SUPERIOR GOLD INC.

# Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in thousands of United States dollars)

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Superior Gold Inc.

### *Opinion*

We have audited the consolidated financial statements of Superior Gold Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated 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 **"Auditors' Responsibilities for the Audit of the Financial Statements"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the 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 is sufficient and appropriate to provide a basis for our opinion.

### *Other Information*

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Kenneth Alexander McKay.

Toronto, Canada
March 9, 2021

## SUPERIOR GOLD INC.

### Consolidated Statements of Financial Position
### (Expressed in thousands of United States Dollars)

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | $ | 17,294 | $ | 22,232 |
| Receivables and other assets (note 6) | | 4,275 | | 3,592 |
| Inventories (note 7) | | 8,797 | | 8,214 |
| **Total current assets** | | 30,366 | | 34,038 |
| **Non-current assets** | | | | |
| Mining interests; exploration and evaluation assets; and property, plant and equipment (note 8) | | 78,800 | | 62,882 |
| **TOTAL ASSETS** | $ | 109,166 | $ | 96,920 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | $ | 15,583 | $ | 16,015 |
| Current portion of deferred revenue (note 10) | | 3,919 | | 7,234 |
| Current portion of derivative financial instruments (note 11) | | 2,156 | | 154 |
| Short-term loan (note 9) | | 1,194 | | 852 |
| Current portion of lease obligation (note 20) | | 3,085 | | 3,449 |
| Royalty payable to Northern Star Resources (note 22) | | - | | 4,413 |
| Current portion of provisions (note 12) | | 5,818 | | 5,018 |
| **Total current liabilities** | | 31,755 | | 37,135 |
| **Non-current liabilities** | | | | |
| Deferred revenue (note 10) | | - | | 2,617 |
| Derivative financial instruments (note 11) | | - | | 642 |
| Lease obligation (note 20) | | 10,548 | | 2,781 |
| Provisions (note 12) | | 29,216 | | 25,905 |
| Deferred tax liability (note 19) | | 515 | | 373 |
| **Total non-current liabilities** | | 40,279 | | 32,318 |
| **TOTAL LIABILITIES** | $ | 72,034 | $ | 69,453 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (note 15(a and b)) | $ | 62,008 | $ | 50,025 |
| Contributed Surplus | | 6,484 | | 6,026 |
| Accumulated other comprehensive income (loss) | | (931) | | (2,928) |
| Retained deficit | | (30,429) | | (25,656) |
| **TOTAL EQUITY** | $ | 37,132 | $ | 27,467 |
| **TOTAL EQUITY AND LIABILITIES** | $ | 109,166 | $ | 96,920 |

*Commitments and contingencies note 13*
*The accompanying notes are an integral part of these consolidated financial statements.*

Approved by the Board of Directors

/s/ Tamara Brown
Tamara Brown, Director

/s/ René Marion
René Marion, Director

## SUPERIOR GOLD INC.

**Consolidated Statements of Income (loss) and Comprehensive Income (loss)**
**(Expressed in thousands of United States Dollars, except per share amounts)**

| | Year ended December 31 2020 | 2019 |
|---|---|---|
| **REVENUES** | | |
| Metal sales (note 5) | $ 106,147 | $ 115,583 |
| **EXPENSES** | | |
| Cost of sales | 100,600 | 122,663 |
| Exploration expense | 2,645 | 2,664 |
| General and administrative | 4,453 | 3,848 |
| **OPERATING INCOME (LOSS)** | (1,551) | (13,592) |
| **OTHER EXPENSES (INCOME)** | | |
| Net finance cost (income) (note 17) | 1,798 | 484 |
| Restructuring expenses (note 16) | 1,173 | 478 |
| Gain on change in valuation of warrant liability (note 15c) | - | (85) |
| Change in valuation of royalty payable to Northern Star Resources (note 22) | 132 | 137 |
| Gain on sale of assets (note 23) | (857) | |
| Change in valuation of derivative financial instruments (note 11) | 849 | 111 |
| **LOSS BEFORE TAXES** | (4,646) | (14,717) |
| Income and mining tax expense (recovery) (note 19) | 127 | (2,698) |
| **NET LOSS FOR THE PERIOD** | $ (4,773) | $ (12,019) |
| | | |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Foreign currency translation gain (loss) on foreign operations | 1,997 | (378) |
| | | |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | $ (2,776) | $ (12,397) |
| | | |
| **Income (loss) per share (note 15(e)):** | | |
| **Basic income (loss) per share** | $ (0.05) | $ (0.12) |
| **Diluted income (loss) per share** | (0.05) | (0.12) |
| **Weighted average number of common shares outstanding (basic & diluted)** | 101,359,532 | 96,864,062 |

*The accompanying notes are an integral part of these consolidated financial statements.*

(Expressed in thousands of United States Dollars)

| | Note | Number of shares issued | Share capital | Contributed Surplus | Retained earnings | Accumulated other comprehensive income/(loss) | Total |
|---|---|---|---|---|---|---|---|
| **Balance as at January 1, 2019** | | **95,752,473** | **$ 49,313** | **$ 5,767** | **$ (13,637)** | **$ (2,550)** | **$ 38,893** |
| Exercise of stock options | 15 | 1,230,000 | 712 | - | - | - | **712** |
| Share-based payments | 15 | - | - | 259 | - | - | **259** |
| Total comprehensive loss for the year ended December 31, 2019 | | - | - | - | (12,019) | (378) | **(12,397)** |
| **Balance as at December 31, 2019** | | **96,982,473** | **$ 50,025** | **$ 6,026** | **$ (25,656)** | **$ (2,928)** | **$ 27,467** |
| **Balance as at January 1, 2020** | | **96,982,473** | **$ 50,025** | **$ 6,026** | **$ (25,656)** | **$ (2,928)** | **$ 27,467** |
| Shares for services | 15 | 152,000 | 82 | - | - | - | **82** |
| Offering | 15 | 24,644,500 | 11,901 | - | - | - | **11,901** |
| Share-based payments | 15 | - | - | 458 | - | - | **458** |
| Total comprehensive loss for the year ended December 31, 2020 | | - | - | - | (4,773) | 1,997 | **(2,776)** |
| **Balance as at December 31, 2020** | | **121,778,973** | **$ 62,008** | **$ 6,484** | **$ (30,429)** | **$ (931)** | **$ 37,132** |

*The accompanying notes are an integral part of these consolidated financial statements.*

## SUPERIOR GOLD INC.

**Consolidated Statements of Cash Flows**
**(Expressed in thousands of United States Dollars)**

| | Year ended December 31 2020 | 2019 |
|---|---|---|
| **Cash flows provided from (used by):** | | |
| **OPERATING ACTIVITIES** | | |
| **Net loss for the period** | $ (4,773) | $ (12,019) |
| **Adjustments:** | | |
| Depreciation and amortization | 8,751 | 12,829 |
| Change in valuation of royalty payable to Northern Star Resources | 132 | 137 |
| Gain on change in valuation of warrant liability | - | (85) |
| Share-based payments | 458 | 259 |
| Employee provisions expense | 2,945 | 1,971 |
| Net finance (income) cost | 1,798 | 484 |
| Change in valuation of derivative financial instruments | 849 | 111 |
| Gain on sale of assets | (857) | - |
| Income tax expense (recovery) | 127 | (2,698) |
| Gold loan repayments | (7,894) | - |
| Proceeds on gold loan | - | 10,093 |
| Employee provisions paid | (2,717) | (2,915) |
| Reclamation payments | - | (347) |
| | (1,181) | 7,820 |
| **Net changes in non-cash working capital items:** | | |
| Receivables and other assets | 1,155 | (246) |
| Inventories | 155 | 4,723 |
| Accounts payable and accrued liabilities | (1,910) | 3,590 |
| Royalty payable to Northern Star Resources | (4,748) | - |
| | (6,529) | 15,887 |
| **INVESTING ACTIVITIES** | | |
| Interest received | 49 | 148 |
| Expenditures on mineral interests; exploration and evaluation assets; and property, plant and equipment | (6,648) | (7,422) |
| Proceeds on sale of assets | 1,340 | - |
| | (5,259) | (7,274) |
| **FINANCING ACTIVITIES** | | |
| Issuance of common shares | 11,901 | 467 |
| Repayment of short-term loan | (1,467) | (831) |
| Repayment of finance lease obligation | (4,166) | (3,200) |
| Interest paid | (535) | (407) |
| | 5,733 | (3,971) |
| **Effect of exchange rates on cash & cash equivalents** | 1,117 | 258 |
| **Increase (decrease) in cash and cash equivalents** | (4,938) | 4,900 |
| **Cash and cash equivalents, beginning of period** | 22,232 | 17,332 |
| **Cash and cash equivalents, end of period** | 17,294 | 22,232 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## 1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

Superior Gold Inc. (the "Company") was incorporated under the Business Corporations Act in Ontario on July 4, 2016 and is engaged in the acquisition, exploration, development and operation of gold resource properties. The address and domicile of the Company's registered office and its principal place of business is 70 University Avenue, Suite 1410, Toronto, Ontario M5J 2M4.

