ATLANTIC GOLD

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

ATLANTIC GOLD CORPORATION

Independent auditor's report

To the Shareholders of Atlantic Gold Corporation

Our opinion

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

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- 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
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, British Columbia
March 4, 2019

Atlantic Gold Corporation

Consolidated Balance Sheet
As at
(Expressed in Canadian Dollars)

	Notes	December 31, 2018	December 31, 2017
Assets			
Current			
Cash and cash equivalents	6a	**$ 50,280,380**	$ 22,093,914
Prepaid expenses and deposits		**2,168,175**	1,001,356
Receivables	7	**2,185,070**	2,222,708
Inventory	8	**12,716,270**	8,562,014
Deferred transaction costs	13	**732,103**	-
Due from related party	21	**39,865**	49,168
		68,121,863	33,929,160
Property, plant and equipment	9	**163,372,042**	178,712,023
Exploration and evaluation assets	10	**55,680,916**	32,928,658
Restricted cash	11	**-**	10,593,432
Other non-current assets	12,13	**15,527,162**	2,402,089
		$ 302,701,983	$ 258,565,362
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 19,596,272**	$ 22,807,073
Due to related parties	21b	**901,441**	750,805
Current portion of long-term debt	13	**3,327,088**	32,210,417
Other liability	15b	**-**	2,164,290
		23,824,801	**57,932,585**
Reclamation provision	14	**6,808,325**	4,066,465
Long-term debt	13	**110,637,187**	105,617,533
Deferred income tax liability	16	**10,055,321**	-
		151,325,634	**167,616,583**
Shareholders' equity			
Share capital	15a,b	**154,014,523**	124,455,438
Contributed surplus	15c	**17,775,532**	15,294,216
Convertible debenture - equity component	13	**-**	277,917
Accumulated Other Comprehensive Income		**801,105**	-
Deficit		**(21,214,811)**	(49,078,792)
Total Shareholders' Equity		**151,376,349**	90,948,779
		$ 302,701,983	$ 258,565,362

Commitments (Note 24)
Subsequent events (Note 25)

Approved by the Board of Directors:

"Donald Siemens" Director

"Robert Atkinson" Director

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

Atlantic Gold Corporation

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the years ended December 31
(Expressed in Canadian Dollars)

	Notes		**2018**		2017
Revenue	17		**128,327,363**		-
Cost of goods sold (excluding depreciation and depletion)	18		**(45,902,574)**		-
Depreciation and depletion			**(26,538,862)**		-
Mine operating earnings			**55,885,927**		-
General & Administration	19		**(9,024,787)**		(6,749,751)
Operating earnings			**46,861,140**		(6,749,751)
Other income / (expense)					
Finance costs	20		**(10,301,307)**		(606,088)
Interest and other income			**570,321**		218,537
Net income (loss) before income taxes			**37,130,154**		(7,137,302)
Deferred income tax recovery (expense)	16		**(9,266,173)**		2,212,845
Net income (loss) and comprehensive income (loss)		**$**	**27,863,981**	$	(4,924,457)
Weighted average number of shares outstanding					
Basic			**219,002,751**		179,462,185
Diluted			**239,650,738**		174,574,202
Earnings (loss) per share					
Basic		**$**	**0.13**	$	(0.03)
Diluted		**$**	**0.12**	$	(0.03)

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

Atlantic Gold Corporation

Consolidated Statements of Changes in Equity
For the years ended December 31
(Expressed in Canadian Dollars)

For the year ended	Notes	**Shares**	**Share Capital**	**Contributed Surplus**	**Convertible Debenture**	**Accumulated Other Comprehensive Income**	**Deficit**	**Total equity**
Balance - January 1, 2018		**192,280,630**	**$ 124,455,438**	**$ 15,294,216**	**$ 277,917**	**$ -**	**$ (49,078,792)**	**$ 90,948,779**
IFRS 9 Transitional Adjustment	12	-	-	-	-	801,105	-	801,105
Share-based payments	15c	-	-	4,438,231	-	-	-	4,438,231
Settlement of convertible debentures	13	21,927,360	13,228,803	-	(277,917)	-	-	12,950,886
Exercise of stock options	15c	2,970,625	1,761,670	(689,858)	-	-	-	1,071,812
Exercise of share purchase warrants	15d	19,641,735	13,046,521	(1,267,057)	-	-	-	11,779,464
Deferred income tax		-	1,522,091	-	-	-	-	1,522,091
Net income and comprehensive income for the year		-	-	-	-	-	27,863,981	27,863,981
Balance - December 31, 2018		**236,820,350**	**$ 154,014,523**	**$ 17,775,532**	**$ -**	**$ 801,105**	**$ (21,214,811)**	**$ 151,376,349**

	Notes	Shares	Share Capital	Contributed Surplus	Convertible Debenture	Accumulated Other Comprehensive Income	Deficit	Total equity
Balance - January 1, 2017		**173,331,713**	**$ 103,973,121**	**$ 13,289,077**	**$ 277,917**	**$ -**	**$ (44,154,335)**	**$ 73,385,780**
Share-based payments	15c	-	-	2,646,714	-	-	-	2,646,714
Exercise of stock options	15c	3,657,450	2,047,842	(488,854)	-	-	-	1,558,988
Exercise of share purchase warrants	15d	2,386,267	1,584,483	(152,721)	-	-	-	1,431,762
Private placement		12,905,200	16,849,994	-	-	-	-	16,849,994
Net loss and comprehensive loss for the year		-	-	-			(4,924,457)	(4,924,457)
Balance - December 31, 2017		**192,280,630**	**$ 124,455,440**	**$ 15,294,216**	**$ 277,917**	**$ -**	**$ (49,078,792)**	**$ 90,948,780**

Atlantic Gold Corporation
Consolidated Statements of Cash Flows
For the years ended December 31
(Expressed in Canadian Dollars)

	Notes		***Year ended December 31, 2018***		*Year ended December 31, 2017*
Cash from (used) in operating activities					
Net income (loss) and comrehensive income (loss) for the year		**$**	**27,863,981**	$	(4,924,457)
Deferred income tax loss (recovery)	16		**9,266,173**		(2,212,846)
Accretion of reclamation obligation	14		**89,898**		48,165
Amortization			**26,592,006**		106,532
Share-based payments	15c		**4,083,432**		1,895,949
Interest and other income			**(570,322)**		(218,537)
Interest expense and transaction costs			**10,009,179**		-
Net changes in non-cash working capital	6b		**(7,754,161)**		(7,165,412)
Net cash provided (used) in operating activities			**69,580,186**		(12,470,606)
Cash from (used) in investing activities					
Capital expenditures and capitalized pre-commercial production mine operating costs	9		**(33,304,493)**		(66,049,372)
Capitalized revenue	9		**14,909,663**		-
Exploration and evaluation expenditures	10		**(20,075,847)**		(10,853,003)
Restricted cash - Surety Bond, letter of credit	11		**3,871,000**		(1,127,000)
Interest received			**570,756**		266,059
Net cash used in investing activities			**(34,028,921)**		(77,763,316)
Cash from (used) in financing activities					
Proceeds from stock option exercise	15c		**1,071,812**		1,558,988
Proceeds from exercise of share purchase warrants	15d		**11,779,464**		1,431,760
Proceeds from (payments against) long-term debt:					
Project Loan Facility	13		**(115,000,000)**		81,000,000
Revolving Credit Facility	13		**106,104,793**		-
Interest and transaction costs:					
Project Loan Facility	13		**(8,692,450)**		(2,767,189)
Revolving Credit Facility	13		**(6,186,860)**		-
Convertible debenture	13		**-**		(1,105,000)
Finance lease payments, including interest	13		**(3,163,990)**		(2,877,132)
Restricted cash - Equipment Finance Facility DSRA	11		**722,432**		(129,086)
Restricted cash - Project Loan Facility DSRA	11		**(7,000,000)**		-
Restricted cash - Project Loan Facility DSRA	11		**7,000,000**		-
Restricted cash - Minimum proceeds account	11		**6,000,000**		-
Proceeds receieved on sale lease back			**-**		756,468
Proceeds from private placement, net			**-**		20,062,040
Net cash provided (used) in financing activities			**(7,364,799)**		97,930,849
Change in cash and cash equivalents during the year			**28,186,466**		7,696,927
Cash and cash equivalents, beginning of year			**22,093,914**		14,396,987
Cash and cash equivalents, end of year		**$**	**50,280,380**	$	22,093,914

Supplemental cash flow information (Note 6)

