SCORPIO GOLD CORPORATION

Consolidated Financial Statements of

Scorpio Gold Corporation

For the years ended December 31, 2018 and December 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Scorpio Gold Corporation

Opinion

We have audited the accompanying consolidated financial statements of Scorpio Gold Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

“DAVIDSON & COMPANY LLP”

Vancouver, Canada — Chartered Professional Accountants

April 29, 2019

Scorpio Gold Corporation
Consolidated statements of comprehensive income
Years ended December 31, 2018 and December 31, 2017
(In thousands of US dollars except for shares and per share amounts)

	2018	2017
	$	$
Revenue	**9,824**	26,993
Cost of sales excluding depletion and amortization (Note 5)	**(6,096)**	(22,298)
Inventory write-down (Note 9)	**(690)**	(830)
Depletion and amortization	**-**	(1,289)
Mine operating earnings	**3,038**	2,576
Expenses		
General and administrative (Note 6)	**(808)**	(1,224)
Care and maintenance - Goldwedge	**(626)**	(705)
Net gain (loss) on disposal and write-off of assets	**4**	(4)
Impairment of mining assets (Note 3e))	**(426)**	(4,104)
Gain on adjustment of provision for environmental rehabilitation	**43**	-
Operating earnings (loss)	**1,225**	(3,461)
Other (expenses) income		
Finance costs (Note 7)	**(766)**	(778)
Finance income and other	**90**	3
	(676)	(775)
Earnings (loss) before income taxes	**549**	(4,236)
Income tax recovery (expense) (Note 12)	**(126)**	12
Net earnings (loss) and comprehensive income	**423**	(4,224)
Net earnings (loss) and comprehensive income attributable to:		
Shareholders of the Company	**(267)**	(3,682)
Non-controlling interest	**690**	(542)
	423	(4,224)
Basic and diluted loss per share	**(0.00)**	(0.06)
Basic and diluted weighted average number of shares outstanding (Note 8)	**62,474,118**	62,474,118

See accompanying notes to the consolidated financial statements

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

	2018	2017
	$	$
Assets		
Current assets		
Cash	**1,100**	939
Trade and other receivables	**1**	188
Prepaid expenses and other	**426**	548
Inventories (Note 9)	**1,238**	2,457
Total current assets	**2,765**	4,132
Producing mining assets (Note 10)	**5,182**	5,121
Non-producing mining assets and other (Note 11)	**2,687**	2,710
Reclamation bonds (Note 14a))	**6,078**	5,745
Total assets	**16,712**	17,708
Equity and liabilities		
Current liabilities		
Trade and other payables	**740**	1,007
Income taxes payable	**149**	274
Current portion of long-term debt and financing lease (Note 13)	**6,050**	6,056
Total current liabilities	**6,939**	7,337
Long-term debt and financing lease (Note 13)	**-**	50
Provision for environmental rehabilitation (Note 14b))	**4,841**	4,854
Deferred income tax liability (Note 12)	**31**	53
Total liabilities	**11,811**	12,294
Equity		
Share capital (Note 15)	**51,449**	51,449
Equity reserve	**6,555**	6,555
Investment valuation reserve	**(2)**	(2)
Foreign currency translation reserve	**(194)**	(194)
Deficit	**(48,802)**	(48,535)
Equity attributable to shareholders of the Company	**9,006**	9,273
Non-controlling interest	**(4,105)**	(3,859)
Total equity	**4,901**	5,414
Total liabilities and equity	**16,712**	17,708

Statement of compliance and basis of presentation (Note 2)
Commitments (Note 11)
Subsequent events (Note 21)

APPROVED BY THE BOARD

Director

Director

See accompanying notes to the consolidated financial statements

Scorpio Gold Corporation
Consolidated statements of changes in equity
Years ended December 31, 2018 and December 31, 2017
(In thousands of US dollars, shares in thousands)

