



## MANAGEMENT DISCUSSION AND ANALYSIS

### INTRODUCTION

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The following The Management Discussion and Analysis (“MD&A”) of Scorpio Gold Corporation (the “Company” or “Scorpio Gold”) is for the year ended December 31, 2018 and is provided as of April 29, 2019. This MD&A is to be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2018 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These documents are available on the Company’s website ([www.scorpiogold.com](http://www.scorpiogold.com)) and filed on SEDAR ([www.sedar.com](http://www.sedar.com)). All dollar amounts are in US dollars unless otherwise indicated.

Scorpio Gold was incorporated under the Business Corporations Act (British Columbia). The Company is a reporting issuer in the provinces of British Columbia and Alberta. Scorpio Gold is listed on the TSX Venture Exchange (the “TSX-V”) under the trading symbol SGN. The Company and its subsidiaries conduct mining exploitation, exploration and development on mining properties, in the United States. On April 15, 2019, the Company consolidated its common shares on a two for one basis. As such, all per share amounts in this document have been retroactively restated to reflect this consolidation.

#### **Debenture financing, debt extinction and increase in ownership of the Mineral Ridge mine.**

On April 26, 2019, the Company received gross proceeds of \$7 million from the issuance of secured convertible debentures. The Company utilized \$3 million of these proceeds to repay bridge loans previously entered into to fund a \$3 million payment to Waterton Precious Metals Fund II Cayman, LP (the “Lender”) in consideration for (i) the settlement and termination of all liabilities under the senior secured credit facility (the “Senior Secured Credit Facility” advanced by the Lender to the Company, (ii) the termination of a gold and silver supply agreement dated May 18, 2011 among the Company, its subsidiaries and an affiliate of the Lender; and (iii) the purchase of the 30% membership interest of Elevon LLC (“Elevon”) in Mineral Ridge Gold, LLC (which holds the Mineral Ridge Project) and the termination of an operating agreement dated March 10, 2010 between the Company and Elevon (collectively, the “Waterton Buyout”). As a result of the Waterton Buyout, the Company now owns 100% of the Mineral Ridge Project. In addition to the \$3 million cash payment, the Company agreed to pay the Lender certain other amounts on a contingent basis, as more particularly described below under the heading “*Debenture Financing and Waterton Buyout*”.

The Company’s only source of revenue is its 100% owned Mineral Ridge mine, which suspended mining operations in November 2017 as the Company had mined all of its economical mineral reserves based on gold pricing and heap leach recovery parameters. Remaining reserves are determined uneconomical to continue mining with the existing processing infrastructure due to higher associated strip ratios and current heap leach recoveries and will require higher gold prices or mill processing to be considered economical. Management expects to generate limited revenues until approximately Q3 of 2019 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.

The Company’s current focus is on raising sufficient financing to proceed with the construction of a new processing facility at Mineral Ridge with a view to process heap leach materials and additional open-pit mineral reserves. More details on this project are provided in the resource and reserve estimates section below.

In October 2017, the Company announced a positive feasibility study for processing the heap leach mineral resource at Mineral Ridge. This economically positive study provides the foundation for recovering a substantial portion of the 117,000 ounces of proven and probable reserves of gold contained on the heap leach pad. Additionally, due to higher expected recovery rates provided by the new milling circuit, the Company proceeded with a third-party analysis of its other known mineralization reserves. As announced on January 4, 2018, this study added additional mineral reserves of 156,000 ounces of gold for a combined mineral reserve of 273,000 ounces of gold in the proven and probable category. This is expected to extend the Mineral Ridge life of mine by an estimated total of 9 years, subject to the construction of the new processing facility. Further exploration at Mineral Ridge may also add additional resources. For more information, refer to the Resource and Reserve Estimates section below in this document. For more information on the mineral reserves described in this paragraph, including information on tonnage and grade, see the heading “Mineral Properties – Mineral Ridge Property, Nevada – Resource and Reserve Estimates”.

The successful completion to finance construction costs of a new processing facility and to support operations prior to and during the period of construction, obtaining relevant permits to proceed with construction and to resume mining, provided it is economically viable to do so, and the ability to identify future profitable business operations are not entirely within the control of the Company.

## 2018 HIGHLIGHTS AND SUBSEQUENT EVENTS

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- 7,767 ounces of gold were produced at the Mineral Ridge mine, compared to 19,045 ounces produced during 2017.
- Revenue of \$9.8 million, compared to \$27.0 million during 2017.
- Total cash cost per ounce of gold sold<sup>(1)</sup> of \$883, compared to \$1,026 during 2017.
- Mine operating earnings of \$3.0 million, compared to \$2.6 million during 2017.
- Net earnings of \$0.4 million (\$0.00 basic and diluted per share), compared to net loss of \$4.2 million (\$0.06 basic and diluted per share) during 2017.
- Adjusted net earnings<sup>(1)</sup> of \$1.5 million (\$0.01 basic and diluted per share), compared to \$0.4 million (\$0.00 basic and diluted per share) during 2017.
- Adjusted EBITDA<sup>(1)</sup> of \$2.4 million (\$0.02 basic and diluted per share), compared to \$2.8 million (\$0.03 basic and diluted per share) million during 2017.
- Subsequent to December 31, 2018, the Company completed a \$7 Million convertible debenture private placement financing, and the Company used a portion of the proceeds to extinguish certain debts and buy back the remaining 30% interest in Mineral Ridge (Refer to “*Debenture Financing and Waterton Buyout*” below).

<sup>(1)</sup> This is a non-IFRS measure; please see Non-IFRS performance measures section.

**FOURTH QUARTER HIGHLIGHTS**

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- 1,580 ounces of gold were produced at the Mineral Ridge mine during Q4 of 2018, compared to 3,709 ounces during Q4 of 2017.
- Revenue of \$2.1 million, compared to \$4.8 million during Q4 of 2017.
- Total cash cost per ounce of gold sold<sup>(1)</sup> of \$1,159 compared to \$1,188 during Q4 of 2017.
- Mine operating earnings of \$0.1 million compared to \$0.1 million during Q4 of 2017.
- Net loss of \$0.4 million (\$0.01 basic and diluted per share), compared to net loss of \$1.2 million (\$0.02 basic and diluted per share) during Q4 of 2017.
- Adjusted net earnings<sup>(1)</sup> of \$0.3 million (\$0.00 basic and diluted per share) compared to adjusted net loss of \$0.6 million (\$0.01 basic and diluted per share) for Q4 of 2017.
- Adjusted EBITDA<sup>(1)</sup> of \$0.5 million (\$0.00 basic and diluted per share) compared to negative \$0.3 million (\$0.00 basic and diluted per share) during Q4 of 2017.

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<sup>(1)</sup> This is a non-IFRS measure; please see Non-IFRS performance measures section.

## OUTLOOK

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The Company's current focus is on raising sufficient financing to improve its financial position in order to allow it to proceed with the construction of a new processing facility at Mineral Ridge with a view to process heap leach materials and additional open-pit mineral reserves. More details on this project are provided in the resource and reserve estimates section below.

In order for this goal to be attained, management is currently focusing on meeting the following milestones:

### Financing

Discussions are ongoing with financial firms to complete a financing on terms acceptable to the Company.

### Permitting

Approval of the Plan of Operations ("PoO") amendment for Mineral Ridge was received from the Bureau of Land Management ("BLM") on June 27, 2018. This amendment includes authorization for the development and mining of the Custer and Oromonte surface pits, the Oromonte underground area, expansion of the high wall area of the Drinkwater pit, expansion of the Mary LC pit (Bunkhouse Hill area), the Bunkhouse Hill underground area, a 4,000 ton per day milling circuit including a carbon in leach circuit ("CIL") and filtration circuit for dry stack tailings, a conversion of the current leach pad to a tails storage facility ("TSF") providing additional capacity from 7.6 million tons ("MT") to 12 MT capacity, a 1,000 ton toll milling containment, and exploration drilling on an additional 1,400 acres.

On November 11, 2018, the Bureau of Mining Regulation and Reclamation ("BMRR") approved the Reclamation Permit Modification & Bond Determination for the Mineral Ridge Mine, which is associated with the approved PoO amendment and the pending Water Pollution Control Permit ("WPCP") modification. The updated determination increases the required bonding for Mineral Ridge by approximately \$2.2 million over current levels.

The Nevada Division of Environmental Protection ("NDEP") conducted their initial review of the WPCP submitted to NDEP on February 20, 2018. Following their review additional documentation was requested and provided by the Company on July 19, 2018. On November 1, 2018 the NDEP then completed their initial technical review of the Major Modification Application. Comments were received on November 4, 2018 and have been addressed. Approval of the WPCP is expected to be received in Q2 of 2019.

**KEY OPERATING AND FINANCIAL STATISTICS**

	2018	2017
<b>Mining operations</b>		
<b>Mary LC pit</b>		
Ore tonnes mined	-	315,242
Waste tonnes mined	-	1,805,218
Total mined	-	2,120,460
Strip ratio	-	5.7
<b>Satellite pits</b>		
Ore tonnes mined	-	78,854
Waste tonnes mined	-	665,226
Total mined	-	744,080
Strip ratio	-	8.4
<b>Total producing pits</b>		
Ore tonnes mined	-	394,096
Waste tonnes mined	-	2,470,444
Total mined	-	2,864,540
Strip ratio	-	6.3
<b>Pits under development</b>		
Ore tonnes mined	-	772
Waste tonnes mined	-	249,085
Total mined	-	249,857
<b>Total mining operations</b>		
Ore tonnes mined	-	394,868
Waste tonnes mined	-	2,719,529
Total mined	-	3,114,397

	2018	2017
<b>Processing</b>		
Tonnes processed	-	398,898
Gold head grade (grams per tonne)	-	1.57
Recoverable gold ounces placed on the leach pad <sup>(1)</sup>	-	13,668
Availability <sup>(2)</sup>	-	23%
Ounces produced		
Gold	7,767	19,045
Silver	3,614	10,203

<sup>(1)</sup> A weighted average metallurgical recovery factor has been applied to the estimated contained ounces crushed and placed on the leach pad, based on the pits from which the ore was mined.

<sup>(2)</sup> Processing Availability is based on hours of crusher operations versus permitted run time.

	2018	2017
<b>Financials</b>		
(In thousands of US dollars, except per ounce and per share numbers)	\$	\$
Total cash cost per ounce of gold sold <sup>(1)</sup>	883	1,026
Ounces sold		
Gold	7,745	21,804
Silver	3,525	10,923
Average price of gold		
London PM fix	1,268	1,257
Realized	1,261	1,229
Net earnings (loss)	423	(4,224)
Basic and diluted net loss per share	(0.00)	(0.06)
Adjusted net earnings <sup>(1)</sup>	1,467	419
Basic and diluted adjusted net earnings per share <sup>(1)</sup>	0.01	0.00
Adjusted EBITDA <sup>(1)</sup>	2,403	2,777
Basic and diluted adjusted EBITDA per share <sup>(1)</sup>	0.02	0.03
Cash flow from operating activities	2,498	3,440

<sup>(1)</sup> This is a non-IFRS performance measure; please see Non-IFRS performance measures section.

### **Debenture Financing and Waterton Buyout**

On April 26, 2019, the Company closed a non-brokered private placement offering (the "Private Placement") of secured convertible debentures (each, a "Debenture") for gross proceeds of \$7 million.

Each Debenture has issue price of US\$1,000, a term of three years from the date of issuance and will bear interest at a rate of 10% per annum, payable semi-annually, which, subject to regulatory approval, may be paid in common shares of the Company ("Shares") at the option of the Company or the holder of the Debenture. The Debentures are secured by a security interest subordinate to all existing and future senior indebtedness of Company as approved by the Company's board of directors, subject to certain board composition requirements.

Each Debenture is convertible into Shares at the option of the holder at any time prior to maturity at a conversion price of US\$0.08 per Share (the "Conversion Price"), which is equivalent to 12,500 Shares for each US\$1,000 principal amount of Debentures, subject to adjustment in certain circumstances. Debentures must be converted in minimum amounts of US\$1,000. The Company will have the option on maturity, subject to regulatory approval and there being no default pursuant 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 Shares equal to the principal amount of the Debenture divided by the Conversion Price.

