SCORPIO Gold Corporation

Consolidated Financial Statements

For the year ended December 31, 2019

(Expressed in US dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Scorpio Gold Corporation

Opinion

We have audited the accompanying consolidated financial statements of Scorpio Gold Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of net earnings (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company does not have sufficient financial resources to carry out currently planned operations through the next twelve months. Additional financing will be required by the Company to complete its strategic objectives and continue as a going concern. As indicated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Stephen Hawkshaw.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 28, 2020

Scorpio Gold Corporation

Consolidated statements of net earnings (loss) and comprehensive income (loss)

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

	Note	Year ended December 31, 2019	2018
REVENUE			
Revenue		$ 5,247	$ 9,824
Cost of sales excluding inventory write-down	*4*	(2,539)	(6,096)
Inventory write-down	*7*	(2,368)	(690)
Mine operating earnings		340	3,038
EXPENSES			
General and administration	*5*	(1,058)	(808)
Care and maintenance - Goldwedge		(674)	(626)
Impairment of mining assets	*2*	(3,359)	(426)
Gain on disposal of assets		-	4
Gain on adjustment of provision for environment		-	43
		(5,091)	(1,813)
Operating earnings (loss)		(4,751)	1,225
Other income (expense)			
Finance costs	*6*	(742)	(766)
Finance income		127	86
Foreign exchange		3	4
Gain on debt settlement	*11*	3,892	-
		3,280	(676)
Net earnings (loss) before income taxes		(1,471)	549
Income tax recovery (expense)	*19*	34	(126)
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)		$ (1,437)	$ 423
Net earnings (loss) and comprehensive income (loss) attributable to:			
Shareholders of the Company		$ (1,450)	$ (267)
Non-controlling interest		13	690
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)		$ (1,437)	$ 423
Basic and diluted earnings (loss) per common share		$ (0.02)	$ (0.00)
Basic and diluted weighted average number of common shares outstanding		62,474,118	62,474,118

Scorpio Gold Corporation

Consolidated statements of financial position

(Expressed in thousands of US dollars)

		As at December 31,	
	Note	**2019**	**2018**
ASSETS			
Current assets			
Cash		$ 2,243	$ 1,100
Receivables		389	1
Prepaid expenses		434	426
Inventories	*7*	973	1,238
Total current assets		4,039	2,765
Producing mining assets	*8*	5,011	5,182
Non-producing mining assets	*9*	224	2,687
Reclamation bonds	*10*	6,186	6,078
TOTAL ASSETS		$ 15,460	$ 16,712
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables		$ 524	$ 740
Income tax payable		5	149
Secured debt and financing lease	*11*	-	6,050
Total current liabilities		529	6,939
Provision for environmental rehabilitation	*10*	5,278	4,841
Deferred income tax liability	*19*	-	31
Total liabilities		5,807	11,811
Equity			
Share capital	*13*	51,449	51,449
Equity reserve	*13*	6,688	6,555
Convertible debentures	*12*	6,847	-
Investment valuation reserve		(2)	(2)
Foreign currency translation reserve		(194)	(194)
Deficit		(55,135)	(48,802)
Equity attributable to shareholders of the Company		9,653	9,006
Non-controlling interest		-	(4,105)
Total equity		9,653	4,901
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 15,460	$ 16,712
Nature of operations and going concern	*1*		

APPROVED BY THE BOARD

"Peter Hawley"
Director

"Brian Lock"
Director

Scorpio Gold Corporation

Consolidated statements of changes in equity

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

	Number of shares	Share capital	Equity reserve	Convertible debentures	Investment valuation reserve	Foreign currency translation reserve	Deficit	Non-controlling interest	Total 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 (loss) and comprehensive income (loss)	-	-	-	-	-	-	(1,450)	13	(1,437)
Loss on acquisition of non-controlling interest	-	-	-	-	-	-	(4,883)	4,092	(791)
Balance, December 31, 2019	62,474	$ 51,449	$ 6,688	$ 6,847	$ (2)	$ (194)	$ (55,135)	$ -	$ 9,653

