Condensed Interim Consolidated Financial Statements

For the nine months ended September 30, 2019
(Unaudited – Expressed in US dollars)

NOTICE TO READER

These condensed interim consolidated financial statements of Scorpio Gold Corporation have been prepared by management and approved by the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these condensed interim consolidated financial statements, notes to the financial statements or the related Management's Discussion and Analysis.

Scorpio Gold Corporation

Condensed interim consolidated statements of net earnings (loss) and comprehensive income (loss)

(Unaudited – Expressed in thousands of US dollars except for share and per share amounts)

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
	$	$	**$**	$
Revenue	**1,241**	2,211	**3,712**	7,729
Cost of sales excluding inventory write-down (Note 5)	**(535)**	(1,295)	**(2,025)**	(4,806)
Inventory write-down (Note 9)	**(486)**	-	**(1,617)**	-
Mine operating earnings	**220**	916	**70**	2,923
Expenses				
General and administrative (Note 6)	**(182)**	(150)	**(700)**	(652)
Care and maintenance - Goldwedge	**(188)**	(149)	**(490)**	(471)
Impairment of mining assets (Note 3)	**-**	(8)	**(40)**	(413)
Gain on disposal of assets	**-**	-	**-**	4
Gain on adjustment of provision for environmental rehabilitation	**-**	-	**-**	43
Total expenses	**(370)**	(307)	**(1,230)**	(1,489)
Operating earnings (loss)	**(150)**	609	**(1,160)**	1,434
Other income (expenses)				
Finance costs (Note 7)	**(210)**	(186)	**(528)**	(589)
Finance income	**37**	23	**106**	58
Foreign exchange gain (loss)	**37**	(1)	**42**	2
Gain on debt settlement (Note 12)	**-**	-	**3,789**	-
	(136)	(164)	**3,409**	(529)
Net earnings (loss) before income taxes	**(286)**	445	**2,249**	905
Income tax recovery (expense)				
Current	**5**	(34)	**5**	(123)
Deferred	**-**	4	**31**	23
	5	(30)	**36**	(100)
Net earnings (loss) and comprehensive income (loss)	**(281)**	415	**2,285**	805
Net earnings (loss) and comprehensive income (loss) attributable to:				
Shareholders of the Company	**(281)**	163	**2,272**	127
Non-controlling interest	**-**	252	**13**	678
	(281)	415	**2,285**	805
Basic and diluted earnings (loss) per share	**(0.00)**	0.00	**0.04**	0.00
Basic and diluted weighted average number of shares outstanding (Note 8)	**62,474,118**	62,474,118	**62,474,118**	62,474,118

See accompanying notes to the condensed interim consolidated financial statements

Scorpio Gold Corporation

Condensed interim consolidated statements of financial position

(Unaudited – Expressed in thousands of US dollars)

	September 30, 2019	December 31, 2018
	$	$
Assets		
Current assets		
Cash	**3,185**	1,100
Trade and other receivables	**6**	1
Prepaid expenses and other	**634**	426
Inventories (Note 9)	**1,118**	1,238
Total current assets	**4,943**	2,765
Producing mining assets (Note 10)	**5,141**	5,182
Non-producing mining assets and other (Note 11)	**3,057**	2,687
Reclamation bonds	**6,165**	6,078
Total assets	**19,306**	16,712
Equity and liabilities		
Current liabilities		
Trade and other payables	**893**	740
Income taxes payable	**3**	149
Secured debt and financing lease (Note 12)	**-**	6,050
Total current liabilities	**896**	6,939
Provision for environmental rehabilitation	**4,931**	4,841
Deferred income tax liability	**-**	31
Total liabilities	**5,827**	11,811
Equity		
Share capital (Note 14)	**51,449**	51,449
Equity reserve	**6,688**	6,555
Convertible debentures (Note 13)	**6,847**	-
Investment valuation reserve	**(2)**	(2)
Foreign currency translation reserve	**(194)**	(194)
Other reserve (Note 12)	**(4,779)**	-
Deficit	**(46,530)**	(48,802)
Equity attributable to shareholders of the Company	**13,479**	9,006
Non-controlling interest (Note 12)	**-**	(4,105)
Total equity	**13,479**	4,901
Total liabilities and equity	**19,306**	16,712

APPROVED BY THE BOARD

"Peter Hawley"
Director

"Brian Lock"
Director

See accompanying notes to the condensed interim consolidated financial statements

