:

	2017	2016
	$	$
Salaries and directors fees	**777**	837
Consulting fee paid to a director	**6**	6
Share-based compensation[1]	**-**	68
	783	911

[1] Share-based compensation is the fair value of options expensed during the period to key management personnel and directors.

As at December 31, 2017, an aggregate of $119,452 resulting from transactions with key management is included in trade and other payables.

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2017 and December 31, 2016.

(Tabular amounts in thousands of US dollars unless otherwise noted)

19. Related party transactions (Continued)

b) Waterton Precious Metals Fund II Cayman, LP ("Waterton Fund")

Waterton Fund, the Company's lender, controls Elevon, LLC ("Elevon") which owns a 30% non-controlling interest in Mineral Ridge Gold, LLC. Management considers that Waterton Fund and Elevon are related parties of the Company.

Related party transactions entered into with Waterton Fund during the years ended December 31, 2017 and December 31, 2016 are as follows:

	2017	2016
	$	$
Interest on long-term debt	**600**	600

c) Elevon

In connection with the Loan with Waterton Fund completed on August 14, 2015 (Note 13a)), the Company modified the Mineral Ridge operating agreement so that the Company would owe and accrue to Elevon an amount equal to 10% of aggregate amounts actually distributed to the Company and Elevon by Mineral Ridge Gold, LLC (the "Accrued Distribution Amount"). The Accrued Distribution Amount would become due and payable by the Company upon a change of control of the Company, or if the settlement price of gold on the LBMA PM fix is equal to or exceeds US$1,350 per ounce. The Company and Elevon also agreed that following payment of the Accrued Distribution Amount, Elevon will remain entitled to receive 30% of all further distributions by Mineral Ridge Gold, LLC.

An Accrued Distribution Amount of $35,714 was paid to Elevon in early July 2016 after the settlement price of gold on the LBMA PM exceeded US$1,350 per ounce. As a consequence, Elevon is entitled to receive 30% of cash distributions from Mineral Ridge Gold, LLC.

(Tabular amounts in thousands of US dollars unless otherwise noted)

20. Provision

During 2016, the Second Judicial District Court of Washoe County, Nevada issued a judgment awarding National EWP, Inc. ("National") US$2.3 million in its lawsuit against Mineral Ridge Gold LLC ("MRG") for additional costs related to the construction of a water well. The Company and its legal advisors disagreed with both the Court's legal conclusions and its factual findings and began the appeals process. To prevent any collection activities during the pendency of the appeal, MRG was required to provide cash security to the Court in the amount of the judgment of US$2.3 million.

During the early stages of the appeal, Nevada court rules required both parties to attend a settlement conference with a court-appointed mediator to seek agreeable settlement terms. After negotiation with National in February 2017, the Company determined that it was in its best interest to settle the case for an amount of US$1 million and end the costly litigation. In February 2017, the cash security provided by MRG to the Court was released. From the released funds, the settlement amount has been paid to National and the $1.3 million remaining funds have been returned to MRG. Also during 2017, the Company settled another litigation case for $15,000.

Reconciliation of provision for litigation is as follows:

	2017	2016
	$	$
Balance, opening of year	**1,015**	**-**
Additions	**-**	1,015
Settlement	**(1,015)**	-
Balance, end of year	**-**	1,015

Furthermore, due to the complexity and nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, these matters will not have a material effect on the consolidated financial statements of the Company.

21. Commitments

The Company has committed to sell its gold and silver produced from the Mineral Ridge mine to Waterton at a price equal to 99.5% of the lesser of the 30 day trailing average price or the prior day settlement price.

(Tabular amounts in thousands of US dollars unless otherwise noted)

22. Summarized financial information for Mineral Ridge Gold, LLC

The Company holds a 70% interest in its United States based subsidiary Mineral Ridge Gold, LLC, the owner of the Mineral Ridge mine. The financial year for Mineral Ridge Gold, LLC is December 31. The holder of the 30% non-controlling interest in Mineral Ridge Gold, LLC has 40% of the voting rights on the management committee. The Company receives 70% of cash flows generated at the Mineral Ridge mine, distributed to the partners in the Mineral Ridge mine in accordance with the project agreements. Summarised financial information about the assets, liabilities, profit or loss and cash flows of Mineral Ridge Gold, LLC for the years ended December 31, 2017 and December 31, 2016 are indicated below. Intercompany accounts, revenues and expenses transactions have not been eliminated.

Statement of financial position	**2017**	2016
	$	$
Current assets	**3,667**	13,761
Non-current assets	**10,032**	9,875
Current liabilities	**1,137**	5,652
Non-current liabilities	**4,629**	4,887
Net assets	**7,933**	13,097

Statement of operations and comprehensive income	**2017**	2016
	$	$
Sales	**26,989**	42,759
Mine operating earnings	**1,859**	8,553
Net (loss) earnings for the year	**(1,810)**	2,427
Total comprehensive (loss) earnings	**(1,810)**	2,427

Statement of cash flows	**2017**	2016
	$	$
Net cash from operating activities	**4,722**	11,666
Net cash used in investing activities	**(3,965)**	(8,473)
Distributions to non-controlling interest	**(1,007)**	(351)
Contributions by non-controlling interest	**-**	342