Prior to the issuance of the Debentures, the Company completed a consolidation of its Shares on the basis of two old Shares in exchange of one new Share (the "Share Consolidation").

The Debentures and Shares issued upon conversion thereof are subject to a four month hold period from the date of issuance of the Debentures in accordance with applicable securities laws and, if required, the policies of the Exchange. A \$0.2 million finder's fee was paid in Debentures in connection with the Private Placement.

The Company utilized \$3 million of these proceeds to repay bridge loans previously entered into to fund the Waterton Buyout, which consisted of (i) the settlement of the Senior Secured Credit Facility advanced by the Lender (ii) the termination of a gold and silver supply agreement dated May 18, 2011 among the Company, its subsidiaries and an affiliate of the Lender; and (iii) the purchase of the 30% membership interest of Elevon in Mineral Ridge Gold, LLC (which holds the Mineral Ridge Project) and the termination of an operating agreement dated March 10, 2010 between the Company and Elevon. As a result of the Waterton Buyout, the Company now owns 100% of the Mineral Ridge Project.

In addition to the \$3 million cash payment the Company made to the Lender, the Company: (i) assigned to the Lender 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 terms of the sale of the Pinon property from the Company to Gold Standard in 2014, and (ii) agreed to make a contingent payment to Waterton 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.

## **MINERAL PROPERTIES**

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The Company's Chairman, Mr. Peter J. Hawley, is the Company's qualified person under National Instrument 43-101-*Standards of Disclosure for Mineral Projects* ("NI 43-101"), and has reviewed and approved the technical disclosure contained in this MD&A.

### **Mineral Ridge Property, Nevada**

On March 10, 2010, the Company acquired a 70% interest in the Mineral Ridge project and related assets, which was a former producing gold mine in Nevada. Mining by the Company commenced in June 2011 and Mineral Ridge entered commercial production in January 2012. Mining was suspended in November 2017 as the Company had mined all of its then known mineral reserves, and because it was uneconomical to continue mining as a result of higher strip ratios associated with the remaining known mineral resources. On March 4, 2019, the Company acquired the remaining 30% ownership of the Mineral Ridge property from Elevon and as such currently own 100% of this project.

### **General**

The Mineral Ridge Property is located about 56 km southwest of Tonopah, Nevada. The property consists of several consolidated claim blocks and historic mining operations dating from the 1860's through to the 1940's. Open pit mining began again in the area in 1989, primarily in the Drinkwater open pit. Gold mineralization is hosted in the lowest unit of the Wyman Limestone formation, typically referred to as the "Mary Limestone". Historic mining properties consolidated by the Mineral Ridge Property include the Drinkwater, Mary and Brodie underground mines. The areas surrounding these properties and the smaller satellite deposits nearby are the focus of current resource evaluation plans by both open pit and possibly underground mining. The Mineral Ridge Property had historically produced almost 630,000 ounces of gold before its acquisition by the Company, including ~168,000 ounces from open pit and ~462,000 ounces from underground mining operations. The property is currently bonded and permitted for heap leach gold processing and production. The property hosts multiple gold bearing structures, veins and bodies and features an existing infrastructure consisting of roadways, power grid, heap leach pad, crushing circuit, gold Adsorption/Desorption/Recovery ("ADR") plant, water supply, maintenance shop, refueling and storage facilities and administrative buildings.

### **Resource and Reserve Estimates**

On January 4, 2018, the Company announced the results of an updated feasibility study for the Mineral Ridge project, which is reported in a technical report entitled "Updated Feasibility Study and National Instrument 43-101 Technical Report: Mineral Ridge Project" with an effective date of January 2, 2018 (the "Feasibility Study") to process the heap leach material and additional open-pit mineral reserves at Mineral Ridge (the "Project"). These additional open-pit mineral reserves were evaluated in the context of a higher gold recovery percentage provided by the construction of a processing facility.

The economic viability of the Project has been evaluated using constant dollar after-tax discounted cash flow methodology. This valuation method requires projecting material balances estimated from operations and calculating resulting economics. Economic value is calculated from sales of metal, plus net equipment salvage value and bond collateral less cash outflows such as operating costs, management fees, capital costs, working capital changes, any applicable taxes and reclamation costs. Of the \$67.5 million in total capital required for the Project, \$28.9 million is assumed to be financed through a capital lease. Resulting annual cash flows are used to calculate the net present value and internal rate of return of the Project.

The economic evaluation is based on the estimated mineral reserves on the heap leach pad as of June 29, 2017, plus the mineral reserves estimated in other areas that can be mined using open pit methods. Since the Project entails use of infrastructure active up to, and including, the time of capital investment, continuity of administrative and certain operational activities is expected, which allows certain costs to be determined based on actual history. Otherwise, operating and capital costs for proposed new activities have been derived by third-party engineers.

During the Project life (one year of initial capital investment and seven-and-one-half years of operation), the site will undergo further evaluation to extend its operating life, and as such, no end-of-project reclamation is included in this Project analysis.

The open-pit mining equipment necessary for the Project is assumed to be acquired through a capital lease. The lease is modeled at a four-year term at 6% interest. Interest payments are reported as cash operating costs, principal payments reduce cash as a financing activity and costs are booked as assets on the balance sheet.

### Economic Results

Based on the economic parameters summarized above, the Project returns a NPV5% (after-tax) of \$35.1 million and an IRR of 30.0%, and achieves payback in 2.9 years.

#### Economic Results

Area	Unit	Total/Average
Construction Period	years	1
Operating Period	years	7.5
Heap leach Pad Material Milled	kt	6,855
Average Leach Pad Gold Grade	opt	0.017
ROM Material Milled	kt	3,712
ROM Material Gold Grade	opt	0.042
Recovery After Process and Refining	%	91.6
Life of Project Gold Sold	koz	250.5
Average Annual Gold Sold	koz/a	33.4
Gold Price	\$/oz	1,250
Realized Gold Price	\$/oz	1,249.50
Average Silver Grade	opt	0.017
Average Annual Silver Sold	koz/a	3.7
Realized Silver Price (Average)	\$/oz	19.81
Total Cash Cost	\$/oz	805
Initial capital expenditures	\$ million	34.9
Remnant Ore Capital Expenditures (Ops Year 6)	\$ million	32.6
Total After-tax Net Cash Flow	\$ million	53.5
Net Salvage Value	\$ million	13.1
NPV of Net Cash Flow Discounted at 5%	\$ million	35.1
IRR	%	30.0
Payback from End of Construction	years	2.9

Management anticipates that the Project returns could potentially be further enhanced through the judicious sourcing and refurbishment of certain used equipment, available for purchase in the south-western United States. However, no economic studies have been undertaken with respect to sourcing and refurbishing used equipment, including the Feasibility Study which is based on new equipment only.

### Heap Leach Reserves and Resources

The Mineral Resource estimate for the material on the heap leach pad that is directly amenable to processing is provided in Table 1. No cut-off criteria have been applied since there will be no selectivity of areas to be processed and the leach pad will be processed in its entirety. The Mineral Resources are reported inclusive of Mineral Reserves and have an effective date of June 29, 2017. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. The Mineral Resource estimate contained in the Feasibility Study was prepared by Mr. Ian Crundwell, P.Geol, a qualified person ("QP") pursuant to NI 43-101, who is independent of the Company.

**Table 1: Mineral Resource Estimate for Mineralization Contained within the Heap Leach Pad**

Mineral Resource Classification	Tons ('000)	Gold (opt)	Silver (opt)	Contained Gold ('000 oz)	Contained Silver ('000 oz)
Measured	2,895	0.017	0.016	48.5	46.4
Indicated	4,220	0.017	0.018	73.2	74.1
<b>Measured &amp; Indicated</b>	<b>7,117</b>	<b>0.017</b>	<b>0.017</b>	<b>121.7</b>	<b>120.4</b>
Inferred	76	0.016	0.027	1.2	2.0

Notes:

1. The effective date of the Mineral Resource estimate is June 29, 2017.
2. The QP for the estimate is Mr. Ian Crundwell, P.Geol.
3. Mineral Resources are quoted inclusive of Mineral Reserves. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.
4. Mineral Resources are contained within the Mineral Ridge leach pad facility with the following assumptions: a long-term gold price of \$1,216/oz; assumed process costs of \$11/t; and metallurgical recovery for gold of 91%. Silver was not used in the consideration of reasonable prospects for eventual economic extraction. Silver recoveries from heap leach pad material are projected to be 24%.
5. Rounding may result in apparent differences when summing tons, grade and contained metal content.
6. Tonnage and grade measurements are in Imperial units. Grades are reported in ounces per ton.

The Mineral Reserve estimate for the material on the heap leach pad is provided in Table 2. The estimate has an effective date of June 29, 2017.

**Table 2: Mineral Reserve Estimate for the Heap Leach Pad**

Mineral Reserve Classification	Tons ('000)	Gold (opt)	Silver (opt)	Contained Gold ('000 oz)	Contained Silver ('000 oz)
Proven	2,895	0.017	0.016	48.5	46.4
Probable	4,220	0.017	0.018	73.2	74.1
Less Material Remaining in Place due to facility designs	(260)	0.017	0.017	(4.5)	(4.6)
<b>Total Proven &amp; Probable</b>	<b>6,855</b>	<b>0.017</b>	<b>0.017</b>	<b>117.2</b>	<b>115.9</b>

Notes:

1. The Mineral Reserves have an effective date of June 29, 2017.
2. The QP for the estimate is Mr. Jeffery Choquette P.E., an employee of Hard Rock Consulting.
3. Mineral Reserves are contained within the Project leach pad facility with the following assumptions: long-term gold price of \$1,300/oz; assumed total ore process costs of \$10.59/t; metallurgical recovery for gold of 91%, and 24% for silver, refining and smelting cost of \$28.39/oz of gold. Allowance has been made for the facility location which excludes 260,000 t; this material must remain in-place, based on the heap material mining and tailings placement design.
4. Rounding as required by reporting guidelines may result in summation differences.

### Open-pit (other) area

Proven and Probable Mineral Reserves for the open-pit (other) area material are reported within the final pit design used for the mine production schedule and are shown in Table 3 below. These additional open-pit mineral reserves were evaluated in the context of a higher gold recovery percentage provided by the construction of a processing facility.

**Table 3: Mineral Reserve Estimate for the Other Areas**

Pit Area	Mineral Reserve Classification	Tons (‘000)	Gold (opt)	Contained Gold (‘000 oz)
Brodie	Proven	51	0.042	2.1
	Probable	12	0.027	0.3
	<b>Subtotal Proven and Probable</b>	<b>63</b>	<b>0.039</b>	<b>2.5</b>
Custer	Proven	314	0.047	14.8
	Probable	144	0.032	4.6
	<b>Subtotal Proven and Probable</b>	<b>459</b>	<b>0.042</b>	<b>19.4</b>
Drinkwater	Proven	836	0.038	32.1
	Probable	352	0.033	11.7
	<b>Subtotal Proven and Probable</b>	<b>1,189</b>	<b>0.037</b>	<b>43.7</b>
Mary LC	Proven	470	0.035	16.3
	Probable	276	0.035	9.7
	<b>Subtotal Proven and Probable</b>	<b>746</b>	<b>0.035</b>	<b>26.0</b>
Bunkhouse	Proven	239	0.047	11.1
	Probable	4	0.021	0.1
	<b>Subtotal Proven and Probable</b>	<b>243</b>	<b>0.046</b>	<b>11.2</b>
Oromonte	Proven	563	0.071	39.8
	Probable	449	0.030	13.7
	<b>Subtotal Proven and Probable</b>	<b>1,012</b>	<b>0.053</b>	<b>53.5</b>
Total Combined	Proven	2,474	0.047	116.2
	Probable	1,239	0.032	40.1
	<b>Total Proven and Probable</b>	<b>3,713</b>	<b>0.042</b>	<b>156.3</b>

Notes:

1. The Mineral Reserves have an effective date of November 30, 2017.
2. The Qualified Person for the estimate is Mr. Jeffery Choquette P.E., an employee of Hard Rock Consulting LLC.
3. Mineral Reserves are reported within the pit designs at a 0.01 opt gold cut-off grade. Pit designs incorporate the following considerations: base case gold price of \$1,300/oz; pit slope angles that range from 38°-47°; average life-of-mine metallurgical recovery assumption of 93%; crushing costs of \$1.81/t, process cost of \$5.79/t, general and administrative and tax costs of \$2.90/t; and average mining costs of \$1.42/t mined
4. Rounding as required by reporting guidelines may result in summation differences.