	Number of shares	Share capital	Equity reserve	Convertible debentures	Investment valuation reserve	Foreign currency translation reserve	Deficit	Non-controlling interest	Total equity
Balance, December 31, 2017	62,474	$ 51,449	$ 6,555	$ -	$ (2)	$ (194)	$ (48,535)	$ (3,859)	$ 5,414
Net earnings (loss) and comprehensive income (loss)	-	-	-	-	-	-	(267)	690	423
Distributions to non-controlling interest	-	-	-	-	-	-	-	(936)	(936)
Balance, December 31, 2018	62,474	$ 51,449	$ 6,555	$ -	$ (2)	$ (194)	$ (48,802)	$ (4,105)	$ 4,901

Scorpio Gold Corporation
Consolidated statements of cash flows
(Expressed in thousands of US dollars)

	Year ended December 31, 2019	2018
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Net earnings (loss) before income taxes	$ (1,471)	$ 549
Adjustment for:		
Income tax paid	(141)	(273)
Environmental rehabilitation	-	(120)
Items not affecting cash:		
Share-based compensation	133	-
Financing costs	742	766
Finance income	(108)	(86)
Gain on debt settlement	(3,892)	-
Gain on disposal of assets	-	(4)
Gain on adjustment of provision for environment rehabilitation	-	(43)
Impairment of mining assets	3,359	426
Inventory write-down	2,368	690
Depletion and amortization	16	22
Change in non-cash working capital items:		
Receivables	(388)	187
Prepaid expenses	(8)	122
Inventories	(2,103)	529
Trade and other payables	(695)	(267)
	(2,188)	2,498
INVESTING ACTIVITIES:		
Additions to non-producing mining assets and other	(433)	(437)
Acquisition of non-controlling interest	(791)	-
Reclamation bonds	-	(247)
Proceeds from disposal of assets	-	4
	(1,224)	(680)
FINANCING ACTIVITIES:		
Proceeds from issuance of convertible debentures, net	3,817	-
Promissory notes	3,000	-
Distributions to non-controlling interest	-	(936)
Interest paid	-	(600)
Repayment of secured debt and financing lease	(2,262)	(121)
	4,555	(1,657)
INCREASE IN CASH FOR THE YEAR	1,143	161
CASH, BEGINNING OF THE YEAR	1,100	939
CASH, END OF YEAR	$ 2,243	$ 1,100

Supplemental cash flow information (Note 18)

The accompanying notes form an integral part of these consolidated financial statements

1. Nature of operations and going concern

Scorpio Gold Corporation (the "Company") is a publicly-traded company incorporated under the laws of the Province of British Columbia. The Company's shares are listed on the TSX Venture Exchange ("TSX-V") and trade under the symbol SGN. The corporate office of the Company is located at Unit 1 - 15782 Marine Drive, White Rock, B.C., V4B 1E6. The Company and its subsidiaries conduct mineral exploitation, exploration and development activities in the United States of America ("USA").

The Company suspended mining operations of its Mineral Ridge mine in November 2017 as the Company had mined all of its economical mineral reserves based on gold pricing and heap leach recovery parameters. Management expects to generate limited revenues from Mineral Ridge until approximately Q4 of 2020 from residual but diminishing gold recoveries from the leach pads and will use cash flow from the operation of the Mineral Ridge along with current cash on hand to fund the Company's operations until further financing is raised.

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

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. As at December 31, 2019, the Company had working capital of $3.5 million. Management estimates that these funds will not provide the Company with sufficient financial resources to carry out currently planned operations through the next twelve months. Additional financing will be required by the Company to complete its strategic objectives and continue as a going concern. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

2. Basis of presentation

Statement of compliance

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 28, 2020.

Basis of measurement

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

Functional and presentation currency

These consolidated financial statements are presented in United States dollars, which is the functional currency of the parent company and its subsidiaries.

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:

a) Critical judgments

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.

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.

2. Basis of presentation (Continued)

Management judgments and estimates (Continued)

a) Critical judgments (Continued)

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.

b) Estimates

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.

i) 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, 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 $4.3 million as at December 31, 2019 (2018 - $4.7 million). During the year ended December 31, 2019, the Company recorded non-cash impairment charges for Mineral Ridge of $0.5 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.

The recoverability analysis over the Company's inventory as at December 31, 2019, using a gold price assumption of $1,475, 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 $2.4 million during the year ended December 31, 2019 (2018 - $0.7 million).

2. Basis of presentation (Continued)

Management judgments and estimates (Continued)

b) Estimates (Continued)

ii) Goldwedge property and mill

The fact that the Goldwedge property and mill have been on care and maintenance since 2015 and the carrying amount of the net assets of the Company was higher than the Company's market capitalization as of December 31, 2019 are indicators 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 determined that the recoverable value using fair value less costs of disposal was $1.8 million as at December 31, 2019 (2018 - $3.3 million). During the year ended December 31, 2019, the Company recorded non-cash impairment charges for Goldwedge of $2.9 million (2018 - $Nil).