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

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

Atlantic Gold Corporation (the "Company") is listed on the TSX Venture Exchange with a registered office at Suite 3083, Three Bentall Centre, 595 Burrard Street, Vancouver, B.C. Canada. The Company was incorporated in Canada with registered/records office located at 26th Floor - 595 Burrard Street, Vancouver, B.C., Canada. The Company continues to focus on operations of its Moose River Consolidated ("MRC") phase one open pit gold mine (which is comprised of the Touquoy and Beaver Dam deposits), as well as advancing development of its two life of mine expansion deposits which includes the deposits at Fifteen Mile Stream and Cochrane Hill. The infrastructure for the MRC mine is on the Touquoy property and a significant portion of it will be used for all deposits. Deposits other than Touquoy may require some modifications to the infrastructure to accommodate the ore processing and tailings of other deposits. The Company operates in one operating segment. Commercial production of the MRC mine began on March 1, 2018.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and under the historical cost convention. The accounting policies followed in these consolidated financial statements have been consistently applied in all periods presented, except for IFRS 9 which was adopted on January 1, 2018 and discussed in further detail in Note 3. These consolidated financial statements were approved by the board of directors on March 4, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

During the year, the Company adopted IFRS 9, Financial Instruments ("IFRS 9"), which addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") that relates to the classification and measurement of financial instruments. This new significant accounting policy and the Company's previously adopted significant accounting policies, all of which were used to prepare these consolidated financial statements are as follows:

Consolidation

The Company's consolidated financial statements include the accounts of the Company and its subsidiaries, which are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date that control commences until the date that control ceases. All inter-company transactions and accounts have been eliminated on consolidation. The principal subsidiaries of the Company, all of which are 100% owned, and their countries of incorporation are as follows:

Subsidiary	Location
Atlantic Gold Pty Ltd.	Australia
Atlantic Gold Exploration Pty. Ltd.	Australia
Atlantic Mining NS Corp.	Canada
Acadian Mining Corp.	Canada
Annapolis Properties Corp.	Canada
6179053 Canada Inc.	Canada
6927629 Canada Corp.	Canada

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting currency and foreign currency translations

The functional and presentation currency for the Company and each of its subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which the entities operate.

Monetary assets and liabilities are translated at period-end exchange rates and items included on the consolidated statements of income (loss) and comprehensive income (loss) and cash flows are translated at rates in effect at the time of the transaction. Non-monetary assets and liabilities are translated at historical rates. The gain or loss on translation is charged to the consolidated statement of income (loss) and comprehensive income (loss).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, term deposits and short-term highly liquid investments at Canadian financial institutions with an original term to maturity of 90 days or less, which are readily convertible to known amounts of cash at any time without penalty and which, in the opinion of management, are subject to an insignificant risk of changes in value. Such financial assets are stated at their respective fair values at inception and subsequently at amortized cost.

Inventory

Ore stockpile, in-circuit and finished metal inventory are measured at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all expenditures directly attributable to mineral extraction and processing and an allocation of fixed and variable production overheads, including depreciation, that are incurred in extracting and processing ore. Net realizable value is determined with reference to relevant market prices, less estimated costs of completion (including royalties payable).

Ore stockpile inventory is segregated between current and non-current based on its expected processing date. In-circuit inventory represents material that is in the process of being converted into a saleable form. Finished metal inventory represents gold doré.

Material and supplies inventory are valued at the lower of average cost and net realizable value. Costs include acquisition, freight and other directly attributable costs. A periodic review is undertaken to determine the extent of any provision for obsolescence.

Major spare parts and standby equipment are included in plant and equipment when they are expected to be used during more than one period and if they can only be used in connection with an item of plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets

Exploration and evaluation assets consist of acquisition of mining concessions, options and contracts, exploration expenditures and studies. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential. Acquisition and exploration costs are capitalized and deferred to exploration and evaluation assets until such time as the technical feasibility and commercial viability of extracting a mineral reserve for a particular property are demonstrable or the property is disposed of, either through sale or abandonment, or becomes impaired. Once the technical feasibility and commercial viability of extracting a mineral reserve for a particular property are demonstrable, the capitalized amounts are first tested from impairment and then transferred to property, plant and equipment. Proceeds received from the sale of any interest in a property will be offset against the carrying value of the property. If a property is abandoned, the acquisition costs will be written off to operations. Recorded costs of exploration and evaluation assets are not intended to reflect present or future values of the properties. The recorded costs may be subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amounts.

Property, plant and equipment

Property, plant and equipment are carried at costs less depreciation and depletion and accumulated impairment losses and include:

- Cost of acquiring the property
- Amounts transferred from exploration and evaluation assets once the technical feasibility and commercial viability of extracting a mineral reserve for a particular property are demonstrable
- Construction costs and expenditures incurred to develop the mine
- Borrowing costs directly relating to the financing of a qualifying project
- Costs incurred during commissioning net of proceeds, prior to reaching commercial production
- Reclamation and closure assets recognized when the obligation has been incurred.
- Certain stripping costs that provide a future benefit

Mineral properties and development costs

Development costs are capitalized to mine property and development costs within property, plant and equipment, and on completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. No depreciation or depletion is recorded on mineral properties and development costs until the mineral property is in commercial production.

Mineral properties will be depleted using the units-of-production (“UOP”) method. Using the UOP method, depletion and depreciation is determined each period using gold ounces mined over the asset’s estimated reserves.

Mineral properties also include land purchased for exploration or development of a mineral property.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties and development costs (continued)

Mineral properties include stripping costs. Stripping costs are the costs incurred to remove mine waste materials to gain access to mineral ore deposits during production. Stripping costs incurred during the development of a mine are capitalized to mineral properties. Stripping costs incurred subsequent to commencement of commercial production are variable production costs that are included in the cost of inventory produced during the period in which they are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping cost would be deferred and included in mineral properties. Future benefits arise when stripping activity increases the future output of the mine by providing access to an extension of an ore body or to a new ore body. Deferred stripping costs are depleted based on the UOP method using the related proven and probable mineral reserves as the depletion base.

Plant, infrastructure and equipment

The plant and infrastructure are carried at cost less accumulated depreciation. A majority of mine and site infrastructure assets, including the plant, buildings, roads, tailings facility and transmission lines are depreciated using a UOP method based on ounces processed over the related reserve base.

Equipment is carried at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is calculated at the following annual rates:

Equipment	straight-line 13%-33%
Capital Leases	straight-line 13%-50%

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates each part separately. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. Depreciation of equipment used in the Company's exploration and development activities is capitalized to exploration and evaluation assets or mineral properties, depending on the nature of the work.

Expenditure on major maintenance or repairs includes the cost of the replacement of parts of assets and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will be available to the Company, the expenditure is capitalized and the carrying amount of the item replaced derecognized. Similarly, overhaul costs associated with major maintenance are capitalized and depreciated over their useful lives where it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognized. All other costs are expensed as incurred.

<u>Impairment</u>

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is calculated as the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit ("CGU")).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

Evaluating for recoverability during the exploration and evaluation phase requires judgment in determining whether future economic benefits from future exploitation, sale or otherwise are likely. Evaluations may be more complex where activities have not reached a stage which permits a reasonable assessment of the existence of reserves or resources. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Company's financial ability to continue exploration and evaluation activities, the impact of government legislation and political stability in the region, and the impact of current and expected future gold prices on potential reserves.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Reclamation provision

The Company records a reclamation provision which reflects the present value of the estimated legal or constructive obligation amount of undiscounted cash flows required to satisfy the asset retirement obligation caused by the exploration, evaluation, development or ongoing production at a mineral property. A liability for reclamation obligations is recognized in the period in which the disturbance is incurred and when a reasonable estimate of the fair value of the liability can be made. The provisions are periodically reviewed and updated to reflect new developments or changes in estimates and forecasts. The liability is recorded at the net present value and is accreted to its estimated future value over time. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Changes in estimates are reflected in the period during which an estimate is revised. The liability is unwound in the period the reclamation is performed.

The initial reclamation provisions, together with changes, are capitalized within property, plant and equipment and depleted or depreciated on the same basis as the assets to which they relate.

Current and deferred income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income.

The Company follows the asset and liability method for accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The deferred tax assets or liabilities are calculated using the tax rates enacted or substantially enacted for the periods in which the differences are expected to be settled. Deferred tax assets are recognized to the extent that they are considered more likely than not to be realized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible debenture

The Company's convertible debentures are classified as a liability, less the portion relating to the conversion feature which is classified as a component of equity. As a result, the recorded liability to repay the convertible notes is lower than its face value. The liability was initially recorded at fair value and is subsequently carried at amortized cost using the effective interest rate method; the liability is accreted to the face value over the term of the convertible debenture. Prior to the commencement of commercial production which occurred on March 1, 2018, accretion was capitalized to mine property within property, plant and equipment in accordance with the Company's policy for borrowing costs. All accretion incurred subsequent to the commencement of commercial production was expensed to the statement of income (loss) and comprehensive income (loss). In May 2018, all convertible debentures outstanding were converted into common shares of the Company (Note 13).