The Mineral Resource estimate for the open-pit (other) areas is provided in Table 4 (Measured and Indicated) and Table 5 (Inferred). The Mineral Resources are reported inclusive of Mineral Reserves and have an effective date of November 30, 2017. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. The Qualified Person for the mineral resource estimate contained in the Feasibility Study is Mr. Ian Crundwell, P.Geol.

**Table 4: Measured and Indicated Mineral Resource Tabulation for Other Areas**

Area	Classification	Tons (kt)	Gold Grade (opt)	Contained Gold (koz)
Brodie	Measured	455.7	0.063	28.6
	Indicated	237.9	0.056	13.4
	<b>Subtotal Measured and Indicated</b>	<b>693.6</b>	<b>0.060</b>	<b>41.9</b>
Custer	Measured	147.8	0.083	12.3
	Indicated	75.4	0.088	6.6
	<b>Subtotal Measured and Indicated</b>	<b>223.2</b>	<b>0.085</b>	<b>18.9</b>
Drinkwater HW	Measured	527.3	0.046	24.3
	Indicated	209.2	0.049	10.3
	<b>Subtotal Measured and Indicated</b>	<b>736.6</b>	<b>0.047</b>	<b>34.6</b>
Mary LC & Bunkhouse	Measured	721.4	0.072	51.7
	Indicated	403.3	0.074	29.8
	<b>Subtotal Measured and Indicated</b>	<b>1,124.7</b>	<b>0.072</b>	<b>81.5</b>
Oromonte	Measured	235.8	0.162	38.3
	Indicated	169.0	0.074	12.6
	<b>Subtotal Measured and Indicated</b>	<b>404.8</b>	<b>0.126</b>	<b>50.9</b>
Combined	Measured	2,088.0	0.074	155.2
	Indicated	1,094.8	0.066	72.6
	<b>Total Measured and Indicated</b>	<b>3,182.8</b>	<b>0.072</b>	<b>227.8</b>

Notes:

1. The effective date of the Mineral Resource estimate is November 30, 2017.
2. The QP for the estimate is Mr. Ian Crundwell, P.Geol.
3. Mineral Resources are reported inclusive of Mineral Reserves at a gold cut-off grade of 0.01 opt Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.
4. Mineral Resources are constrained to the area within the grade-shell wireframes. The areas outside of these grade shells are assumed to be at zero grade.
5. These Mineral Resource are considered to be amenable to open-pit mining. Conceptual Whittle pit shells used the following assumptions: a long-term gold price of \$1,350/oz; assumed combined operating costs of \$12.36/t (mining, process, general and administrative); metallurgical recovery for gold of 95%, and variable pit slope angles that ranged from 38°-47°.
6. Rounding may result in apparent differences between when summing tons, grade and contained metal content. Tonnage and grade measurements are in Imperial units. Grades are reported in ounces per ton.

**Table 5: Inferred Mineral Resource Tabulation for Other Areas**

Area	Classification	Tons (kt)	Gold Grade (opt)	Contained Gold (koz)
Brodie	Inferred	2.4	0.034	0.08
Custer	Inferred	--	--	--
Drinkwater HW	Inferred	180.1	0.059	10.61
Mary LC & Bunkhouse	Inferred	0.1	0.061	0.01
Oromonte	Inferred	0.4	0.092	0.03
<b>Combined</b>	<b>Total Inferred</b>	<b>182.9</b>	<b>0.059</b>	<b>10.73</b>

Notes:

1. The effective date of the Mineral Resource estimate is November 30, 2017.
2. The QP for the estimate is Mr. Ian Crundwell, P.Geol.
3. Mineral Resources are reported inclusive of Mineral Reserves at a gold cut-off grade of 0.01 opt. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.
4. Mineral Resources are constrained to the area within the grade-shell wireframes. The areas outside of these grade shells are assumed to be at zero grade.
5. These Mineral Resource are considered to be amenable to open-pit mining. Conceptual Whittle pit shells used the following assumptions: a long-term gold price of \$1,350/oz; assumed combined operating costs of \$12.36/t (mining, process, general and administrative); metallurgical recovery for gold of 95%, and variable pit slope angles that ranged from 38°-47°.
6. Rounding may result in apparent differences between when summing tons, grade and contained metal content. Tonnage and grade measurements are in Imperial units. Grades are reported in ounces per ton.

Further information on the Mineral Ridge project is available at SEDAR ([www.sedar.com](http://www.sedar.com)) under the Company's profile, including the NI 43-101 Technical report titled "Updated Feasibility Study and National Instrument 43-101 Technical Report: Mineral Ridge Project" prepared by Novus Engineering Inc, with an effective date of January 2, 2018.

**Mining activities**

Mining at Mineral Ridge was suspended in early November 2017. Total mine production during 2017 was 3,114,397 tonnes, composed of 394,868 tonnes of ore and 2,719,529 tonnes of waste.

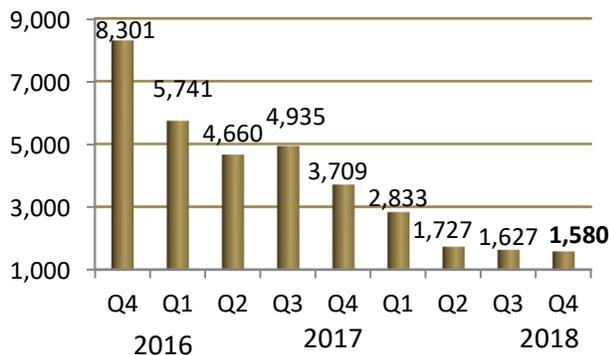
**Operations activities**

As a result of mining being suspended since November 2017, no fresh ore was crushed and placed on the leach pad at Mineral Ridge during 2018 compared to 398,895 tonnes for during 2017. The average crusher throughput per day was 1,254 tonnes during 2017 at an average head grade of 1.57 g/t (0.046 oz/ton) gold.

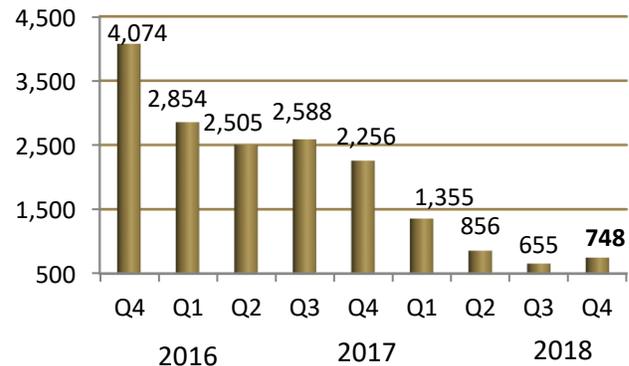
During 2018, application of cyanide leach solution to the ore on the leach pad was 1 billion gallons (2017 – 1.2 billion gallons). Also during 2018, 854 million gallons (2017 – 1.0 billion gallons) of pregnant, gold-bearing solution were processed through the ADR plant’s carbon column circuit at an average grade of 0.08 ppm (2017 - 0.17 ppm) gold and 0.08 ppm (2017 - 0.14 ppm) silver. Calculated efficiency for recovery of precious metals from solution processed through the ADR plant for 2018 was 86.3% (2017 – 89.4%) for gold and 43% (2017 – 59%) for silver. The efficiency of this circuit is directly affected by the activity of the activated carbon utilized for recovery of precious metals from solution as well as the flow rate of the solution being pumped through the columns. The average flow rate for 2018 was 1,626 gallons per minute (“gpm”), compared to 1,999 gpm in 2017. This circuit is a closed loop circuit so any precious metals that are not recovered in the first pass will re-circulate and should eventually be recovered. The loaded carbon from this circuit is shipped off-site for custom stripping of the precious metals and upon completion of stripping, the carbon is returned to the site for re-use.

During 2018, the Company produced 7,767 ounces of gold, a 59% decrease over the 19,045 ounces produced during 2017 and 3,614 ounces of silver, a 65% decrease over the 10,203 ounces produced during 2017. These production decreases are related to the fact that no fresh ore was added to the leach pad since November 2017.

**Gold production**

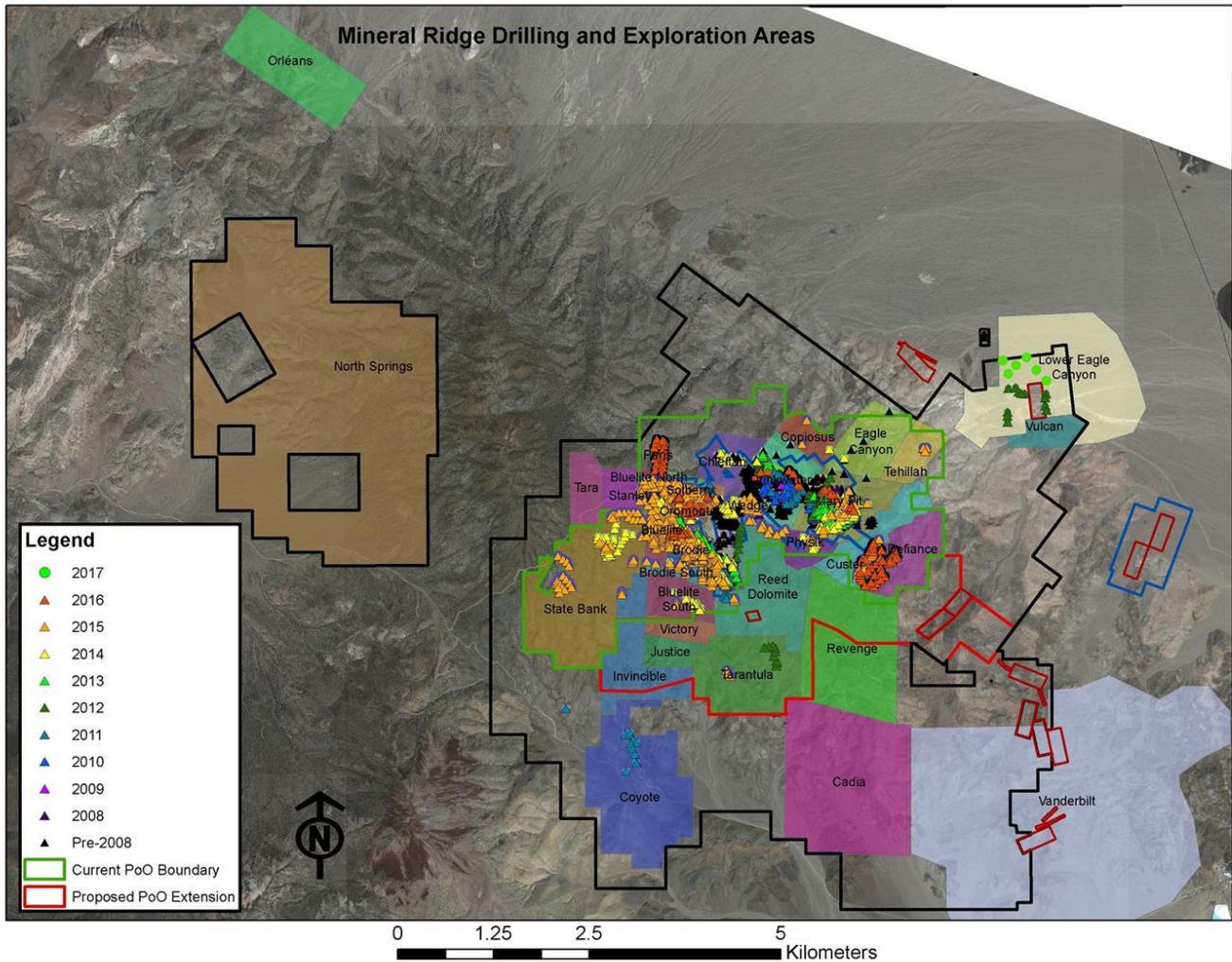


**Silver production**



**Current Exploration / Permitting**

**Mineral Ridge Drilling**



Mineral Ridge Gold, LLC (“MRG”) project’s total land package consists of 677 unpatented mining lode claims, 1 unpatented mill site claim, and 60 patented mining claims covering a total of 13,756 acres. Other fee lands and town lots in Silver Peak add an additional 123 acres, for a total land package of 13,879 acres.

