SCORPIO Gold Corporation

Consolidated Financial Statements

For the year ended December 31, 2021

(Expressed in US dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Scorpio Gold Corporation

Opinion

We have audited the accompanying consolidated financial statements of Scorpio Gold Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of net loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, 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 audit 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 audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that as of December 31, 2021, the Company had a working capital deficiency of $273,000. Management estimates that these funds will not provide the Company with sufficient financial resources to carry out currently planned operations through the next twelve months. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

April 28, 2022

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

	Note		Year ended December 31, 2021		2020
REVENUE					
Revenue		$	3,236	$	4,971
Cost of sales excluding inventory write-down	*4*		(2,765)		(1,850)
Depreciation and amortization	*8 & 9*		(133)		(46)
Inventory write-down	*7*		(2,263)		(2,845)
Mine operating earnings (loss)			(1,925)		230
EXPENSES					
General and administration	*5*		(862)		(1,195)
Care and maintenance - Goldwedge			(761)		(736)
Depreciation and amortization	*8 & 9*		(23)		(43)
Impairment of mining assets	*8 & 9*		(2,373)		(106)
Gain on disposal of assets	*8 & 9*		51		24
			(3,968)		(2,056)
Operating loss			(5,893)		(1,826)
Other income (expense)					
Finance costs	*6*		(746)		(808)
Finance income			6		21
Foreign exchange			50		36
Gain (loss) on settlement of convertible interest payable	*13*		(31)		11
Gain on warrant liability	*12*		1,938		1,148
			1,217		408
NET LOSS AND COMPREHENSIVE LOSS		$	(4,676)	$	(1,418)
Basic and diluted loss per common share		$	(0.04)	$	(0.02)
Basic and diluted weighted average number of common shares outstanding			112,448,498		77,868,203

Scorpio Gold Corporation
Consolidated Statements of Financial Position
(Expressed in thousands of US dollars)

	Note		As at December 31, 2021		2020
ASSETS					
Current assets					
Cash		$	279	$	4,147
Receivables			144		23
Prepaid expenses			377		490
Inventories	*7*		-		1,122
Total current assets			800		5,782
Producing mining assets	*8*		4,766		4,841
Non-producing mining assets	*9*		501		725
Reclamation bonds	*10*		7,723		7,611
TOTAL ASSETS		$	13,790	$	18,959
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Trade and other payables		$	623	$	635
Loans	*11*		450		-
Total current liabilities			1,073		635
Provision for environmental rehabilitation	*10*		5,889		5,474
Warrant liability	*12*		370		2,305
Total liabilities			7,332		8,414
Equity					
Share capital	*14*		53,977		53,336
Equity reserve	*14*		7,143		7,141
Convertible debentures	*13*		6,763		6,817
Investment valuation reserve			(2)		(2)
Foreign currency translation reserve			(194)		(194)
Deficit			(61,229)		(56,553)
Total equity			6,458		10,545
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	13,790	$	18,959
Nature of operations and going concern	*1*				
Subsequent events	*21*				

APPROVED BY THE BOARD

"Peter Brieger"
Director

"Chris Zerga"
Director

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

Scorpio Gold Corporation
Consolidated Statements of Changes in Equity
(Expressed in thousands of US dollars, shares in thousands)

	Number of shares	Share capital	Equity reserve	Convertible debentures	Investment valuation reserve	Foreign currency translation reserve	Deficit	Total equity
Balance, December 31, 2020	109,759	$ 53,336	$ 7,141	$ 6,817	$ (2)	$ (194)	$ (56,553)	$ 10,545
Issuance of common shares on conversion of convertible debentures	675	54	-	(54)	-	-	-	-
Issuance of common shares for non-producing mining assets	2,091	199	-	-	-	-	-	199
Issuance of common shares for convertible debenture interest	4,579	388	-	-	-	-	-	388
Share-based compensation	-	-	2	-	-	-	-	2
Net loss and comprehensive loss	-	-	-	-	-	-	(4,676)	(4,676)
Balance, December 31, 2021	117,104	$ 53,977	$ 7,143	$ 6,763	$ (2)	$ (194)	$ (61,229)	$ 6,458

	Number of shares	Share capital	Equity reserve	Convertible debentures	Investment valuation reserve	Foreign currency translation reserve	Deficit	Total equity
Balance, December 31, 2019	62,474	$ 51,449	$ 6,688	$ 6,847	$ (2)	$ (194)	$ (55,135)	$ 9,653
Private placement, net of issuance costs	37,500	1,148	-	-	-	-	-	1,148
Issuance of common shares on conversion of convertible debentures	375	30	-	(30)	-	-	-	-
Issuance of common shares for convertible debenture interest	9,410	709	-	-	-	-	-	709
Share-based compensation	-	-	453	-	-	-	-	453
Net loss and comprehensive loss	-	-	-	-	-	-	(1,418)	(1,418)
Balance, December 31, 2020	109,759	$ 53,336	$ 7,141	$ 6,817	$ (2)	$ (194)	$ (56,553)	$ 10,545