Scorpio Gold Corporation

Condensed interim consolidated statements of changes in equity

(Unaudited – Expressed in thousands of US dollars, shares in thousands)

	Share capital		Equity	Convertible	Investment valuation	Foreign currency translation	Other		Non-controlling	Total
	Number	Amount	reserve	debentures	reserve	reserve	reserve	Deficit	interest	equity
		$	$	$	$	$	$	$	$	$
Balance, December 31, 2018	62,474	51,449	6,555	-	(2)	(194)	-	(48,802)	(4,105)	4,901
Convertible debentures	-	-	-	6,847	-	-	-	-	-	6,847
Share-based compensation	-	-	133	-	-	-	-	-	-	133
Net earnings and comprehensive income	-	-	-	-	-	-	-	2,272	13	2,285
Loss on acquisition of non-controlling interest	-	-	-	-	-	-	(4,779)	-	4,092	(687)
Balance, September 30, 2019	62,474	51,449	6,688	6,847	(2)	(194)	(4,779)	(46,530)	-	13,479

	Share capital		Equity	Convertible	Investment valuation	Foreign currency translation	Other		Non-controlling	Total
	Number	Amount	reserve	debentures	reserve	reserve	reserve	Deficit	interest	equity
		$	$	$	$	$	$	$	$	$
Balance, December 31, 2017	62,474	51,449	6,555	-	(2)	(194)	-	(48,535)	(3,859)	5,414
Net earnings and comprehensive income	-	-	-	-	-	-	-	127	678	805
Distributions to non-controlling interest	-	-	-	-	-	-	-	-	(711)	(711)
Balance, September 30, 2018	62,474	51,449	6,555	-	(2)	(194)	-	(45,408)	(3,892)	5,508

See accompanying notes to the condensed interim consolidated financial statements

Scorpio Gold Corporation
Condensed interim consolidated statements of cash flows
(Unaudited – Expressed in thousands of US dollars)

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	$	$
Operating activities		
Earnings before taxes for the period	**2,249**	905
Adjustment for:		
Environmental rehabilitation payments	**-**	(120)
Income tax paid	**(141)**	(274)
Items not involving cash:		
Share-based compensation	**133**	-
Finance costs	**528**	589
Finance income	**(87)**	(58)
Gain on debt settlement	**(3,789)**	-
Gain on disposal of assets	**-**	(4)
Gain on adjustment of provision for environmental rehabilitation	**-**	(43)
Inventory write-down	**1,617**	-
Impairment of mining assets	**40**	413
Depletion and amortization	**13**	13
Cash flows from operating activities before movements in working capital:	**563**	1,421
Change in working capital items (Note 15)	**(2,009)**	434
	(1,446)	1,855
Investing activities		
Additions to non-producing mining assets and other	**(234)**	(436)
Acquisition of non-controlling interest	**(687)**	-
Reclamation bonds	**-**	(247)
Proceeds from disposal of assets	**-**	4
	(921)	(679)
Financing activities		
Proceeds from issuance of convertible debentures, net	**6,847**	-
Promissory notes	**3,000**	-
Repayment of promissory notes	**(3,030)**	-
Distributions to non-controlling interest	**-**	(711)
Interest paid	**-**	(449)
Repayment of secured debt and financing lease	**(2,365)**	(91)
	4,452	(1,251)
Increase (decrease) in cash	**2,085**	(75)
Cash, beginning of period	**1,100**	939
Cash, end of period	**3,185**	864

Supplemental cash flow information (Note 15)

See accompanying notes to the condensed interim consolidated financial statements

1. Nature of operations

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

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 Unit 1 – 15782 Marine Drive, White Rock, British Columbia, Canada, V4B 1E6.

2. Statement of compliance and basis of presentation

These condensed interim consolidated financial statements of the Company, including comparatives, have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") using the accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements do not include all disclosures required by IFRS for annual audited consolidated financial statements and accordingly should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2018 prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 28, 2019.

On April 15, 2019, the Company completed a 2 for 1 consolidation of its outstanding common shares. All share and per share amounts are shown on a post-consolidated basis retroactively throughout these financial statements.

3. Significant accounting policies

The preparation of financial data is based on accounting principles and estimates consistent with those used in the preparation of the audited consolidated financial statements as at December 31, 2018, except for the following:

a) Convertible debentures

A convertible note is considered to be a compound financial instrument which requires assessment to determine if it contains a liability and an equity component related to the conversion feature. When the conversion feature is for a variable number of shares, there is no equity component but rather is a potential embedded derivative.