On March 11, 2020, the World Health Organization declared COVID-19 as a global pandemic and therefore the Company is susceptible to the impacts from COVID-19. The duration of the COVID-19 pandemic is currently unknown, as are future measures to reduce the spread of COVID-19. The unpredictable nature of the length of the COVID-19 pandemic and the severity of measures that may be taken is subject to significant variability and accordingly, estimates as to the impact on the Company's financial results in future periods is uncertain. The judgments, inputs and assumptions used as at December 31, 2020 and for the twelve months ended December 31, 2020, whether related to COVID-19 or otherwise, have been considered and, where appropriate, reflected in the financial statements. The future impact of COVID-19 actions as at December 31, 2020 are unknown. To address the risk of the pandemic to the Plutonic Gold Operations, the Company has instituted a number of measures to reduce the potential risk to employees and communities. To date COVID-19 has not had a significantly negative impact on the Company's operations.

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 as they come due into the foreseeable future. The Company incurred a loss of $4,773 during the year ended December 31, 2020 (2019 - $12,019). The Company has a working capital deficiency of $1,389 at December 31, 2020 (2019 – working capital surplus of $3,097).

During the years ended December 31, 2020 and 2019, the Company has historically relied on debt and equity financing to maintain an adequate level of cash to satisfy its capital and operating requirements. The Company's operations used $6,529 in cash during the year ended December 31, 2020 (2019 – generated cash of $15,887) which included payments of $7,894 to Auramet International LLC for the gold loan and $4,748 to Northern Star Resources to settle the royalty payable (2019 – included $10,093 in proceeds from Auramet International LLC for the gold loan).

The Company's revenues, operating results and cash inflows are highly dependent on the price at which the Company is able to sell its gold production. The price of gold increased during 2020 from a low of $1,470 per ounce to a high of $2,063 per ounce, closing the year on December 31, 2020 at $1,896 per ounce. The Company has prepared its liquidity assessment based on the actual results through February 2021 and actual gold price at March 5, 2021 ($1,700 per ounce) for the remainder of 2021. Based on that assessment, the Company believes it will have adequate liquidity for the year ending December 31, 2021 from continuing operations and cash on hand. As noted earlier, this liquidity assessment is highly dependent on the price of gold which is outside the Company's control. The volatility in the price of gold represents an uncertainty related to the liquidity assessment and, to the extent that the price of gold declines from the gold pricing used in the liquidity assessment, the Company may have to implement additional plans to ensure that it will have sufficient liquidity for the year ending December 31, 2021 from continuing operations.

The consolidated financial statements of the Company for the year ended December 31, 2020 were authorized for issue in accordance with a resolution of the board of directors on March 9, 2021.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and the IFRS Interpretations Committee. Outlined below is a summary of the significant accounting polices used in the preparation of these financial statements.

**Basis of measurement**

The consolidated financial statements have been prepared on a historical cost basis, with the exception of certain financial instruments, royalty to Northern Star, share-based payments and derivative financial instruments, which are measured at fair value.

**Basis of consolidation**

These consolidated financial statements include the assets, liabilities, revenues and expenses of the Company and its 100% owned subsidiary, Billabong Gold Pty. Ltd. Subsidiaries are entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Superior Gold Inc. obtains control of the subsidiary, and continues to be consolidated until the date when such control ceases. All intercompany balances and transactions have been eliminated.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below.

**a) Foreign currency translation**

The consolidated financial statements are presented in United States dollars, which is the Parent Company's functional currency. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the financial position reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For Billabong Gold Pty. Ltd. which has an Australian dollar functional currency, financial statements are translated into United States dollars for consolidation. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates throughout the reporting period or at rates that approximate the actual exchange rates. Exchange gains and losses on translation are included in other comprehensive income ("OCI"). The cumulative amount of the exchange differences is presented as a separate component of equity until disposal of the foreign operation.

**b) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and deposits held with banks. Cash and cash equivalents have a term to maturity of three months or less from the date of acquisition.

**c) Financial instruments**

The Company recognizes financial assets and financial liabilities on the date the Company becomes a party to the contractual provisions of the instruments. A financial asset is derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset or when its cash flows expires. A financial liability is derecognized when the obligation specified in the contract is discharged, canceled or expired. Certain financial instruments are recorded at fair value in the Consolidated balance sheets. Refer to note 15 on fair value measurements.

**Non-derivative financial instruments**
Non-derivative financial instruments are recognized initially at fair value plus attributable transaction costs, where applicable for financial instruments not classified as fair value through profit or loss. Subsequent to initial recognition, non-derivative financial instruments are classified and measured as described below.

**Financial assets and liabilities at fair value through profit or loss**

Cash and cash equivalents are classified as fair value through profit or loss and are measured at fair value. Unrealized gains or losses related to changes in fair value of financial assets and liabilities at fair value through profit and loss are reported in the consolidated statements of income (loss) and comprehensive income (loss) for the period.

The royalty payable to Northern Star Resources was valued using pricing models which required the use of discount rates obtained from, or verified with, information available to the market along with forecasted production information used to estimate the expected life of the royalty payable and determine whether the liability is current or non-current.

**Financial assets at amortized cost**

Trade receivables are classified as and measured at amortized cost using the effective interest rate method, less impairment losses, if any.

**Non-derivative financial liabilities**

Accounts payable, accrued liabilities, short-term loans, and finance lease obligations are accounted for at amortized cost, using the effective interest rate method.

**Derivative financial instruments**

**Non-hedge derivatives**

The Company may hold derivative financial instruments to hedge its risk exposure to fluctuations in gold prices or as part of a financing arrangement. All derivative financial instruments not designated in a hedge relationship that qualifies for hedge accounting are classified as financial instruments at fair value through profit or loss. Derivative financial instruments at fair value through profit or loss are recorded in the consolidated statements of financial position at fair value. Changes in the estimated fair value of non-hedge derivatives at each reporting date are included in the consolidated statements of loss as non-hedge derivative gain or loss.

**d) Income taxes**

The income tax expense or recovery for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiary operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts likely to be paid to the tax authorities.

Deferred income tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses. Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Current and deferred tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized directly in equity.

**e) Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effect.

**f) Earnings per share**

Basic earnings per share is calculated using the weighted average number of shares outstanding. The dilutive effect of warrants and share options is calculated using the treasury stock method. The treasury stock method assumes that any proceeds from the exercise of dilutive warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings per share calculation to the extent that it is dilutive. For share options, the treasury stock method assumes that outstanding share options with an average market price that exceeds the average exercise prices of the options for the year are exercised and the assumed proceeds are used to repurchase shares of the Company at the average market price of the common share for the year.

**g) Share based payments**

The Company maintains an omnibus equity plan that includes, but is not limited to, a Share option plan and a Performance share unit plan for certain employees, officers and non-executive directors of the Company.

***Share option plan (equity settled)***
Share options are granted to employees and directors of the Company. Share options are measured at their fair value on grant date. Fair value is determined using the Black-Scholes option pricing model, which relies on estimates of the risk-free interest rate, expected share price volatility (using historical volatility of similar publicly traded companies as a reference), the expected forfeiture rate, future dividend payments, and the expected average life of the options. The fair value determined at grant date is recognized over the vesting period in the statement of income (loss) and comprehensive income (loss) in accordance with vesting terms and conditions, with a corresponding increase to share-based payment reserve.

***Performance share units***
Performance Share Units ("PSU"s) may be granted to employees, officers and non-executive directors of the Company. A PSU represents the right to receive a common share of the Company at vesting, subject to the determination of the Company's Board of Directors. The number of PSUs that will ultimately vest is based on the Company's share price performance relative to the VanEck Vectors Junior Gold Miners ETF over the term of the applicable PSU performance period. Under the terms of the PSU Plan, the Board of Directors is authorized to determine whether the performance criteria have been met.

The fair value and vesting terms for PSUs granted are specific to each individual grant as determined and approved by the Board of Directors. The fair value of the PSUs is determined using a Monte Carlo model approach. This approach requires the use of subjective assumptions, including expected share price volatility, risk-free interest rate and estimated forfeiture rate. Historical data is considered in setting assumptions. The fair value of the PSUs is expensed over the vesting period specific to the grant.

***Restricted share units***
Restricted Share Units ("RSUs") may be granted to employees of the Company. A RSU represents the right to receive a

common share of the Company at vesting, subject to the determination of the Company's Board of Directors. The RSUs vest over a period of time as established by the Board. The vesting of the RSUs cannot be deferred by the holder beyond the term from the initial date of grant.

The fair value and vesting terms for RSUs granted are specific to each individual grant as determined and approved by the Board of Directors. The fair value of the RSUs is calculated on the date of grant and is expensed over the vesting period specific to the grant. The fair value of RSUs is determined by reference to the Company's share price when the units are awarded.

***Deferred share units***

Deferred Share Units ("DSUs") may be granted to independent directors of the Company. A DSU represents the right to receive a common share of the Company and vests when the director leaves the Board of Directors. DSUs are equity settled. DSUs must be retained until the director leaves the Board of Directors.

The fair value for DSUs granted are specific to each individual grant as determined and approved by the Board of Directors. The fair value of the DSUs is calculated and expensed on the date of grant. The fair value of DSUs is determined by reference to the Company's share price when the units are awarded.

**h) Royalties**

Royalties under existing royalty regimes are payable on sales and are recognized in cost of sales as the sale occurs.

**i) Inventories**

Gold dore, gold in circuit and stockpiles are physically measured or estimated and valued at the lower of cost and net realizable value. Cost represents the weighted average cost and includes direct purchase costs and an appropriate portion of fixed and variable production overhead expenditure, including depreciation and amortization, incurred in converting materials into finished goods.

Materials and supplies are valued at the lower of cost and net realizable value. Any allowance for obsolescence is determined by reference to specific stock items identified. A regular and on-going review is undertaken to establish the extent of surplus items and an allowance is made for any potential loss on their disposal.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**j) Leased assets**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset, which is included in mining interests, exploration & evaluation and property, plant and equipment, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to net earnings.