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.

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.

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 debenture is convertible solely at the discretion of the Company.

2. Basis of presentation (Continued)

Management judgments and estimates (Continued)

b) Estimates (Continued)

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.

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.

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.

2. Basis of presentation (Continued)

Management judgments and estimates (Continued)

c) Estimates (Continued)

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.

3. Significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its USA based wholly-owned subsidiaries, Mineral Ridge Gold LLC ("MRG"), Scorpio Gold (US) Corporation and Goldwedge LLC. MRG is the owner of the Mineral Ridge mine, which was 70% owned as at December 31, 2018 before the Company acquired the remaining 30% in March 2019 (Note 11).

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.

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.

Revenue recognition

Revenue relating to the sale of metals is recognized when control of the metal of related services are transferred to the customer in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. In determining whether the Company has satisfied a performance obligation, it considers the indicators of the transfer of control, which include, but are not limited to, whether the Company has a present right to payment; the customer has legal title to the asset; the Company has transferred physical possession of the asset to the customer; and the customer has the significant risks and rewards of ownership of the asset.

3. Significant accounting policies (Continued)

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.

Mining assets

<u>Producing mining assets</u>

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.

3. Significant accounting policies (Continued)

Mining assets (Continued)

Producing mining assets (Continued)

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.

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.

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.

3. Significant accounting policies (Continued)

Mining assets (Continued)

Property, plant and equipment (Continued)

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.

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.

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.

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.

3. Significant accounting policies (Continued)

Share-based compensation (Continued)

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.

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.

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.

Financial instruments

<u>Classification</u>

Financial assets are classified at initial recognition as either: measured at amortized cost, fair value through profit and loss ("FVTPL") or fair value through other comprehensive income ("FVTOCI"). The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or the Company has opted to measure at FVTPL.

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Measurement

Financial assets and liabilities at FVTPL are initially recognized at fair value and transaction costs are expensed in profit and loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets or liabilities held at FVTPL are included in profit and loss in the period in which they arise. Where the Company has opted to designate a financial liability at FVTPL, any changes associated with the Company's credit risk will be recognized in other comprehensive income. Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

Impairment

The Company assesses, on a forward-looking basis, the expected credit losses associated with financial assets measured at amortized cost, contract assets and debt instruments carried at FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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.

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.

3. Significant accounting policies (Continued)

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.

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.

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.

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.

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.

3. Significant accounting policies (Continued)

Income taxes (Continued)

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.

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.

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.

Change in accounting policies

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.

New standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2019 and have not been applied in preparing these consolidated financial statements. In addition, none of these standards are applicable to the Company.

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

4. Cost of sales

	Year ended December 31, 2019	2018
Contractor charges	$ 223	$ 462
Labour	1,985	2,746
Fuel and reagents	964	816
Mechanical parts	125	107
Change in ore stockpile, metals in process, and finished goods inventories	(2,072)	472
Royalties	-	17
Utilities, permits and other	1,314	1,476
	$ 2,539	$ 6,096

5. General and administrative

	Year ended December 31, 2019	2018
Salaries and benefits	$ 380	$ 478
Consultants	86	7
Directors' fees	113	100
Insurance, travel and office related	70	67
Investor relations	11	9
Project evaluation	3	-
Professional fees	172	136
Share-based compensation (Note 13)	133	-
Transfer agent and listing fees	90	11
	$ 1,058	$ 808

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

6. Finance costs

	Note	Year ended December 31, 2019	2018
Interest on promissory notes	*11*	$ 30	$ -
Interest on convertible debentures	*12*	488	-
Interest on secured debt	*11*	104	600
Amortization of debt issue cost		-	62
Unwinding of discount of provision for environmental rehabilitation	*10*	120	100
Interest on financing lease		-	4
		$ 742	$ 766

7. Inventories

	December 31, 2019	December 31, 2018
Supplies	$ 745	$ 714
Metals in process	217	488
Finished goods	11	36
	$ 973	$ 1,238

During the year ended December 31, 2019, inventory included as cost of sales is $4.9 million (2018 - $6.8 million).

During the year ended December 31, 2019, the Company recognized an inventory write-down of $2.4 million (2018 - $0.7 million).