Deferred financing fees

Fees paid to establish credit facilities are recognized as transaction costs when it is likely that some or all of the credit facilities to which the fees are related will be drawn down. Transaction costs are deferred until the facility is arranged and draw-down occurs, at which time the deferred financing fees are offset against the proceeds of the credit facility.

Under the Company's Revolving Credit Facility ("RCF") (Note 13a), transaction costs have been recorded proportionately against the amount drawn on the RCF and the available credit remaining under the facility, with the remaining balance recognized as current deferred transaction costs and in other long-term assets, with a portion amortized on a straight-line basis over the life of the credit facility and the remaining balance amortized over the remaining delivery of the Company's gold forward contracts.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement at the inception date.

Finance leases

Leases that transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company, as a lessee, are capitalized at the inception of the lease at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the lease liability.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, unless there is a reasonable certainty the lessee will obtain ownership of the asset by the end of the lease term, in which case the asset is depreciated over the life of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership to the Company as a lessee are classified as operating leases. Operating lease payments are recorded as paid in the Company's consolidated statement of income (loss) and comprehensive income (loss). Lease payments made on equipment used in the Company's exploration and development activities are capitalized to mineral properties and property, plant and equipment during construction.

In addition to contracts which take the legal form of a lease, other significant contracts are assessed to determine whether, in substance, they are, or contain, a lease, if the contractual arrangement contains the use of a specific asset and the right to use that asset.

Flow-through shares

The issuance of flow-through common shares results in the tax deductibility of the qualifying resource expenditures funded from the proceeds of the sale of such shares being transferred to the purchasers of the shares. On the issuance of such shares, the Company bifurcates the flow-through shares into: a flow-through share premium, equal to the estimated premium that investors pay for the flow-through feature, which is recognized as a liability, and share capital. As the related exploration expenditures are incurred, the Company derecognizes the premium liability and recognizes a related income tax recovery.

Revenue recognition

Revenue is generated from the sale of refined gold. In 2017, the Company early adopted IFRS 15, Revenue from Contracts with Customers ('IFRS 15").

The Company produces doré which contain gold. These products are further processed to produce refined metals for sale. The Company's performance obligations relate solely to the delivery of gold to its customers.

Revenue is recognized when control of the refined gold is transferred to the customer. Control is achieved when a product is delivered to the customer, the customer has full discretion over the product and there is no unfulfilled obligation that could affect the customer's acceptance of the product. Control over the refined gold is transferred to the customer and revenue recognized upon delivery to the customer's bullion account. For the Company, cash is received at the same time as gold is transferred to the customer's account.

Revenue is required to be recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring the product to the customer. The Company has some forward sale contracts which specifies the price and the remaining gold is sold at spot prices.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

Share-based payments to employees and others providing similar services are measured at the fair value of the instruments issued and amortized over the vesting periods. Other share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The amount recognized is allocated to exploration and evaluation assets, mineral properties or expensed in the statement of loss (according to the service provided) and is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to contributed surplus, the account used to record any share-based payments related to convertible securities of the Company.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus amount is transferred to share capital.

Earnings (loss) per common share

The basic earnings (loss) per share is computed by dividing the earning (loss) by the weighted average number of common shares outstanding during the year. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the year, if exercised. For this purpose, the treasury stock method is used whereby the assumed proceeds upon the exercise of stock options and warrants are used to purchase common shares at the average market price during the year.

Financial Instruments

For the year ended December 31, 2017, the Company applied policies based on IAS 39. During the year, the Company adopted IFRS 9. The effects of the transition from IAS 39 to IFRS 9 are described below.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and replaced the guidance in IAS 39 that relates to the classification and measurement of financial instruments. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets, for assets that were recognized at the date of application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date, other than the Company's available-for-sale asset, discussed in more detail below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

The following is the Company's new accounting policy for financial instruments under IFRS 9.

IFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The Company determines the classification of the financial assets at initial recognition. The basis of classification depends on the Company's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change for liabilities is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income (loss) rather than in net earnings. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as fair value through other comprehensive income. The Company has chosen to make this election for its investment in a private company.

The Company has assessed the classification and measurement of its financial assets and financial liabilities under IFRS 9 and have summarized the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 in the following table:

	Measurement Category	
	Original (IAS 39)	**New (IFRS 9)**
Financial assets		
Cash and cash equivalents	Amortised cost	**Amortised cost**
Due from related parties	Amortised cost	**Amortised cost**
Receivables	Amortised cost	**Amortised cost**
Restricted cash	Amortised cost	**Amortised cost**
Investment in a private company	Available-for-sale	**Fair value through other comprehensive income**
Financial liabilities		
Accounts payable and accrued liabilities	Amortised cost	**Amortised cost**
PLF/ RCF	Amortised cost	**Amortised cost**
Equipment facility	Amortised cost	**Amortised cost**
Due to related parties	Amortised cost	**Amortised cost**

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

The investment in a private company held by the Company (see Note 12) is comprised of shares in a Company that owns a 40% interest in the Touquoy project and does not have a quoted price in an active market. Under IAS 39, if the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity was precluded from measuring the instrument at fair value. On adoption of IFRS 9 the Company was required to measure the equity investment at fair value. As the Company has opted not to restate the comparative period under IFRS 9's transition rules, it has recognized the effects of retrospective application to shareholder's equity at the beginning of the 2018 annual reporting period. Therefore, the adoption of IFRS 9 resulted in a decrease to opening accumulated other comprehensive income on January 1, 2018 of $948,054 from the change in carrying amount under IAS 39 of $248,077 for the unquoted equity investment as measured under IAS 39 to $1,196,134 under IFRS 9. There have been no other changes in the carrying value of the Company's financial instruments or to previously reported figures as a result of changes to the measurement categories in the table noted above. As there were no other changes, the Company has not provided a reconciliation of the original measurement carrying amount under IAS 39 compared to the carrying amount under IFRS 9.

The Company typically recognises revenue when refined gold is delivered to the respective customer's account and receives cash concurrently or immediately after delivered to the customer account. Therefore, the Company does not typically have significant credit risk from the underlying customers from gold sales. Under IFRS 9, the Company applies a lifetime approach to measuring an expected credit loss allowance. However, the Company does not have any significant allowance as there is limited exposure to credit losses as at December 31, 2018 based on the short time period in which the Company would have a receivable. The Company has credit risk exposure from certain other financial instruments such as cash, however, the impact of an expected credit loss would be inconsequential after taking into account the risk of default based on the nature of the counterparties. Accordingly, the Company has not provided a reconciliation on transition to IFRS 9 of an IAS 39 allowance as compared to IFRS 90 allowance as the allowance is inconsequential. For further information on the credit risk of the Company's financial instruments refer to Note 22.

4. CHANGES IN ACCOUNTING STANDARDS NOT YET EFFECTIVE

IFRS 16 - Leases

On January 6, 2016, the IASB issued IFRS 16, Leases ("IFRS 16"). This standard specifies the methodology to recognize, measure, present and disclose leases. This standard replaces IAS 17 Leases. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The standard is effective for annual periods beginning on or after January 1, 2019.

4. CHANGES IN ACCOUNTING STANDARDS NOT YET EFFECTIVE (continued)

IFRS 16 - Leases (continued)

The Company has developed an implementation plan to determine the impact on the consolidated financial statements. The Company has compiled all its existing operating lease contracts and service contracts and has identified which contracts would be within scope of IFRS 16. Although the Company expects an increase in depreciation and accretion expenses and an increase in cash flow from operating activities as any lease payments will be recorded as financing outflows in the statements of cash flows, the impact is not expected to be material, as the Company's existing operating leases are not material.

The Company will be adopting IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative figures are not restated to reflect the adoption of IFRS 16. Additionally, the Company will be adopting the exemption for leases with a lease term of 12 months or less and for leases that are low value. Given that the Company's existing operating leases are not material, no material adjustment to equity will be recognized upon IFRS 16 adoption on January 1, 2019. The Company's accounting for finance leases remained substantially unchanged.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are regularly evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements that could result in a material effect in the next financial year on the carrying amounts of assets and liabilities:

Commercial production

The determination of when a mine is in the condition necessary for it to be capable of operating in the manner intended by management (referred to as "commercial production") is a matter of significant judgment which will impact when the Company recognizes revenue, operating costs and depreciation and depletion in the consolidated statement of income (loss) and comprehensive income (loss). In making this determination, management considered 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 was complete; (b) ramping up to nameplate design capacity has been achieved for the operations; (c) the mill was meeting performance design criteria such as hourly throughput and process recovery; and (d) a saleable product could be produced. Effective March 1, 2018, management declared commercial production at the MRC mine from which date the Company ceased capitalisation of operating costs and commenced depletion and depreciation.