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

Scorpio Gold Corporation
Consolidated Statements of Cash Flows
(Expressed in thousands of US dollars)

	Year ended December 31, 2021	2020
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Net loss for the year	$ (4,676)	$ (1,418)
Adjustment for:		
Income tax paid	-	(5)
Items not affecting cash:		
Depletion and amortization	156	89
Share-based compensation	2	453
Inventory write-down	2,263	2,845
Impairment of mining assets	2,373	106
Gain on disposal of assets	(51)	(24)
Financing costs	746	808
Finance income	(1)	(16)
(Gain) loss on settlement of convertible interest payable	31	(11)
Gain on warrant liability	(1,938)	(1,148)
Foreign exchange on warrant liability	3	116
Change in non-cash working capital items:		
Receivables	(121)	366
Prepaid expenses	113	(56)
Inventories	(1,141)	(2,994)
Trade and other payables	(358)	82
	(2,599)	(807)
INVESTING ACTIVITIES:		
Additions to producing mining assets	(75)	(10)
Additions to non-producing mining assets	(1,596)	(464)
Proceeds from disposal of assets	63	109
Reclamation bonds	(111)	(1,409)
	(1,719)	(1,774)
FINANCING ACTIVITIES:		
Loans	490	-
Repayment of loans	(40)	-
Private placement	-	4,545
Share issue costs	-	(60)
	450	4,485
CHANGE IN CASH FOR THE YEAR	(3,868)	1,904
CASH, BEGINNING OF THE YEAR	4,147	2,243
CASH, END OF YEAR	$ 279	$ 4,147

Supplemental cash flow information (Note 19)

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

1. Nature of operations and going concern

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

The Company suspended mining operations of its Mineral Ridge mine in November 2017 as the Company had mined all of its economical mineral reserves based on gold pricing and heap leach recovery parameters. The Company then generated limited revenues from Mineral Ridge from residual but diminishing gold recoveries from the leach pads. In December 2021, the Company determined that operating the heap leach pads was not economic and so ceased operations at Mineral Ridge (Note 8 and 9).

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. As at December 31, 2021, the Company had a working capital deficiency of $273,000. Management estimates that these funds will not provide the Company with sufficient financial resources to carry out currently planned operations through the next twelve months. Additional financing will be required by the Company to complete its strategic objectives and continue as a going concern. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

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

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

2. Basis of presentation

Statement of compliance

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 28, 2022.

2. Basis of presentation (Continued)

Basis of measurement

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

Functional and presentation currency

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

Management judgments and estimates

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

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

a) Critical judgments

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

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

Determination of functional currency

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

2. Basis of presentation (Continued)

Management judgments and estimates (Continued)

b) Estimates

Asset carrying values and impairment

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

i) Mineral Ridge mine

In determining the recoverable amount of the Mineral Ridge cash-generating unit ("CGU"), the Company determined the recoverable value using the fair value less costs of disposal using Level 3 valuation inputs. Based on its assessment the Company determined that the recoverable value using fair value less costs of disposal was $4,480,000 as at December 31, 2021 (2020 - $4,202,000). During the year ended December 31, 2021, the Company recorded non-cash impairment charges for Mineral Ridge of $375,000 (2020 - $106,000).

As noted above, the Company ceased operations of its heap leach pads in December 2021. Accordingly, the Company wrote-off its inventory and recorded an impairment in cost of sales for an amount of $2,263,000 during the year ended December 31, 2021 (2020 - $2,845,000).

ii) Goldwedge property and mill

The fact that the Goldwedge property and mill have been on care and maintenance since 2015 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. Based on its assessment the Company determined that the recoverable value using fair value less costs of disposal was $2,009,000 as at December 31, 2021 (2020 - $1,917,000). During the year ended December 31, 2021, the Company recorded non-cash impairment charges for Goldwedge of $1,998,000 (2020 - $Nil).

2. Basis of presentation (Continued)

Management judgments and estimates (Continued)

b) Estimates (Continued)

Estimation of asset lives and residual values

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

Mineral reserve estimates

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

Convertible debentures

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

2. Basis of presentation (Continued)

Management judgments and estimates (Continued)

b) Estimates (Continued)

Recognition of deferred taxes

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

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

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

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

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

Inventories

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

3. Significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its USA based wholly-owned subsidiaries, Mineral Ridge Gold LLC ("MRG"), Scorpio Gold (US) Corporation and Goldwedge LLC.

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

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

Foreign currency translation

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

Revenue recognition

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

3. Significant accounting policies (Continued)

Inventories

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

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

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

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

Mining assets

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.

3. Significant accounting policies (Continued)

Mining assets (Continued)

Producing mining assets (Continued)

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

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

Non-producing mining assets

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

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

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

Property, plant and equipment

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

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

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

3. Significant accounting policies (Continued)

Mining assets (Continued)

Property, plant and equipment (Continued)

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

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

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

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

Provision for environmental rehabilitation

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

Share-based compensation

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

3. Significant accounting policies (Continued)

Share-based compensation (Continued)

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

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

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

Earnings (loss) per share

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

Financial instruments

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 other comprehensive income.