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

8. Producing mining assets

		Mining interest		Plant and Equipment		Mobile equipment		Furniture and office equipment		Total
Cost										
December 31, 2017	$	74,261	$	23,329	$	2,186	$	816	$	100,592
Additions		-		43		-		-		43
Change in provision for environmental rehabilitation		31		-		-		-		31
December 31, 2018		74,292		23,372		2,186		816		100,666
Additions		-		-		-		10		10
Change in provision for environmental rehabilitation		267		-		-		-		267
December 31, 2019	$	74,559	$	23,372	$	2,186	$	826	$	100,943
Accumulated impairment, depletion and amortization										
December 31, 2017	$	74,261	$	19,143	$	1,263	$	804	$	95,471
Depletion and amortization		-		8		1		4		13
December 31, 2018		74,261		19,151		1,264		808		95,484
Impairment		298		128		-		10		436
Depletion and amortization		-		8		1		3		12
December 31, 2019	$	74,559	$	19,287	$	1,265	$	821	$	95,932
Net book value										
December 31, 2018	$	31	$	4,221	$	922	$	8	$	5,182
December 31, 2019	$	-	$	4,085	$	921	$	5	$	5,011

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

8. Producing mining assets (Continued)

	Mineral Ridge	Goldwedge	Total
Cost			
December 31, 2017	$ 97,803	$ 2,789	$ 100,592
Additions	43	-	43
Change in provision for environmental rehabilitation	31	-	31
December 31, 2018	97,877	2,789	100,666
Additions	10	-	10
Change in provision for environmental rehabilitation	267	-	267
December 31, 2019	$ 98,154	$ 2,789	$ 100,943
Accumulated impairment, depletion and amortization			
December 31, 2017	$ 93,303	$ 2,168	$ 95,471
Depletion and amortization	-	13	13
December 31, 2018	93,303	2,181	95,484
Impairment	436	-	436
Depletion and amortization	-	12	12
December 31, 2019	$ 93,739	$ 2,193	$ 95,932
Net book value			
December 31, 2018	$ 4,574	$ 608	$ 5,182
December 31, 2019	$ 4,415	$ 596	$ 5,011

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

9. Non-producing mining assets and other

	Mining interest	Plant and Equipment	Mobile equipment	Furniture and office equipment	Construction in progress	Total
Cost						
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)
December 31, 2018	16,283	689	604	26	1,644	19,246
Additions	383	-	-	-	31	414
Disposal	-	-	-	(26)	-	(26)
Change in provision for environmental rehabilitation	50	-	-	-	-	50
December 31, 2019	$ 16,716	$ 689	$ 604	$ -	$ 1,675	$ 19,684
Accumulated impairment, depletion and amortization						
December 31, 2017	$ 13,656	$ 520	$ 536	$ 33	$ 1,386	$ 16,131
Impairment	168	-	-	-	258	426
Depletion and amortization	-	8	1	-	-	9
Disposal	-	-	-	(7)	-	(7)
December 31, 2018	13,824	528	537	26	1,644	16,559
Impairment	2,892	-	-	-	31	2,923
Depletion and amortization	-	4	-	-	-	4
Disposal	-	-	-	(26)	-	(26)
December 31, 2019	$ 16,716	$ 532	$ 537	$ -	$ 1,675	$ 19,460
Net book value						
December 31, 2018	$ 2,459	$ 161	$ 67	$ -	$ -	$ 2,687
December 31, 2019	$ -	$ 157	$ 67	$ -	$ -	$ 224

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

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

	Mineral Ridge	Goldwedge	Other	Total
Cost				
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)
December 31, 2018	7,549	11,653	44	19,246
Additions	34	380	-	414
Disposal	-	-	(26)	(26)
Change in provision for environmental rehabilitation	-	50	-	50
December 31, 2019	$ 7,583	$ 12,083	$ 18	$ 19,684
Accumulated impairment, depletion and amortization				
December 31, 2017	$ 7,123	$ 8,977	$ 31	$ 16,131
Impairment	426	-	-	426
Depletion and amortization	-	9	-	9
Disposal	-	-	(7)	(7)
December 31, 2018	7,549	8,986	24	16,559
Impairment	34	2,869	20	2,923
Depletion and amortization	-	4	-	4
Disposal	-	-	(26)	(26)
December 31, 2019	$ 7,583	$ 11,859	$ 18	$ 19,460
Net book value				
December 31, 2018	$ -	$ 2,667	$ 20	$ 2,687
December 31, 2019	$ -	$ 224	$ -	$ 224

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

10. Reclamation bonds and provision for environmental rehabilitation

a) Reclamation bonds

	December 31, 2019	December 31, 2018
Mineral Ridge	$ 5,968	$ 5,864
Goldwedge	218	214
	$ 6,186	$ 6,078

The Company has reclamation bonds of $12.1 million and entered into an agreement with a surety under which the cash collateral is $6.2 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.