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, or other variable.

The host instrument is accounted for as a compound instrument with a debt component and a separate embedded derivative component classified as a liability. The initial carrying amount of the host instrument is the residual amount after separating the embedded derivative which is measured at fair value.

The debt component is subsequently accounted for at amortized cost using the effective interest rate method. The embedded derivative is subsequently measured at fair value at each reporting date, with gains and losses in fair value recognized in profit or loss.

3. Significant accounting policies (Continued)

b) Convertible debentures (Continued)

Transaction costs that relate to the issue of the debt are allocated to the liability and embedded derivative components in proportion to the allocation of the gross proceeds. Transaction costs relating to the embedded derivative liability component are expensed directly in profit and loss and transaction costs relating to the financial liability component are included in the carrying amount of the liability component and are amortized over the expected lives of the convertible instrument using the effective interest method.

c) Leases

The Company adopted the requirements of IFRS 16 – Leases ("IFRS 16") as of January 1, 2019. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the leased asset. For assets that meet the definition of a lease, IFRS 16 requires a single, on-balance sheet accounting model similar to finance lease accounting, with exceptions for short-term leases, leases of low value assets, and mineral exploration leases. The Company does not have any leases that fall within the application of IFRS 16.

d) Management judgments and estimates

The preparation of condensed interim 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 condensed interim consolidated financial statements are consistent with those disclosed in the audited consolidated financial statements as at December 31, 2018, except for the following:

i) Asset carrying values and impairment – 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 September 30, 2019 is an indicator 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 $4.7 million as at September 30, 2019 (2018 - $5.6 million). During the nine months ended September 30, 2019, the Company recorded non-cash impairment charges for Mineral Ridge of $0.04 million (2018 - $0.4 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.

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

3. Significant accounting policies (Continued)

d) Management judgments and estimates (Continued)

ii) Convertible debentures

The terms and conditions of financial liabilities may contain embedded derivatives that may or may not require embedded derivatives to be split apart and accounted for as a stand-alone derivative. These determinations require professional judgment. The Company considered the terms and conditions of the convertible debenture and determined the nature of embedded derivatives did not require bifurcation because they are closely related to the host debt instrument. Further, the Company determined based on the terms and conditions of the convertible debentures that the convertible debentures qualified as equity with no liability component since the issuance of shares is solely at the discretion of the Company.

e) New standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of September 30, 2019 and have not been applied in preparing these condensed interim consolidated financial statements. In addition, none of these standards are applicable to the Company.

4. Financial instruments and risk management

a) Financial instruments

Financial instruments are classified into one of the following categories: fair value through profit or loss ("FVTPL"); fair value through other comprehensive income (loss) ("FVTOCI"); or at amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

	September 30, 2019	December 31, 2018
	$	$
Cash	**3,185**	1,100
Trade and other receivables	**6**	1
Reclamation bonds	**6,165**	6,078
Trade and other payables	**(893)**	(740)
Secured debt and financing lease	**-**	(6,050)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

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

4. Financial instruments (Continued)

a) Financial instrument (Continued)

The carrying values of trade and other receivables, reclamation bonds, and trade and other payables approximate their fair value due to their short-term nature. Cash is recorded at fair value using Level 1 of the fair value hierarchy.

b) Risk Management

The Company's risk management objectives and policies are consistent with those disclosed by the Company for the year ended December 31, 2018.

5. Cost of sales

Cost of sales excluding depletion and amortization includes the following:

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
	$	$	**$**	$
Contractor charges	**67**	91	**165**	340
Labour	**456**	572	**1,529**	2,228
Fuel and reagents	**237**	200	**687**	492
Mechanical parts	**32**	26	**100**	93
Change in ore stockpile, metals in process and finished goods inventories	**(545)**	87	**(1,454)**	490
Royalties	**-**	-	**-**	17
Utilities, permits and other	**288**	319	**998**	1,146
	535	1,295	**2,025**	4,806

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

6. General and administrative

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
	$	$	**$**	$
Salaries and benefits	**77**	105	**301**	375
Consultants	**-**	1	**4**	5
Directors fees	**6**	25	**62**	76
Insurance, travel and office related	**21**	10	**47**	55
Investor relations	**-**	-	**7**	7
Professional fees	**72**	7	**144**	127
Project evaluation	**3**	-	**3**	-
Share-based compensation	**-**	-	**110**	-
Transfer agent and listing fees	**3**	2	**22**	7
	182	150	**700**	652