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

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

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Measurement

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

Impairment

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

Convertible debentures

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

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

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

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

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

3. Significant accounting policies (Continued)

Borrowing costs

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

Provisions

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

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

Contingencies

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

Related party transactions

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

Income taxes

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

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

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

3. Significant accounting policies (Continued)

Income taxes (Continued)

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

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

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

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

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

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

New standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2021 and have not been applied in preparing these consolidated financial statements. In addition, none of these standards are applicable to the Company.

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

4. Cost of sales

	Year ended December 31,	
	2021	**2020**
Contractor charges	$ 217	$ 349
Labour	1,467	1,717
Fuel and reagents	1,185	1,049
Mechanical parts	113	209
Change in ore stockpile, metals in process, and finished goods inventories	(1,262)	(2,947)
Utilities, permits and other	1,045	1,473
	$ 2,765	$ 1,850

5. General and administrative

	Year ended December 31,	
	2021	**2020**
Salaries and benefits	$ 226	$ 178
Consultants	188	118
Directors' fees	-	41
Insurance, travel and office related	56	62
Investor relations	221	105
Professional fees	124	178
Share-based compensation (Note 14)	2	453
Transfer agent and listing fees	45	60
	$ 862	$ 1,195

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

6. Finance costs

		Year ended December 31,	
	Note	**2021**	**2020**
Interest on convertible debentures	*13*	$ 714	$ 720
Unwinding of discount of provision for environmental rehabilitation	*10*	32	88
		$ 746	$ 808

7. Inventories

	December 31, 2021	**December 31, 2020**
Supplies	$ -	$ 792
Metals in process	-	315
Finished goods	-	15
	$ -	$ 1,122

During the year ended December 31, 2021, inventory included as cost of sales is $5,028,000 (2020 - $4,695,000).

During the year ended December 31, 2021, the Company recognized an inventory write-down of $2,263,000 (2020 - $2,845,000).

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

8. Producing mining assets

In August 2020, the Company granted an option to Titan Mining Corporation ("Titan") to earn an 80% interest in the Mineral Ridge property by spending $35,000,000 on exploration over five years. In June 2021, Titan terminated the agreement.

		Mining interest		Plant and Equipment		Mobile equipment		Furniture and office equipment		Total
Cost										
December 31, 2019	$	74,261	$	23,244	$	2,186	$	816	$	100,507
Change in provision for environmental rehabilitation		80		-		-		-		80
Disposals		-		(345)		-		-		(345)
Impairment		(80)		-		-		-		(80)
December 31, 2020		74,261		22,899		2,186		816		100,162
Additions		-		73		-		2		75
Change in provision for environmental rehabilitation		375		-		-		-		375
Disposals		-		(350)		-		-		(350)
Impairment		(375)		-		-		-		(375)
December 31, 2021	$	74,261	$	22,622	$	2,186	$	818	$	99,887
Accumulated impairment, depletion and amortization										
December 31, 2019	$	74,261	$	19,159	$	1,265	$	811	$	95,496
Depreciation and amortization		-		34		47		4		85
Disposals		-		(260)		-		-		(260)
December 31, 2020		74,261		18,933		1,312		815		95,321
Depreciation and amortization		-		104		36		-		140
Disposals		-		(340)		-		-		(340)
December 31, 2021	$	74,261	$	18,697	$	1,348	$	815	$	95,121
Net book value										
December 31, 2020	$	-	$	3,966	$	874	$	1	$	4,841
December 31, 2021	$	-	$	3,925	$	838	$	3	$	4,766

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

8. Producing mining assets (Continued)

	Mineral Ridge	Goldwedge	Total
Cost			
December 31, 2019	$ 97,718	$ 2,789	$ 100,507
Change in provision for environmental rehabilitation	80	-	80
Disposals	(345)	-	(345)
Impairment	(80)	-	(80)
December 31, 2020	97,373	2,789	100,162
Additions	48	27	75
Change in provision for environmental rehabilitation	375	-	375
Disposals	(350)	-	(350)
Impairment	(375)	-	(375)
December 31, 2021	$ 97,071	$ 2,816	$ 99,887
Accumulated impairment, depletion and amortization			
December 31, 2019	$ 93,303	$ 2,193	$ 95,496
Depreciation and amortization	47	38	85
Disposals	(260)	-	(260)
December 31, 2020	93,090	2,231	95,321
Depreciation and amortization	133	7	140
Disposals	(340)	-	(340)
December 31, 2021	$ 92,883	$ 2,238	$ 95,121
Net book value			
December 31, 2020	$ 4,283	$ 558	$ 4,841
December 31, 2021	$ 4,188	$ 578	$ 4,766

During the year ended December 31, 2021, the Company sold equipment with a net book value of $10,000 for gross proceeds of $49,000, and accordingly recorded a gain on disposal of assets of $39,000.