The Company does not recognize assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. Lease payments associated with these leases are recognized as an expense over the lease term.

**k) Property, plant and equipment**

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. Repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

***Depreciation / amortization method***

Items of property, plant and equipment and mine properties are depreciated / amortized over their useful lives. The Company uses the unit-of-production basis when depreciating / amortizing mine specific assets which results in a depreciation / amortization charge proportional to the depletion of the anticipated remaining life of mine which is referenced to the estimated economic mineral reserves and resources of the property to which the assets relate. Each item’s economic life, which is assessed annually, has due regard to both its physical life limitations and to present assessments of economically recoverable mineral reserves and resources of the mine property at which it is located. Depreciation of non-mine specific property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

| | |
|---|---|
| - Land and buildings | 5 - 20 years |
| - Plant and equipment | 2 - 20 years |
| - Motor Vehicles | 4 – 10 years |
| - Office equipment | 2 - 10 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

**l) Mineral properties**

Mineral properties include aggregate expenditures in relation to acquired mineral interests, mine construction, mine development, and exploration and evaluation expenditure where a development decision has been made.

Expenditure incurred in constructing a mine is accumulated separately for each area of interest in which economically recoverable mineral reserves and resources have been identified. This expenditure includes direct costs of construction, drilling costs and removal of overburden to gain access to the ore, borrowing costs capitalized during construction and an appropriate allocation of attributable overheads.

Mine development represents expenditure in respect of exploration and evaluation, overburden removal and construction costs and development accumulated and capitalized in relation to properties in which mining has now commenced. Such expenditure comprises direct costs and an appropriate allocation of directly related overhead expenditure.

All expenditure incurred prior to commencement of production is capitalized. When further development expenditure is incurred in respect of a mine property after commencement of commercial production, such expenditure is capitalized as part of the cost of the mine property only when future economic benefits are reasonably assured, otherwise the expenditure is classified as part of the cost of production and expensed as incurred. Such capitalized development expenditure is added to the total carrying value of mine development being amortized.

Mine development costs are amortized on a units-of-production basis over the life of mine to which they relate. In applying the units of production method, amortization is calculated using the expected total contained ounces as determined by the life of mine plan. The amortization rate is updated annually as the life of mine plan is revised.

Mineral interests comprise identifiable exploration and evaluation assets which are acquired as part of a business combination or joint venture acquisition and are recognized at fair value at the date of acquisition. Where possible, mineral interests are attributable to specific areas of interest and are classified within mine properties.

**m) Exploration and evaluation expenditure**

Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditure is capitalized on an area of interest basis. Costs incurred before the Company has obtained the legal rights to explore an area are recognized as exploration expense.

Exploration and evaluation assets are only recognized if the rights of the area of interest are current and either:

i. the expenditures are expected to be recouped through successful development and exploitation of the area of interest, or
ii. activities in the area of interest have not at the reporting date; reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable mineral reserves and resources and active and significant operations in, or in relation to, the area of interest are continuing.

Once a development decision has been made all past exploration and evaluation expenditure in respect of an area of interest that has been capitalized is transferred to mine properties where it is amortized over the life of the area of interest to which it relates on a unit-of-production basis. No amortization is charged during the exploration and evaluation phase.

**n) Commercial Production**

The determination of when a mine is in "commercial production" is a matter of significant judgment. In making this determination, management considers, among other factors, whether (a) the major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended is complete; (b) ramping up to deliver tonnages to the mill as designed; and (c) a saleable product can be produced at the mill.

**o) Deferred stripping**

In open pit mining operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of removing overburden and waste materials is referred to as stripping. Prior to the commencement of commercial production, stripping costs are capitalized as part of the investment in the development of the mine and are then amortized using a unit-of-production basis over the life of mine of the mineral resources attributable to the mine.

Stripping costs incurred during the production phase which provide probable future economic benefits, provide identifiable improved access to the ore body, and which can be measured reliably are capitalized to mining properties; otherwise, stripping costs are expensed as incurred. Any capitalized costs are amortized using a unit-of-production basis over the portion of the mineral resources to which they relate.

**p) Impairment of assets**

At each reporting date the Company reviews the carrying amounts of its long life assets to determine whether there is any indication that those assets might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) which is the amount by which the assets carrying value exceeds its recoverable amount. Where the asset does not generate cash in-flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal and value in use.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate to arrive at a net present value or net asset value (“NAV”) of the asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized in profit or loss immediately.

**q) Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation because of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

***Rehabilitation provision***

Rehabilitation costs include the dismantling and removal of mining plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with the requirements of the mining permits. Such costs are determined using estimates of future costs, current legal requirements and technology.

Rehabilitation costs are recognized in full at present value as a non-current liability. An equivalent amount is capitalized as part of the cost of the asset when an obligation arises to restore a site to a certain condition. The capitalized cost is amortized over the life of the project and the provision is accreted periodically as the discounting of the liability unwinds. The unwinding of the discount is recorded as a finance cost.

Any changes in the estimates for the costs or other assumptions against the cost of relevant assets are accounted for on a prospective basis. In determining the costs of site restoration there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation.

***Long service leave***

The liability for long service leave and other long-term benefits is measured at the present value of the estimated future cash outflows to be made by the Company for those employees with greater than 3.5 years service up to the reporting date. Long-term benefits not expected to be settled within 12 months are discounted using equivalent rates of high quality corporate bonds at the reporting date, which most closely match the terms of maturity of the related liability. In determining the liability for these long-term employee benefits, consideration has been given to expected future increases in wage and salary rates, management's experience with staff departures and periods of service.

**r) Revenue**

Revenue recognition is based on control and consists of the sale of gold taking into account the following factors:

- The Company has a present right to payment for the gold sold;
- Legal title has passed from the Company to the customer;
- The Company has transferred physical possession of the gold to the customer;
- The significant risks and rewards of ownership of the gold have passed to the customer; and,
- The customer has accepted the gold.

These factors generally occur when gold bullion is sold to the customer on the settlement date.

**s) Management judgments and key sources of estimation uncertainty**

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions, which are based on historical experience and various other factors believed to be reasonable under the given circumstances. These affect the application of accounting policies, the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis and actual future outcomes could differ from present judgments, estimates and assumptions, potentially having material future effects on the consolidated financial statements. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

***Impairment of property, plant and equipment and mine properties***

Judgment is involved in assessing whether there are any indications that an asset or CGU may be impaired. This assessment is made based on an analysis of, amongst other factors, changes in the market or business environment, events that have transpired that have impacted the asset or CGU and information from internal reporting.

For determining the recoverable amount of an asset or CGU, if indicators of impairment exist, operating results and net cash flow forecasts are determined by estimating the expected future revenues and costs, including the future cash costs of production, capital expenditures, site closure and environmental rehabilitation. These include net cash flows expected to be realized from the extraction, processing and sale of mineral resources that do not currently qualify for inclusion in proven and probable mineral reserves when there is a high degree of confidence in the economic extraction of such non-reserve material. This expectation is usually based on preliminary drilling and sampling of areas of mineralization that are contiguous with existing mineral reserves and resources. Judgment is also required in estimating the discount rate applied and future commodity prices used for impairment testing. The long-term commodity prices are derived from forward prices and analysts' commodity price forecasts. These assessments often differ from current price levels and are updated periodically.

***Taxes***

The Company is subject to income tax in various jurisdictions. Significant judgment is required in determining the provision for income taxes, due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

***Deferred income taxes***

The Company recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. To the extent that future cash flows and taxable profit differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded on the statement of financial position date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred tax assets.

***Rehabilitation provision***

The Company assesses its mine rehabilitation provision annually. Significant judgment is required in determining the provision for mine rehabilitation and closure as there are many factors that will affect the ultimate liability amounts payable to rehabilitate the mine sites, including future disturbances caused by further development, changes in technology, changes in regulations, price increases, changes in timing of cash flows which are based on life of mine plans and changes in discount rates. When these factors change or become known in the future, such differences will impact the mine rehabilitation provision in the period in which the change becomes known.

***Determination of Mineral Resources and Mineral Reserves***

Mineral reserves and resources have been estimated by qualified persons as defined in accordance with Canadian Securities Administrators' National Instrument Standards of Disclosure for Mineral Projects requirements. Mineral reserve and resource estimates include numerous uncertainties and depend heavily on geological interpretations and statistical inferences drawn from drilling and other data, and require estimates of the future price for the commodity and the future cost of operations. The mineral reserve and resource estimates are subject to uncertainty and actual results may vary from these estimates. Results from drilling, testing and production, as well as material changes in metal prices and operating costs subsequent to the date of an estimate, may justify revision of such estimates.

A number of accounting estimates, as described in the relevant accounting policy notes, are impacted by the mineral reserves and resources estimates: asset carrying values, depreciation and amortization rates, development costs and provisions for restoration.

## 3. NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY

The Company adopted the following accounting standards and amendments to accounting standards, effective January 1, 2020:

On October 22, 2018, the IASB issued amendments to IFRS 3 *Business Combinations*, to clarify whether a transaction results in an asset or a business acquisition. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

(expressed in thousands of United States dollars unless otherwise stated)

On September 26, 2019, the IASB issued amendments for some of its requirements for hedge accounting in IFRS 9, *Financial Instruments,* and IAS 39, *Financial Instruments: Recognition and Measurement*, as well as the related standard on disclosures, IFRS 7, *Financial Instruments: Disclosures,* in relation to Phase 1 of IBOR Reform and its Effects on Financial Reporting project. The amendments are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs). The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The adoption of the above amendments had no impact on the financial statements.