Fair Value of Investments through Other Comprehensive Income

Management judgment is used when determining the fair value of the Company's investment in a private company. Assumptions are used in preparing the valuation models used to determine the fair value of the asset, including gold prices, reserves and resources, discount for lack of control, foreign exchange, mine plans, operating costs, capital expenditures, and discount rates.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Own Use Exemption

Contracts to buy or sell a non-financial item, such as a commodity, that can be settled net in cash or another financial instrument fall under the scope of IFRS 9 and are accounted for as derivatives and marked to market through the consolidated statement of income (loss) and comprehensive income (loss). However, certain criteria exist whereby a contract may fall under an 'own use' exemption, and be exempt from the requirements of IFRS 9. The determination of the Company's accounting for its gold hedging contracts (Note 17) requires judgment to determine whether the contracts meet the requirements of 'own use'. An 'own use' contract is a contract that was entered into and continues to be held for the purpose of the delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements. Judgement was used to determine whether the Hedge Facility continues to meet the 'own use' requirements subsequent to the novation of the Hedge Facility to different lenders in September 2018 (Note 13a). Management considered the Company's intent and ability to satisfy the Hedge Facility with the Company's own production based on the Company's current life of mine plan.

Management has determined that the Hedge Facility meets the requirements of 'own use' and is thereby exempt from the requirements of IFRS 9.

Impairment of exploration and evaluation assets

The application of the Company's accounting policy for its exploration and evaluation assets requires judgment to determine whether the future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. There is no certainty that the expenditures made by the Company in the exploration of its property interests will result in discoveries of commercial quantities of minerals. Exploration for mineral deposits involves risks which even a combination of professional evaluation and management experience may not eliminate. If, after expenditures are capitalised, information becomes available suggesting that the recovery of such expenditure is unlikely, the relevant capitalised amount is written off in the consolidated statement of loss in the period when the new information becomes available.

Estimates

Mineral Reserves

The Company estimates its proven and probable mineral reserve on the basis of information compiled by an appropriately qualified person. The estimation of future cash flows expected to result from exploiting reserves includes assumptions about commodity prices, capital requirements, permits, metal recovery and production costs. Changes in proven and probable mineral reserve estimates may impact the carrying value of mineral properties, plant and equipment, restoration obligations, recognition of deferred tax amounts and depreciation and depletion.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Reclamation provision

Accounting for reclamation obligations requires management to make estimates of the future costs to be incurred to complete the reclamation and remediation work which is required to comply with existing laws, regulations and constructive obligation. The ultimate magnitude of the reclamation costs is uncertain, and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new reclamation techniques, and local inflation rates. The expected timing of expenditure can also change, for example, in response to changes in mineral reserves or production rates, timing of planned restart of operations or economic conditions. As a result, there could be significant adjustments to the provision for reclamation, which would affect future financial results.

Valuation of inventory

All inventory is valued at the lower of average costs or net realizable value. Management is required to make various estimates and assumption to determine the value of stockpiled ore, ore in process and finished goods inventory. The estimates and assumptions included surveyed quantities of stockpiled ore, in-process volumes, contained metal content, recoverable metal content, costs to recover saleable metal and metal prices. Changes in these estimates can result in changes to the carrying amounts of inventories and mine operating costs in future periods.

Deferred income taxes

The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on income in the period that the changes occur.

Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on future expected levels of table income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, market gold prices, production costs, quantities of proven and probable gold reserves, and interest rates.

(Expressed in Canadian Dollars)

6. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Changes in non-cash working capital is comprised of:

	Year ended December 31, 2018	*Year ended December 31, 2017*
Net change in non-cash working capital:		
Receivables	**(1,000,518)**	(593)
Inventory	**(3,162,173)**	(5,324,512)
Other assets	**(5,855,546)**	(1,108,399)
Due from related parties	**9,302**	(30,134)
Prepaid expenses and deposits	**(52,666)**	(507,226)
Accounts payable and accrued liabilities	**2,156,804**	(288,060)
Due to related parties	**150,636**	93,512
	$ (7,754,161)	$ (7,165,412)

(b) Cash and cash equivalents and restricted cash is comprised of:

	December 31, 2018	December 31, 2017
Cash	**$ 46,157,880**	$ 22,035,739
Guaranteed Investment Certificates	**4,122,500**	58,175
Restricted cash	**-**	10,593,432
	50,280,380	32,687,346

(c) Non-cash investing and financing activities included a $13,228,803 settlement of convertible debentures (2017 - $nil) as well as $692,915 relating to new finance leases under the Equipment Facility (Note 10) (2017 - $2,081,167).

7. RECEIVABLES

	December 31, 2018	December 31, 2017
Government tax credits	**$ 1,862,232**	$ 1,999,172
NSDNR security for settlement of expropriated properties	**206,698**	206,698
Interest and other receivables	**116,140**	16,838
	$ 2,185,070	$ 2,222,708

Government tax credits comprise input tax credits (GST/ HST) and fuel rebates receivable.

(Expressed in Canadian Dollars)

8. INVENTORY

	December 31, 2018	December 31, 2017
Ore in stockpile	**$ 2,382,283**	$ 1,472,341
In-circuit metal	**6,904,910**	6,312,662
Finished metal	**729,990**	141,270
Total mineral inventory	**10,017,183**	7,926,273
Materials and supplies	**2,699,087**	635,741
Total inventory	**$ 12,716,270**	$ 8,562,014

Depreciation included in inventory at December 31, 2018 was $4,028,300 (December 31, 2017 - $3,036,223).

9. PROPERTY, PLANT AND EQUIPMENT

	Notes	Mineral properties and development costs	Equipment	Plant and Infrastructure	Total
Costs					
At January 1, 2017		$ 83,882,098	$ 12,904,136	$ -	$ 96,786,234
Reclamation	14	2,436,676	-	-	2,436,676
Borrowing costs	13	8,929,522	-	-	8,929,522
Capitalized revenue		(12,429,542)	-	-	(12,429,542)
Additions		86,767,679	3,206,391	-	89,974,070
Reallocation of development costs		(97,592,257)		97,592,257	-
At December 31, 2017		**$71,994,176**	**$16,110,527**	**$97,592,257**	**$185,696,960**
Reclamation	14	**2,651,962**	**-**	**-**	**2,651,962**
Borrowing costs	13	**1,903,914**	**-**	**-**	**1,903,914**
Additions - other		**18,063,627**	**2,322,574**	**2,079,738**	**22,465,939**
Pre-production COGS capitalized		**8,711,185**	**-**	**-**	**8,711,185**
Capitalized revenue		**(14,909,663)**	**-**	**-**	**(14,909,663)**
At December 31, 2018		**$88,415,201**	**$18,433,101**	**$99,671,995**	**$206,520,297**
Accumulated depreciation					
At January 1, 2017		-	(980,965)	-	(980,965)
Depreciation and depletion		(2,337,475)	(2,612,351)	(1,054,146)	(6,003,972)
At December 31, 2017		**(2,337,475)**	**(3,593,316)**	**(1,054,146)**	**(6,984,937)**
Depreciation and depletion		(21,546,741)	(3,009,779)	(11,606,797)	(36,163,317)
At December 31, 2018		**(23,884,216)**	**(6,603,096)**	**(12,660,943)**	**(43,148,255)**
Net book value					
At December 31, 2017		$69,656,701	$12,517,211	$96,538,111	$178,712,023
At December 31, 2018		**$64,530,985**	**$11,830,006**	**$87,011,052**	**$163,372,042**

9. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company's effective ownership interest in Touquoy is approximately 63.2%. The Company is entitled to recover all operational, overhead, financing and sunk costs prior to any distributions to its partner, in Touquoy. The Company has an option to purchase the interest in Touquoy from this partner at fair market value after the later of a) 18 months of commercial production at Touquoy, defined under the agreement as the operation of Touquoy as a producing mine and the production of gold for a period of thirty consecutive days at an average rate of not less than 70% of the initial rated capacity of the mine and plant facilities, and b) the point where 3,000,000 tonnes of Touquoy ore has been processed, provided that at the date of notice to commence the option process, the 30-day average spot price of gold is at least CAD $1,400/oz. The fair market value will be determined by a valuation completed by a mutually appointed independent valuator.

Royalties

A net smelter return ("NSR") royalty of 3% is payable to a third party in respect of Touquoy, two-thirds of which can be purchased for $2.5 million. The Company fulfilled the buyback of the first 1% during Q1 2018, with the second 1% buyback option being fulfilled in Q4 2018. Notice to the royalty holder of the 2% buyback has been provided. Touquoy is also subject to a 1% NSR royalty payable to the government of Nova Scotia, a requirement for all operating mines in the province.