During the year ended December 31, 2020, the Company sold equipment with a net book value of $85,000 for gross proceeds of $109,000, and accordingly recorded a loss on disposal of assets of $24,000.

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

9. Non-producing mining assets

In March 2021, the Company completed an acquisition of the Manhattan project located in Nye County, Nevada and situated adjacent and proximal to the Company's Goldwedge property. In consideration, the Company paid $100,000 cash and issued 2,091,149 common shares valued at $199,000 (Note 14). The property is subject to a 2.0% net smelter returns royalty and certain reserved water rights.

	Mining interest	Plant and Equipment	Mobile equipment	Construction in progress	Total
Cost					
December 31, 2019	$ 13,824	$ 689	$ 604	$ 1,644	$ 16,761
Additions	390	-	-	113	503
Change in provision for environmental rehabilitation	28	-	-	-	28
Impairment	(10)	-	-	(16)	(26)
December 31, 2020	14,232	689	604	1,741	17,266
Additions	1,402	-	-	83	1,485
Additions - Manhattan Gap	299	-	-	-	299
Change in provision for environmental rehabilitation	8	-	-	-	8
Disposals	-	(9)	-	-	(9)
Impairment	(1,818)	-	-	(180)	(1,998)
December 31, 2021	$ 14,123	$ 680	$ 604	$ 1,644	$ 17,051
Accumulated impairment, depletion and amortization					
December 31, 2019	$ 13,824	$ 532	$ 537	$ 1,644	$ 16,537
Depreciation and amortization	-	4	-	-	4
December 31, 2020	13,824	536	537	1,644	16,541
Depreciation and amortization	-	16	-	-	16
Disposals	-	(7)	-	-	(7)
December 31, 2021	$ 13,824	$ 545	$ 537	$ 1,644	$ 16,550
Net book value					
December 31, 2020	$ 408	$ 153	$ 67	$ 97	$ 725
December 31, 2021	$ 299	$ 135	$ 67	$ -	$ 501

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

9. Non-producing mining assets (Continued)

		Mineral Ridge		Goldwedge		Total
Cost						
December 31, 2019	$	7,547	$	9,214	$	16,761
Additions		26		477		503
Change in provision for environmental rehabilitation		-		28		28
Impairment		(26)		-		(26)
December 31, 2020		7,547		9,719		17,266
Additions		-		1,485		1,485
Additions - Manhattan Gap		-		299		299
Change in provision for environmental rehabilitation		-		8		8
Disposals		-		(9)		(9)
Impairment		-		(1,998)		(1,998)
December 31, 2021	$	7,547	$	9,504	$	17,051
Accumulated impairment, depletion and amortization						
December 31, 2019	$	7,547	$	8,990	$	16,537
Depreciation and amortization		-		4		4
December 31, 2020		7,547		8,994		16,541
Depreciation and amortization		-		16		16
Disposals		-		(7)		(7)
December 31, 2021	$	7,547	$	9,003	$	16,550
Net book value						
December 31, 2020	$	-	$	725	$	725
December 31, 2021	$	-	$	501	$	501

During the year ended December 31, 2021, the Company sold equipment with a net book value of $2,000 for gross proceeds of $14,000, and accordingly recorded a gain on disposal of assets of $12,000.

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

10. Reclamation bonds and provision for environmental rehabilitation

a) Reclamation bonds

	December 31, 2021	December 31, 2020
Beginning balance	$ 7,611	$ 6,186
Additions	111	1,409
Interest income	1	16
Ending balance	$ 7,723	$ 7,611

	December 31, 2021	December 31, 2020
Mineral Ridge	$ 7,465	$ 7,393
Goldwedge	258	218
	$ 7,723	$ 7,611

The Company has reclamation bonds of $14,381,000 and entered into an agreement with a surety under which the cash collateral is $7,723,000.

b) Provision for environmental rehabilitation

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

	December 31, 2021	December 31, 2020
Beginning balance	$ 5,474	$ 5,278
Unwinding of discount	32	88
Change in estimates	383	108
Ending balance	$ 5,889	$ 5,474

The total undiscounted amount of estimated cash flows required to settle the provision for environmental rehabilitation at Mineral Ridge is approximately $5,800,000 (2020 - $5,200,0000). The total undiscounted amount of estimated cash flows required to settle the provisions for environmental rehabilitation at Goldwedge is approximately $440,000 (2020 - $418,000). The present value of the obligation was determined using a weighted average discount rate of 1.2% and an average inflation rate of 2.1%. The settlement of the obligations is estimated to occur through to 2023 and 2034, for Mineral Ridge and Goldwedge, respectively. All environmental rehabilitation obligations are intended to be funded from cash balances at the time of the rehabilitation and from reclamation bonds once related rehabilitation work has been approved by the relevant authorities and related funds returned to the Company.