7. Finance costs

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
	$	$	**$**	$
Interest on promissory notes	**-**	-	**30**	-
Interest on convertible debentures (Note 13)	**180**	-	**304**	-
Interest on secured debt	**-**	151	**104**	449
Amortization of debt issue cost	**-**	9	**-**	62
Unwinding of discount of provision for environmental rehabilitation	**30**	25	**90**	75
Interest on financing lease	**-**	1	**-**	3
	210	186	**528**	589

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

8. Weighted average number of shares and dilutive share equivalents

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
Basic weighted average number of shares	**62,474,118**	62,474,118	**62,474,118**	**62,474,118**

All of the potentially dilutive securities were excluded from the number of shares outstanding for the three and nine months ended September 30, 2019 and 2018 as they are anti-dilutive.

9. Inventories

	September 30, 2019	December 31, 2018
	$	$
Supplies	**757**	714
Metals in process	**358**	488
Finished goods	**3**	36
	1,118	1,238

During the nine months ended September 30, 2019, inventory included as cost of sales is $3.6 million (2018 - $4.8 million).

During the nine months ended September 30, 2019, the Company recognized an inventory write-down of $1.6 million (2018 - $Nil).

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

10. Producing mining assets

Cost

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Total
	$	$	$	$	$
Balance, December 31, 2017	74,261	23,329	2,186	816	100,592
Additions	-	43	-	-	43
Change in provision for environmental rehabilitation	31	-	-	-	31
Balance, December 31, 2018	74,292	23,372	2,186	816	100,666
Additions	-	-	-	-	-
Balance, September 30, 2019	74,292	23,372	2,186	816	100,666

Accumulated impairment, depletion and amortization

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Total
Balance, December 31, 2017	74,261	19,143	1,263	804	95,471
Depletion and amortization	-	8	1	4	13
Balance, December 31, 2018	74,261	19,151	1,264	808	95,484
Impairment	31	-	-	-	31
Depletion and amortization	-	6	1	3	10
Balance, September 30, 2019	74,292	19,157	1,265	811	95,525

Net book value

December 31, 2018	31	4,221	922	8	5,182
September 30, 2019	-	4,215	921	5	5,141

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

10. Producing mining assets (Continued)

Producing mining assets is detailed by property as follows:

Cost

	Mineral Ridge	Goldwedge	Total
	$	$	$
Balance, December 31, 2017	97,803	2,789	100,592
Additions	43	-	43
Change in provision for environmental rehabilitation	31	-	31
Balance, December 31, 2018	97,877	2,789	100,666
Additions	-	-	-
Balance, September 30, 2019	97,877	2,789	100,666

Accumulated impairment, depletion and amortization

	Mineral Ridge	Goldwedge	Total
Balance, December 31, 2017	93,303	2,168	95,471
Depletion and amortization	-	13	13
Balance, December 31, 2018	93,303	2,181	95,484
Impairment	31	-	31
Depletion and amortization	-	10	10
Balance, September 30, 2019	93,334	2,191	95,525

Net book value			
December 31, 2018	4,574	608	5,182
September 30, 2019	4,543	598	5,141

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

11. Non-producing mining assets and other

Cost

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Construction in progress	Total
	$	$	$	$	$	$
Balance, December 31, 2017	16,129	689	604	33	1,386	18,841
Additions	178	-	-	-	258	436
Disposal	-	-	-	(7)	-	(7)
Change in provision for environmental rehabilitation	(24)	-	-	-	-	(24)
Balance, December 31, 2018	16,283	689	604	26	1,644	19,246
Additions	363	-	-	-	19	382
Balance, September 30, 2019	16,646	689	604	26	1,663	19,628

Accumulated impairment, depletion and amortization

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Construction in progress	Total
Balance, December 31, 2017	13,656	520	536	33	1,386	16,131
Depletion and amortization	-	8	1	-	-	9
Impairment	168	-	-	-	258	426
Disposal	-	-	-	(7)	-	(7)
Balance, December 31, 2018	13,824	528	537	26	1,644	16,559
Depletion and amortization	-	3	-	-	-	3
Impairment	3	-	-	-	6	9
Balance, September 30, 2019	13,827	531	537	26	1,650	16,571