## 4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective:

On April 1, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*. The amendments to IAS 1 clarify the criterion for classifying a liability as non-current relating to the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective from January 1, 2023.

On May 14, 2020, the IASB issued amendments to IAS 16 *Property, Plant and Equipment*. The amendments to IAS 16 require that proceeds derived from items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management be recognized, along with the cost of those items, in profit or loss in accordance with applicable Standards. The entity measures the cost of those items by applying the measurement requirements of IAS 2 *Inventories*. The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

## 5. METAL SALES

| | Year ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Gold sales | $ 106,013 | $ 115,474 |
| Silver sales | 134 | 109 |
| | **$ 106,147** | **$ 115,583** |

The Company's main source of revenue is the sale of gold. The sale of gold is transacted with two customers, The Perth Mint and Auramet International LLC ("Auramet"). There are no contract receivables for gold sales as at December 31, 2020 or December 31, 2019.

## 6. RECEIVABLES AND OTHER ASSETS

| | **December 31, 2020** | **December 31, 2019** |
|---|---|---|
| Other receivables | $ 244 | $ 299 |
| Prepayments | 1,937 | 1,929 |
| Sales tax receivable | 2,094 | 1,364 |
| **Trade and other receivables** | **$ 4,275** | **$ 3,592** |

(expressed in thousands of United States dollars unless otherwise stated)

## 7. INVENTORIES

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Consumable stores | $ 5,106 | $ 4,432 |
| Stockpiles | 267 | 118 |
| Gold in circuit | 3,351 | 3,649 |
| Dore on hand | 73 | 15 |
| | **$ 8,797** | **$ 8,214** |

The cost of inventories recognized as an expense and included in Cost of sales in 2020 and 2019 was $100,543 and $122,629, respectively. During the year ended December 31, 2020, there were $150 in write downs (2019 - $1,587) of consumables inventory.

## 8. MINING INTERESTS; EXPLORATION AND EVALUATION; AND PROPERTY, PLANT AND EQUIPMENT

| | Mining interests | Property, plant and equipment | Capital work in progress | Total |
|---|---|---|---|---|
| *Cost:* | | | | |
| **As at December 31, 2019** | $ 81,696 | $ 29,906 | $ 247 | $ 111,849 |
| Additions | 2,224 | - | 5,471 | 7,695 |
| Right of use assets (note 20) | - | 11,950 | - | 11,950 |
| Transfers | - | 4,891 | (4,891) | - |
| Disposals | - | (3,237) | - | (3,237) |
| Foreign exchange movement | 8,383 | 4,116 | 104 | 12,603 |
| December 31, 2020 | 92,303 | 47,626 | 931 | 140,860 |
| *Accumulated depreciation:* | | | | |
| As at December 31, 2019 | 33,500 | 15,467 | - | 48,967 |
| Depreciation charge | 2,568 | 6,183 | - | 8,751 |
| Disposals | - | (1,412) | - | (1,412) |
| Foreign exchange movement | 3,633 | 2,121 | - | 5,754 |
| December 31, 2020 | 39,701 | 22,359 | - | 62,060 |
| | | | | |
| **Net book value:** | | | | |
| As at beginning of period | $ 48,196 | $ 14,439 | $ 247 | $ 62,882 |
| **As at December 31, 2020** | **$ 52,602** | **$ 25,267** | **$ 931** | **$ 78,800** |

(expressed in thousands of United States dollars unless otherwise stated)

| | Mining interests | Exploration and evaluation | Property, plant and equipment | Capital work in progress | Total |
|---|---|---|---|---|---|
| *Cost:* | | | | | |
| **As at December 31, 2018** | $ 76,115 | $ 446 | $ 23,250 | $ 70 | $ 99,881 |
| Additions | 5,488 | - | 41 | 3,431 | 8,960 |
| Right of use assets (note 21) | - | - | 3,980 | - | 3,980 |
| Transfers | 647 | (446) | 3,042 | (3,243) | - |
| Disposals | - | - | (302) | - | (302) |
| Foreign exchange movement | (554) | - | (105) | (11) | (670) |
| December 31, 2019 | 81,696 | - | 29,906 | 247 | 111,849 |
| *Accumulated depreciation:* | | | | | |
| As at December 31, 2018 | 26,299 | - | 10,415 | - | 36,714 |
| Depreciation charge | 7,434 | - | 5,395 | - | 12,829 |
| Disposals | - | - | (302) | - | (302) |
| Foreign exchange movement | (233) | - | (41) | - | (274) |
| December 31, 2019 | 33,500 | - | 15,467 | - | 48,967 |
| **Net book value:** | | | | | |
| As at beginning of period | $ 49,816 | 446 | $ 12,835 | $ 70 | $ 63,167 |
| **As at December 31, 2019** | **$ 48,196** | **$ -** | **$ 14,439** | **$ 247** | **$ 62,882** |

In the twelve months ended December 31, 2020 the Company capitalized $nil (December 31, 2019 - $224) of costs pertaining to the unincorporated Bryah Basin joint venture.

The right-of-use assets will be amortized over the remaining term of the contracts, which is 0.1 to 4.7 years as of December 31, 2020.

## 9. SHORT-TERM LOAN

The short-term loan of $1,194 (2019 - $852) represents amounts owing to two financial institutions which financed the Company's annual insurance premiums. The term of the loans are payable in 10 equal monthly installments commencing in October 2020, terminating in July 2021, bear interest at 2.5% and 3.6%, respectively, and are secured by any proceeds of insurance claims. The 2019 comparative amount represents a loan term of 10 months commencing in October 2019, which was repaid in July 2020 and bore interest at 2.1%.

## 10. DEFERRED REVENUE

On November 12, 2019, the Company entered into a Senior Secured Gold Loan ("Gold Loan") agreement with Auramet under which the Company received gross proceeds of AUD$15 million before associated costs.

In connection with the Gold Loan with Auramet, the Company:

- Is required to deliver a total of 7,920 ounces of gold over 18 equal monthly instalments beginning on January 30, 2020 and terminating on June 30, 2021.
- Granted Auramet 20,000 gold call options ("Call Options") at strike prices ranging from AUD$2,275 to AUD$2,360 per ounce of gold. These Call Options have expiration dates between July 2020 and December 31, 2021 up to a maximum of 1,500 ounces per month (note 11).
- Entered into a zero-cost collar price protection program with 19,800 puts at a strike price of AUD$1,950 per ounce and 19,800 of calls with strike prices ranging from AUD$2,275 to AUD$2,400 and with maturities on or before December 31, 2020, and
- Agreed to sell a minimum of 80% of its gold production at market prices from the Plutonic Gold Operations to Auramet for a period that is not less than 6 months following repayment of the Gold Loan.

(expressed in thousands of United States dollars unless otherwise stated)

As at December 31, 2020, 2,640 (December 31, 2019 – 7,920) ounces of gold were deliverable under the Gold Loan, all classified as current (December 31, 2019 5,280 classified as current and 2,640 classified as non-current). Under the zero-cost collar price protection program, during the twelve-month period ended December 31, 2020, Auramet exercised 19,800 ounces of calls and the Company delivered the ounces to Auramet for proceeds at an average call strike price of AUD$2,333 per ounce of gold.

The Gold Loan is secured by a first priority security interest over all of the assets, with certain exclusions, of the Company's wholly-owned subsidiary, Billabong Gold Pty Ltd. ("Billabong"), an assignment over all pertinent mining leases and a Guarantee from the Company, which is secured by a pledge of its shares of Billabong.

The Company must repay the Gold Loan from proceeds received from any debt issuance, royalty sales, sale of material assets or equity issuance, provided that certain amounts from equity offerings may be exempted with Auramet's consent. In addition, the Company must repay the Gold Loan at the option of Auramet, with reasonable cause, upon a change of control event or if there is a change of any Key Management Personnel of the Company. In connection with the change in the Company's Chief Executive Officer in July 2020 and the share offering completed on October 29 2020, the Company obtained waivers from Auramet which exempted the Company from repaying the Gold Loan.

The Company is subject to financial covenants requiring it to maintain a total minimum balance of cash, cash equivalents and undrawn lines of credit of AUD$5.0 million and a restriction on additional indebtedness, except for permitted indebtedness as agreed to between the Company and Auramet. The Company is also subject to non-financial covenants, along with a restriction on liens. At December 31, 2020, the Company was in compliance with all covenants.

For the twelve months ended December 31, 2020, the table below summarizes the movements in deferred revenue:

| | | |
|---|---|---|
| Gross proceeds | $ | 10,271 |
| 1% Upfront fee | | (103) |
| Out-of-pocket cost reimbursement | | (70) |
| Derivative financial instrument liability – Call Options | | (665) |
| **Balance at inception** | | **9,433** |
| Accretion charge | | 196 |
| Foreign exchange movement | | 222 |
| **Balance, December 31, 2019** | | **9,851** |
| Accretion charge | | 1,689 |
| Gold loan repayments | | (7,894) |
| Foreign exchange movement | | 273 |
| **Balance, December 31, 2020** | | **3,919** |
| Current | | 3,919 |
| Non-current | | - |
| **Balance, December 31, 2020** | **$** | **3,919** |

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where available. If all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in Level 2. As at December 31, 2020 and 2019, all of the Company's derivative financial instruments have been classified as Level 2 financial instruments according to the Company's fair value hierarchy. The fair value of these instruments is determined using the Black-Scholes method.