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

11. Loans

	December 31, 2021	December 31, 2020
Beginning balance	$ -	$ -
Proceeds	490	-
Repayments	(40)	-
Ending balance	$ 450	$ -

In October 2021, the Company entered into a credit facility agreement with certain directors of the Company. The credit facility is unsecured and interest free. Pursuant to the agreement, the Company may draw advances up to $500,000. All advances must be repaid within the earlier of the Company closing a private placement more than C$1,000,000 and January 1, 2022. The credit facility agreement was amended in February 2022 (Note 21).

During the year ended December 31, 2021, the Company received advances of $490,000 and repaid advances of $40,000.

12. Warrant liability

	December 31, 2021	December 31, 2020
Beginning balance	$ 2,305	$ -
Issuance of warrants (Note 14)	-	3,337
Gain on revaluation	(1,938)	(1,148)
Currency translation effect	3	116
Ending balance	$ 370	$ 2,305

Share purchase warrants are considered a derivative liability, as the currency denomination of the exercise price is different from the functional currency of the Company.

The warrant liability was revalued as at December 31, 2021 using the Black-Scholes option pricing model with the following assumptions: a stock price of C$0.10; a risk free interest rate of 0.91%; an expected volatility of 71%; an expected life of 1.7 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of 1.2678.

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

13. Convertible debentures

	December 31, 2021	December 31, 2020
Beginning balance	$ 6,817	$ 6,847
Conversion to common shares	(54)	(30)
Ending balance	$ 6,763	$ 6,817

On April 26, 2019, the Company closed a non-brokered private placement offering of secured subordinated convertible debentures (each, a "Debenture") for gross proceeds of $7,000,000.

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

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

During the year ended December 31, 2021, the Company completed the following:

- In January and February 2021, the Company issued 250,000 common shares on conversion of $20,000 of Debentures (Note 14).
- In April 2021, the Company paid $355,000 cash to settle its semi-annual interest payment on the Debentures.
- In October 2021, the Company issued 4,579,083 common shares valued at $388,000 to settle its semi-annual interest payment of $357,000 on the Debentures (Note 14). Accordingly, the Company recorded a loss on settlement of $31,000.
- In December 2021, the Company issued 425,000 common shares on conversion of $34,000 of Debentures (Note 14).

13. Convertible debentures (Continued)

During the year ended December 31, 2020, the Company completed the following:

- In April 2020, the Company issued 6,368,600 common shares valued at $392,000 to settle its semi-annual interest payment of $362,000 on the Debentures (Note 14). Accordingly, the Company recorded a loss on settlement of $30,000.

- In October 2020, the Company issued 2,616,666 common shares valued at $317,000 to settle its semi-annual interest payment of $358,000 on the Debentures (Note 14). Accordingly, the Company recorded a gain on settlement of $41,000.

- In November 2020, the Company issued 375,000 common shares on conversion of $30,000 of the Debentures (Note 14).

During the year ended December 31, 2021, the Company recorded interest expense of $714,000 (2020 - $720,000) on the Debentures.

As at December 31, 2021, interest payable on the Debentures totalled $129,000 (2020 - $170,000) and is included in trade and other payables.

14. Share capital

(a) Authorized

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

(b) Issued and outstanding

During the year ended December 31, 2021, the Company completed the following:

- In January and February 2021, the Company issued 250,000 common shares on conversion of $20,000 of Debentures (Note 13).

- In March 2021, the Company issued 2,091,149 common shares valued at $199,000 as part of the acquisition of the Manhattan project (Note 9).

- In October 2021, the Company issued 4,579,083 common shares valued at $388,000 to settle its semi-annual interest payment of $357,000 on the Debentures (Note 13). Accordingly, the Company recorded a loss on settlement of $31,000.

- In December 2021, the Company issued 425,000 common shares on conversion of $34,000 of Debentures (Note 13).

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

14. Share capital (Continued)

(b) Issued and outstanding (Continued)

During the year ended December 31, 2020, the Company completed the following:

- In April and May 2020, the Company issued 6,793,173 common shares valued at $392,000 to settle its semi-annual interest payment of $362,000 on the Debentures (Note 13). Accordingly, the Company recorded a loss on settlement of $30,000.
- In September and October 2020, the Company completed a non-brokered private placement in two tranches through the issue of 37,500,000 units at a price of C$0.16 per unit for gross proceeds of $4,545,000 (C$6,000,000). Each unit consisted of one common share and one common share purchase warrant with each warrant exercisable into one common share at an exercise price of C$0.24 until September 14, 2023. The Company paid finder's fees of $38,000 and other share issue costs of $22,000. The warrants were valued at $3,337,000 using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 0.32%; an expected volatility of 113%; an expected life of 3 years; a forfeiture rate of zero; an expected dividend of zero.
- In October 2020, the Company issued 2,616,666 common shares valued at $317,000 to settle its semi-annual interest payment of $358,000 on the Debentures (Note 13). Accordingly, the Company recorded a gain on settlement of $41,000.
- In November 2020, the Company issued 375,000 common shares on conversion of $30,000 of the Debentures (Note 13).