No exploration activities were performed in 2018. Future exploration will be planned as exploration funds are available.

The Mineral Ridge Plan of Operations amendment was approved by the BLM on June 27, 2018. This amendment includes authorization for the development and mining of the Custer and Oromonte surface pits, the Oromonte underground area, expansion of the high wall area of the Drinkwater pit, expansion of the Mary LC pit (Bunkhouse Hill area), the Bunkhouse Hill underground area, a 4,000 ton per day milling circuit including a CIL circuit and filtration circuit for dry stack tailings, a conversion of the current leach pad to a TSF and additional capacity from 7.6 MT to 12 MT capacity, a 1,000 ton toll milling containment, and exploration drilling on an additional 1,400 acres.

On November 11, 2018, the Bureau of Mining Regulation and Reclamation (“BMRR”) approved the Reclamation Permit Modification & Bond Determination for the Mineral Ridge Mine, which is associated with the approved PoO amendment and the pending Water Pollution Control Permit (“WPCP”) modification. The updated determination increases the required bonding for Mineral Ridge by approximately \$2.2 million over current levels.

The Nevada Division of Environmental Protection (“NDEP”) conducted their initial review of the WPCP submitted to NDEP on February 20, 2018. Following their review additional documentation was requested and provided by the Company on July 19, 2018. On November 1, 2018 the NDEP then completed their initial technical review of the Major Modification Application. Comments were received on November 4, 2018 and have been addressed. Approval of the WPCP is expected to be received in Q2 of 2019.

### **Other properties**

#### **Goldwedge**

In December 2012, the Company acquired a 100% interest in the Goldwedge property from Royal Standard Minerals Inc.

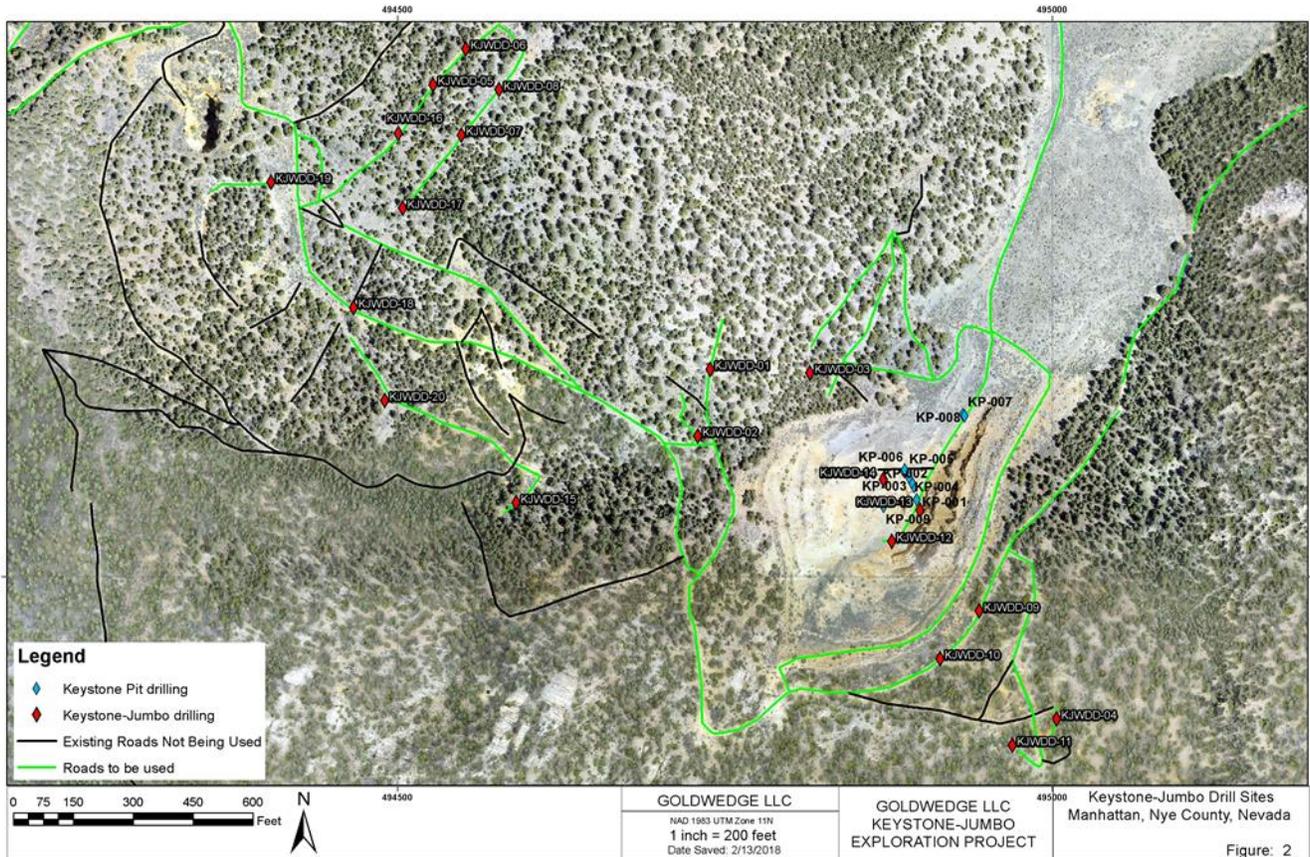
The Goldwedge property, including the Goldwedge mine and a processing plant, is located approximately 55 kilometers northeast of the town of Tonopah, in west-central Nevada, in a region of numerous historic and active gold mines. Effective July 28, 2015, the Goldwedge mill facility was placed on care and maintenance and can be restarted on short notice.

In February 2017, the Company signed a letter of intent with Lode-Star Mining Inc. (“Lode-Star”) for a custom toll milling agreement. The companies completed permitting requirements to proceed with a test related to the potential toll milling arrangement. Prior to processing the test lot of Lode-Star’s mineralized material through the Goldwedge mill, it was necessary to rehabilitate the mill crushing system. The modifications began in Q1 of 2017 and were completed in April of 2017 and Lode-Star’s test material was milled in early May of 2017. The coarse gold component of Lode-Star’s material was recovered by the gravity circuit and delivered to Lode-Star management for further testing. A definitive toll milling agreement will require completion of a cost analysis and other operational details which are expected to be concluded upon completion of the testing. Construction of a processing facility at Mineral Ridge, as discussed above, would impact the decision of Lode-Star.

On June 1, 2016, a Surface Exploration Plan of Operations for a 50-hole drilling program at Goldwedge was approved by the U.S. Forest Service. Exploration activities for the Goldwedge property included:

- Phase 1 drilling of the Goldwedge property was completed in May 2017. The drilling consisted of 7 reverse circulation (“RC”) drill holes (2,295 meters) near existing underground workings designed to test down trend potential. The purpose of this drilling program was to test the down dip continuation of mineralization in favorable host lithology within the Reliance fault zone. Assays from this drilling program have been received. Three holes encountered significant mineralization. Three holes deviated and missed the targets. Subject to additional financing, a Phase II underground diamond drill program is recommended to follow up on the mineralization located from this drill program with the intention of adding additional mineralized material that can provide feed to the properties permitted milling circuit.

**Keystone - Jumbo Planned Drilling**



- Final approval from the U.S. Forest Service “USFS” for the Keystone Jumbo exploration drilling project was reported on February 5, 2019. This approval allows for a 29-hole RC drilling program in the Keystone and Jumbo Pit areas as well as drilling to occur between the two pits which is intended to follow-up on soil sampling work completed in 2016. The Keystone/Jumbo area is located three miles south-east of the main Goldwedge claim block. It consists of 851 acres and includes 42 lode claims. This plan was originally submitted on December 14, 2016 and required several iterations prior to its approval. Due to snow accumulations in the proposed drilling area, the Company intends to proceed with this drilling campaign in early spring when snow accumulations have receded in hopes of minimizing disturbance and degradation of existing roads.

**Orléans**

The Company staked an exploration target in 2016, named Orléans, which is located several miles to the northwest of the Mineral Ridge project. The claims are 100% owned by Scorpio Gold. The Orléans property consists of 330 acres and includes 16 lode claims. The Orléans target area displays geological and structural controls identical to those seen at Mineral Ridge. Early stage in-house mapping and rock chip sampling began shortly after claim staking was conducted.

A surface sampling program was carried out in March 2017. Ninety rock chip samples of quartz outcrop and dump material were collected. These samples covered quartz outcrop across the central and southern portion of the claim block. This area is where the greatest historic work has been with shafts, adits, prospect pits and dozer trenches. These samples were sent to the ALS laboratory for gold and geochemical analysis. Seven samples came back above 0.034 ppm. The geochemical analysis is being reviewed to identify the type of quartz and the geochemical comparisons with formations from Mineral Ridge. Due to other priorities, no further work was

conducted in this area during 2017 and 2018. If conducted, the next phase of work would include mapping and specific sampling to determine the source of the initial sample results.

### **Environmental Regulation**

Exploration and development activities are subject to various federal, state and provincial laws and regulations which govern the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive.

Scorpio Gold conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company expects to incur expenditures in the future to comply with such laws and regulations.

### **SELECTED ANNUAL INFORMATION**

The financial information disclosed below, including comparative period information has been prepared in accordance with IFRS and is reported in US dollars. Tabular dollar amounts except per share amounts are reported in thousands of US dollars.

	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
	\$	\$	\$
<b>Revenue</b>	9,824	26,993	42,759
<b>Net (loss) earnings</b>	423	(4,224)	339
<b>Net loss attributable to shareholders of the Company</b>	(267)	(3,682)	(390)
<b>Basic and diluted loss per share</b>	(0.00)	(0.06)	(0.01)
<b>Working capital (deficit)</b>	(4,174)	(3,205)	8,385
<b>Total assets</b>	16,712	17,708	27,514
<b>Long-term liabilities</b>	4,872	4,957	11,041

### **RESULTS OF OPERATIONS**

Scorpio Gold reported net earnings of \$0.4 million for the year ended December 31, 2018, compared to a net loss of \$4.2 million for the year ended December 31, 2017. Net loss attributable to the shareholders of the Company were \$0.3 million (\$0.00 per share) for the year ended December 31, 2018, compared to \$3.7 million (\$0.06 per share) for the year ended December 31, 2017. Net earnings attributable to the non-controlling interest were \$0.7 million for the year ended December 31, 2018, compared to a \$0.5 million loss for the year ended December 31, 2017.

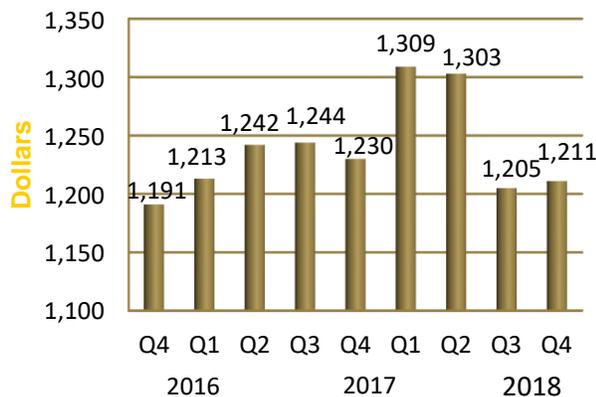
The most important differences between the years ended December 31, 2018 and 2017 results are explained below.

**Revenue**

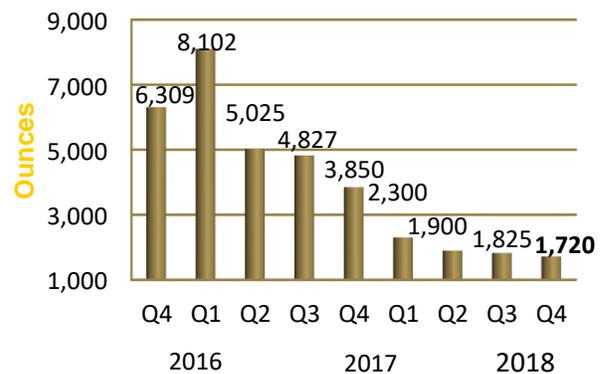
During 2018, the Company sold 7,745 ounces of gold and 3,525 ounces of silver for total revenue of \$9.8 million. During 2017, the Company sold 21,804 ounces of gold and 10,923 ounces of silver for total revenue of \$27.0 million. During 2018, gold ounces were sold at an average price of \$1,261 (compared to \$1,229 in 2017) and silver ounces at an average price of \$16 (\$17 in 2017).