The Company did not apply hedge accounting on its outstanding derivatives. Therefore, changes in fair value are recorded in the Consolidated Statement of Loss and Comprehensive Loss on a mark to market basis and recorded in financial assets and liabilities. For the year ended December 31, 2020, the table below summarizes the movements in derivative assets (liabilities):

(expressed in thousands of United States dollars unless otherwise stated)

| | | |
|---|---|---|
| Fair value at inception – Call options | $ | 665 |
| Net unrealized gains/(losses) on derivative instruments | | 111 |
| Foreign exchange movement | | 20 |
| **Balance, December 31, 2019** | **$** | **796** |
| Unrealized (gains)/losses on derivative instruments | | 1,095 |
| Realized (gains)/losses on derivative instruments | | (246) |
| Foreign exchange movement | | 511 |
| **Balance, December 31, 2020** | **$** | **2,156** |

| | Call option maturity | | Total |
|---|---|---|---|
| | **2020** | **2021** | |
| Call options | | | |
| Ounces | 4,800 | 15,200 | 20,000 |
| Weighted average price per ounce (in AUD) | $2,275 | $2,342 | $2,326 |
| Fair value – liability (asset) at December 31, 2019 | $ 154 | $ 642 | $ 796 |
| **Balance, December 31, 2019** | $ 154 | $ 642 | **$ 796** |
| Ounces | - | 15,200 | 15,200 |
| Weighted average price per ounce (in AUD) | - | $2,342 | $2,342 |
| Fair value – liability (asset) at December 31, 2020 | $ - | $ 2,156 | $ 2,156 |
| **Balance, December 31, 2020** | $ - | $ 2,156 | **$ 2,156** |
| | $ - | $ 2,156 | **$ 2,156** |

The fair value of these derivative instruments has been estimated using the Black Scholes option pricing model. The weighted average inputs used in the measurement of fair value of the call options during the twelve months ended December 31, 2020 (December 31, 2019) are disclosed in the following table:

| **Call options** | | **As at December 31, 2020** | **As at December 31, 2019** |
|---|---|---|---|
| Number of call options outstanding | | 15,200 | 20,000 |
| Expected volatility | | 16% | 11% |
| Risk free interest rate | | 0.08% | 0.92% |
| Expected life in years | | 0.6 | 1.4 |
| **Fair value (weighted average)** | **- AUD$** | **$ 184.16** | **$ 56.81** |
| | **- U.S. $** [1] | **$ 141.84** | **$ 39.80** |

[1] At December 31, 2020, the U.S. dollar weighted average exercise price was calculated using the period end Australian to U.S. dollar exchange rate of 0.7702 (December 31, 2019 – 0.7006).

(expressed in thousands of United States dollars unless otherwise stated)

## 12. PROVISIONS

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Employee entitlements | $ 5,880 | $ 5,072 |
| Rehabilitation | 29,154 | 25,851 |
| Total provisions | $ 35,034 | $ 30,923 |
| | | |
| Current | $ 5,818 | $ 5,018 |
| Non-current | 29,216 | 25,905 |
| | **$ 35,034** | **$ 30,923** |

| | Employee Entitlements | Rehabilitation | Total provisions |
|---|---|---|---|
| **Beginning balance, January 1, 2019** | $ 6,103 | $ 25,011 | $ 31,114 |
| Accretion | - | 334 | 334 |
| Revisions to expected cash flows | 1,970 | 1,066 | 3,036 |
| Disbursements | (2,915) | (347) | (3,262) |
| Foreign exchange movement | (86) | (213) | (299) |
| **Balance, December 31, 2019** | 5,072 | 25,851 | 30,923 |
| Accretion | - | 102 | 102 |
| Revisions to expected cash flows | 2,945 | 578 | 3,523 |
| Disbursements | (2,717) | - | (2,717) |
| Foreign exchange movement | 580 | 2,623 | 3,203 |
| **Balance, December 31, 2020** | **5,880** | **29,154** | **35,034** |
| Current | 5,818 | - | 5,818 |
| Non-current | 62 | 29,154 | 29,216 |
| **Balance, December 31, 2020** | **$ 5,880** | **$ 29,154** | **$ 35,034** |

*(i) Employee entitlements*

Employee entitlement obligations cover Plutonic's liability for long service leave and annual leave. The current portion of this liability includes all of the accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the annual leave portion of the provision is presented as current, since Plutonic does not have an unconditional right to defer settlement for any of these obligations. Current employee entitlements also include provisions for bonus and Fringe Benefits tax.

*(ii) Rehabilitation provision*

The Company assesses its mine rehabilitation provision annually. Significant judgment is required in determining the provision for mine rehabilitation and closure as there are many factors that will affect the ultimate liability payable to rehabilitate the mine sites, including future disturbances caused by further development, changes in technology, changes in regulations, price increases, changes in timing of cash flows which are based on life of mine plans and changes in discount rates. When these factors change or become known in the future, such differences will impact the mine rehabilitation provision in the period in which the change becomes known. As at December 31, 2020, the mine rehabilitation provision has been discounted using discount rates of 0.1% - 1.3% (2019 – 0.9% -1.5%) and the cash flows have been inflated using an inflation rate of 1.3% - 2.4% (2019 – 1.6% - 2.5%), payable over the years 2021 to 2034. As at December 31, 2020, the total undiscounted estimated reclamation costs are approximately $25,506 (2019 - $23,201). These expenditures are expected to be incurred in Australian dollars.

(expressed in thousands of United States dollars unless otherwise stated)

## 13. COMMITMENTS AND CONTINGENCIES

Commitments contracted for and contingences at the end of the reporting period not recognized as liabilities are as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Property, plant and equipment (i) | $ 1,483 | $ 2,363 |
| Termination payment (ii) | - | 420 |
| Guarantee (ii) | 2,503 | - |
| | **$ 3,986** | **$ 2,783** |

*(i) Capital commitments*

In the year ended December 31, 2020, the Company entered into commitments for mobile and milling equipment. These commitments totalled $1,483 at December 31, 2020 (December 31, 2019 - $2,363).

*(ii) Contingencies*

The Company signed an agreement with its existing supplier to upgrade its power supply. The agreement included a termination provision in the event the Company terminated the upgrade of the power supply prior to its completion in the amount of $420 as at December 31, 2019. On July 1, 2020, the power supply upgrade was completed and as such, the termination payment relating to the Company terminating the agreement prior to completion of the upgrade of the power supply no longer applies (note 20).

As a result of completing the power supply upgrade; on or before July 1, 2021, the Company is required to provide a guarantee to the supplier in the amount of $2,503 that may become payable as a result of non-payment of future payments to be made under the power supply arrangement.

*(iii) Contingent Consideration*

The proceeds of acquiring a business may also include contingent consideration based on future events, some of which may be in the Company's control and some that may not be. In accordance with IFRS 3, the Company must make a determination of the fair value of that consideration using the guidance in IFRS 13 *Fair value measurement.* The determination of the fair value of such contingent consideration requires the Company to make certain assumptions and estimate in relation to certain future events based on the current understanding of the facts and circumstances known to them. The accounting for future changes in contingent consideration depends on whether the contingent consideration is classified as equity, an asset or a liability on inception.

As part of the acquisition of the Plutonic Gold Operations, the Company agreed to pay Northern Star milestone payments ("Milestone Payments") of AUD$2.5 million for every 250,000 ounces of NI 43-101 compliant measured and indicated resources identified at the Plutonic Gold Operations in excess of the 1,717,000 ounces of Joint Ore Reserves Committee 2012 compliant measured, indicated and inferred resources. The aggregate of the Milestone Payments are capped at AUD$10 million.

The fair value of the Milestone Payments was determined to have $nil value as at December 31, 2020 as Management had determined that it was uncertain that the threshold outlined in the Acquisition Agreement of 1,717,000 ounces of Joint Ore Reserves Committee 2012 compliant measured, indicated and inferred resources will be reached.

(expressed in thousands of United States dollars unless otherwise stated)

## 14. FINANCIAL INSTRUMENTS

### Fair value

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities, and short-term loan approximate fair value, due to the short-term maturity of these instruments and are classified as Level 1 in accordance with the fair value hierarchy. The carrying value of the royalty payable to Northern Star Resources is classified as Level 2 in accordance with the fair value hierarchy.

The carrying value of lease obligations approximate fair value as the rate implicit in the lease is not significantly different from market rates and are classified as Level 2 in accordance with the fair value hierarchy. The carrying value of the derivative instruments are valued using pricing models which require the use of observable inputs including market prices and interest rates obtained from or verified with information available to the market, and are therefore classified as Level 2 in accordance with the fair value hierarchy.

The royalty payable to Northern Star Resources (note 22) was valued using pricing models which required the use of discount rates obtained from, or verified with, information available to the market along with forecasted production information used to estimate the expected life of the royalty payable and determine whether the liability is current or non-current. The discount rate was used to discount the AUD$6.5 million liability over its expected life (note 22) to derive the royalty payable liability's value.

The fair value of financial instruments is summarized as follows:

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial Assets** | | | | |
| *Held-for-trading* | | | | |
| Cash and cash equivalents | $ 17,294 | $ 17,294 | $ 22,232 | $ 22,232 |
| *Loans and receivables* | | | | |
| Trade receivables (excluding HST and GST receivable) | 244 | 244 | 299 | 299 |
| **Financial Liabilities** | | | | |
| Accounts payable and accrued liabilities | $ 15,583 | $ 15,583 | $ 16,015 | $ 16,015 |
| Short-term loan | 1,194 | 1,194 | 852 | 852 |
| Derivative financial instruments | 2,156 | 2,156 | 796 | 796 |
| Lease obligations | 13,633 | 13,633 | 6,230 | 6,230 |
| Royalty payable (note 22) | - | - | 4,413 | 4,413 |

IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3: Inputs that are not based on observable market data.