(c) Warrants

The continuity of warrants for the year ended December 31, 2021 is as follows:

Expiry date	Exercise price C$	Balance, December 31, 2020	Granted	Exercised	Expired	Balance, December 31, 2021
September 14, 2023	$ 0.24	37,500,000	-	-	-	37,500,000
		37,500,000	-	-	-	37,500,000
Weighted average exercise price (C$)		$ 0.24	$ -	$ -	$ -	$ 0.24

The continuity of warrants for the year ended December 31, 2020 is as follows:

Expiry date	Exercise price C$	Balance, December 31, 2019	Granted	Exercised	Expired	Balance, December 31, 2020
September 14, 2023	$ 0.24	-	37,500,000	-	-	37,500,000
		-	37,500,000	-	-	37,500,000
Weighted average exercise price (C$)		$ -	$ 0.24	$ -	$ -	$ 0.24

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

14. Share capital (Continued)

(d) Stock options

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

The continuity of stock options for the year ended December 31, 2021 is as follows:

Expiry date	Exercise price C$	Balance, December 31, 2020	Granted	Exercised	Expired	Balance, December 31, 2021
August 30, 2021	$ 0.17	1,095,000	-	-	(1,095,000)	-
July 23, 2022	$ 0.155	200,000	-	-	-	200,000
June 6, 2023	$ 0.55	720,000	-	-	(300,000)	420,000
June 5, 2024	$ 0.10	2,500,000	-	-	(800,000)	1,700,000
July 23, 2025	$ 0.155	150,000	-	-	-	150,000
September 14, 2025	$ 0.165	3,785,000	-	-	(370,000)	3,415,000
		8,450,000	-	-	(2,565,000)	5,885,000
Weighted average exercise price (C$)		$ 0.18	$ -	$ -	$ 0.19	$ 0.17

As at December 31, 2021, all stock options were exercisable. As at December 31, 2021, the weighted average remaining contractual life of the stock options outstanding was 3.06 years.

The continuity of stock options for the year ended December 31, 2020 is as follows:

Expiry date	Exercise price C$	Balance, December 31, 2019	Granted	Exercised	Expired	Balance, December 31, 2020
January 14, 2020	$ 0.29	875,000	-	-	(875,000)	-
August 30, 2021	$ 0.17	1,095,000	-	-	-	1,095,000
July 23, 2022	$ 0.155	-	200,000	-	-	200,000
June 6, 2023	$ 0.55	720,000	-	-	-	720,000
June 5, 2024	$ 0.10	2,500,000	-	-	-	2,500,000
July 23, 2025	$ 0.155	-	150,000	-	-	150,000
September 14, 2025	$ 0.165	-	3,815,000	-	(30,000)	3,785,000
		5,190,000	4,165,000	-	(905,000)	8,450,000
Weighted average exercise price (C$)		$ 0.21	$ 0.16	$ -	$ 0.29	$ 0.18

14. Share capital (Continued)

(e) Share-based compensation

During the year ended December 31, 2021, the Company recognized share-based compensation expense of $2,000 (2020 - $453,000) for options that vested during the period.

On July 23, 2020, the Company granted 200,000 stock options to two investor relations companies at a fair value of $15,000 or C$0.10 per option, of which $2,000 was recorded as share-based compensation for the year ended December 31, 2021 (2020 - $13,000). The options vest 25% on grant and 25% every three months thereafter. The fair value of the options granted was determined using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 0.27%; an expected volatility of 135%; an expected life of 2 years; a forfeiture rate of zero; and an expected dividend of zero.

On July 23, 2020, the Company granted 150,000 stock options to officers at a fair value of $13,000 or C$0.11 per option, all of which was recorded as share-based compensation for the year ended December 31, 2020. The fair value of the options granted was determined using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 0.27%; an expected volatility of 99%; an expected life of 5 years; a forfeiture rate of zero; and an expected dividend of zero.

On September 14, 2020, the Company granted 3,815,000 stock options to directors, officers, employees and consultants at a fair value of $427,000 or C$0.15 per option, all of which was recorded as share-based compensation for the year ended December 31, 2020. The fair value of the options granted was determined using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 0.32%; an expected volatility of 110%; an expected life of 5 years; a forfeiture rate of zero; and an expected dividend of zero.

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

15. Related party transactions and balances

Compensation of key management personnel and directors

Key management includes members of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, and the Corporate Secretary. The aggregate compensation paid or accrued to key management personnel during the years ended December 31, 2021 and 2020 were as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Salaries and benefits		
Chief Executive Officer	$ 229	$ 149
Chief Financial Officer & Corporate Secretary	160	115
Former President *	-	117
	389	381
Director fees	-	40
Share-based compensation	-	270
	$ 389	$ 691

* allocated to cost of sales and care and maintenance

Amounts due to related parties

Included in trade and other payables as at December 31, 2021, is $19,000 (2020 - $18,000) due to key management for director fees and the reimbursement of expenditures.