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

	Share capital		Equity reserve	Investment valuation reserve	Foreign currency translation reserve	Deficit	Non-controlling interest	Total equity
	Number	Amount						
		$	$	$	$	$	$	$
Balance, December 31, 2016	62,474	51,449	6,555	(2)	(194)	(44,853)	(2,310)	10,645
Net loss and comprehensive income for the year	-	-	-	-	-	(3,682)	(542)	(4,224)
Distributions to non-controlling interest	-	-	-	-	-	-	(1,007)	(1,007)
Balance, December 31, 2017	62,474	51,449	6,555	(2)	(194)	(48,535)	(3,859)	5,414

See accompanying notes to the consolidated financial statements

Scorpio Gold Corporation
Consolidated statements of cash flows
Years ended December 31, 2018 and December 31, 2017
(In thousands of US dollars)

	2018	2017
	$	$
Operating activities		
Earnings (loss) for the year before taxes	**549**	(4,236)
Adjustment for:		
Income tax paid	**(273)**	(583)
Environmental rehabilitation expenditures	**(120)**	-
Items not involving cash:		
Finance costs	**766**	778
Finance income	**(86)**	(3)
Impairment of mining assets (Note 3e))	**426**	4,104
Net (gain) loss on disposal and write-off of assets	**(4)**	4
Gain on adjustment of provision for environmental rehabilitation	**(43)**	-
Inventory write-down (Note 3e)2)i)a))	**690**	830
Depletion and amortization	**22**	1,297
Cash flows from operating activities before movements in working capital:	**1,927**	2,191
Change in working capital items (Note 16)	**571**	1,249
	2,498	3,440
Investing activities		
Decrease (increase) in restricted cash	**-**	1,307
Addition to reclamation bonds (net)	**(247)**	-
Additions to non-producing mining assets	**(437)**	(2,870)
Proceeds from disposal of assets	**4**	2
Additions to producing mining assets	**-**	(3,021)
	(680)	(4,582)
Financing activities		
Repayment of long-term debt and financing lease	**(121)**	(128)
Interest paid	**(600)**	(600)
Distributions to non-controlling interest	**(936)**	(1,007)
	(1,657)	(1,735)
(Decrease) increase in cash	**161**	(2,877)
Cash, beginning of year	**939**	3,816
Cash, end of year	**1,100**	939

Supplemental cash flow information (Note 16)

See accompanying notes to the consolidated financial statements

1. Continuation of operations

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

The Company is incorporated under the Business Corporations Act (British Columbia) and is listed on the TSX Venture Exchange. The address of the Company's registered office is 506-595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5.

2. Statement of compliance and basis of presentation

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at December 31, 2018.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 29, 2019.

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

3. Significant accounting policies

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

a) Basis of measurement

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

b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its United States based wholly-owned subsidiaries, Scorpio Gold (US) Corporation and Goldwedge LLC. They also include its United States based subsidiary Mineral Ridge Gold LLC ("MRG"), the owner of the Mineral Ridge mine that was 70% owned as at December 31, 2018.

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

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

3. Significant accounting policies (Continued)

c) Change in accounting policies

i) Financial instruments ("IFRS 9")

Financial instruments ("IFRS 9") was issued by the IASB and replaces *Financial instruments: recognition and measurement* ("IAS 39"). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments also introduce a new expected credit loss impairment model and limited changes to the classification and measurement requirements for financial assets. This standard did not have a significant effect on the presentation and disclosure of the financial statements.

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

The core principle of this new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also results in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improves guidance for multiple-element arrangements. The Company has adopted IFRS 15 using the cumulative effect method, without practical expedients, with the effect of initially applying this standard recognized at the date of initial application of January 1, 2018. Accordingly, the information presented for 2017 has not been restated. It is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. This standard did not have a significant effect on the presentation and disclosure of the financial statements.

d) Foreign currency translation

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

3. Significant accounting policies (Continued)

e) Management judgments and estimates

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

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

1) Critical judgments:

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

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

ii) Determination of functional currency

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

iii) Commencement of commercial production of an open pit

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

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

2) Estimates:

i) Asset carrying values and impairment

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

3. Significant accounting policies (Continued)

e) Management judgments and estimates (Continued)

2) Estimates (Continued):

i) Asset carrying values and impairment (Continued)

a) Mineral Ridge mine (Continued)

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.