Assets under a finance lease

The net carrying amount of assets under a finance lease at December 31, 2018 is $9,041,580 (2017 - $10,360,262). Assets under a finance lease are included in Equipment within property, plant and equipment.

(Expressed in Canadian Dollars)

10. EXPLORATION AND EVALUATION ASSETS

The Company has 100% ownership of its Beaver Dam, Cochrane Hill and Fifteen Mile Stream deposits.

Year ended December 31, 2018

	Beaver Dam	*Cochrane Hill*	*Fifteen Mile Stream*	*Other*	*Total*
Acquisition Costs, December 31, 2017	**$ 1,134,791**	**$ 2,278,597**	**$ 4,149,388**	**$ 2,172,496**	**$ 9,735,272**
Additions	-	-	250,000	-	250,000
Acquisition Costs, December 31, 2018	**$ 1,134,791**	**$ 2,278,597**	**$ 4,399,388**	**$ 2,172,496**	**$ 9,985,272**
Deferred costs, January 1, 2018	**$ 5,154,425**	**$ 7,499,743**	**$ 8,542,868**	**$ 1,996,350**	**$23,193,386**
Salaries, benefits and consulting fees	110,544	644,421	1,803,050	1,265,192	3,823,207
Environmental	1,999,045	700,845	650,591	101,862	3,452,343
Permitting and claims	53,071	18,612	190,856	378,561	641,100
Assays and metallurgy	78,872	207,319	1,186,117	899,455	2,371,763
Travel and accommodation	3,471	32,308	127,317	91,918	255,014
Drilling and fieldwork	-	2,630,773	5,818,807	2,189,298	10,638,878
Equipment and supplies	26,542	260,395	496,253	536,763	1,319,953
Expenditures for the year	2,271,545	4,494,673	10,272,991	5,463,049	22,502,258
Deferred costs, December 31, 2018	**$ 7,425,970**	**$ 11,994,416**	**$18,815,859**	**$7,459,399**	**$45,695,644**
Exploration and evaluation assets, December 31, 2018	**$ 8,560,761**	**$ 14,273,013**	**$23,215,247**	**$9,631,895**	**$55,680,916**

Year ended December 31, 2017

	Beaver Dam	*Cochrane Hill*	*Fifteen Mile Stream*	*Other*	*Total*
Acquisition Costs January 1, 2017 and December 31, 2017	**$ 1,134,791**	**$ 2,278,597**	**$ 4,149,388**	**$ 2,172,496**	**$ 9,735,272**
Deferred costs, January 1, 2017	**4,789,912**	**2,152,741**	**282,590**	**789,216**	**8,014,459**
Compensation	1,373	797,893	851,950	299,142	1,950,358
Environmental	336,746	212,305	282,272	-	831,323
Permitting and claims	24,600	21,773	124,857	150,868	322,098
Assays and metallurgy	-	829,851	1,901,578	76,378	2,807,807
Travel and accommodation	-	43,573	59,402	18,929	121,904
Drilling and fieldwork	-	3,082,954	4,527,492	644,095	8,254,541
Equipment and supplies	1,794	358,653	512,727	17,722	890,896
Expenditures for the year	364,513	5,347,002	8,260,278	1,207,134	15,178,927
Deferred costs, December 31, 2017	**$ 5,154,425**	**$ 7,499,743**	**$ 8,542,868**	**$1,996,350**	**$23,193,386**
Exploration and evaluation assets, December 31, 2017	**$ 6,289,216**	**$ 9,778,340**	**$12,692,256**	**$4,168,846**	**$32,928,658**

(Expressed in Canadian Dollars)

11. RESTRICTED CASH

	Notes	**December 31, 2018**	December 31, 2017
PLF proceeds account	a	**$ -**	$ 6,000,000
GIC	b	**-**	3,871,000
DSRA – Equipment Facility	c	**-**	722,432
		$ -	$ 10,593,432

(a) Under the Company's Project Loan Facility ("PLF") (see Note 13), the Company was required to maintain a minimum balance of $6,000,000 in a bank account until the PLF was repaid. On September 21, 2018, all principal and accrued interest owing under the PLF was repaid and the PLF proceeds account was reclassified to cash and cash equivalents. Further, in Q2 2018, the Company was required to hold $7,000,000 of restricted cash, an amount equal to any principal and interest payment owing in the immediate following three-month period under the PLF, which was also released from restricted cash upon repayment of the PLF.

(b) The guaranteed investment certificate ("GIC") of $nil (2017 - $3,871,000), was a restricted GIC that supported a line of credit that the Bank of Montreal ("BMO") provided to a surety provider that in turn provides a surety bond related to the reclamation performance bond. The GIC represented 50% of an $8,300,000 reclamation performance bond posted with the province of Nova Scotia. In December 2018, the surety bond was replaced with a $8,300,000 letter of credit provided by the Company's lenders under the RCF (Commitments – Note 24), which liberated the GIC.

The $8,300,000 reclamation performance bond represents installments of the $10,400,000 phased reclamation security in respect the MRC mine. The phased approach ensures that adequate security is in place before each phase of disturbance, construction and operation at MRC mine. The total $10,400,000 financial security is to be posted in full by December 31, 2019.

(c) The Debt Service Reserve Account ("DSRA") was required under the Equipment Facility (as defined below in 13d), whereby the Company is required to maintain an amount equal to 100% of one quarterly payment in respect of all leases under the Equipment Facility. The DSRA – Equipment Facility, is to be maintained up to and including three months after Project Completion which was achieved in July 2018, with the DSRA balance liberated in Q4 2018.

(Expressed in Canadian Dollars)

12. OTHER NON-CURRENT ASSETS

	December 31, 2018	December 31, 2017
Reclamation bonds	$ 200,000	$ 200,000
Investment in a private company (a)	1,196,133	248,078
Ore in stockpile inventory (b)	12,557,576	1,954,011
Deferred transaction costs (c)	1,573,453	-
	$ 15,527,162	$ 2,402,089

(a) The Company holds an investment in a privately held company which holds a carried interest of 40% in the tenements of the Company's Touquoy deposit. The fair value of the Company's investment in the privately held company is considered a management estimate whereby significant judgment is applied. Further, the valuation techniques use significant inputs that are not based on observable market data and is therefore classified as a Level 3 financial instrument. There was no material change in fair value of the investment in the privately held company during the year ended December 31, 2018.

(b) Depreciation included in ore in long term stockpile inventory at December 31, 2018 was $5,593,634 (December 31, 2017 - $845,612).

(c) Deferred transaction costs relate to legal and advisory fees, and other financing expenses with respect to the execution of the Company's revolving credit facility and novation of the Hedge Facility (Note 13a).

(Expressed in Canadian Dollars)

13. LONG-TERM DEBT

	Revolving Credity Facility (a)	Project Loan Facility (b)	Convertible debentures (c)	Equipment Facility (d)	Total
Long-term debt at January 1, 2017	-	32,829,623	12,455,917	9,798,540	55,084,080
Additions	-	81,000,000	-	2,837,086	83,837,086
Principal repayment	-	-	-	(2,226,309)	(2,226,309)
Interest expense and accretion [(1)]	-	5,586,530	780,161	650,162	7,016,853
Interest payment	-	(2,767,189)	(1,105,000)	(650,162)	(4,522,351)
Transaction costs	-	(3,274,078)	-	-	(3,274,078)
Amortization of transaction costs [(1)]	-	1,736,860	175,809	-	1,912,669
Long-term debt at December 31, 2017	**-**	**115,111,746**	**12,306,887**	**10,409,317**	**137,827,950**
Additions	**106,104,793**	**-**	**-**	**692,915**	**106,797,708**
Principal repayment	**-**	**(115,000,000)**	**(13,000,000)**	**(2,527,156)**	**(130,527,156)**
Interest expense and accretion [(1)]	**1,726,950**	**5,530,540**	**399,288**	**636,833**	**8,293,611**
Interest payment	**(986,086)**	**(8,442,450)**	**(486,479)**	**(636,833)**	**(10,551,848)**
Transaction costs	**(1,589,180)**	**-**	**-**	**-**	**(1,589,180)**
Amortization of transaction costs [(1)]	**132,723**	**2,800,164**	**244,710**	**-**	**3,177,597**
Settlement of convertible debenture charged to equity	**-**	**-**	**535,594**	**-**	**535,594**
	105,389,200	**-**	**-**	**8,575,076**	**113,964,275**
Less Current portion	**(740,864)**	**-**	**-**	**(2,586,224)**	**(3,327,088)**
Long-term debt at December 31, 2018	**104,648,336**	**-**	**-**	**5,988,852**	**110,637,187**

(1) Interest expense, accretion and amortization of transaction costs were capitalized to the mineral properties prior to the start of commercial production.