As of December 31, 2018, the Company had finished goods inventories including 40 ounces of gold available for sale compared to 23 ounces of gold as at December 31, 2017.

**Average gold price per ounce realized per quarter**



**Ounces of gold sold per quarter**



**Mine operating earnings**

Cost of sales, excluding depletion and amortization, was \$6.1 million for the year ended December 31, 2018 compared to \$22.3 million for the year ended December 31, 2017. The variance is essentially attributed to the lower number of ounces sold and the variance in cash operating cost per ounce<sup>(1)</sup> described below.

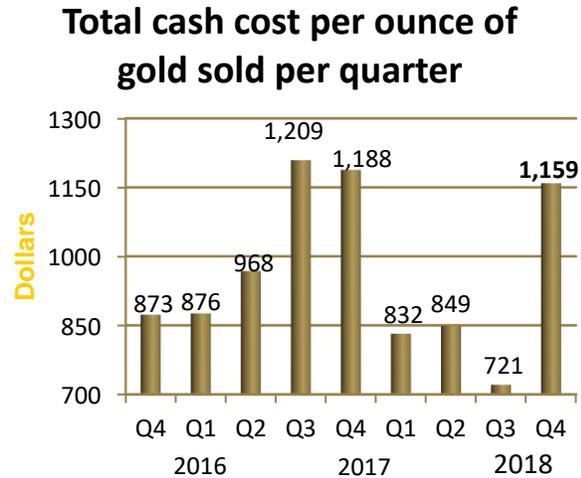
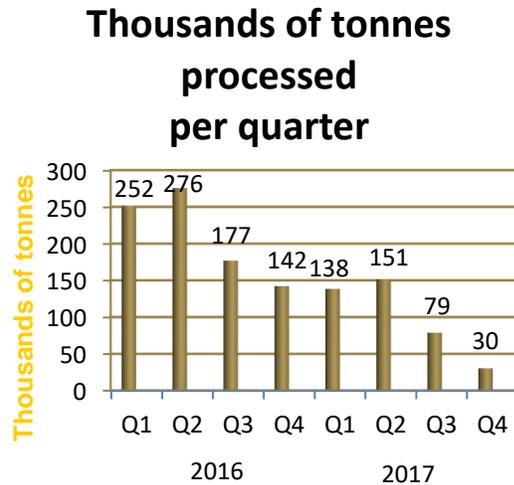
Cash operating cost per gold ounce sold<sup>(1)</sup>, after silver by-product credits, was \$864 for the year ended December 31, 2018, compared to \$1,013 for the year ended December 31, 2017. Total cash cost per ounce sold<sup>(1)</sup>, after silver by-product credits, was \$883 for the year ended December 31, 2018 compared to \$1,026 for the year ended December 31, 2017. The reduction in cash cost is mainly explained by cost cutting measures along with favorable inventory adjustments.

During the year ended December 31, 2018, the Company wrote down inventory for an amount of \$0.7 million compared to \$0.8 millions for the corresponding period of 2017.

Depletion and amortization was nil for the year ended December 31, 2018, compared to \$1.3 million for the year ended December 31, 2017. Following the impairment recorded on assets at the Mineral Ridge mine during 2017 and during 2018, no depletion and amortization was recorded in 2018.

Mine operating earnings were therefore \$3.0 million for the year ended December 31, 2018 compared \$2.6 million for the year ended December 31, 2017.

<sup>(1)</sup> This is a non-IFRS financial performance measure. Please see Non-IFRS performance measures section.



**Impairment**

**Mineral Ridge**

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, 2018 and that mining at Mineral Ridge was suspended in November 2017 are indicators of impairment. In determining the recoverable amount of the Mineral Ridge cash-generating unit ("CGU"), the Company determined the recoverable value using fair value less costs of disposal. Impairment testing is performed using cash flow projections derived from expected future production, which incorporate reasonable estimates of precious metal production, future metal prices, operating costs, capital expenditures and the residual values of the assets. The determination of the recoverable value used Level 3 valuation inputs.

Based on its assessment the Company determined that the recoverable value using fair value less costs of disposal was \$4.7 million. During the year ended December 31, 2018, the Company recorded non-cash impairment charges for Mineral Ridge of \$0.4 million.

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

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

The recoverability analysis over the Company's inventory as at December 31, 2018, using a gold price assumption of \$1,275, indicated that their net realizable value was lower than the costs of production. As a result, a write-down on inventory was recognized in cost of sales for an amount of \$0.7 million during the year ended December 31, 2018 (2017, \$0.8 million).

### **Goldwedge property and mill**

The fact the carrying amount of the net assets of the Company was higher than the Company's market capitalization as of December 31, 2018 is an indicator of impairment. In determining the recoverable amount of the Goldwedge CGU, the Company determined the recoverable value using the fair value less costs of disposal using Level 3 valuation inputs. The Company also includes in its estimate an estimated amount for costs to sell the CGU. This has not resulted in any impairment charge during the year ended December 31, 2018. However, based on its assessment, the Company recorded a non-cash impairment charge of \$0.5 million during the year ended December 31, 2017.

### **General and administrative**

General and administrative expenses totaled \$0.8 million during 2018, compared to \$1.2 million for 2017. This reduction mainly results from cost cutting measures.

### **Gain on adjustment of provision for environmental rehabilitation**

Following the renegotiation of a demobilization agreement with a contractor, a gain of \$0.04 million was recorded during Q1 of 2018 with respect to the reduction in rehabilitation costs on certain property, plant and equipment acquired by the Company.

## **LIQUIDITY AND CAPITAL RESOURCES**

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The Company had \$1.1 million in cash as of December 31, 2018 compared to \$0.9 million as of December 31, 2017.

The working capital deficiency was \$4.2 million as of December 31, 2018, compared to \$3.2 million as of December 31, 2017.

As indicated above, management expects the Company to generate limited revenues until approximately Q3 of 2019 from residual but diminishing gold recoveries from the leach pads. As such, the Company will use proceeds from the Convertible Debenture financing to support its operations until further financing is raised. The Company is currently evaluating various financing alternatives to support its operations and for the construction of a new processing facility at the Mineral Ridge mine.

The primary factors that will affect the future financial condition of the Company include the ability to raise debt, equity or other types of financing to finance exploration, development and capital expenditures including the construction of the processing facility and to meet its commitments and the ability to generate positive cash flows. Moreover, the availability of mineralization, the timeliness of the receipt of permits for expanded operations as well as the price of gold will affect the future financial condition of the Company.

## **INVENTORIES**

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Inventories decreased from \$2.5 million as of December 31, 2017 to \$1.2 million as of December 31, 2018.

Mining was suspended in November of 2017 and all the ore stockpile was processed and placed on the leach pad during Q4 of 2017. Since then, sales derived from continued processing reduced the inventory level. However, during 2018, the Company re-evaluated the number of recoverable ounces on the leach pad which led to a net favourable adjustment of 6,257 ounces.

The nature of the heap leaching process used at Mineral Ridge inherently limits the ability to precisely monitor inventory levels on the leach pad. As at December 31, 2018, included in the metal in process inventories, are inventories on the leach pad for a total cost of nil after inventory write down (\$0.4 million as at December 31, 2017). The ultimate recovery of mineralization from the heap leach pad will not be known until the total leaching process is concluded.

Other metal in process inventories decreased during 2018 from \$1.3 million to \$0.5 million as the Company's production diminished and as such was also reduced the frequency of gold loaded carbon shipments from the mine site for further processing at a third-party facility.

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### **NON-PRODUCING MINING ASSETS AND OTHER**

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Non-producing mining assets and other stood at \$2.7 million as of December 31, 2018 and December 31, 2017.

During the year ended December 31, 2018, the Company added \$0.4 million to non-producing mining assets, essentially related to permitting and the mill feasibility study.

As a result of the impairment discussed above, the Company recorded a non-cash impairment charge of \$0.4 million related to Mineral Ridge non-producing mining assets during 2018.

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### **RECLAMATION BONDS**

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During the year ended December 31, 2018, reclamation bonds increased by \$0.3 million.

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### **CURRENT LIABILITIES**

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Total current liabilities were \$6.9 million as at December 31, 2018 compared to \$7.3 million as at December 31, 2017. Trade and other payables decreased from \$1.0 million as of December 31, 2017 to \$0.7 million as of December 31, 2018 as a result of reduced activities.

Income taxes payable relate to Nevada net proceeds tax.

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### **LONG-TERM DEBT**

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On August 14, 2015, the Company executed a definitive agreement (the "Credit Agreement") with the Lender, an affiliate of Elevon, for a loan in the principal amount of \$6 million (the "Loan") having a term of 36 months.

Commencing on August 13, 2018, the Company entered into a series of forbearance agreements (the "Forbearance Agreements") with the Lender in connection with the repayment of the Loan. As indicated above, on March 4, 2019, the Loan was extinguished.

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### **EQUITY**

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Total equity decreased to \$4.9 million as at December 31, 2018 from \$5.4 million as at December 31, 2017 partly due to \$0.9 million of distributions to non-controlling interest.

## SUMMARY OF QUARTERLY RESULTS

The following table sets out selected quarterly financial information for each of the last eight quarters:

Quarter Ending	Revenues \$	Net (loss) earnings \$	Basic and diluted (loss) earnings per share \$
<b>December 31, 2018</b>	2,095	(382)	(0.01)
<b>September 30, 2018</b>	2,211	415	0.00
<b>June 30, 2018</b>	2,492	246	0.00
<b>March 31, 2018</b>	3,026	144	(0.00)
<b>December 31, 2017</b>	4,777	(1,205)	(0.02)
<b>September 30, 2017</b>	6,042	(2,774)	(0.03)
<b>June 30, 2017</b>	6,299	(285)	(0.01)
<b>March 31, 2017</b>	9,875	40	(0.00)

Due to the effect of rounding, the sum of individual quarterly per share amounts may not be equal to the earnings (loss) per share shown in the consolidated statements of comprehensive income.

## FOURTH QUARTER

The Company reported revenue of \$2.1 million in the fourth quarter of 2018, compared to \$4.8 million in the fourth quarter of 2017. Revenue in the fourth quarter of 2018 was derived from the sale of 1,720 ounces of gold, compared to 3,850 ounces sold during the fourth quarter of 2017. During the fourth quarter ended December 31, 2018, gold ounces were sold at an average price of \$1,211, compared to \$1,230 for the same period in 2017.

Cash operating cost per gold ounce sold<sup>(1)</sup>, after silver by-product credits, was \$1,144 for Q4 of 2018, compared to \$1,162 in Q4 of 2017. Total cash cost per ounce sold<sup>(1)</sup>, after silver by-product credits, was \$1,159 for Q4 of 2018, compared to \$1,188 in Q4 of 2017.

During the fourth quarter of 2018, the Company recorded impairments of close to nil on mining assets, compared to impairments of \$0.7 million on mining assets during the fourth quarter of 2017.

During the three-month period ended December 31, 2018, the net loss was \$0.4 million, compared to a net loss of \$1.2 million during the fourth quarter of 2017.

Cash flows from operating activities were \$0.6 million during Q4 of 2018, compared to cash flow used by operations of \$0.2 million during Q4 of 2017.

During Q4 of 2018, cash outflows used in investing activities were close to nil. During Q4 of 2017, cash outflows used in investing activities were \$0.3 million and were related to non-producing mining asset additions and are mainly related to payments of exploration expenditures at the Mineral Ridge mine.

Cash flows used in financing activities were \$0.4 million for Q4 of 2018 and 2017 and relate to distributions to the non-controlling interest in the amount of \$0.2 million and payments of \$0.2 million related to service of the Company's long-term debts.

<sup>(1)</sup> This is a non-IFRS financial performance measure. Please see Non-IFRS performance measures section.

## **CASH FLOWS**

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Cash outflows generated by operating activities were \$2.5 million for the year ended December 31, 2018, compared to \$3.4 million for the same period of 2017.

Cash flows used in investing activities were \$.7 million for the year ended December 31, 2018 including additions to non-producing assets of \$0.4 million. During 2018, the Company also added cash collateral of \$0.2 million related to the reclamation bonds.