3. Significant accounting policies (Continued)

e) Management judgments and estimates (Continued)

2) Estimates (Continued):

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.

3. Significant accounting policies (Continued)

e) Management judgments and estimates (Continued)

2) Estimates (Continued):

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.

f) Revenue recognition

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

3. Significant accounting policies (Continued)

g) Inventories

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

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

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

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

h) Mining assets

(i) Producing mining assets

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

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

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

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

3. Significant accounting policies (Continued)

h) Mining assets (Continued)

(ii) Non-producing mining assets

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

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

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

(iii) Property, plant and equipment

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

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

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

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

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

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

3. Significant accounting policies (Continued)

h) Mining assets (Continued)

(iii) Property, plant and equipment (Continued)

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

(iv) Leases

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

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

i) Provision for environmental rehabilitation

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

j) Share-based compensation

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

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

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

3. Significant accounting policies (Continued)

j) Share-based compensation (Continued)

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

k) Earnings (loss) per share

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

l) Financial instruments

Classification

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

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

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

Measurement

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

Impairment

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

3. Significant accounting policies (Continued)

m) Borrowing costs

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

n) Provisions

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

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

o) Contingencies

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

p) Related party transactions

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

q) Income taxes

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

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

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

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

3. Significant accounting policies (Continued)

q) Income taxes (Continued)

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

r) Non-controlling interest

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

s) Accounting standards issued but not effective

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

a) 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.

b) 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.

3. Significant accounting policies (Continued)

s) Accounting standards issued but not effective (Continued)

c) 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.

4. Financial instruments

a) Financial risk factors

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

(i) Credit risk

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

4. Financial instruments (Continued)

a) Financial risk factors (Continued)

(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.

4. Financial instruments (Continued)

a) Financial risk factors (Continued)

(iii) Market risk (Continued)

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 (Note 21a)).

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

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

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

5. Cost of sales

Cost of sales excluding depletion and amortization includes the following:

	2018	2017
	$	$
Labour	**2,746**	5,806
Utilities, permits and other	**1,476**	2,538
Fuel and reagents	**816**	1,838
Change in ore stockpile, metals in process and finished goods inventories	**472**	3,731
Contractor charges	**462**	6,876
Mechanical parts	**107**	1,492
Royalties	**17**	17
	6,096	22,298

6. General and administrative

	2018	2017
	$	$
Salaries and benefits	**478**	600
Professional fees	**136**	127
Directors fees	**100**	146
Insurance, travel and office related	**67**	102
Transfer agent and listing fees	**11**	21
Investor relations	**9**	148
Consultants	**7**	30
Project evaluation	**-**	50
	808	1,224

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

7. Finance costs

	2018	2017
	$	$
Interest on long-term debt	**600**	600
Amortization of debt issue cost	**62**	97
Unwinding of discount of provision for environmental rehabilitation	**100**	74
Interest on financing lease	**4**	7
	766	778

8. Weighted average number of shares and dilutive share equivalents

	2018	2017
Basic weighted average number of shares	**62,474,118**	62,474,118

All of the potentially dilutive securities were excluded from the dilutive number of shares outstanding for years ended December 31, 2018 and December 31, 2017 as they are anti-dilutive.

9. Inventories

	2018	2017
	$	$
Supplies	**714**	771
Metals in process	**488**	1,661
Finished goods	**36**	25
	1,238	2,457

During the year ended December 31, 2018, inventory included as cost of sales is $6.8 million (2017: $24.4 million). During the year ended December 31, 2018 the Company recognized a write-down of inventory of $0.7 million (2017: $0.8 million) as a result of recoverability analysis performed.