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

16. Segmented information

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, 2021	Mineral Ridge	Goldwedge	Other	Total
REVENUE				
Revenue	$ 3,236	$ -	$ -	$ 3,236
Cost of sales excluding inventory write-down	(2,765)	-	-	(2,765)
Depreciation and amortization	(133)	-	-	(133)
Inventory write-down	(2,263)	-	-	(2,263)
Mine operating loss	(1,925)	-	-	(1,925)
EXPENSES				
General and administration	-	-	(862)	(862)
Care and maintenance - Goldwedge	-	(761)	-	(761)
Depreciation and amortization	-	(23)	-	(23)
Impairment of mining assets	(375)	(1,998)	-	(2,373)
Gain on disposal of assets	40	11	-	51
	(335)	(2,771)	(862)	(3,968)
Operating loss	(2,260)	(2,771)	(862)	(5,893)
Other income (expense)				
Finance costs	(28)	(3)	(715)	(746)
Finance income	1	-	5	6
Foreign exchange	-	-	50	50
Loss on settlement of convertible interest payable	-	-	(31)	(31)
Gain on warrant liability	-	-	1,938	1,938
	(27)	(3)	1,247	1,217
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**$ (2,287)**	**$ (2,774)**	**$ 385**	**$ (4,676)**

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

16. Segmented information (Continued)

Industry information (Continued)

Year ended December 31, 2020	Mineral Ridge	Goldwedge	Other	Total
REVENUE				
Revenue	$ 4,971	$ -	$ -	$ 4,971
Cost of sales excluding inventory write-down	(1,850)	-	-	(1,850)
Depreciation and amortization	(46)	-	-	(46)
Inventory write-down	(2,845)	-	-	(2,845)
Mine operating earnings	230	-	-	230
EXPENSES				
General and administration	-	-	(1,195)	(1,195)
Care and maintenance - Goldwedge	-	(735)	(1)	(736)
Depreciation and amortization	-	(43)	-	(43)
Impairment of mining assets	(106)	-	-	(106)
Gain on disposal of assets	24	-	-	24
	(82)	(778)	(1,196)	(2,056)
Operating earnings (loss)	148	(778)	(1,196)	(1,826)
Other income (expense)				
Finance costs	(82)	(6)	(720)	(808)
Finance income	16	1	4	21
Foreign exchange	-	-	36	36
Gain on debt settlement	-	-	11	11
Gain on warrant liability	-	-	1,148	1,148
	(66)	(5)	479	408
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**$ 82**	**$ (783)**	**$ (717)**	**$ (1,418)**

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

16. Segmented information (Continued)

Industry information (Continued)

As at December 31, 2021		Mineral Ridge		Goldwedge		Other		Total
TOTAL ASSETS	$	12,126	$	1,408	$	256	$	13,790
TOTAL LIABILITIES	$	5,641	$	460	$	1,231	$	7,332

As at December 31, 2020		Mineral Ridge		Goldwedge		Other		Total
TOTAL ASSETS	$	13,323	$	1,583	$	4,053	$	18,959
TOTAL LIABILITIES	$	5,436	$	462	$	2,516	$	8,414

Geographic information

All revenue from the sale of precious metals for the year ended December 31, 2021 and 2020 were earned in the USA. Substantially all of the Company's revenues were from two customers.

All of the Company's non-current assets are located in the USA.

17. Financial instruments and risk management

Financial instruments

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

Financial Instruments	Category		December 31, 2021		December 31, 2020
Cash	FVTPL	$	279	$	4,147
Receivables	Amortized cost		144		23
Reclamation bonds	Amortized cost		7,723		7,611
Trade and other payables	Amortized cost		(623)		(635)
Loans	Amortized cost		(450)		-
Warrant liability	FVTPL		(370)		(2,305)

17. Financial instruments (Continued)

Financial instruments (Continued)

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

> Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.
>
> Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.
>
> Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying values of receivables, reclamation bonds, trade and other payables, and loans approximate their fair value due to their short-term nature. Cash is recorded at fair value using Level 1 of the fair value hierarchy. The fair value of the Company's warrant liability is recorded at fair value using Level 3 of the fair value hierarchy. The carrying value of the warrant liability is determined using the Black-Scholes option pricing model.

Risk management

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

a) 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, receivables and reclamation bonds. The credit risk on cash, as well as reclamation bonds is limited because the Company invests its cash and reclamation bonds in deposits with well capitalized financial institutions with strong credit ratings. Receivables on regular precious metal sales are generally received within a week after delivery. The Company has no past due accounts and has not recorded a provision for doubtful accounts.

17. Financial instruments (Continued)

Risk management (Continued)

b) Liquidity risk

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

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

	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total
Trade and other payables	$ 623	$ -	$ -	$ -	$ 623
Provision for environmental rehabilitation (undiscounted)	-	258	5,699	241	6,198

c) Market risk

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

i) Interest rate risk

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

ii) Currency risk

The Company is exposed to foreign currency risk through the following financial assets and liabilities denominated in Canadian dollars and presented in thousands of US dollars.