(expressed in thousands of United States dollars unless otherwise stated)

**b) Financial risk management**

**Credit risk**

The Company is exposed to credit risk with respect to its cash and cash equivalents and trade receivables. Credit risk arises from the non-performance of counterparties of contractual financial obligations. Management believes the risk of loss related to these deposits to be low. The Company continually evaluates changes in the status of counterparties.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as the majority of the amounts are held at a single Canadian and Australian financial institution, respectively. In addition, permitted instruments by which the Company hedges gold price risk are entered into with financial counterparties acceptable to the Company. The Company's concentration of credit risk and maximum exposure thereto is as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Held at a major Canadian financial institution: | | |
| Cash | $ 9,270 | $ 6,186 |
| Held at a major Australian financial institution: | | |
| Cash | 8,024 | 16,046 |
| Trade receivables | 244 | 299 |
| | **$ 17,538** | **$ 22,531** |

**Interest rate risk**

The Company has cash balances and no variable rate interest-bearing debt. Interest income is not material to the Company. The Company is not exposed to significant interest rate risk. Borrowings relate to the purchases of plant and equipment under lease arrangements which have fixed interest rates over their term and therefore not subject to interest rate risk.

The effective interest rates of financial assets and financial liabilities with interest obligations at the reporting date are as follows:

| | Fixed rate instruments December 31, 2020 | Weighted average interest rate December 31, 2020 | Fixed rate instruments December 31, 2019 | Weighted average interest rate December 31, 2019 |
|---|---|---|---|---|
| *Financial liabilities:* | | | | |
| Short-term loan and Lease obligations | $ 14,826 | 5.6% | $ 7,082 | 5.2% |

**Foreign currency risk**

The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in United States dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

Certain of the Company's cash and cash equivalents, and accounts payable and accrued liabilities are held in Canadian ("CAD") Dollars; therefore, CAD amounts are subject to fluctuation against the United States Dollar (USD).

(expressed in thousands of United States dollars unless otherwise stated)

The Company had the following balances in CAD as at:

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| Cash | $ | 11,801 | $ | 8,045 |
| Other receivables | | 688 | | 218 |
| Accounts payable and accrued liabilities | | (1,139) | | (1,351) |
| Short-term loan | | (314) | | - |
| | **$** | **11,036** | **$** | **6,912** |

Based on the above net exposure as at December 31, 2020, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the CAD against the USD would result in a decrease or increase of approximately $867 (December 31, 2019 - $532) in the Company's net loss and total comprehensive income.

**Other price risk**

Other 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. The Company is exposed to the risk of fluctuations in the prevailing market prices for the gold and silver produced from its operations. From time to time the Company may enter into commodity contracts to hedge the effects on revenues. Reference is made to note 11 for a summary of outstanding derivative positions in respect of the future sales. Reference is also made to note 10 for a summary of sales contracts used to lock in the price for a portion of the Company's future production of gold.

**Commodity price risk**

The profitability of the Company's mining operations is significantly affected by changes in the market price for gold. Gold prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for gold, the level of interest rates, the rate of inflation, investment decisions by large holders of gold, including governmental reserves, and the stability of exchange rates can all cause significant fluctuations in gold prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems, and political developments. There is no assurance that a profitable market will exist for gold produced by the Company.

The Company has 15,200 Gold Call Options outstanding at December 31, 2020 (December 31, 2019 – 20,000) under the Gold Loan at strike prices ranging from AU$2,275 to AU$2,360 per ounce of gold (notes 10 and 11). The Gold Call Options settle in gold and the Company is exposed to the price of gold when it exceeds the strike price. A 10% increase in the gold price as at December 31, 2020, would result in a $2,273 increase (December 31, 2019 - $1,506) in the fair value of the Derivative financial instrument liability.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company anticipates that sufficient capital and liquidity will be available to meet its liabilities when due.

The Company maintained sufficient cash and cash equivalents at December 31, 2020 in the amount of $17,294 in order to meet short-term business requirements.

The table below analyses financial liabilities at balance date into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

(expressed in thousands of United States dollars unless otherwise stated)

| | Total | Within 6 months | 6-12 months | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|---|---|
| *At December 31, 2020* | | | | | |
| Trade and other payables | $15,583 | $15,583 | $ - | $ - | $ - |
| Derivative financial instruments | 2,156 | 789 | 1,367 | - | - |
| Lease liabilities | 23,237 | 3,703 | 2,740 | 5,358 | 11,436 |
| | $40,976 | $20,075 | $ 4,107 | $ 5,358 | $ 11,436 |

**c) Letter of guarantee facility**

The Company has an amended AUD$2.5 million Guarantee Credit Facility dated November 11, 2019 (the "Credit Facility") with a leading international bank. The Credit Facility permits the Company to issue letters of guarantee for a term of up to 12 months to various suppliers from time to time to support the Plutonic Gold Operations.

The Credit Facility includes an aggregate fee of 3.19% calculated on drawn amounts and is secured by an assignment of a performance security guarantee issued by Export Development Canada ("EDC") in support of the Plutonic Gold Operations. The Credit Facility contains covenants customary for a loan facility of this nature, including limits on indebtedness and change of control. It contains a financial covenant test requiring that the Company maintain a minimum liquidity covenant of AUD$5.0 million. At December 31, 2020 the Company was in compliance with all covenants.

Guarantees have been issued under the Credit Facility as at December 31, 2020 in the amounts of $770, $621 and $154, respectively to secure power and gas supply (December 31, 2019 - $701, $565 and $140, respectively). During the year ended December 31, 2020, the Company paid $43 in associated fees on the Credit Facility (December 31, 2019 - $57).

## 15. SHARE CAPITAL

**a) Authorized share capital**

Unlimited number of common shares without par value.

**b) Issued and outstanding**

| | Number of shares | | Amount |
|---|---|---|---|
| **Balance, January 1, 2019** | **95,752,473** | **$** | **49,313** |
| Shares issued under: | | | |
| Exercise of Broker Warrants (ii) | 1,230,000 | | 712 |
| **Balance, December 31, 2019** | **96,982,473** | **$** | **50,025** |
| Shares issued under: | | | |
| Issued for Services | 152,000 | | 82 |
| Offering (i) | 24,644,500 | | 11,901 |
| **Balance, December 31, 2020** | **121,778,973** | **$** | **62,008** |

*(i) Offering*

On October 29, 2020 the Company completed an offering with 24,644,500 Common Shares being issued, including 3,214,500 Common Shares issued under an overallotment option, on a bought deal basis to a syndicate of underwriters at a price of $0.53 (CAD$0.70) per Common Share, representing aggregate gross proceeds of $12,956 (CAD$17,251). In connection with this offering, the underwriters were paid a 6% commission totaling approximately $777 (CAD$1,035). Share issuance costs of $278 (CAD $365) were incurred in relation to the offering.

(expressed in thousands of United States dollars unless otherwise stated)

**c) Warrants**

| | Warrants exercisable by Northern Star | Broker Warrants | Offering Broker Warrants | Warrant liability |
|---|---|---|---|---|
| **Balance, January 1, 2019** | 14,429,521 | 123,000 | 681,525 | 329 |
| Exercised | - | (123,000) | - | (244) [1] |
| Expired | - | - | (681,525) | - |
| Change in Warrant liability | - | - | - | (85) |
| **Balance, December 31, 2019** | 14,429,521 | - | - | - |
| **Balance, December 31, 2020** | 14,429,521 | - | - | - |
| **Change in valuation of Warrant liability in the twelve months ended December 31, 2019** | | | | |
| **Warrants exercisable by Northern Star** | | | | |
| Granted, February 23, 2017 | 14,429,521 | 1.13% | 63% | 5.00 |

[1] The value of $244 was transferred to Share Capital upon exercise.

As at December 31, 2020 and 2019, the Company has outstanding Warrants exercisable by Northern Star with a weighted average exercise price of CAD$1.93 per warrant which expire on February 23, 2022.

**d) Share-based payments**

**(i) Share option plan**

Movements in the share options are summarized below:

| | Number of options | | Weighted average exercise price [1] | | Weighted average exercise price (CAD$) |
|---|---|---|---|---|---|
| **Balance, January 1, 2019** | 5,791,667 | $ | 0.74 | $ | 1.01 |
| Granted | 1,200,000 | | 0.46 | | 0.60 |
| Forfeited | (300,000) | | 0.77 | | 1.00 |
| **Balance December 31, 2019** | **6,691,667** | **$** | **0.72** | **$** | **0.93** |
| Granted | 1,350,000 | | 0.75 | | 0.96 |
| Forfeited | (250,000) | | 0.79 | | 1.00 |
| **Balance December 31, 2020** | **7,791,667** | **$** | **0.73** | **$** | **0.94** |

[1] At December 31, 2020, the U.S. dollar weighted average exercise price was calculated using the period end Canadian to U.S. dollar exchange rate of 0.7855 (December 31, 2019 – 0.7689).