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

10. Producing mining assets

Cost	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Total
	$	$	$	$	$
Balance, December 31, 2016	70,160	23,182	1,973	798	96,113
Transfer from non-producing mining assets	1,284 [(1)]	135	-	11	1,430
Additions	2,728	78	213	7	3,026
Disposal	-	(66)	-	-	(66)
Change in provision for environmental rehabilitation	89	-	-	-	89
Balance, December 31, 2017	74,261	23,329	2,186	816	100,592
Additions	-	43	-	-	43
Change in provision for environmental rehabilitation	31	-	-	-	31
Balance, December 31, 2018	74,292	23,372	2,186	816	100,666

Accumulated depreciation and impairment

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Total
Balance, December 31, 2016	70,160	19,036	1,198	790	91,184
Transfer from non-producing mining assets	856[(1)]	-	-	8	864
Depletion and amortization	1,288	8	1	-	1,297
Impairments	1,957	155	64	6	2,182
Disposal	-	(56)	-	-	(56)
Balance, December 31, 2017	74,261	19,143	1,263	804	95,471
Depletion and amortization	-	8	1	4	13
Balance, December 31, 2018	74,261	19,151	1,264	808	95,484
Net book value					
December 31, 2017	-	4,186	923	12	5,121
December 31, 2018	31	4,221	922	8	5,182

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

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

10. Producing mining assets (Continued)

Producing mining assets is detailed by property as follows:

	Mineral Ridge	Goldwedge	Total
Cost	$	$	$
Balance, December 31, 2016	93,464	2,649	96,113
Transfer from non-producing mining assets	1,295	135	1,430
Additions	3,021	5	3,026
Disposal	(66)	-	(66)
Change in provision for environmental rehabilitation	89	-	89
Balance, December 31, 2017	97,803	2,789	100,592
Additions	43	-	43
Change in provision for environmental rehabilitation	31	-	31
Balance, December 31, 2018	97,877	2,789	100,666

Accumulated depreciation and impairment

	Mineral Ridge	Goldwedge	Total
Balance, December 31, 2016	89,118	2,066	91,184
Transfer from non-producing mining assets	864	-	864
Depletion and amortization	1,289	8	1,297
Impairments	2,088	94	2,182
Disposal	(56)	-	(56)
Balance, December 31, 2017	93,303	2,168	95,471
Depletion and amortization	-	13	13
Balance, December 31, 2018	93,303	2,181	95,484

Net book value			
December 31, 2017	4,500	621	5,121
December 31, 2018	4,574	608	5,182

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

11. Non-producing mining assets and other

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Construction in progress	Total
Cost	$	$	$	$	$	$
Balance, December 31, 2016	15,640	685	604	37	741	17,707
Transfer to producing mining assets	(1,284)	-	-	-	(146)	(1,430)
Additions	1,766	4	-	-	791	2,561
Disposal	-	-	-	(4)	-	(4)
Change in provision for environmental rehabilitation	7	-	-	-	-	7
Balance, December 31, 2017	16,129	689	604	33	1,386	18,841
Additions	178	-	-	-	258	436
Disposal	-	-	-	(7)	-	(7)
Change in provision for environmental rehabilitation	(24)	-	-	-	-	(24)
Balance, December 31, 2018	16,283	689	604	26	1,644	19,246

Accumulated depreciation and impairment

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Construction in progress	Total
Balance, December 31, 2016	13,295	520	500	37	725	15,077
Transfer to producing mining assets	(856)	-	-	-	(8)	(864)
Impairments	1,217	-	36	-	669	1,922
Disposal	-	-	-	(4)	-	(4)
Balance, December 31, 2017	13,656	520	536	33	1,386	16,131
Depletion and amortization	-	8	1	-	-	9
Impairment	168	-	-	-	258	426
Disposal	-	-	-	(7)	-	(7)
Balance, December 31, 2018	13,824	528	537	26	1,644	16,559

Net book value						
December 31, 2017	2,473	169	68	-	-	2,710
December 31, 2018	2,459	161	67	-	-	2,687

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

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

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

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

	Mineral Ridge	Goldwedge[(a)]	Other	Total
Cost	$	$	$	$
Balance, December 31, 2016	6,471	11,192	44	17,707
Transfer to producing mining assets	(1,295)	(135)	-	(1,430)
Additions	1,947	603	11	2,561
Disposal	-	-	(4)	(4)
Change in provision for environmental rehabilitation	-	7	-	7
Balance, December 31, 2017	7,123	11,667	51	18,841
Additions	426	10	-	436
Disposals	-	-	(7)	(7)
Change in provision for environmental rehabilitation	-	(24)	-	(24)
Balance, December 31, 2018	7,549	11,653	44	19,246