Cash outflows used in investing activities were \$4.6 million for the year ended December 31, 2017. During 2017, investing activities related to producing mining assets totaled \$3.0 million and were mainly related to stripping activities. Non-producing mining asset payments totaled \$2.9 million and mainly related to mill feasibility study and exploration expenditures. An amount of \$1.3 million of cash that had been deposited with a court was returned to the Company in February of 2017 after a litigation settlement.

Cash flows used for financing activities were \$1.7 million for 2018. These cash flows are related to \$0.9 million of cash distributions to MRG's non-controlling interest and debt service for \$0.7 million.

Cash flows used for financing activities were \$1.7 million for the year ended December 31, 2017. These cash flows are related to \$1.0 million of cash distributions to MRG's non-controlling interest and debt service for \$0.7 million.

## **NON-IFRS PERFORMANCE MEASURES**

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Non-IFRS performance measures are furnished to provide additional information to readers to supplement the Company's financial statements, which are presented in accordance with IFRS. The Company believes that these measures, together with the measures determined in accordance with IFRS, provide investors with an ability to evaluate the underlying performance of the Company. These performance measures do not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. These performance measures should not be considered in isolation or as a substitute for measures of performance presented in accordance with IFRS.

### **Adjusted net earnings**

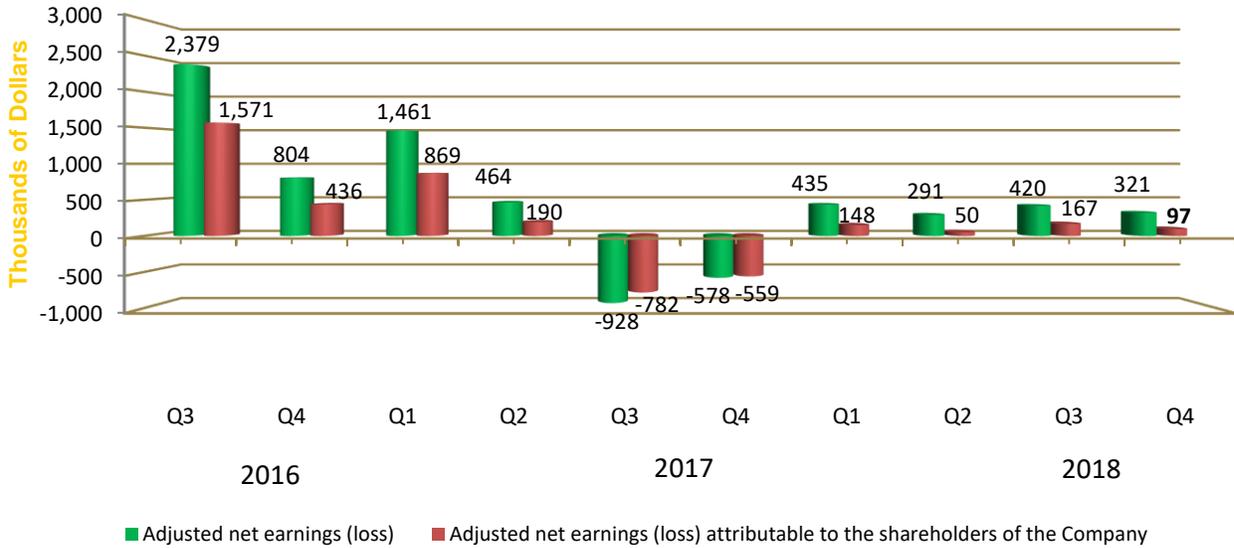
The Company uses the financial measure "Adjusted Net Earnings" to supplement information in its consolidated financial statements. The Company believes that in addition to conventional measures prepared in accordance with IFRS, the Company and certain investors and analysts use this information to evaluate the Company's performance. The presentation of adjusted measures are not meant to be a substitute for net earnings presented in accordance with IFRS, but rather should be evaluated in conjunction with such IFRS measures.

The term "Adjusted Net Earnings" does not have a standardized meaning prescribed by IFRS, and therefore the Company's definitions are unlikely to be comparable to similar measures presented by other companies. Management believes that the presentation of Adjusted Net Earnings provides useful information to investors because they exclude non-cash and other charges and are a better indication of the Company's profitability from operations. The items excluded from the computation of Adjusted Net Earnings, which are otherwise included in the determination of net earnings prepared in accordance with IFRS, are items that the Company does not consider to be meaningful in evaluating the Company's past financial performance or the future prospects and may hinder a comparison of its period-to-period profitability.

The following table provides a reconciliation of adjusted net earnings to the condensed interim consolidated financial statements:

	<b>Three months ended December 31, 2018</b>	Three months ended December 31, 2017	<b>Year ended December 31, 2018</b>	Year ended December 31, 2017
	\$	\$	\$	\$
Net (loss) earnings for the periods	<b>(382)</b>	<b>(1,205)</b>	<b>423</b>	<b>(4,224)</b>
Impairment of mining assets	<b>13</b>	<b>729</b>	<b>426</b>	<b>4,104</b>
Gain on adjustment of provision for environmental rehabilitation	-	-	<b>(43)</b>	-
Net (gain) loss on disposal and write-off of assets	-	-	<b>(4)</b>	<b>4</b>
Inventory write-down	<b>690</b>	-	<b>690</b>	<b>830</b>
Foreign exchange gain	<b>(1)</b>	<b>(1)</b>	<b>(3)</b>	-
Deferred income tax recovery	<b>1</b>	<b>(101)</b>	<b>(22)</b>	<b>(295)</b>
Adjusted net earnings (loss) for the periods	<b>321</b>	<b>(578)</b>	<b>1,467</b>	<b>419</b>
Non-controlling interest	<b>224</b>	<b>19</b>	<b>1,006</b>	<b>(701)</b>
Adjusted net earnings (loss) for the periods attributable to the shareholders of the Company	<b>97</b>	<b>(559)</b>	<b>461</b>	<b>(282)</b>
Adjusted basic and diluted net (loss) earnings per share	<b>0.00</b>	<b>(0.01)</b>	<b>0.01</b>	<b>(0.00)</b>

### Adjusted net earnings (loss)

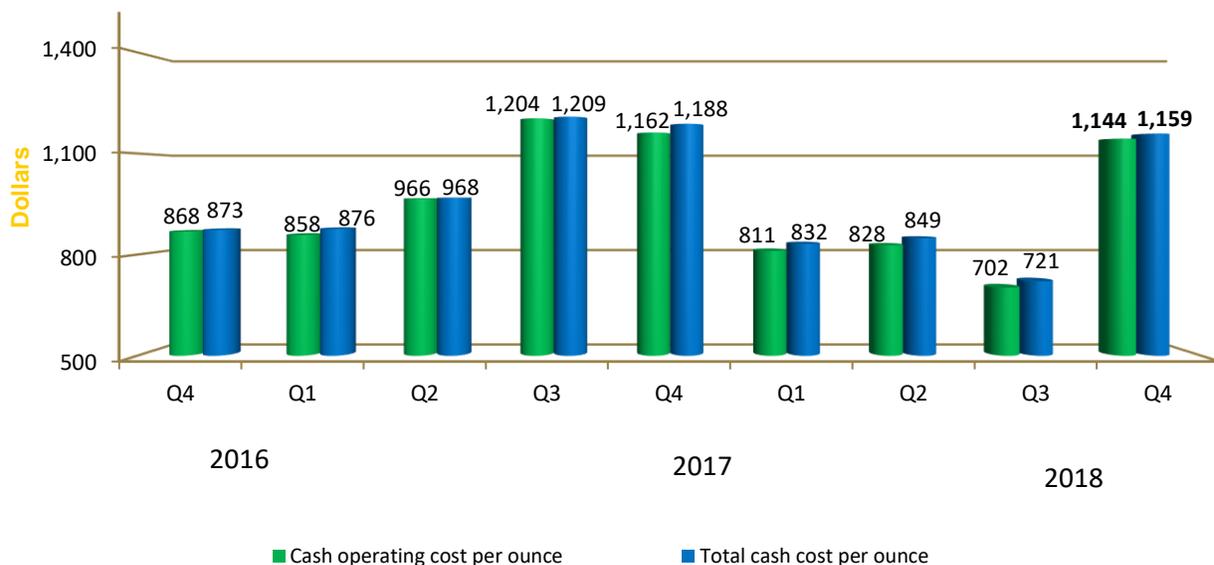


**Cash operating cost and total cash costs per gold ounce sold calculation**

The Company has included as non-IFRS performance measures, cash operating costs and total cash costs per gold ounce sold, throughout this document. The Company reports cash costs on a sales basis. In the gold mining industry, cash cost per ounce is a common performance measure but does not have any standardized meaning. The Company follows the recommendations of the Gold Institute Production Cost Standard. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. The following table provides a reconciliation of cash operating costs and total cash costs per gold ounce sold to cost of sales per the consolidated financial statements.

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$	\$	\$
<b>Cash costs</b>				
Cost of sales excluding depletion and amortization per consolidated financial statements	1,290	4,633	6,096	22,298
Share-based compensation	-	-	-	-
Inventory adjustment and write-down	690	(111)	665	(12)
By-product silver sales	(12)	(42)	(55)	(184)
Royalties	-	(7)	(17)	(17)
Cash operating costs	1,968	4,473	6,689	22,085
Nevada net proceeds tax expense	26	99	148	283
Total cash cost	1,994	4,572	6,837	22,368
Divided by ounces of gold sold	1,720	3,850	7,745	21,804
<b>Cash operating cost per gold ounce sold</b>	<b>1,144</b>	<b>1,162</b>	<b>864</b>	<b>1,013</b>
<b>Total cash costs per gold ounce sold</b>	<b>1,159</b>	<b>1,188</b>	<b>883</b>	<b>1,026</b>

**Cash operating and total cash cost per gold ounce sold per quarter**



**Adjusted EBITDA**

EBITDA is a non-IFRS financial measure, which excludes the following from net earnings:

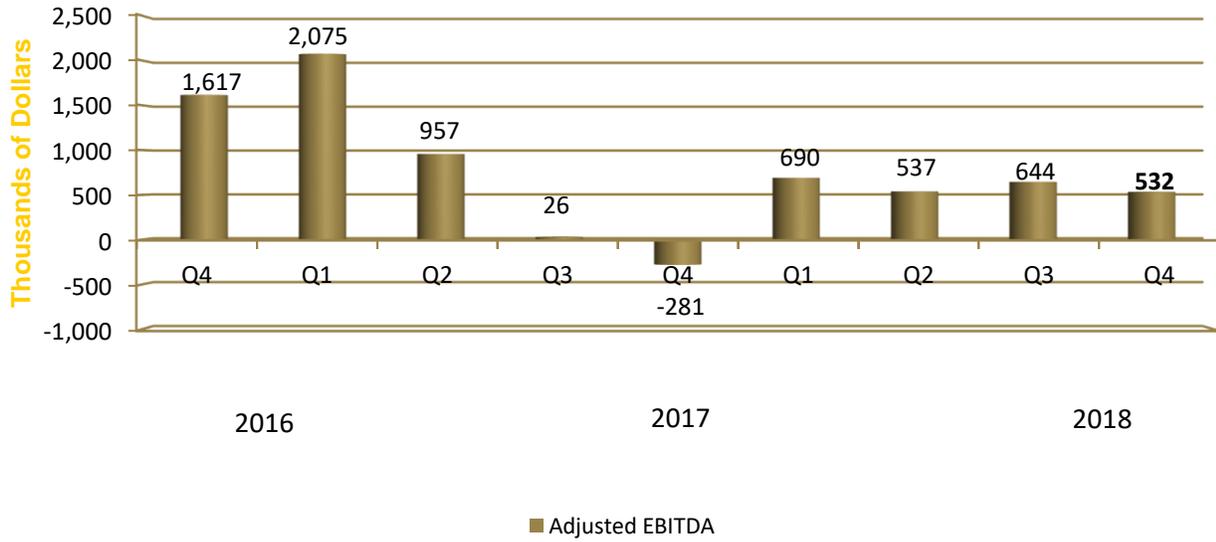
- Finance costs;
- Depletion and amortization; and
- Income tax expense

Management believes that EBITDA is a valuable indicator of the Company's ability to generate liquidity by producing operating cash flow to: fund working capital needs, service debt obligations and fund capital expenditures. EBITDA is also frequently used by investors and analysts for valuation purposes whereby EBITDA is multiplied by a factor or "EBITDA multiple" that is based on observed values to determine the approximate total enterprise value of a company. Adjusted EBITDA removes the effects of "impairments of mining assets", "write-down of inventory", "Gain on adjustment of provision for environmental rehabilitation", "gain on disposal of assets" and "foreign exchange gain". These charges are not reflective of the Company's ability to generate liquidity by producing operating cash flow and therefore these adjustments will result in a more meaningful valuation measure for investors and analysts to evaluate the Company's performance in the period and assess future ability to generate liquidity. EBITDA and adjusted EBITDA are intended to provide additional information to investors and analysts and do not have any standardized definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. EBITDA and adjusted EBITDA exclude the impact of cash costs of financing activities and taxes, and the effects of changes in operating working capital balances, and therefore is not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Other companies may calculate EBITDA and adjusted EBITDA differently.