(expressed in thousands of United States dollars unless otherwise stated)

The fair value of the options granted to employees, officers and directors under the share option plan was measured using the Black-Scholes option pricing model. The grant date fair value is amortized, as part of compensation expense over the vesting period with one third of the Stock Options vesting equally on each of the first, second and third grant date anniversary. The weighted average inputs used in the measurement of fair value were:

| | | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Number of share options granted | | 1,350,000 | 1,200,000 |
| Expected volatility (1) | | 61% | 56% |
| Risk free interest rate | | 0.31% | 1.53% |
| Estimated forfeiture rate | | 10% | 0% |
| Expected dividend yield | | Nil | Nil |
| Expected life in years | | 3.5 | 3.5 |
| **Fair value (weighted average)** | **- CAD$** | **$ 0.30** | **$ 0.24** |
| | **- U.S. $ (2)** | **$ 0.22** | **$ 0.18** |

(1) Expected volatility is measured as the annualized standard deviation of share price returns, based on the historical movements in the price of the Company where sufficient share prices history exists and comparable publicly traded companies considered included in the Company's peer group over the same period as the expected life of the option being valued.

(2) The U.S. dollar weighted average Black-Scholes value was calculated using the spot Canadian to U.S. dollar exchange rate on the date of grant.

Share options outstanding and exercisable at December 31, 2020 are:

| Options outstanding | | | | | Options exercisable | | | |
|---|---|---|---|---|---|---|---|---|
| Exercise price (CAD$) | Number of options | Weighted average exercise price (1) | Weighted average exercise price CAD$ | Weighted average remaining contractual life (years) | Number of options | Weighted average exercise price (1) | Weighted average exercise price CAD$ | Weighted average remaining contractual life (years) |
| $0.47 | 200,000 | $0.37 | $0.47 | 4.24 | - | - | - | - |
| $0.52 | 750,000 | $0.41 | $0.52 | 3.24 | 250,000 | 0.41 | 0.52 | 3.24 |
| $0.55 | 150,000 | $0.43 | $0.55 | 3.96 | 50,000 | 0.43 | 0.55 | 3.96 |
| $0.55 | 150,000 | $0.59 | $0.75 | 4.36 | - | - | - | - |
| $0.79 | 250,000 | $0.62 | $0.79 | 3.73 | 83,333 | 0.62 | 0.79 | 3.73 |
| $0.96 | 50,000 | $0.75 | $0.96 | 3.62 | 16,667 | 0.75 | 0.96 | 3.62 |
| $1.00 | 5,116,667 | $0.79 | $1.00 | 1.18 | 5,116,667 | $0.79 | $1.00 | 1.18 |
| $1.09 | 1,000,000 | $0.86 | $1.09 | 4.59 | - | - | - | - |
| $1.29 | 125,000 | $1.01 | $1.29 | 2.43 | 83,333 | $1.01 | $1.29 | 2.43 |
| **$0.91** | **7,791,667** | **$0.73** | **$0.94** | **2.13** | **5,600,000** | **$0.73** | **$0.94** | **1.36** |

(1) At December 31, 2020, the U.S. weighted average exercise price was calculated using the period end Canadian to U.S. dollar exchange rate of 0.7855 (2019 – 0.7689).

**(ii) Performance Share Units**

Under the omnibus equity plan, Performance Share Units (PSUs) may be granted to employees of the Company. A PSU represents the right to receive a common share of the Company at vesting, subject to the determination of the Company's Board of Directors.

The number of PSUs that will ultimately vest is based on the Company's share price performance relative to the VanEck Vectors Junior Gold Miners ETF over the term of the applicable PSU performance period. Under the terms of the PSU

(expressed in thousands of United States dollars unless otherwise stated)

Plan, the Board of Directors is authorized to determine whether the performance criteria have been met.

The Company has granted Performance Share Units ("PSU") to certain employees. Each PSU provides the holder with a right to receive common shares upon redemption of the PSU.

| | Number of Performance Share Units |
|---|---|
| **Balance January 1, 2019** | 125,000 |
| Granted | 401,500 |
| **Balance December 31, 2019** | **526,500** |
| Granted | 125,000 |
| Expired | (166,666) |
| **Balance December 31, 2020** | **484,834** |

The PSUs vest over a period of time as established by the Board. The PSUs issued in 2018 vest in two tranches: 83,333 on the second anniversary and 41,667 on the third anniversary, of the grant. The PSUs issued in 2019 vest in three tranches: 83,333 on the first anniversary, 83,333 on the second anniversary and 234,834 on the third anniversary of the grant. The PSUs issued in 2020 vest in one tranche on the third anniversary of the grant. During 2020, 166,666 PSUs expired as the performance condition in respect of the Company's share price performance relative to the VanEck Vectors Junior Gold Miners ETF over the term of the PSU performance period was not met.

The fair value of the PSUs granted was calculated using a Monte Carlo model approach. The Monte Carlo model approach requires the use of subjective assumptions including expected share price volatility, risk-free interest rate, and estimated forfeiture rate. Historical data is considered in setting the assumptions. The estimated fair value of PSUs is amortized on a straight-line basis over the related performance period. Under this method, a portion of the fair value of the PSUs is recognized at each reporting period based on the pro-rated number of months the eligible employees are employed by the Company compared to the vesting period of each grant.

The following is a summary of the assumptions used in the Monte Carlo model approach for PSUs granted in the periods ended December 31, 2020 and December 31, 2019:

| | | | 2020 | | 2019 |
|---|---|---|---|---|---|
| Number of performance share units granted | | | 125,000 | | 401,500 |
| Expected volatility (1) | | | 69% | | 53% |
| Risk free interest rate | | | 0.29% | | 1.56% |
| Estimated forfeiture rate | | | 0% | | 0% |
| Expected dividend yield | | | Nil | | Nil |
| Expected life in years | | | 2.89 | | 2.38 |
| **Fair value (weighted average)** | **- CAD$** | **$** | **0.31** | **$** | **0.24** |
| | **- U.S. $ (2)** | **$** | **0.22** | **$** | **0.18** |

(1) Expected volatility is measured as the annualized standard deviation of share price returns, based on the historical movements in the price of comparable publicly traded companies considered included in the Company's peer group over the same period as the expected life of the option being valued.

(2) The U.S. dollar weighted average Monte Carlo model value was calculated using the spot Canadian to U.S. dollar exchange rate on the date of grant.

**(iii) Restricted Share Units**

Under the omnibus equity plan, Restricted Share Units ("RSUs") may be granted to employees of the Company. A RSU represents the right to receive a common share of the Company at vesting.

(expressed in thousands of United States dollars unless otherwise stated)

| | Number of Restricted Share Units |
|---|---|
| **Balance December 31, 2019 and December 31, 2020** | **50,000** |

The RSUs vest over a period of time as established by the Board. The currently issued and outstanding RSUs vest on the third anniversary of the grant, being August 15, 2022. The vesting of the RSUs cannot be deferred by the holder beyond three years from the initial date of grant.

The fair value of RSUs is determined by reference to the Company's share price when the units are awarded. The total fair value of unvested RSUs that will be recognized in future periods amounted to $18 as at December 31, 2020 (December 31, 2019: $29).

**(iv) Deferred Share Units**

Under the omnibus equity plan, the Company issued Deferred Share Units ("DSU'") to independent directors for the purposes of strengthening the alignment of interests between members of the Board of Directors and shareholders by linking a portion of the annual director compensation to the future value of the Company's common shares. A DSU represents the right to receive a common share of the Company and vest when the director leaves the Board of Directors. DSUs are equity settled. DSUs must be retained until the director leaves the Board of Directors.

| | Number of Deferred Share Units |
|---|---|
| **Balance December 31, 2019** | **-** |
| Granted | 424,656 |
| **Balance December 31, 2020** | **424,656** |

The fair value of DSUs is determined by reference to the Company's share price when the units are awarded.

The share-based payments recognized in these financial statements are as follow:

| | Year ended December 31 2020 | 2019 |
|---|---|---|
| **Equity settled plans** | | |
| **Cost of sales** | | |
| Mining – Share option plans | $ 30 | $ 33 |
| Site services – Share option plan | 27 | 1 |
| | 57 | 34 |
| **General and administrative** | | |
| Share option plan | 128 | 168 |
| Deferred share units | 216 | - |
| Performance share units | 46 | 53 |
| Restricted share units | 11 | 4 |
| | 401 | 225 |
| | **$ 458** | **$ 259** |

(expressed in thousands of United States dollars unless otherwise stated)

**e) Earnings per share**

The following table details the weighted average number of common shares outstanding for the purpose of computing basic and diluted earnings (loss) per share:

| | Year ended December 31 | |
|---|---|---|
| **Number of common shares** | **2020** | **2019** |
| Basic weighted average shares outstanding | 101,359,532 | 96,864,062 |
| Weighted average shares dilution adjustments: | | |
| Share options DSU's, PSU's and RSU's | - | - |
| Warrants | - | - |
| **Diluted weighted average shares outstanding** | **101,359,532** | **96,864,062** |

The impact of all outstanding potentially dilutive instruments is excluded from the diluted share calculation for loss per share amounts as they are anti-dilutive for the years ended December 31, 2020 and 2019.

## 16. RESTRUCTURING COSTS

In the twelve months ended December 31, 2020 the Company undertook a restructuring at its Corporate office. The Company recorded $1,173 of termination costs in the Consolidated Statement of Loss and Comprehensive Loss for the twelve months ended December 30, 2020 (2019 - $478). Included in Accounts Payable and Accrued Liabilities on the Company's Consolidated Statement of Financial Position are $nil of Restructuring costs as at December 31, 2020 (2019 - $44).