Accumulated depreciation and impairment

	Mineral Ridge	Goldwedge	Other	Total
Balance, December 31, 2016	6,471	8,571	35	15,077
Transfer to producing mining assets	(864)	-	-	(864)
Impairments	1,516	406	-	1,922
Disposal	-	-	(4)	(4)
Balance, December 31, 2017	7,123	8,977	31	16,131
Depletion and amortization	-	9	-	9
Impairment	426	-	-	426
Disposal	-	-	(7)	(7)
Balance, December 31, 2018	7,549	8,986	24	16,559

Net book value				
December 31, 2017	-	2,690	20	2,710
December 31, 2018	-	2,667	20	2,687

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

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

12. Income taxes

The provision for income taxes differs from the amount that would have resulted by applying the Canadian federal and provincial statutory Income tax rates of 26.7% (2017: 26.8%) to applicable earnings by the following items:

	2018	2017
	$	$
(Loss) earnings before income taxes	**549**	(4,236)
Expected tax expense (benefit)	**147**	(1,135)
Effect of higher tax rate in foreign jurisdiction	**(19)**	(327)
Tax deductions in excess of accounting amounts and non-deductible amounts	**(108)**	(181)
Deferred tax assets not recognized	**(16)**	965
True-ups	**104**	443
Tax attributable to non-controlling interest	**(108)**	235
Nevada net proceeds tax	**126**	(12)
Total income tax (recovery) expense	**126**	(12)
Current income tax expense	**148**	283
Deferred income tax recovery	**(22)**	(295)

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

	2018	2017
	$	$
Provision for environmental rehabilitation	**315**	205
Other	**52**	-
Interest deductions upon payment and other	**-**	90
Recognized deferred tax assets	**367**	295
Producing mining assets	**(251)**	(149)
Non-producing mining assets and other	**(147)**	(200)
Deferred tax liabilities	**(398)**	(348)
Net deferred income tax liability recognized	**(31)**	(53)

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

12. Income taxes (continued)

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

	2018	2017
	$	$
Share issue costs and financing costs	**511**	602
Non-capital loss carryforwards	**39,804**	38,961
Provision for environmental rehabilitation	**2,067**	2,519
Non-producing mining assets and other	**7,875**	8,110
Producing mining assets	**1,209**	1,052
Capital losses	**1,490**	1,490
Share based compensation	**1,481**	1,481
Interest deductions upon payment	**7,229**	6,410
	61,666	60,625

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

	Canada	USA	Total
	$	$	$
2029	-	1	1
2030	562	4,130	4,692
2031	550	11,158	11,708
2032	15	1,737	1,752
2033	-	3,584	3,584
2034	-	7,924	7,924
2035	428	2,234	2,662
2036	124	1,976	2,100
2037	199	3,342	3,541
2038	-	1,840	1,840
	1,878	37,926	38,804

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

13. Long-term debt

	2018	2017
	$	$
Senior secured credit facility, bearing interest at a rate of 10% per annum payable quarterly, secured by a first priority security interest over all of the Company's assets, net of debt issue cost of $62,000 [a)]	**6,000**	5,938
Financing lease on mobile equipment having a net book value of $137,650, payable by monthly installments of $10,115 including interest at a rate of 3.2% per annum until May 2019 [b)]	**50**	168
Current portion	**(6,050)**	(6,056)
Long-term portion	**-**	50

Future long-term debt principal repayments are as follows:

2018: $6,000

a) On August 14, 2015, the Company executed definitive agreements with Waterton Precious Metals Fund II Cayman, LP ("Waterton Fund"), an affiliate of Elevon, for a loan in the principal amount of $6 million (the "Loan"). There are certain restrictions placed on the Company pursuant to the Loan, including, among others, a limitation on additional debt that can be incurred by the Company and the requirement that the Company's trade payables not exceed $8.0 million. The Company has complied with all restrictions pursuant to the Loan as at December 31, 2018.