(a) Revolving Credit Facility

On September 20, 2018, the Company signed a credit agreement with a syndicate of lenders for a revolving credit facility (the “RCF”) for an aggregate amount of $150,000,000. The term of the RCF is three years, maturing on September 20, 2021, with an annual rolling extension, and no mandatory amortization. Amounts that are borrowed under the RCF will incur variable interest depending on the type of loan borrowed plus an applicable margin ranging from 2.00% to 4.00% determined based on the Company’s leverage ratio. There is also a standby fee charged on the undrawn loan balance which the rate ranges from 0.75% to 1.00%, depending on the Company’s leverage ratio, included in other finance costs in the statement of income (loss) and comprehensive income (loss) (Note 20).

The RCF is secured through guarantees and a first ranking charge on all assets of the Company and each of its material subsidiaries. The Company must also maintain certain ratios for leverage and interest coverage. As at December 31, 2018, the Company was in compliance with these debt covenants.

On initial drawdown of the RCF in September 2018, the Company had drawn down $106,104,793 in the form of a prime rate loan. In October 2018, the Company converted $70,000,000 of the initial drawdown into a bankers’ acceptance with a fixed interest term of 180 days. As a result of the bankers’ acceptance conversion, the Company was required to prepay $1,909,977 of interest for the 180 loan term. The remaining $36,104,793 balance drawn on the RCF continued to be held in the form of a prime rate loan. As at December 31, 2018, the Company had a balance of $35,595,207 remaining available for future drawdowns. The initial drawdown on the RCF was used to repay all principal and accrued interest owing on the Company’s PLF. Total interest expensed during the year was $1,726,950. The effective interest rate for the period was approximately 6%.

13. LONG-TERM DEBT *(continued)*

(a) Revolving Credit Facility (continued)

As at December 31, 2018, the Company had incurred $4,086,620 in transaction costs (2017 - $nil), consisting of legal and advisory fees, and other financing expenses. Transaction costs have been recorded proportionately against the amount drawn on the RCF and the available credit remaining under the facility, with the remaining balance recognized as current deferred transaction costs and in other long-term assets. As at December 31, 2018, $1,456,497 of RCF transaction costs had been recorded against long-term debt and will be amortized on a straight-line basis over the expected repayment period of the drawdown. The remaining balance has been recorded as current deferred transaction costs and other non-current assets with a portion amortized on a straight-line basis over the life of the credit facility and the remaining balance amortized over the remaining delivery of the gold forward contracts. At December 31, 2018, $732,103 of the deferred transaction costs have been recognized as a current asset with $1,573,452 included in other non-current assets.

(b) Project Loan Facility

On September 21, 2018, the Company repaid all principal and accrued interest owing on the Project Loan Facility. On the date of repayment, $13,000,000 of restricted cash previously held under the PLF was reclassified to cash and cash equivalents. Upon execution of the RCF, the Hedge Facility was novated to the lenders of the RCF (Note 17).

(c) Convertible Debentures

On May 3, 2018, all of the $13,000,000 convertible debentures and $486,479 of unpaid and accrued interest owing to the date of conversion, was converted into 21,927,360 common shares of the Company.

As at the date of conversion, the convertible debenture liability had not been fully accreted up to the face value of $13,000,000. Given the early prepayment option was exercised by the Company, but the holders of the convertible debenture retained the right to convert the convertible debenture into shares up to the date of prepayment, the accounting treatment is dependant on the Company's analysis of the economic substance of the transaction. As the Company expected that all holders would convert the convertible debenture into common shares of the Company upon receiving notification of the intended prepayment, the transaction was a forced conversion in substance. Accordingly, the amount recognised in equity in respect of the shares issued was equal to the amount at which the liability for the debt was carried at as at the date of conversion plus the equity component of the convertible debt, which was reclassified to share capital.

(d) Equipment Facility

In 2016 the Company executed a lease financing agreement in respect of a $20 million mining fleet equipment lease facility (the "Equipment Facility") to fund the Company's acquisition of mining equipment for the Company's MRC mine.

To date, the Company has entered into a total of 25 equipment lease contracts under the Company's Equipment Facility. 21 of the equipment lease contracts were accounted for as finance leasing contracts and as a result, the Company recognized $8,575,076 as a finance lease obligation, which was included as a non-cash addition to equipment within property, plant and equipment. The remaining lease contracts were executed by way of sale leaseback arrangements.

(Expressed in Canadian Dollars)

13. LONG-TERM DEBT (continued)

(d) Equipment Facility

The terms of the leases are 4 - 5 years from delivery. Lease payments under the Equipment Facility are payable on a quarterly basis and comprise principal payments and interest, interest being CDOR plus 5.35%. The Equipment Facility is secured by the Company's mining fleet. The Equipment Facility is subject to certain financial covenants. As at December 31, 2018, the Company was in compliance with all debt covenants under the Equipment Facility. Title to the mining fleet will transfer to the Company when the respective lease is fully settled.

Future minimum lease payments pursuant to the Company's finance leases are as follows:

	Up to 1 year	1-5 years	Total
Minimum lease payments	3,248,009	6,332,224	9,580,233
Finance charges	(661,785)	(343,372)	(1,005,157)
Total principal payments	2,586,224	5,988,852	8,575,076

14. RECLAMATION PROVISION

The reclamation provision is comprised of:

	December 31, 2018	December 31, 2017
Opening balance	**$ 4,066,465**	$ 1,581,624
Additions	**2,651,962**	2,436,676
Accretion expense	**89,898**	48,165
Ending balance	**$ 6,808,325**	$ 4,066,465

The Company has recorded a liability for reclamation of current and past disturbances associated with the exploration and development activities at the MRC mine. The reclamation costs have been calculated to reflect the amount of expected cash flows for the disturbances incurred as at December 31, 2018. The Company applied a discount rate of 2.09% (the risk-free rate) (2017 – 1.60%) and an inflation rate of 2.0% (2017 – 2%) in calculating the estimated obligation. The liability for reclamation in nominal dollars, undiscounted is $6,863,114. Cash expenditures are expected to occur at the end of the mine life of the MRC mine, estimated in the years 2026 to 2027.

15. EQUITY

(a) Authorized share capital

Unlimited number of common shares without par value. Unlimited number of preferred shares without par value, issuable in series and with special rights and restrictions to be determined on issuance.

(b) Issued and fully paid common shares

During the year ended December 31, 2018, all Debentures and unpaid accrued interest owing to the Debenture holders were converted into 21,927,360 common shares of the Company (note 13c).
Other than shares issued due to the conversion of the Debentures, exercise of stock options and warrants, there were no additional shares issued during the year ended December 31, 2018.

(Expressed in Canadian Dollars)

15. EQUITY (continued)

(b) Issued and fully paid common shares

In the year December 31, 2017, the following private placements were completed:

Date issued	Shares issued	Unit price	Gross Proceeds	Issue costs	Net Proceeds
September 20, 2017	2,304,000	$ 1.40	$ 3,225,600	$ (54,041)	$ 3,171,559
September 20, 2017(i)	305,700	$ 1.80	550,260	(9,184)	541,076
October 5, 2017(i)	3,825,500	$ 1.83	7,000,665	(461,208)	6,539,457
October 5, 2017	2,858,000	$ 1.40	4,001,200	(344,544)	3,656,656
October 5, 2017(i)	2,777,000	$ 1.80	4,998,600	(334,779)	4,663,821
October 24, 2017(i)	835,000	$ 1.80	1,503,000	(13,529)	1,489,471
	12,905,200		$ 21,279,325	$ (1,217,285)	$ 20,062,040

(i) From time to time, the Company may raise funds through the issuance of flow-through shares. Based on Canadian tax law, the Company is required to spend this amount on qualifying exploration expenditures by December 31 of the year after the year the shares are issued. The Company uses the residual method to record the premium of the flow-through share which is recorded as other liability on the consolidated balance sheet. The liability balance is decreased as a result of the Company incurring a portion of the qualifying expenditures, therefore fulfilling part of its obligation with the offset being recognized as a deferred income tax recovery on the statement of income (loss) and comprehensive income (loss). As at December 31, 2018, the Company had fulfilled all of its obligation in respect of the 2017 flow-through private placement:

	December 31, 2018	December 31, 2017
Opening balance	**$ 2,164,290**	$ 1,165,091
Additions on issue of flow-through shares	**-**	3,212,046
Settlement of liability on expenditures made	**(2,164,290)**	(2,212,847)
Ending balance	**$ -**	$ 2,164,290

(c) Stock options

The Company has a rolling stock option plan pursuant to which the directors of the Company are authorized to grant options to directors, officers, employees and consultants of the Company and its subsidiaries of up to a maximum of 10% of the issued and outstanding common shares at the time of granting of an option. Every option granted, unless sooner terminated, has a term not exceeding 10 years after the date of grant.