The following table provides a reconciliation of adjusted and standardized EBITDA to the consolidated financial statements:

	<b>Three months ended December 31, 2018</b>	Three months ended December 31, 2017	<b>Year ended December 31, 2018</b>	Year ended December 31, 2017
	\$	\$	\$	\$
Net earnings (loss) for the period	<b>(382)</b>	(1,205)	<b>423</b>	(4,224)
Finance costs	<b>177</b>	196	<b>766</b>	778
Depletion and amortization	<b>9</b>	2	<b>22</b>	1,297
Income tax expense (recovery)	<b>26</b>	(2)	<b>126</b>	(12)
Standardized EBITDA	<b>(170)</b>	(1,009)	<b>1,337</b>	(2,161)
Inventory write-down	<b>690</b>	-	<b>690</b>	830
Loss (gain) on disposal and write-off of mining assets	-	-	<b>(4)</b>	4
Foreign exchange gain	<b>(1)</b>	(1)	<b>(3)</b>	-
Gain on adjustment of provision for environmental rehabilitation	-	-	<b>(43)</b>	-
Impairments of mining assets	<b>13</b>	729	<b>426</b>	4,104
Adjusted EBITDA	<b>532</b>	(281)	<b>2,403</b>	2,777
Non-controlling interest	<b>240</b>	(16)	<b>1,081</b>	(1,195)
Adjusted EBITDA attributable to the shareholders of the Company	<b>292</b>	(297)	<b>1,322</b>	1,582
Adjusted basic and diluted EBITDA per share	<b>0.00</b>	(0.00)	<b>0.02</b>	0.03

### Adjusted EBITDA per quarter



**SELECTED QUARTERLY FINANCIAL AND OPERATING SUMMARY FOR QUARTERS ENDED**

	SEPTEMBER 2017	DECEMBER 2017	MARCH 2018	JUNE 2018	SEPTEMBER 2018	DECEMBER 2018
<b>Mining operations</b>						
<b>Mary LC pit</b>						
Ore tonnes mined	61,555	-	-	-	-	-
Waste tonnes mined	309,207	-	-	-	-	-
Total mined	370,762	-	-	-	-	-
Strip ratio	5.0	-	-	-	-	-
<b>Satellite pits</b>						
Ore tonnes mined	19,074	24,290	-	-	-	-
Waste tonnes mined	360,403	113,972	-	-	-	-
Total mined	379,477	138,262	-	-	-	-
Strip ratio	18.9	4.7	-	-	-	-
<b>Total producing pits</b>						
Ore tonnes mined	80,629	24,290	-	-	-	-
Waste tonnes mined	669,610	113,972	-	-	-	-
Total mined	750,239	138,262	-	-	-	-
Strip ratio	8.3	4.7	-	-	-	-
<b>Pits under development:</b>						
Ore tonnes mined	-	-	-	-	-	-
Waste tonnes mined	-	-	-	-	-	-
Total mined	-	-	-	-	-	-
<b>Total mining operations</b>						
Ore tonnes mined	80,629	24,290	-	-	-	-
Waste tonnes mined	669,610	113,972	-	-	-	-
Total mined	750,239	138,262	-	-	-	-

	SEPTEMBER 2017	DECEMBER 2017	MARCH 2018	JUNE 2018	SEPTEMBER 2018	DECEMBER 2018
<b>Processing</b>						
Tonnes processed	78,759	30,259	-	-	-	-
Gold head grade (grams per tonne)	1.34	1.92	+-	-	-	-
Availability	17%	10%	-	-	-	-
Ounces produced						
Gold	4,935	3,709	2,833	1,727	1,627	1,580
Silver	2,588	2,256	1,355	856	655	748
<b>Precious Metal Sales (ounces)</b>						
Gold	4,827	3,850	2,300	1,900	1,825	1,720
Silver	2,301	2,501	875	1,000	800	850
<b>Exploration Drilling</b>						
Holes	-	-	-	-	-	-
Meters	-	-	-	-	-	-
<b>Financial results</b>						
	\$	\$	\$	\$	\$	\$
Cash operating cost per ounce of gold sold <sup>(1)</sup>	1,204	1,162	811	828	702	1,144
Total cash cost per ounce of gold sold <sup>(1)</sup>	1,209	1,188	832	849	721	1,159
Average price of gold						
London PM fix	1,278	1,276	1,329	1,306	1,213	1,226
Realized	1,244	1,230	1,309	1,303	1,205	1,211
Net earnings (loss)	(2,774)	(1,205)	144	246	415	(382)
Net earnings (loss) per share	(0.02)	(0.02)	(0.00)	0.00	0.00	(0.01)
Adjusted net earnings (loss) <sup>(1)</sup>	(928)	(578)	435	291	420	321
Adjusted basic and diluted net (loss) earnings per share <sup>(1)</sup>	(0.01)	(0.01)	0.00	0.00	0.00	0.00
Adjusted EBITDA <sup>(1)</sup>	26	(281)	690	537	644	532
Adjusted basic and diluted EBITDA per share <sup>(1)</sup>	(0.01)	(0.00)	0.01	0.00	0.01	0.00

<sup>(1)</sup> This is a non-IFRS financial performance measure. Please see Non-IFRS performance measures section.

## CONTINGENCIES

Due to the size, complexity and nature of the Company's operations, various legal matters are outstanding from time to time. In the opinion of management, there are no legal matters that could have a material effect on the Company's consolidated financial position or results of operations.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements as at December 31, 2018.

## TRANSACTIONS WITH RELATED PARTIES

### a) Compensation of key management personnel and directors

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

The remuneration of directors and key management personnel during the years ended December 31, 2018 and December 31, 2017 is as follows:

	2018	2017
	\$	\$
Salaries and directors fees	732	777
Consulting fee paid to a director	-	6
	<u>732</u>	<u>783</u>

As at December 31, 2018, an aggregate of \$190 (2017, \$119) resulting from transactions with key management is included in trade and other payables.

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2018 and December 31, 2017.

### b) Waterton Precious Metals Fund II Cayman, LP

The Lender controls Elevon which as at December 31, 2018 owned a 30% non-controlling interest in Mineral Ridge Gold, LLC. Management considers that the Lender and Elevon are related parties of the Company.

Related party transactions entered into with the Lender during the years ended December 31, 2018 and December 31, 2017 are as follows:

	2018	2017
	\$	\$
Interest on long-term debt	600	600

## FINANCIAL INSTRUMENTS

### a) Financial risk factors

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

#### (i) Credit risk

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

#### (ii) Liquidity risk

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

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

	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
	\$	\$	\$	\$	\$
Trade and other payables	740	740	-	-	-
Principal and interest on long-term debt and financing lease	6,050	6,050	-	-	-
Provision for environmental rehabilitation	5,420	-	249	4,383	788

#### (iii) Market risk

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

##### 1) Interest rate risk

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

2) Currency Risk

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

	2018	2017
	\$	\$
Cash	260	114
Value added tax and other receivables	1	3
Trade and other payables	(189)	(26)

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

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

3) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market. The Company is not exposed to any significant price risk as at December 31, 2018. The Company does not use derivatives to manage its exposure to price risk.

b) Fair Value

The fair value of cash, trade and other receivables, reclamation bonds as well as trade and other payables as well as financing lease approximate their carrying amount due to their short-term nature. Fair value of the senior secured credit facility is estimated at \$3 million which is the amount paid in March 2019 to settle it.

**RISKS AND UNCERTAINTIES**

The financing, exploration, development and exploitation of the Company’s properties and the operation of the Company’s business are subject to a number of factors, including metal prices, laws and regulations, political conditions, currency fluctuations, hiring qualified people and obtaining necessary services in jurisdictions where the Company operates.

The following is a brief discussion of those distinctive or special characteristics of the Company’s operations and industry that have a material impact on, or constitute risk factors in respect of the Company’s future financial performance.

The risks below are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems immaterial may also impair the Company’s operations. The order in which the following risk factors appear does not necessarily reflect management’s opinion of their order or priority.

**Operations Dependent on Revenues and Financings**

The Company’s only source of revenue, the 100% owned Mineral Ridge mine, suspended mining in November 2017 as the Company had mined all of its then known mineral reserves, and because it was uneconomical to continue mining as a result of higher strip ratios associated with the remaining known mineral resources. Management expects to generate limited revenues from residual, but diminishing gold recoveries from the leach pads, until approximately Q3 of 2019. The Company is currently evaluating various financing alternatives in order

to raise the required capital to support its operations and the construction of a new processing facility at the Mineral Ridge mine. The successful completion of a financing is not entirely within the control of the Company. If the Company is unable to obtain additional financing or generate such revenues, any investment in the Company may be lost. In such event, the probability of resale of securities of the Company would be diminished.

As of December 31, 2018, the Company had cash of approximately \$1.1 million. There can be no assurance that operating cash flows will be sufficient to cover its liabilities. The Company may also encounter significant unanticipated liabilities or expenses. The Company's ability to continue its operations, planned exploration, development and mining activities depends in part on its ability to maintain or to generate free cash flow from its operating mine, which is subject to certain risks and uncertainties. Unless financing is obtained to continue operations and to construct the new processing facility, there is significant risk that the Company will not be able to extend the life of mine and continue operations.

The Company has historically raised capital primarily through debt and equity financing and in the future may raise capital through equity or debt financing, joint ventures or other means. There can be no assurance that the Company will be able to obtain the necessary financing in a timely manner, on acceptable terms or at all.

The Company prepares estimates of mine production for the Mineral Ridge mine project. The Company cannot give any assurance that it will achieve its production estimates. The failure of the Company to achieve its production estimates could have a material and adverse effect on any or all of its future cash flows, results of operations and financial condition. These production estimates are dependent on, among other things, the accuracy of mineral reserve estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions and physical characteristics of ores and the accuracy of estimates rates and costs of mining and processing.

The Company's actual production may vary from its estimates for a variety of reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades from those planned; mine failures or equipment failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, landslides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for operation, including explosives, fuels, chemical reagents, water, equipment parts and lubricants; labor shortages or strikes; civil disobedience and protests; and restrictions or regulations imposed by government agencies or other changes in the regulatory environments. Such occurrences could result in damage to mineral properties, interruptions in production, injury or death to persons, damage to property of the Company or others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable, forcing the Company to cease production.

The further exploration development and exploitation of the Company's projects depends upon the Company's ability to obtain financing through equity financing, joint ventures, debt financing, or other means. There is no assurance that the Company will be successful in obtaining required financing as and when needed. Volatile markets for precious and base metals may make it difficult or impossible for the Company to obtain equity financing or debt financing on favorable terms or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its operations.

### **Environmental Regulations, Permits and Licenses**

The Company's operations may be subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments.

Environmental legislation is evolving in a manner that means standards are stricter, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

The Company intends to comply fully with all environmental regulations. The current or future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, provincial, state and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Application for modification to the Water Pollution Control Permit has been made to the Nevada Division of Environmental Protection. If these additional permits are not granted in a timely manner, or if the costs in obtaining these are too expensive for the Company to proceed, this could have an adverse effect on the Company.

Such operations and exploration activities are also subject to substantial regulation under applicable laws by governmental agencies that may require the Company to obtain permits from various governmental agencies. There can be no assurance, however, that all permits that the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations will not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in the development of new mining properties.