The loan was extinguished on March 4, 2019 (Note 21a))

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

	$
2019	50
Total minimum lease payments	50
Less: amount representing interest	(-)
	50

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

14. Reclamation bonds and provision for environmental rehabilitation

a) Reclamation bonds

	2018	2017
	$	$
Mineral Ridge	**5,864**	5,531
Goldwedge	**214**	214
	6,078	5,745

The Company has reclamation bonds of $12.1 million and entered into an agreement with a surety under which the cash collateral is $6.1 million.

b) Provision for environmental rehabilitation

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

	2018	2017
	$	$
Balance, beginning of year	**4,854**	4,684
Unwinding of discount	**100**	74
Reclamation activities	**(120)**	-
Change in estimates	**7**	96
Balance, end of year	**4,841**	4,854

The total undiscounted amount of estimated cash flows required to settle the provision for environmental rehabilitation at Mineral Ridge is approximately $5.0 million (2017: $4.9 million). The total undiscounted amount of estimated cash flows required to settle the provisions for environmental rehabilitation at Goldwedge is approximately $0.4 million (2017: $0.4 million). The present value of the obligation was determined using a weighted average discount rate of 2.5% and an average inflation rate of 2.1%. The settlement of the obligations is estimated to occur through to 2026 and 2031, for Mineral Ridge and Goldwedge, respectively. All environmental rehabilitation obligations are intended to be funded from cash balances at the time of the rehabilitation and from reclamation bonds once related rehabilitation work has been approved by the relevant authorities and related funds returned to the Company.

15. Share capital

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

(a) Authorized

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

(b) Stock option plan

A summary of changes in the Company's outstanding stock options for the years ended December 31, 2018 and December 31, 2017, are as follows:

	2018		2017	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
	(in thousands)	**CAD$**	(in thousands)	CAD$
Outstanding, beginning of year	**3,469**	**0.31**	5,445	0.54
Expired	**(664)**	**0.31**	(1,976)	(0.94)
Outstanding, end of year	**2,805**	**0.31**	3,469	0.31

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2018:

Exercise price	Weighted average remaining contractual life	Outstanding and exercisable
CAD$	(in years)	(in thousands)
0.17	2.67	1,142
0.29	1.04	905
0.55	4.43	758
		2,805

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

16. Supplemental cash flow information

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

	2018	2017
	$	$
Increase in trade and other receivables	**187**	(26)
Decrease in prepaid expenses and other	**122**	269
Decrease in inventories	**529**	3,824
Decrease in trade and other payables	**(267)**	(2,818)
	571	1,249

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

	2018	2017
		$
Long-term debt and financing lease, beginning of year	**6,106**	6,130
Cash flows: Principal repayment	**(118)**	(121)
Non-cash: Amortization of debt issue cost	**62**	97
Long-term debt and financing lease, end of year	**6,050**	6,106

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

	2018	2017
	$	$
Accounts payable included in non-producing mining asset	**21**	21

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

17. Capital management

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

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

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

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

The following summarizes the Company's capital structure:

	2018	2017
	$	$
Long-term debt, including current portion	**6,050**	6,106
Equity attributable to shareholders of the Company	**9,006**	9,273
Capital	**15,056**	15,379

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

18. Segmented information

(a) Industry information

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

Operating segment details are as follows:

	Year ended December 31, 2018			
	Mineral Ridge	Goldwedge	Other	Total
	$	$	$	$
Revenue from precious metal sales	9,824	-	-	9,824
Inter-segment (expense) - management fees	(187)	-	187	-
Cost of sales excluding depletion and amortization	(6,786)	-	-	(6,786)
Mine operating earnings	2,851	-	187	3,038
Expenses				
General and administrative	(29)	-	(779)	(808)
Care and maintenance	-	(604)	-	(604)
Care and maintenance- amortization	-	(22)	-	(22)
Gain (loss) on disposal of assets and other	43	-	4	47
Impairment of mining assets	(426)	-	-	(426)
Operating earnings (loss)	2,439	(626)	(588)	1,225
Other expenses				
Finance costs	(96)	(8)	(662)	(766)
Finance income and other	83	3	4	90
Earnings (loss) before income taxes	2,426	(631)	(1,246)	549
Income tax expense	(126)	-	-	(126)
Net earnings (loss) and comprehensive income	2,300	(631)	(1,246)	423

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

18. Segmented information (Continued)

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

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

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

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

18. Segmented information (Continued)

(b) Geographic information

All revenue from the sale of precious metals for the years ended December 31, 2018 and December 31, 2017 were earned in the United States of America. Substantially all of the Company's revenues are with one customer.