## 17. NET FINANCE (INCOME) COSTS

| | Year ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Accretion of provisions | $ 102 | $ 334 |
| Accretion on Gold loan | 1,689 | 196 |
| Lease finance charges | 535 | 407 |
| Interest income | (49) | (148) |
| Foreign exchange (gain)/loss | (479) | (305) |
| | **$ 1,798** | **$ 484** |

## 18. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

| | Year ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Management compensation | $ 2,243 | $ 968 |
| Directors' fees | 116 | 129 |
| Share-based payments | 344 | 166 |
| | **$ 2,703** | **$ 1,263** |

Northern Star is a related party as a result of its ownership interest in the Company's common shares and warrants.

An amount of $nil (December 31, 2019 - $4,413) is payable to Northern Star at December 31, 2020, which represented the current royalty (note 22). In the year ended December 31, 2020, the Company received no amounts from Northern Star

(expressed in thousands of United States dollars unless otherwise stated)

(December 31, 2019 - $nil) and there are no amounts receivable at December 31, 2020 and 2019.

## 19. TAXES

| | | Year ended December 31 | | |
|---|---|---|---|---|
| | | 2020 | | 2019 |
| Current tax expense | $ | - | $ | - |
| Deferred tax expense (recovery) | | 127 | | (2,698) |
| | **$** | **127** | **$** | **(2,698)** |

The tax expense for the Company can be reconciled to the earnings for the period per the Consolidated Statement of Comprehensive Profit / (Loss) as follows:

| | | Year ended December 31 | | |
|---|---|---|---|---|
| | | 2020 | | 2019 |
| Net Income (loss) before Taxes | $ | (4,646) | $ | (14,717) |
| Statutory tax rate | | 26.5% | | 26.5% |
| Income tax expense (recovery) based on combined Canadian federal and provincial statutory rates | | (1,231) | | (3,900) |
| Impact of foreign tax rates | | (67) | | (486) |
| Impact of non-deductible expenditures/(non-taxable income) | | 121 | | 35 |
| Change in recognition of deferred tax assets | | 1,365 | | 1,603 |
| Withholding taxes | | 127 | | 128 |
| Impact of foreign exchange | | (188) | | (78) |
| Income tax expense | **$** | **127** | **$** | **(2,698)** |

The following deferred tax assets and liabilities have been recognized and offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset. The significant components of the Company's deferred tax assets and liabilities are as follows:

| | | Year ended December 31 | | |
|---|---|---|---|---|
| | | 2020 | | 2019 |
| **Deferred tax asset** | | | | |
| Property, plant and equipment | $ | 2,439 | $ | 1,917 |
| Provisions | | 1,685 | | 2,592 |
| Tax losses carried forward | | 9,728 | | 7,086 |
| Royalty payable | | - | | 1,324 |
| Accrued interest | | 1,597 | | 1,065 |
| Other | | 502 | | 524 |
| | | 15,951 | | 14,508 |
| **Deferred tax liability** | | | | |
| Inventories | | - | | 147 |
| Mineral interests and exploration & evaluation assets | | 15,599 | | 14,134 |
| Withholding taxes | | 515 | | 373 |
| Other | | 352 | | 227 |
| | | 16,466 | | 14,881 |
| **Net deferred tax liability** | **$** | **515** | **$** | **373** |

(expressed in thousands of United States dollars unless otherwise stated)

A reconciliation of the movement in the deferred tax liability is as follows:

| | | Year ended December 31 | | |
|---|---|---|---|---|
| | | 2020 | | 2019 |
| Deferred tax liability, start of period | $ | 373 | $ | 3,112 |
| Expense (recovery) recognized in net income | | 127 | | (2,698) |
| Foreign currency translation | | 15 | | (41) |
| **Deferred tax liability, end of period** | **$** | **515** | **$** | **373** |

At December 31, 2020, the Company has unrecognized deductible temporary differences in respect of non-capital losses for Canadian income tax purposes of approximately $10,370 (December 31, 2019 - $6,290) that may be used to offset future taxable income and expire in the 2038 and 2040 taxation years. Additionally, the Company has unrecognized deductible temporary differences for Canadian income tax purposes of $2,052 (December 31, 2019 - $4,042) and an unrecognized deductible temporary difference for Australian tax purposes of $29,821 (December 31, 2019 - $25,111).

At December 31, 2020, no deferred tax asset has been recognized in respect of the aggregate amount of $21,809 (December 31, 2019 – $20,695) of deductible temporary differences associated with investments in subsidiaries. The Company controls the timing and circumstances of the reversal of these differences, and the differences are not anticipated to reverse in the foreseeable future.

## 20. LEASE OBLIGATION

**Right-of-use assets**

The Company classifies right-of-use ("ROU") assets as an asset either explicitly specified in the contract or implicitly specified at the time it is made available for use by the Company. In conjunction, the Company controls either directly or indirectly the operation of that asset, as well, derives substantially all the economic benefits from use of the asset.

The following ROU assets have been included within in the Mining interests; exploration and evaluation assets; and property, plant and equipment section of the consolidated financial statements (note 8):

| | | |
|---|---|---|
| *Cost:* | | |
| **December 31, 2018** | $ | 7,822 |
| ROU asset additions | | 3,980 |
| Foreign exchange movement | | (28) |
| December 31, 2019 | | 11,774 |
| | | |
| *Accumulated depreciation* | | |
| December 31, 2018 | | 2,491 |
| Depreciation charge | | 3,127 |
| Foreign exchange movement | | 6 |
| December 31, 2019 | | 5,624 |
| **As at December 31, 2019** | **$** | **6,150** |

**(expressed in thousands of United States dollars unless otherwise stated)**

| | | |
|---|---|---|
| *Cost:* | | |
| **December 31, 2019** | $ | 11,774 |
| ROU asset additions | | 11,950 |
| Disposals | | (2,106) |
| Foreign exchange movement | | 1,906 |
| December 31, 2020 | | 23,524 |
| | | |
| *Accumulated depreciation* | | |
| December 31, 2019 | | 5,624 |
| Depreciation charge | | 3,640 |
| Disposals | | (761) |
| Foreign exchange movement | | 907 |
| December 31, 2020 | | 9,410 |
| **As at December 31, 2020** | **$** | **14,114** |

**Amounts recognized in the Consolidated Statement of Income (loss) and Comprehensive Income (loss)**

Interest expense on lease obligations for the twelve months ended December 31, 2020 was $500 (December 31, 2019 - $389). Total cash outflow for leases for the twelve months ended December 31, 2020 was $6,128 (December 31, 2019 - $7,471), including $1,462 (December 31, 2019 - $3,910) for short-term leases. Expense relating to variable lease payments not included in the measurement of the lease liability was $942 (December 31, 2019 - $2,275). Expenses for leases of low-dollar value items are not material.

The Company has certain contracts that are based on variable measures, and not fixed payments. These contracts include measures such as tonnes mined, or metres developed, which exempt the contracts from recognizing the ROU asset or lease liability.

On July 1, 2020, the power supply upgrade was completed with the Company's existing supplier. The upgrade is in the form of a lease which includes certain existing power equipment currently recognized as an ROU asset, as well as the new power generating equipment, which is recognized as a new ROU asset of $5,992 (AUD$8.4 million) beginning on July 1, 2020.

## 21. CAPITAL MANAGEMENT

The Company's objective when managing capital is to ensure the Company continues as a going concern by ensuring it has an appropriate amount of liquidity and that it has an appropriate capital structure. Management monitors the amount of cash, undrawn (or potentially available) financing, equity in the capital structure and adjusts the capital structure, as necessary, to support the operation, development and exploration of its projects. As at December 31, 2020, the Company's current liabilities of $31,755 exceeded its current assets of $30,366. The Company believes it will have adequate liquidity from continuing operations, cash on hand, and proceeds from financing obtained in October 2020 (refer to note 15).

In order to ensure there is adequate liquidity and an appropriate capital structure, the Company may issue new equity, repay debt, issue new debt, draw on credit facilities or sell assets.

The Board of Directors has not established criteria for quantitative return on capital for management, but rather relies on the expertise of management to sustain future development of the business. The Company considers its capital to be shareholders' equity, which amounted to $37,132 at December 31, 2020 (December 31, 2019 - $27,467).

## 22. PLUTONIC GOLD OPERATIONS ACQUISITION

As part of the Acquisition of the Plutonic Gold Operations, the Company agreed to pay Northern Star a 2% net smelter return royalty on future gold recovered from the Plutonic Gold Operations in excess of a cumulative 300,000 ounces. The royalty was to terminate on the earlier of; (i) the date that a cumulative AUD$10 million is paid to Northern Star under the royalty, or (ii) gold in excess of a cumulative 600,000 ounces being produced (the "Northern Star Royalty"). The Company also had the right to purchase the Northern Star Royalty back from Northern Star for a purchase price of AUD$6.5 million at any time before the expiry of 30 days after the date the royalty first becomes payable. On December 18, 2020, the Company exercised its right to acquire the royalty and made a payment of $4,748 (AUD$6.5 million) to Northern Star.

## 23. GAIN ON SALE OF ASSETS

In December 2020, the Company sold pastoral leases and freehold property, acquired as part of the Plutonic Gold Operations acquisition. The leases provide surface land use rights for various pastoral activities in the region surrounding the Plutonic Gold Operations and cover the Company's mining tenements but do not form part of the Company's mining operations. The Company sold the pastoral leases and freehold property, with a net book value of $483 for proceeds of $1,432 and incurred transaction costs of $92, which resulted in a gain of $857.