Net book value

December 31, 2018	2,459	161	67	-	-	2,687
September 30, 2019	2,819	158	67	-	13	3,057

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

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

Cost

	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Balance, December 31, 2017	7,123	11,667	51	18,841
Additions	426	10	-	436
Disposal	-	-	(7)	(7)
Change in provision for environmental rehabilitation	-	(24)	-	(24)
Balance, December 31, 2018	7,549	11,653	44	19,246
Additions	23	359	-	382
Balance, September 30, 2019	7,572	12,012	44	19,628

Accumulated depreciation and impairment

	Mineral Ridge	Goldwedge	Other	Total
Balance, December 31, 2017	7,123	8,977	31	16,131
Depletion and amortization	-	9	-	9
Impairments	426	-	-	426
Disposal	-	-	(7)	(7)
Balance, December 31, 2018	7,549	8,986	24	16,559
Depletion and amortization	-	3	-	3
Impairment	9	-	-	9
Balance, September 30, 2019	7,558	8,989	24	16,571

Net book value

December 31, 2018	-	2,667	20	2,687
September 30, 2019	14	3,023	20	3,057

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

12. Secured debt and financing lease

	September 30, 2019	December 31, 2018
	$	$
Senior secured credit facility (a)	**-**	6,000
Financing lease	**-**	50
	-	6,050

(a) Waterton Buyout

On August 14, 2015, the Company executed definitive agreements with Waterton Precious Metals Fund II Cayman, LP ("Waterton Fund"), an affiliate of Elevon LLC ("Elevon"), for a loan in the principal amount of $6 million (the "Loan").

On March 4, 2019, the Company completed the following:

(i) the Loan was fully extinguished;
(ii) the gold and silver supply agreement dated May 18, 2011 among the Company, its subsidiaries and an affiliate of Waterton Fund was terminated; and
(iii) the Company acquired the 30% non-controlling membership interest of Elevon in Mineral Ridge Gold, LLC (which holds the Mineral Ridge Project) and the related operating agreement dated March 10, 2010 between the Company and Elevon was terminated (collectively, the "Waterton Buyout").

These transactions resulted in a gain on debt settlement of $3.8 million as well as a loss on acquisition of non-controlling interest of $4.8 million during the nine months ended September 30, 2019.

In consideration for the Waterton Buyout:

(i) the Company paid Waterton Fund $3 million (the "Upfront Payment");
(ii) the Company assigned to Waterton Fund the Company's right to receive a contingent payment of up to CAD$1 million from Gold Standard Ventures Corp. ("Gold Standard") upon a change of control of Gold Standard, pursuant to the sale of the Pinon property in 2014; and
(iii) a contingent payment will be payable by the Company to Waterton Global Resource Management if the Company completes certain asset sale or change of control transactions before 2022, with the amount of such payment being equal to a certain percentage of the value of such transactions.

$2.3 million of the Upfront Payment was allocated to the Loan and the $0.7 million balance of the upfront Payment was allocated to the acquisition of Elevon's 30% the non-controlling interest in Mineral Ridge Gold, LLC.

The Company received funding to complete the Upfront Payment pursuant to a 7% interest bearing $3 million debt bridge financing (the "Bridge Financing") from arm's length parties to the Company in the form of promissory notes. The Bridge Financing was subsequently repaid at the closing of the convertible debenture financing (Note 13).

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

13. Convertible debentures

	September 30, 2019	December 31, 2018
	$	$
Secured subordinated convertible debentures	**7,175**	-
Convertible debenture finder's fee – paid in Debentures	**(175)**	
Convertible debenture issue costs – paid in cash	**(153)**	-
	6,847	-

On April 26, 2019, the Company closed a non-brokered private placement offering of secured subordinated convertible debentures (each, a "Debenture") for gross proceeds of $7.0 million.

Each Debenture has an issue price of $1,000, bears interest at a rate of 10% per annum, payable semi-annually, and matures April 26, 2022. Interest may be paid in common shares of the Company at the option of the Company or the holder of the Debenture. Each Debenture is convertible into common shares at the option of the holder at any time prior to maturity at a conversion price of $0.08 per share (the "Conversion Price"), which is equivalent to 12,500 common shares for each $1,000 principal amount of Debentures, subject to adjustment in certain circumstances. The Company will have the option on maturity, subject to regulatory approval and there being no default to the terms of the Debentures, to repay any portion of the principal amount of the Debentures in cash or by issuing and delivering to the holders of the Debentures such number of common shares equal to the principal amount of the Debenture divided by the Conversion Price.