	December 31, 2019	December 31, 2018
Balance, beginning of year	$ 4,841	$ 4,854
Unwinding of discount (Note 6)	120	100
Reclmation activities	-	(120)
Change in estimates (Note 8 & 9)	317	7
End of year	$ 5,278	$ 4,841

The total undiscounted amount of estimated cash flows required to settle the provision for environmental rehabilitation at Mineral Ridge is approximately $5.3 million (2018 - $5.0 million). The total undiscounted amount of estimated cash flows required to settle the provisions for environmental rehabilitation at Goldwedge is approximately $0.4 million (2018 - $0.4 million). The present value of the obligation was determined using a weighted average discount rate of 1.7% and an average inflation rate of 2.3%. The settlement of the obligations is estimated to occur through to 2027 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.

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

11. Secured debt and financing lease

	December 31, 2019		December 31, 2018	
Senior secured credit facility	$	-	$	6,000
Financing lease		-		50
	$	-	$	6,050

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").

During the period to March 4, 2019, the Company recorded interest expense of $0.1 million (year ended December 31, 2018 - $0.6 million).

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 $3.9 million as well as a loss on acquisition of non-controlling interest of $4.9 million during the year ended December 31, 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.

$2.2 million of the Upfront Payment was allocated to the Loan and the $0.8 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 repaid, with accrued interest of $0.03 million (Note 6), at the closing of the convertible debenture financing (Note 12).

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

12. Convertible debentures

	December 31, 2019	December 31, 2018
Secured subordinated convertible debentures	$ 7,175	$ -
Finder's fee paid in Debentures	(175)	-
Transaction 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, subject to regulatory approval. 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 incurred transaction costs of $0.2 million in cash.

During the year ended December 31, 2019, the Company recorded interest expense of $0.5 million on the Debentures.

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.

As at December 31, 2019, interest payable on the Debentures totalled $0.1 million and is included in trade and other payables.

In April 2020, the Company elected to settle its semi-annual interest payment by the issue of 6,368,600 common shares to settle its semi-annual interest payment of $0.4 million (Note 20).

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

13. Share capital

(a) Authorized

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

(b) Issued and outstanding

During the years ended December 31, 2019 and 2018, the Company did not issue any common shares.

(c) Stock options

The Company has a shareholder approved rolling stock option plan ("the Plan") which is applicable to directors, officers, employees and consultants. Under the Plan, the total outstanding stock options that may be granted are limited to 10% of the outstanding common shares of the Company at any one time. The exercise price of an option shall not be less than the discounted market price at the time of granting as prescribed by the policies of the TSX-V. The maximum term of stock options is ten years from the grant date. Vesting terms are at the discretion of the directors.

The continuity of stock options for the year ended December 31, 2019 is as follows:

Expiry date	Exercise price C$	Balance, December 31, 2018	Granted	Exercised	Forfeited	Balance, December 31, 2019
January 14,2020	$ 0.29	905,000	-	-	(30,000)	875,000
August 30, 2021	$ 0.17	1,142,500	-	-	(47,500)	1,095,000
June 6, 2023	$ 0.55	757,500	-	-	(37,500)	720,000
June 5, 2024	$ 0.10	-	2,500,000	-	-	2,500,000
		2,805,000	2,500,000	-	(115,000)	5,190,000
Weighted average exercise price (C$)		$ 0.31	$ 0.10	$ -	$ 0.33	$ 0.21

As at December 31, 2019, all of the outstanding stock options were exercisable.

As at December 31, 2019, the weighted average remaining contractual life of the stock options outstanding was 2.97 years.