(Expressed in Canadian Dollars)

15. EQUITY (continued)

(c) Stock options (continued)

A summary of the changes in stock options is as follows:

	Number of Options outstanding	Weighted-average exercise price ($)
Outstanding - January 1, 2017	12,808,700	0.39
Granted	4,385,000	1.01
Forfeited	(241,250)	1.02
Exercised	(3,657,450)	0.44
Outstanding - December 31, 2017	13,295,000	0.57
Granted	**4,335,000**	**1.64**
Forfeited	**(9,375)**	**1.41**
Exercised	**(2,970,625)**	**0.36**
Outstanding – December 31, 2018	**14,650,000**	**0.94**
Exercisable – December 31, 2018	**12,377,500**	**0.80**

Total share-based payments recognized during the year ended December 31, 2018 was $4,438,231 (2017: $2,646,714), with $4,083,432 recognized in the consolidated statement of income (loss) and comprehensive income (loss) (2017: $1,895,949), $191,919 capitalized to property, plant and equipment during the year ended December 31, 2018 (2017: $682,520), and $162,880 capitalized to exploration and evaluation assets (2017: $68,245). The weighted average share price of stock options exercised during the year was $1.80.

Stock options outstanding and exercisable at December 31, 2018 were as follows:

	Options outstanding					Options exercisable			
	Number of Options		Weighted average exercise price	Weighted average remaining life (years)		Number of Options		Weighted average exercise price	Weighted average remaining life (years)
$0.26 – 0.34	3,320,000	$	0.27	2.36		3,320,000	$	0.27	2.36
$0.40 – 0.42	1,745,000	$	0.42	3.90		1,745,000	$	0.42	3.90
$0.63 – 0.86	1,500,000	$	0.76	4.34		1,500,000	$	0.76	4.34
$0.96 – 1.02	3,450,000	$	0.96	4.85		3,450,000	$	0.96	4.85
$1.50 – 1.58	460,000	$	1.56	5.51		306,250	$	1.56	5.44
$1.60 – 1.63	3,925,000	$	1.63	5.89		1,962,500	$	1.63	5.89
$1.74 – 1.92	250,000	$	1.85	6.12		93,750	$	1.85	6.12
	14,650,000	$	0.93	4.44		12,377,500	$	0.80	4.18

The Company uses the Black Scholes option pricing model to determine the fair value of stock options granted. The vesting period for options is 12.5% immediately with 12.5% each quarter over the following seven quarters. The weighted average fair value of the stock options granted during the year ended December 31, 2018 was $1.09 (2017 - $0.66).

(Expressed in Canadian Dollars)

15. EQUITY (continued)

(c) Stock options (continued)

The following assumptions were used in the valuation of the stock options granted in the year ended December 31, 2018:

Risk-free interest rate	2.08% - 2.24%
Expected life	6.75 years
Annualized volatility	70%
Dividend rate	0.00%
Forfeiture rate	0.00%

The risk-free rate for periods within the contractual term of the option is based on the Bank of Canada administered interest rates in effect at the time of the grant. The expected life of the options granted represents the period of time that the options granted are expected to be outstanding. Expected volatilities are based on historical volatilities of stock prices of comparable companies given the limited life of the Company as an exploration, development and operating company. Expected forfeiture rates are based on historical forfeitures of stock options of the Company.

(d) Share Purchase Warrants

A summary of the changes in share purchase warrants is as follows:

	Number of outstanding warrants	Weighted-average exercise price (in $)
Balance - January 1, 2017	23,118,384	0.60
Exercised	(2,386,267)	0.60
Balance - December 31, 2017	20,732,117	0.60
Exercised	(19,641,735)	**0.60**
Expired	(1,090,382)	**0.60**
Balance – December 31, 2018	**-**	**-**

(Expressed in Canadian Dollars)

16. INCOME TAXES

(a) A reconciliation of the combined Canadian federal and provincial income taxes at statutory rates and the Company's effective income tax rate is as follows:

	2018	2017
Income (Loss) before income taxes	$ 37,130,154	$ (7,137,302)
Federal and provincial income tax rates	27.00%	26.00%
Income tax recovery based on the above rates	10,025,142	(1,855,699)
Increase (decrease) due to:		
Non-deductible expenses and other items	763,317	493,940
Effects of different statutory rates on earnings of subsidiaries	1,643,641	(40,796)
Changes in losses and temporary differences not recognized	-	(2,249,828)
Difference between flow-through share premium and tax benefits renounced	1,282,875	1,439,538
Income tax benefits not previously recognized	(4,448,802)	-
Income tax recovery (expense)	$ 9,266,173	$ (2,212,845)

(b) Recognized deferred income tax assets (liabilities) are comprised of:

	2018	2017
Non-capital losses	$ 20,889,390	$ 9,596,160
Mineral Properties and property, plant and equipment	(32,306,472)	(10,563,204)
Inventory	(2,975,873)	(1,203,367)
Future distributions from subsidiaries	(1,868,575)	(1,868,575)
Lease obligation	2,662,879	3,226,854
Reclamation provision	2,110,582	-
Other	1,432,748	812,132
	$ (10,055,321)	$ -

(c) Unrecognized deferred income tax assets are comprised of:

	2018	2017
Non-capital loss carry forward and other amounts	$ 2,760,924	$ 6,023,299
Capital losses	1,840,919	1,840,919
Mineral Properties and property, plant and equipment	-	106,487
Reclamation provision	-	1,260,604
Other	-	478,750
	$ 4,601,843	$ 9,710,059

(d) At December 31, 2018, the Company has tax losses for income tax purposes in Canada which may be used to reduce future taxable income. The Company has Canadian tax losses of $78,876,000 which expire between 2025 and 2038.

(Expressed in Canadian Dollars)

17. REVENUE

Revenue for the year ended December 31, comprised the following:

	Year ended December 31, 2018	Year ended December 31, 2017
Gold revenue - Hedge facility	$ 77,574,843	$ -
Gold revenue - Spot sales	50,955,078	-
Less refining costs	(202,558)	-
	$ 128,327,363	$ -

In order to mitigate gold price risk, the Company entered into margin free gold forward sales contracts (the "Hedge Facility"). On September 21, 2018, the Company novated the Hedge Facility to the lenders of the RCF (Note 13a), while maintaining the same approximate forward price of $1,550. The average sale price for the gold forward sales during the year ended December 31, 2018 was $1,546 per ounce. The remaining commitment is 158,480 ounces between January 2019 and February 2021.

For accounting purposes, management has determined that the Hedge Facility continues to meet the requirements of 'own use' and is thereby exempt from the requirements of IFRS 9. As a result, the Hedge Facility is not considered a derivative and is not marked to market at each reporting period, and recognition is deferred until settlement and delivery of the gold.

18. COST OF SALES

Cost of sales for the years ended December 31, comprised the following:

	Year ended December 31, 2018	Year ended December 31, 2017
Salaries and benefits, and consultants	$ 23,294,883	$ -
Supplies and consumables	16,296,800	-
Royalties	1,756,855	-
Energy	3,274,116	-
Site administrative costs	2,609,454	-
Rentals	1,627,946	-
Environmental	1,096,552	-
Site share-based payments	816,539	-
Production costs	(50,773,145)	-
Change in inventory	4,870,571	-
	$ (45,902,574)	$ -

(Expressed in Canadian Dollars)

19. GENERAL AND ADMINISTRATIVE COSTS

General and administrative costs for the years ended December 31, were comprised of:

	Year ended December 31, 2018	Year ended December 31, 2017
Amortization	$ 53,143	$ 106,532
Corporate Development and investor relations	386,848	454,409
Director fees	289,541	269,501
Management Fees, salaries and benefits	3,199,032	2,350,029
Office and general	384,976	258,722
Professional fees	832,616	974,373
Rent	197,626	191,928
Share-based payments	3,266,893	1,895,949
Transfer agent and filing fees	250,646	142,324
Travel, meals and entertainment	163,466	105,982
	$ 9,024,787	$ 6,749,751

20. INTEREST AND FINANCING COSTS

Interest and financing costs for years ended December 31, were comprised of:

	Year ended December 31, 2018	Year ended December 31, 2017
Interest on loan facilities	$ (5,985,405)	$ -
Amortization of transaction costs on the PLF	(3,074,744)	-
Interest and accretion of convertible debt	(422,226)	-
Financing fees on capital leases	(533,802)	-
Reclamation accretion expense	(89,898)	(48,165)
Other financing charges	(195,232)	(557,923)
	$ (10,301,307)	$ (606,088)

Prior to the start of commercial production on March 1, 2018, interest and financing costs, other than stand-by fees were capitalized to Property, plant and equipment. As a result of the repayment of the PLF (Note 13b), the Company expensed the remaining unamortized balance of deferred transaction costs relating to the PLF in the amount of $1,804,530.