All of the Company's non-current assets are located in the United States of America as at December 31, 2018 and December 31, 2017.

19. Related party transactions

a) Compensation of key management personnel and directors

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

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

	2018	2017
	$	$
Salaries and directors fees	**732**	777
Consulting fee paid to a director	**-**	6
	732	783

As at December 31, 2018, an aggregate of $190,351 (2017, $119,452) resulting from transactions with key management is included in trade and other payables.

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

b) Waterton Fund

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

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

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

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

20. Summarized financial information for Mineral Ridge Gold, LLC

As of December 31, 2018, the Company held a 70% interest in its United States based subsidiary Mineral Ridge Gold, LLC, the owner of the Mineral Ridge mine. The financial year for Mineral Ridge Gold, LLC is December 31. The holder of the 30% non-controlling interest in Mineral Ridge Gold, LLC had 40% of the voting rights on the management committee. The Company receives 70% of cash flows generated at the Mineral Ridge mine, distributed to the partners in the Mineral Ridge mine in accordance with the project agreements. Summarised financial information about the assets, liabilities, profit or loss and cash flows of Mineral Ridge Gold, LLC for the years ended December 31, 2017 and December 31, 2016 are indicated below. Intercompany accounts, revenues and expenses transactions have not been eliminated.

Statement of financial position	**2018**	2017
	$	$
Current assets	**1,870**	3,667
Non-current assets	**10,439**	10,032
Current liabilities	**639**	1,137
Non-current liabilities	**4,560**	4,629
Net assets	**7,110**	7,933

Statement of operations and comprehensive income	**2018**	2017
	$	$
Sales	**9,824**	26,989
Mine operating earnings	**2,850**	1,859
Net (loss) earnings for the year	**2,299**	(1,810)
Total comprehensive (loss) earnings	**2,299**	(1,810)

Statement of cash flows	**2018**	2017
	$	$
Net cash from operating activities	**3,685**	4,722
Net cash used in investing activities	**(675)**	(3,965)
Distributions to non-controlling interest	**(936)**	(1,007)

21. Subsequent events

a) Waterton Buyout

On March 4, 2019, the Company has completed the Waterton Buyout, under which: (i) the US$ 6 million loan advanced from Waterton Fund to the Company was been fully extinguished (ii) the gold and silver supply agreement dated May 18, 2011 among the Company, its subsidiaries and an affiliate of Waterton Fund was terminated; and (iii) the Company acquired the 30% membership interest of Elevon in Mineral Ridge Gold (which holds the Mineral Ridge Project) and the related operating agreement dated March 10, 2010 between the Company and Elevon has been terminated (collectively, the "Waterton Buyout").

In consideration for the Waterton Buyout: (i) the Company paid Waterton Fund US$3 million (the "Upfront Payment"), (ii) the Company assigned to Waterton Fund the Company's right to receive a contingent payment of up to CAD$1 million from Gold Standard Ventures Corp. ("Gold Standard") upon a change of control of Gold Standard, pursuant to the sale of the Pinon property in 2014, and (iii) a contingent payment will be payable by the Company to Waterton 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.

The Company received funding to complete the Upfront Payment pursuant to a 7% interest bearing US$3 million debt bridge financing (the "Bridge Financing") from arm's length parties to the Company. The Bridge financing was subsequently repaid at closing of the convertible debenture financing (Note 21b)).

b) Issue of convertible debentures

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 US$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 not default to the terms of the Debentures, to repay any portion of the principal amount of the Debentures in cash or by issuing and delivering to the holders of the Debentures such number of 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 2 for 1 consolidation of its issued and outstanding share capital.

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.