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

13. Share capital (Continued)

(c) Stock options (Continued)

The continuity of stock options for the year ended December 31, 2018 is as follows:

Expiry date	Exercise price C$	Balance, December 31, 2017	Granted	Exercised	Expired	Balance, December 31, 2018
January 14,2020	$ 0.41	50,000	-	-	(50,000)	-
January 14,2020	$ 0.29	1,090,000	-	-	(185,000)	905,000
August 30, 2021	$ 0.17	1,421,250	-	-	(278,750)	1,142,500
June 6, 2023	$ 0.55	907,500	-	-	(150,000)	757,500
		3,468,750	-	-	(663,750)	2,805,000
Weighted average exercise price (C$)		$ 0.31	$ -	$ -	$ 0.31	$ 0.31

(d) Share-based compensation

In June 2019, the Company granted 2,500,000 stock options to officers, directors and employees at a fair value of $0.1 million or $0.05 per option which was recorded as share-based compensation. The fair value of the options granted was determined 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.

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

14. Related party transactions and balances

a) Compensation of key management personnel and directors

Key management includes members of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer, and the Corporate Secretary. The aggregate compensation paid or accrued to key management personnel during the year ended December 31, 2019 and 2018 were as follows:

	Year ended December 31,	
	2019	**2018**
Salaries* and director fees	$ 693	$ 732
Share-based compensation	133	-
	$ 826	$ 732

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

As at December 31, 2019, an aggregate of $0.003 million (2018 - $0.19 million) resulting from transactions with key management is included in trade and other payables.

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 years ended December 31, 2019 and 2018 are as follows:

	Year ended December 31,	
	2019	**2018**
Interest on secured debt	$ 104	$ 600
	$ 104	$ 600

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

15. 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, 2019	Mineral Ridge	Goldwedge	Other	Total
REVENUE				
Revenue	$ 5,247	$ -	$ -	$ 5,247
Inter-segment (expense) - management fees	(27)	-	27	-
Cost of sales excluding inventory write-down	(2,539)			(2,539)
Inventory write-down	(2,368)	-	-	(2,368)
Mine operating earnings	313	-	27	340
EXPENSES				
General and administration	-	-	(1,058)	(1,058)
Care and maintenance - Goldwedge	-	(674)	-	(674)
Impairment of mining assets	(470)	(2,869)	(20)	(3,359)
	(470)	(3,543)	(1,078)	(5,091)
Operating loss	(157)	(3,543)	(1,051)	(4,751)
Other income (expense)				
Finance costs	(113)	(7)	(622)	(742)
Finance income	104	4	19	127
Foreign exchange	-	-	3	3
Gain on debt settlement	-	-	3,892	3,892
	(9)	(3)	3,292	3,280
Net earnings (loss) before income taxes	(166)	(3,546)	2,241	(1,471)
Income tax recovery	26	-	8	34
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME	**$ (140)**	**$ (3,546)**	**$ 2,249**	**$ (1,437)**

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

15. Segmented information (Continued)

(a) Industry information (Continued)

Year ended December 31, 2018	Mineral Ridge	Goldwedge	Other	Total
REVENUE				
Revenue	$ 9,824	$ -	$ -	$ 9,824
Inter-segment (expense) - management fees	(187)	-	187	-
Cost of sales excluding inventory write-down	(6,096)	-	-	(6,096)
Inventory write-down	(690)	-	-	(690)
Mine operating earnings	2,851	-	187	3,038
EXPENSES				
General and administration	(29)	-	(779)	(808)
Care and maintenance - Goldwedge	-	(626)	-	(626)
Impairment of mining assets	(426)	-	-	(426)
Gain on disposal of assets	-	-	4	4
Gain on adjustment of provision for environment rehabilitation	43	-	-	43
	(412)	(626)	(775)	(1,813)
Operating earning (loss)	2,439	(626)	(588)	1,225
Other income (expense)				
Finance costs	(96)	(8)	(662)	(766)
Finance income	83	3	-	86
Foreign exchange	-	-	4	4
	(13)	(5)	(658)	(676)
Net earnings (loss) before income taxes	2,426	(631)	(1,246)	549
Income tax expense	(126)	-	-	(126)
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME	**$ 2,300**	**$ (631)**	**$ (1,246)**	**$ 423**

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

15. Segmented information (Continued)

(a) Industry information (Continued)

As at December 31, 2019		Mineral Ridge		Goldwedge		Other		Total
TOTAL ASSETS	$	12,362	$	1,122	$	1,976	$	15,460
TOTAL LIABILITIES	$	5,170	$	414	$	223	$	5,807

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

(b) Geographic information

All revenue from the sale of precious metals for the years ended December 31, 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 December 31, 2019 and December 31, 2018.