The Debentures are secured by a security interest subordinate to all existing and future senior indebtedness of the Company as approved by the Company's board of directors, subject to certain board composition requirements.

The Company paid finder's fees of $0.2 million in Debentures and $0.2 million in cash.

During the nine months ended September 30, 2019, the Company recorded interest expense of $0.1 million on the Debentures which is included in trade and other payables.

In October 2019, the Company paid $0.4 million to settle semi-annual interest to the holders of the Debenture holders. The Company did not exercise its option to pay this interest in shares and instead elected to settle this first interest payment in cash.

14. 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 nine months ended September 30, 2019 and the year ended December 31, 2018, are as follows:

	Nine months ended September 30, 2019		Year ended December 31, 2018	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
	(in thousands)	**CAD$**	(in thousands)	CAD$
Outstanding, beginning of period	**2,805**	**0.62**	3,469	0.62
Issued	**2,500**	**0.10**	-	-
Expired	**(115)**	**0.65**	(664)	(0.62)
Outstanding, end of period	**5,190**	**0.37**	2,805	0.62

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2019:

Exercise price	Weighted average remaining contractual life	Outstanding and Exercisable
CAD$	(in years)	(in thousands)
0.10	4.68	2,500
0.34	1.92	1,095
0.58	0.29	875
1.10	3.68	720
		5,190

(c) Share-based compensation

In June 2019, the Company granted 2,500,000 stock options to officers, directors and employees at an exercise price of CAD$0.10 with an expiry date of June 5, 2024. The fair value of the options granted was $0.1 million with a weighted average fair value estimated at $0.05 per option at the grant date using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.38%; an expected volatility of 94.1%; an expected life of 5 years; a forfeiture rate of zero; an expected dividend of zero; and a Canadian to USA exchange rate of 1.342.

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

15. Supplemental cash flow information

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

	Nine months Ended September 30, 2019	Nine months ended September 30, 2018
	$	$
Decrease (increase) in trade and other receivables	**(5)**	188
Decrease (increase) in prepaid expenses and other	**(208)**	12
Decrease (increase) in inventories	**(1,497)**	541
Decrease in trade and other payables	**(299)**	(307)
	(2,009)	434

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

	September 30, 2019	December 31, 2018
	$	$
Secured debt and financing lease, beginning of period	**6,050**	6,106
Cash flows: Principal repayment	**(2,261)**	(118)
Non-cash: Gain on debt settlement	**(3,789)**	-
Non-cash: Amortization of debt issue cost	**-**	62
Secured debt and financing lease, end of period	**-**	6,050

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

	September 30, 2019	December 31, 2018
	$	$
Accounts payable included in non-producing mining assets and other	**169**	21

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

16. 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:

	Three months ended September 30, 2019			
	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Revenue from precious metal sales	1,241	-	-	1,241
Cost of sales excluding inventory write-down	(535)	-	-	(535)
Inventory write-down	(486)	-	-	(486)
Mine operating earnings	220	-	-	220
Expenses				
General and administrative	-	-	(182)	(182)
Care and maintenance - Goldwedge	-	(184)	-	(184)
Care and maintenance - amortization	-	(4)	-	(4)
Impairment of mining assets	-	-	-	-
Total expenses	-	(188)	(182)	(370)
Operating earnings (loss)	220	(188)	(182)	(150)
Other income (expenses)				
Finance costs	(28)	(2)	(180)	(210)
Finance income	26	1	10	37
Foreign exchange gain	-	-	37	37
Gain on debt settlement	-	-	-	-
	(2)	(1)	(133)	(136)
Net earnings (loss) before income taxes	218	(189)	(315)	(286)
Income tax recovery (expense)	(3)	-	8	5
Net earnings (loss) and comprehensive income (loss)	215	(189)	(307)	(281)