	December 31, 2021	December 31, 2020
Cash	$ 8	$ 3,892
Receivables	8	7
Trade and other payables	(68)	(55)

As at December 31, 2021, the Company holds 3% of its cash in Canadian dollars. Management believes the foreign exchange risk related to currency conversions are minimal and therefore, does not hedge its foreign exchange risk. The effect of a 10% change in the foreign exchange rate on cash held in Canadian dollars at December 31, 2021 would be less than $1,000.

17. Financial instruments (Continued)

Risk management (Continued)

c) Market risk (Continued)

iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market. The Company is not exposed to any significant price risk as at December 31, 2020. The Company does not use derivatives to manage its exposure to price risk.

18. Capital management

Capital is defined as equity attributable to equity shareholders. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern and to maximize the value for its shareholders.

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

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

At this stage of its development, it is the Company's policy to preserve cash to fund its operations and not to pay dividends.

19. Supplemental cash flow information

During the year ended December 31, 2021, the Company:

- issued 4,579,083 common shares valued at $388,000 to settle its semi-annual interest payment on the Debentures (Note 14);
- issued 675,000 common shares on conversion of $54,000 of the Debentures (Note 14);
- issued 2,091,149 common shares valued at $199,000 as part of the acquisition of the Manhattan project (Note 9);
- recorded a change in provision for environmental rehabilitation of producing assets of $375,000 (Note 8);
- recorded a change in provision for environmental rehabilitation of non-producing assets of $8,000 (Note 9); and
- has non-producing assets included in trade and other payables of $30,000.

During the year ended December 31, 2020, the Company:

- issued 9,409,839 common shares valued at $709,000 to settle its semi-annual interest payment on the Debentures (Note 14);
- issued 375,000 common shares on conversion of $30,000 of the Debentures (Note 13);
- recorded a warrant valuation of $3,337,000 on 37,500,000 share purchase warrants issued in the September 2020 financing (Note 13);
- recorded a change in provision for environmental rehabilitation of producing assets of $80,000 (Note 8);
- recorded a change in provision for environmental rehabilitation of non-producing assets of $28,000 (Note 9); and
- has non-producing assets included in trade and other payables of $41,000.

During the year ended December 31, 2021, the Company paid interest of $Nil (2020 - $Nil) in cash.

During the year ended December 31, 2021, the Company paid income tax of $Nil (2020 - $5,000) in cash.

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

20. 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% (2020 - 26.7%) to applicable earnings by the following items:

	Year ended December 31, 2021	2020
Net loss before income taxes	$ (4,676)	$ (1,418)
Expected income tax recovery	$ (1,240)	$ (376)
Change in statutory, foreign tax, foreign exchange rates, and other	524	13
Tax deductions in excess of accounting amounts and non-deductible amounts	(531)	(203)
Change in unrecognized deductible temporary differences	1,290	380
True-ups	(43)	186
Total income tax (recovery) expense	$ -	$ -
Income tax (recovery)		
Current	$ -	$ -
Deferred	-	-
Total income tax (recovery) expense	$ -	$ -

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

	December 31, 2021	December 31, 2020
Deferred tax assets		
Provision for environmental rehabilitation	$ 574	$ 674
Deferred tax liabilities		
Producing mining assets	(574)	(674)
Non-producing mining assets	-	-
Total deferred tax liabilities	$ -	$ -

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

20. Income taxes (Continued)

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

		December 31, 2021	Expiry date range
Temporary differences			
Share issue costs and financing costs	$	132	no expiry date
Non-capital loss carry-forwards		45,879	see below
Provision for environmental rehabilitation		4,410	no expiry date
Non-producing mining assts and other		7,392	no expiry date
Interest deductions upon payment		7,229	no expiry date
Non-capital loss summary			
Canada	$	3,729	2039 to 2041
USA		42,150	no expiry date

21. Subsequent events

Subsequent to December 31, 2021, the Company completed the following transactions:

- In February 2022, the Company amended its credit facility agreement with certain directors of the Company (Note 11) to increase the facility from up to $500,000 to up to $750,000 and to extend the repayment date to December 31, 2022. In February 2022, the Company received further advances of $81,000.
- In March 2022, the Company issued 950,000 common shares on conversion of $76,000 of Debentures (Note 13).
- 1,832,500 stock options were cancelled that relate to directors, officers, employees, and consultants that no longer work for or provide services to the Company.
- In April 2022, the Company issued 5,194,976 common shares to settle its semi-annual interest payment of $350,000 on the Debentures (Note 13).
- In April 2022, the Company issued 87,687,500 common shares on maturity of the remaining Debentures of $7,015,000 (Note 13).
- In April 2022, the Company received $450,000 from two directors of the Company pursuant to promissory notes bearing interest at 12.375%. The promissory notes are unsecured and have no specific terms of repayment.