16. Financial instruments and risk management

a) Financial instruments

Financial instruments are classified into one of the following categories: FVTPL; FVTOCI; or at amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instruments	Category		December 31, 2019		December 31, 2018
Cash	FVTPL	$	2,243	$	1,100
Receivables	Amortized cost		389		1
Reclamation bonds	Amortized cost		6,186		6,078
Trade and other payables	Amortized cost		(524)		(740)
Secured debt and financing lease	Amortized cost		-		(6,050)

16. Financial instruments (Continued)

a) Financial instruments (Continued)

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.

The carrying values of 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 exposures and the impact on the Company's financial instruments are summarized below:

<u>Credit risk</u>

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, 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. 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.

16. Financial instruments (Continued)

b) Risk management (Continued)

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:

	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total
Trade and other payables	$ 524	$ -	$ -	$ -	$ 524
Provision for environmental rehabilitation	-	254	5,157	274	5,685

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.

i) 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 Debentures are fixed at an interest rate of 10% per annum and accordingly are 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.

ii) 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.

	December 31, 2019	December 31, 2018
Cash	$ 80	$ 260
Receivables	4	1
Trade and other payables	(60)	(189)

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.

16. Financial instruments (Continued)

b) Risk management (Continued)

Market risk (Continued)

iii) 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, 2019. The Company does not use derivatives to manage its exposure to price risk.

17. Capital management

Capital is defined as equity attributable to equity shareholders. 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.

18. Supplemental cash flow information

During the year ended December 31, 2019, the Company:

- issued 175,000 Debentures valued at $0.17 million as finder's fees (Note 12);
- converted promissory notes of $3.0 million into Debentures (Note 12);
- recorded a change in provision for environmental rehabilitation of producing assets of $0.27 million (Note 8);
- recorded a change in provision for environmental rehabilitation of non-producing assets of $0.05 million (Note 9);
- has producing assets included in trade and other payables of $0.01 million; and
- has non-producing assets included in trade and other payables of $0.002 million.

During the year ended December 31, 2018, the Company:

- recorded a change in provision for environmental rehabilitation of producing assets of $0.03 million (Note 8);
- recorded a change in provision for environmental rehabilitation of non-producing assets of $0.02 million (Note 9); and
- has non-producing assets included in trade and other payables of $0.021 million.

During the year ended December 31, 2019, the Company paid interest of $0.03 million (2018 - $0.6 million) in cash.

During the year ended December 31, 2019, the Company paid income tax of $0.14 million (2018 - $0.27 million) in cash.

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

19. 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 26.7% (2018 - 26.7%) to applicable earnings by the following items:

	Year ended December 31, 2019	2018
Net earnings (loss) before income taxes	$ (1,471)	$ 549
Expected income tax recovery	$ (393)	$ 147
Change in statutory, foreign tax, foreign exchange rates, and other	1,280	(1)
Tax deductions in excess of accounting amounts and non-deductible amounts	(487)	(108)
Change in unrecognized deductible temporary differences	(510)	(16)
True-ups	76	104
Total income tax (recovery) expense	$ (34)	$ 126
Income tax (recovery)		
Current	$ -	$ 148
Deferred	(34)	(22)
Total income tax (recovery) expense	$ (34)	$ 126

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

	December 31, 2019	December 31, 2018
Deferred tax assets		
Provision for environmental rehabilitation	$ 228	$ 315
Other	-	52
Deferred tax liabilities		
Producing mining assets	(228)	(251)
Non-producing mining assets	-	(147)
Total deferred tax liabilities	$ -	$ (31)

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

19. Income taxes (Continued)

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

		December 31, 2019	Expiry date range
Temporary differences			
Share issue costs and financing costs	$	-	no expiry date
Non-capital loss carry-forwards		39,953	see below
Provision for environmental rehabilitation		5,278	no expiry date
Non-producing mining assts and other		5,940	no expiry date
Interest deductions upon payment		7,229	no expiry date
Non-capital loss summary			
Canada	$	1,579	2026 to 2039
USA		38,374	no expiry date

20. Subsequent events

(a) In January 2020, 875,000 stock options expired unexercised

(b) In April 2020, the Company elected to settle its semi-annual interest payment on its Debenture (Note 12) by the issue of 6,368,600 common shares to settle its semi-annual interest payment of $0.4 million.