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

16. Segmented information (Continued)

				Three months ended September 30, 2018
	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Revenue from precious metal sales	2,211	-	-	2,211
Inter-segment (expense) - management fees	(38)	-	38	-
Cost of sales	(1,295)	-	-	(1,295)
Mine operating earnings	878	-	38	916
Expenses				
General and administrative	-	-	(150)	(150)
Care and maintenance - Goldwedge	-	(145)	-	(145)
Care and maintenance - amortization	-	(4)	-	(4)
Impairment of mining assets	(8)	-	-	(8)
Total expenses	(8)	(149)	(150)	(307)
Operating earnings (loss)	870	(149)	(112)	609
Other income (expenses)				
Finance costs	(24)	(2)	(160)	(186)
Finance income	23	-	-	23
Foreign exchange loss	-	-	(1)	(1)
	(1)	(2)	(161)	(164)
Net earnings (loss) before income taxes	869	(151)	(273)	445
Income tax expense	(30)	-	-	(30)
Net earnings (loss) and comprehensive income (loss)	839	(151)	(273)	415

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

16. Segmented information (Continued)

	Nine months ended September 30, 2019			
	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Revenue from precious metal sales	3,712	-	-	3,712
Inter-segment (expense) - management fees	(27)	-	27	-
Cost of sales excluding inventory write-down	(2,025)	-	-	(2,025)
Inventory write-down	(1,617)	-	-	(1,617)
Mine operating earnings	43	-	27	70
Expenses				
General and administrative	-	-	(700)	(700)
Care and maintenance - Goldwedge	-	(477)	-	(477)
Care and maintenance - amortization	-	(13)	-	(13)
Impairment of mining assets	(40)	-		(40)
Total expenses	(40)	(490)	(700)	(1,230)
Operating earnings (loss)	3	(490)	(673)	(1,160)
Other income (expenses)				
Finance costs	(85)	(6)	(437)	(528)
Finance income	84	3	19	106
Foreign exchange gain	-	-	42	42
Gain on debt settlement	-	-	3,789	3,789
	(1)	(3)	3,413	3,409
Net earnings (loss) before income taxes	2	(493)	2,740	2,249
Income tax recovery	28	-	8	36
Net earnings (loss) and comprehensive income (loss)	30	(493)	2,748	2,285

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

16. Segmented information (Continued)

				Nine months ended September 30, 2018
	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Revenue from precious metal sales	7,729	-	-	7,729
Inter-segment (expense) - management fees	(147)	-	147	-
Cost of sales	(4,806)	-	-	(4,806)
Mine operating earnings	2,776	-	147	2,923
Expenses				
General and administrative	(29)	-	(623)	(652)
Care and maintenance - Goldwedge	-	(458)	-	(458)
Care and maintenance - amortization	-	(13)	-	(13)
Impairment of mining assets	(413)	-	-	(413)
Gain on disposal of assets	-	-	4	4
Gain on adjustment of provision for environmental rehabilitation	43	-	-	43
Total expenses	(399)	(471)	(619)	(1,489)
Operating earnings (loss)	2,377	(471)	(472)	1,434
Other income (expenses)				
Finance costs	(72)	(6)	(511)	(589)
Finance income	56	2	-	58
Foreign exchange gain	-	-	2	2
	(16)	(4)	(509)	(529)
Net earnings (loss) before income taxes	2,361	(475)	(981)	905
Income tax expense	(100)	-	-	(100)
Net earnings (loss) and comprehensive income (loss)	2,261	(475)	(981)	805

				As at September 30, 2019
	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Total assets	12,283	3,918	3,105	19,306
Total liabilities	4,902	503	422	5,827

				As at December 31, 2018
	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Total assets	12,301	3,552	859	16,712
Total liabilities	5,144	349	6,318	11,811

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

16. Segmented information (Continued)

(b) Geographic information

All revenue from the sale of precious metals for the periods ended September 30, 2019 and 2018 were earned in the USA. Substantially all of the Company's revenues were from one customer until March 4, 2019 after which revenues are from two customers.

All of the Company's non-current assets are located in the USA as at September 30, 2019 and December 31, 2018.

17. 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 three and nine months ended September 30, 2019 and 2018 is as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
	$	$	**$**	$
Salaries* and director fees	**179**	178	**530**	531

* certain salaries have been allocated to cost of sales and care and maintenance

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three and nine months ended September 30, 2019 and 2018.

b) Waterton Fund

Waterton Fund, the Company's former lender, controls Elevon which owned a 30% non-controlling interest in Mineral Ridge Gold, LLC until March 4, 2019. Management considered Waterton Fund and Elevon related parties of the Company until that date.

Related party transactions entered into with Waterton Fund during the three and nine months ended September 30, 2019 and 2018 are as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
	$	$	**$**	$
Interest on secured debt	**-**	151	**104**	449