To the best of the Company's knowledge, it is operating in all material respects in compliance with all applicable rules and regulations.

### **Limited Operating History**

The Company commenced mineral exploitation operations in 2011 and the Mineral Ridge project commenced commercial production in 2012 and has a limited history of earnings. There are limited known commercial quantities of mineral reserves on the Company's properties. The likelihood of success of the Company must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the establishment of any business. Mining at the Mineral Ridge mine, the Company's only operating mine was suspended in November 2017 and there can be no assurance that the life of mine can be extended.

The Company has limited financial resources and there is no assurance that additional funding will be available to it for further operations or to fulfill its obligations under applicable agreements. There can be no assurance that the Company can generate revenues, operate profitably, or provide a return on investment, or that it will successfully implement its plans.

### **Exploration and Development Risks**

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. The price and marketability of minerals acquired or discovered by the Company may be affected by numerous factors that are beyond the control of the Company and that cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection, the combination of which factors may result in the Company not receiving an adequate return of investment capital. Certain of the claims to which the Company has a right to acquire an interest or the claims which the Company has an interest in are in the exploration stage only and are without a known body of commercial ore. Development of the subject mineral properties would follow only if favorable exploration results are obtained.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Company's operations will, in part, be directly related to the costs and success of its exploration programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

The Company has one producing mine, the Mineral Ridge Gold mine, in Nevada, USA, at the present time whose mining operations are currently suspended. The economics of developing gold, silver and other mineral properties is affected by many factors including the cost of operations, variations in the grade of ore mined, fluctuations in metal markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Properties on which mineral reserves are not found will have to be discarded causing the Company to write each respective property off, thus sustaining a loss.

The mineral reserve and resource estimates contained or referred to in this MD&A or the Company's other disclosure documents are only estimates and no assurance can be given that any particular level of recovery of minerals will be realized or that an identified reserve or resource will qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. The Company relies on laboratory-based recovery models and historical performance of its processing plant to project estimated ultimate recoveries by ore type at optimal crush sizes. Actual recoveries in a commercial mining operation may exceed or fall short of projected laboratory test results.

In addition, the grade of mineralization ultimately mined may differ from the grades indicated by the drilling results and the difference may be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formation, inaccurate or incorrect geologic, metallurgical or engineering work, and work interruptions, among other things. Short-term factors, such as the need for an orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of those operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations and there can be no assurance that historical performance of the processing plant will continue in the future. Material changes, inaccuracies or reductions in proven and

probable reserves or resource estimates, grades, waste-to-ore ratios or recovery rates could have a material adverse impact on the Company's future operations, cash flows, earnings, results of operations, financial condition and the economic viability of projects. The estimated proven and probable reserves and resources described herein should not be interpreted as assurances of mine life or of the profitability of future operations.

The Company has engaged expert independent technical consultants to advise it on, among other things, mineral reserves and resources, metallurgy and project engineering. The Company believes that these experts are competent and that they have carried out their work in accordance with all internationally recognized industry standards. If, however, the work conducted by, and the mineral reserve and resource estimates of these experts are ultimately found to be incorrect or inadequate in any material respect, such events could materially and adversely affect the Company's future operations, cash flows, earnings, results of operations, financial condition and the economic viability of its projects.

Mining at the Mineral Ridge mine was suspended in November 2017. The Company has applied for permits to expand and extend operations. There can be no assurance that the life of mine can be extended. It is the Company's only operating mine at the present time.

#### **Lack of Availability of Resources**

Mineral exploration requires ready access to mining equipment such as drills, and crews to operate that equipment. There can be no assurance that such resources will be available to the Company on a timely basis or at a reasonable cost. Failure to obtain these resources when needed may result in delays in the Company's exploration programs.

#### **Uninsurable Risks**

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance may not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

#### **Mineral Exploration and Mining Carry Inherent Risks**

Mining operations are subject to hazards normally encountered in exploration, development and production. These include unexpected geological formations, rock falls, flooding, dam wall failure and other incidents or conditions which could result in damage to plant or equipment or the environment and which could impact production throughput. Although it is intended to take adequate precautions to minimize risk, there is a possibility of a material adverse impact on the Company's operations and its financial results.

### **Title Risks**

Although the Company has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interests may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. Surveys have not been carried out on any of the Company's mineral properties in accordance with the laws of the jurisdiction in which such properties are situated; therefore, their existence and area could be in doubt.

Until competing interests in the mineral lands have been determined, the Company can give no assurance as to the validity of title of the Company to those lands or the size of such mineral lands.

### **Aboriginal Land Claims**

The Company's mineral properties could become subject to aboriginal land claims to title, which could adversely affect the Company's title to its properties. While the Company actively consults with all groups which may be adversely affected by the Company's activities, including aboriginal groups, there can be no assurance that satisfactory agreements can be reached.

### **Competition**

The mining industry is intensely competitive in all its phases, and the Company competes with other companies that have greater financial resources and technical facilities. Competition could adversely affect the Company's ability to acquire additional suitable properties or prospects in the future.

### **Management**

The success of the Company is currently largely dependent on the performance of its board of Directors and senior management. The loss of the services of these persons will have a material adverse effect on the Company's business and prospects. There is no assurance the Company can maintain the services of its board and management or other qualified personnel required to operate its business. Failure to do so could have material adverse effect on the Company and its prospects.

### **Metal Prices are Volatile**

The mining industry is intensely competitive and there is no assurance that, even if commercial quantities of a mineral resource are discovered, a profitable market will exist for the sale of the same. There can be no assurance that metal prices will be such that the Company's properties can be mined at a profit. Factors beyond the control of the Company may affect the marketability of any minerals discovered. Metal prices are subject to volatile price changes from a variety of factors including international economic and political trends, expectations of inflation, global and regional demand, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of, and demand for, the Company's principal product and exploration target, gold, is affected by various factors, including political events, economic conditions and production costs.

### **Infrastructure**

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants which affect capital and operating costs. Unusual or infrequent weather phenomena, terrorism, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

### **Conflict of Interests**

Certain of the directors and officers of the Company are directors or officers of, or may have significant shareholdings in other mineral resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate or may wish to participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. Such other companies may also compete with the Company for the acquisition of mineral property rights.

In the event that any such conflict of interest arises, a director or officer who has such a conflict will disclose the conflict to a meeting of the directors of the Company and, if the conflict involves a director, the director will abstain from voting for or against the approval of such a participation or such terms. In appropriate cases, the Company will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program.

It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the provisions of the Business Corporations Act (British Columbia), the directors and officers of the Company are required to act honestly and in good faith, with a view to the best interests of the Company.

In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time.

### **Key Personnel**

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional staff on the operations side. Although the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

### **Secured Debenture Financing**

The Company's obligations under the Debentures are secured against all of the Company's assets. Any failure to meet any of the payment obligations of the Debentures, or otherwise adhere to the covenants therein or fulfill the other obligations thereunder, may trigger an event of default and a demand for full immediate repayment of all amounts outstanding under the Debentures. If the Company is unable to repay all amounts outstanding under the Debentures, the Debentureholders may realize on their security and the Company could lose all or a portion of its assets, including the Mineral Ridge and/or Goldwedge properties. This can lead to possible foreclosure or bankruptcy proceedings against the Company, which could result in the loss of all value of the Company's securities. The Company does not currently have sufficient funds to repay all amounts outstanding under the Debentures and it continues to identify additional sources of financing to satisfy such obligations.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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### **Critical Accounting Estimates**

The preparation of its consolidated financial statements requires the Company to use estimates and assumptions that affect the reported amounts of assets and liabilities as well as revenues and expenses.

The Company's discussion and analysis of its financial condition and results of operations is based upon its consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant

accounting policies are contained in Note 3 to the consolidated financial statements for the year ended December 31, 2018 which also discusses changes in those policies.

Certain of these policies involve critical judgements because they require the Company to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

Information about critical judgements and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows. Management considers these estimates to be an important part of understanding the Company's consolidated financial statements.

Critical judgments:

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

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

- ii) Determination of functional currency

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

- iii) Commencement of commercial production of an open pit

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

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

Estimates:

- i) Asset carrying values and impairment

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

- a) Mineral Ridge mine

The fact that the carrying amount of the net assets of the Company was higher than the Company's market capitalization as of December 31, 2018 and that mining at Mineral Ridge was suspended in November 2017 are indicators of impairment. In determining the recoverable amount of the Mineral Ridge cash-generating unit ("CGU"), the Company determined the recoverable value using fair

value less costs of disposal. Impairment testing is performed using cash flow projections derived from expected future production, which incorporate reasonable estimates of precious metal production, future metal prices, operating costs, capital expenditures and the residual values of the assets. The determination of the recoverable value used Level 3 valuation inputs.

Based on its assessment the Company determined that the recoverable value using fair value less costs of disposal as at December 31, 2018 was \$4.7 million (2017, \$5.6 million). During the year ended December 31, 2018, the Company recorded non-cash impairment charges for Mineral Ridge of \$0.4 million (2017, \$3.6 million).

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

The recoverability analysis over the Company's inventory as at December 31, 2018, using a gold price assumption of \$1,275, indicated that their net realizable value was lower than the costs of production. As a result, a write-down on inventory was recognized in cost of sales for an amount of \$0.7 million during the year ended December 31, 2018 (2017, \$0.8 million).

b) Goldwedge property and mill

The fact the carrying amount of the net assets of the Company was higher than the Company's market capitalization as of December 31, 2018 is an indicator of impairment. In determining the recoverable amount of the Goldwedge CGU, the Company determined the recoverable value using the fair value less costs of disposal using Level 3 valuation inputs. The Company also includes in its estimate an estimated amount for costs to sell the CGU. This has not resulted in any impairment charge during the year ended December 31, 2018. However, based on its assessment, the Company recorded a non-cash impairment charge of \$0.5 million during the year ended December 31, 2017.

ii) Estimation of asset lives and residual values

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

iii) Mineral reserve estimates

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

iv) Recognition of deferred taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates may occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized deferred income tax assets.

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

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

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

vi) Stripping activity asset

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

vii) Inventories

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

## **CONTROLS AND PROCEDURES CERTIFICATION**

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The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities.

Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Effective June 30, 2018, the Company's Controller resigned from his position but has since continued to have a limited involvement with the Company. It was decided not to hire a replacement considering the Company's current financial situation. Management assessed the impact of this change and determined that there has been no change in the design of the Company's internal controls over financial reporting during the year ended December 31, 2018, that would materially affect, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

### **Limitations of controls and procedures**

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

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## RECENT ACCOUNTING PRONOUNCEMENTS

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

i) Leases (“IFRS 16”)

Leases (“IFRS 16”) was issued by the IASB and will replace Leases (“IAS 17”). IFRS 16 requires most leases to be reported on a company’s balance sheet as assets and liabilities. IFRS 16 is effective 1 January 2019. The Company does not expect that the adoption of this new standard will have a material impact on its financial statements.

ii) Uncertainty over Income Tax Treatments (“IFRIC 23”)

Uncertainty over Income Tax Treatments (“IFRIC 23”) was issued by IASB on June 7, 2017 to clarify the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit/loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 Income Taxes. IFRIC 23 is effective January 1, 2019. The Company does not expect that the adoption of this new standard will have a material impact on its financial statements.

iii) Definition of a Business

In October 2018, the IASB issued amendments in Definition of a Business (Amendments to IFRS 3) which:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

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**DISCLOSURE OF OUTSTANDING SECURITIES AS AT APRIL 29, 2019**

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Outstanding common shares	62,474,118
Convertible debentures	89,687,500
Stock options	<u>2,805,000</u>
Fully diluted	<u>154,966,618</u>

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**FORWARD LOOKING STATEMENTS**

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*This discussion includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion other than statements of historical facts, including statements that address future potential sales transaction, business combination, debt refinancing, mining exploration drilling, exploration and development activities, production activities financing related transactions, the receipt of permits and events or developments that the Company expects, are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include the ability of the Company to refinance its long-term debt, the availability of capital and financing to fund the Company’s operations, the ability of the Company to raise financing to construct a new processing facility and general economic, market or business conditions and other factors discussed under “Risk Factors” in this Management Discussion and Analysis and available at [www.sedar.com](http://www.sedar.com) under the Company’s name.*