(Expressed in Canadian Dollars)

21. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

(a) Key management compensation

Key management includes the Company's directors, Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Compensation awarded to key management for years ended December 31 is as follows:

	2018	2017
Salaries and benefits	$ 1,026,854	$ 768,598
Consulting fees	1,179,348	1,103,721
Director fees	289,541	269,500
Share-based payments	2,584,394	1,704,252
	$ 5,080,137	$ 3,846,071

(b) Amount due to related parties

Amounts due to related parties at of December 31 are as follows:

	December 31, 2018	December 31, 2017
Beedie Investments Limited[1]	$ -	$ 7,573,469
Sirocco Adivsory Services[2,4]	484,219	428,246
Metallica Consulting Services[3,4]	-	14,000
Directors[4]	28,996	15,500
Officers[4]	388,226	293,059
	$ 901,441	$ 8,324,274

(1) In May 2016, the Company issued $8 million of Debentures to Beedie Investment Limited, a company controlled by a director of the Company. On April 23, 2018, all Debentures and unpaid accrued interest owing to Beedie Investment Limited was converted into 13,491,738 common shares of the Company.
(2) Sirocco Advisory Services, is a company controlled by a director and officer of the Company.
(3) Metallica Consulting Services is a company controlled by a director of the Company.
(4) Amounts due to related parties are unsecured, non-interest bearing and due on demand.

(c) Amount due from related parties

The Company charges office lease and administrative expenditures to Oceanic Iron Ore Corp. ("Oceanic"), a Company with officers and directors in common. During the year ended December 31, 2018, office lease and administrative expenditures billed to Oceanic amounted to $81,741 (2017: $75,291). As at December 31, 2018, the Company was due $39,865 from Oceanic (2017: $49,168).

(Expressed in Canadian Dollars)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value measurements

Financial instruments of the Company as at December 31 are summarized as follows:

	December 31, 2018		December 31, 2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	**$ 50,280,380**	**$ 50,280,380**	$ 22,093,914	$ 22,093,914
Due from related parties	**39,865**	**39,865**	49,168	49,168
Receivables	**322,838**	**322,838**	223,539	223,539
Restricted cash	**-**	**-**	10,593,432	10,593,432
Investment in a private company	**1,196,134**	**1,196,134**	248,077	N/A
Financial liabilities				
Accounts payable and accrued liabilities	**$ 19,596,272**	**$ 19,596,272**	$ 22,807,073	$ 22,807,073
PLF	**-**	**-**	115,111,746	113,789,000
Revolving Credit Facility	**105,389,200**	**106,104,793**	-	-
Equipment facility	**8,575,076**	**8,087,016**	10,409,317	9,859,000
Due to related parties	**901,441**	**901,441**	750,805	750,805

Fair value is based on available public market information or, when such information is not available, estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate credit risk.

All financial instruments for which fair value is recognised or disclosed are categorized within a fair value hierarchy based on the lowest level input that is significant to the fair value measurement as whole. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The Company's investment in a private company is categorized as Level 3 on the fair value hierarchy as observable market data for this investment is not available. All other financial instruments are categorized as Level 1.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The board approves and monitors the risk management processes.

<u>Credit risk</u>

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company's exposure to credit risk is on its cash and cash equivalents, receivables and due from related parties. The Company has concentration of risk with respect to cash being held with two large Canadian financial institutions. The Company's credit risk is mitigated by maintaining its financial liquid assets with highly reputable counterparties, with cash being held with large Canadian financial institutions and a majority of the receivable balances due from the Canadian government. The maximum exposure to credit risk is equal to the carrying value of the financial assets noted above.

(Expressed in Canadian Dollars)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due. The Company's cash and cash equivalents are invested in business accounts and term deposits which are available on demand. The Company manages liquidity risk by preparing and maintaining cash forecasts, which illustrate cash spent to date and its cash needs over the short term and over repayment dates into the future as it pertains to the RCF and Equipment Facility.

The following table details the Company's expected remaining contractual cash flow requirements for its financial liabilities based on repayment or maturity periods and its commitments on the crown and office leases. The amounts presented are based on the contractual undiscounted cash flows, these balances may not agree with the carrying amounts on the consolidated statements of financial position:

	Notes	< 1 year	1-5 years	Over 5 years	Total
Accounts payables		$19,596,272	-	-	$19,596,272
Due to related parties		901,441	-	-	901,441
RCF	13a	7,342,864	118,243,793		125,586,657
Reclamation bond	14	2,100,000	-	-	2,100,000
Lease obligations	13c	3,248,009	6,332,224	-	9,580,233
Crown lease		68,300	341,500	136,600	546,400
Office lease		229,972	172,479	-	402,451
Total		$33,486,858	125,089,996	$136,600	$158,713,454

The Company had cash of $50,280,380 at December 31, 2018. Commercial production at the Company's MRC mine began on March 1, 2018 and is expected to provide sufficient cash flow from operations to cover the cash flow requirements set out above.

Interest Rate Risk

Interest risk is the risk that the Company's future cash flows and fair values will fluctuate as a result of changes in the market interest rate. The Company's interest rate risk mainly arises from the interest rate impact on interest income derived from Canadian Dollar cash and deposits, restricted cash, and interest expense on the RCF and the Equipment Facility. The Company invests surplus cash in fixed rate term deposits. It is the Company's policy to reduce interest rate risk over future cash flows through the use of instruments with a history of returns. Advances under the RCF bear interest at a variable interest rate depending on the type of loan borrowed plus an applicable margin ranging from 2.00% to 4.00% determined based on the Company's leverage ratio. The Equipment Facility bears interest at a rate of CDOR plus a 5.35% margin. The Company manages this risk by monitoring fluctuations in CDOR and interest rates applicable to the respective drawdown under the RCF, which are not expected to be significant. On an annualized basis, a 1% change in interest rates would have an impact of approximately $1,647,616 on net income (loss) and comprehensive income (loss).

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Price Risk

The Company is subject to commodity price risk from fluctuations in the market prices for gold. The Company has a Hedge Facility covering the sale of 215,000 ounces at a price of $1,550 per ounce. As at December 31, 2018, there was 158,480 oz remaining to delivered into the Hedge Facility.

Currency risk

The functional currency of the Company is the Canadian dollar. Currency transaction risk and currency translation risk is the risk that fluctuations of the Canadian dollar in relation to other currencies may impact the fair value of financial assets, liabilities and operating results. As of December 31, 2018, the Company had no financial assets or liabilities that were subject to currency translation risk.

23. CAPITAL MANAGEMENT

Capital includes all components of shareholders' equity. The Company's objective in managing capital is to safeguard the Company's ability to continue as a going concern, to maintain a flexible capital structure which optimizes cost of capital at acceptable risk, and to provide reasonable returns to shareholders.

The Company invests its funds in deposits and term deposits with major financial institutions and monitors capital by gauging cash available for use. The Company manages the capital structure and makes adjustments in light of changes in economic conditions, foreign exchange rates and the risk characteristics of the Company's assets. In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to improve working capital.

Other than what has already been disclosed in Note 13 in respect of long-term debt, the Company has no other externally imposed capital requirements.

24. COMMITMENTS

The Company's commitments are as follows:

(a) As discussed in Note 9, an NSR of 1% is payable in respect of the Touquoy deposit. Additionally, a 3% NSR is payable on production from the Company's 100% owned Cochrane Hill deposit, of which two-thirds can be repurchased by the Company for $1.5 million, and a 1% NSR payable on production from the Company's 100% owned Fifteen Mile Stream deposit. For the Company's 100% owned Beaver Dam deposit, a 0.6% NSR is payable to a private third-party. The Company must also remit a 1% NSR on production from all deposits in Nova Scotia to the government in Nova Scotia.

(b) In December 2018, the Company was issued an $8.3 million letter of credit by the Company's lenders under the RCF to replace the previously posted surety bond related to the reclamation performance bond with the province of Nova Scotia.

24. COMMITMENTS (continued)

(c) In order to maintain current rights of tenure to exploration tenements, the Company is required to incur expenditures of approximately $380,000 in respect of claim renewal fees and $2.5 million in minimum work requirements in 2019.

(d) The Company has lease agreement in respect of seven parcels of Crown land within the footprint of Touquoy. Lease payments are $68,300 per annum, continuing until the termination of the lease in February 2026.

25. SUBSEQUENT EVENTS

On January 17, 2019, the Company entered into an agreement to invest $9,000,000 by way of a non-brokered private placement financing as a strategic investment in Velocity Minerals Ltd. (“Velocity”).

On February 7, 2019, the Company announced a stock option grant for 6,195,000 at an exercise price of $1.84 to officers, directors and employees of the Company.