# Kincora Copper Limited

***(An Exploration Stage Company)***

**CONSOLIDATED FINANCIAL STATEMENTS**

*Expressed in Canadian Dollars*

**For the years ended December 31, 2019 and 2018**

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kincora Copper Limited:

## Opinion

We have audited the consolidated financial statements of Kincora Copper Limited (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

## 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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Information

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

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the 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 Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 Cherry Ho.

DMCL

**DALE MATHESON CARR-HILTON LABONTE LLP**
**CHARTERED PROFESSIONAL ACCOUNTANTS**
Vancouver, BC

April 28, 2020

# Kincora Copper Limited

*Statement 1*

*(An Exploration Stage Company)*

## Consolidated Statements of Financial Position

## As at

*(Figures in tables are expressed in thousands of Canadian dollars)*

| | | December 31, 2019 | | December 31, 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash and cash equivalents | **$** | **2,903** | $ | 937 |
| Receivables, prepaids and deposits (Note 7) | | **786** | | 112 |
| | | **3,689** | | 1,049 |
| Equipment (Note 11) | | **163** | | 211 |
| Exploration and evaluation assets (Note 6) | | **50,439** | | 51,186 |
| | **$** | **54,291** | $ | 52,446 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable (Note 9) | **$** | **799** | $ | 711 |
| Accrued liabilities | | **25** | | 25 |
| | | **824** | | 736 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (Note 7) | | **172,402** | | 166,464 |
| Share-based payment reserve (Note 7) | | **10,667** | | 9,892 |
| Deficit | | **(129,602)** | | (124,646) |
| | | **53,467** | | 51,710 |
| | **$** | **54,291** | $ | 52,446 |

**Nature of Operations and Going Concern** (Note 1)
**Commitments and Contingencies** (Note 12)
**Subsequent Events** (Note 14)

*Approved and authorized by the Board of Directors on April 28, 2020*

| | |
|---|---|
| *"Ray Nadarajah"* | *"Sam Spring"* |
| Ray Nadarajah | Sam Spring |
| Director | Director |

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

# Kincora Copper Limited

*Statement 2*

*(An Exploration Stage Company)*

**Consolidated Statements of Loss and Comprehensive Loss**

**For the years ended December 31,**

*(Figures in tables are expressed in thousands of Canadian dollars, except per share amounts)*

| | | **2019** | | 2018 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Consultants | $ | **144** | $ | 100 |
| Consultants – Geologists (Note 9) | | **58** | | 83 |
| Consultants – Technical | | **87** | | 162 |
| Corporate administrative and office services (Note 9) | | **282** | | 310 |
| Directors and audit committee fees (Note 9) | | **244** | | 193 |
| Exploration costs | | **24** | | - |
| Foreign exchange loss (gain) | | **(30)** | | 76 |
| Insurance | | **14** | | 17 |
| Investor relations | | **154** | | 101 |
| Legal and accounting | | **216** | | 156 |
| Management fees (Note 9) | | **549** | | 285 |
| Share-based compensation (Notes 7 and 9) | | **318** | | 102 |
| Transfer agent and filing fees | | **50** | | 37 |
| Travel | | **65** | | 89 |
| | | **(2,175)** | | (1,711) |
| **Other items** | | | | |
| Gain on sale of assets (Note 11) | | **-** | | 18 |
| Gain on settlement of debt (Note 7) | | **36** | | 38 |
| Impairment of exploration and evaluation assets (Note 6) | | **(2,817)** | | (662) |
| **Loss and comprehensive loss for the year** | **$** | **(4,956)** | $ | (2,317) |
| Loss per share – basic and diluted | **$** | **(0.05)** | $ | (0.03) |
| Weighted average number of common shares outstanding (*000's*) | | **104,181** | | 69,455 |

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

# Kincora Copper Limited

*(An Exploration Stage Company)*

**Consolidated Statements of Cash Flows**

**For the years ended December 31,**

*(Figures in tables are expressed in thousands of Canadian dollars)*

| **Cash provided by (used in):** | | **2019** | | 2018 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Loss for the year: | **$** | **(4,956)** | $ | (2,317) |
| Items not affected by cash: | | | | |
| Amortization | | **-** | | 210 |
| Gain on settlement of debt | | **(36)** | | (38) |
| Share-based compensation | | **318** | | 102 |
| Impairment of exploration and evaluation assets | | **2,817** | | 662 |
| Issuance of bonus shares | | **124** | | - |
| Changes in non-cash working capital items: | | | | |
| Receivables, prepaids and deposits | | **(674)** | | 188 |
| Accounts payable and accrued liabilities | | **314** | | 447 |
| Net cash used in operating activities | | **(2,093)** | | (746) |
| | | | | |
| **Investing activities** | | | | |
| Acquisition of equipment | | **(172)** | | (193) |
| Proceeds from sale of assets | | **-** | | 9 |
| Exploration and evaluation asset expenditures | | **(1,850)** | | (1,410) |
| Net cash used in investing activities | | **(2,022)** | | (1,594) |
| | | | | |
| **Financing activity** | | | | |
| Proceeds from private placement, net of issue costs | | **6,081** | | - |
| Net cash provided by financing activity | | **6,081** | | - |
| | | | | |
| **Change in cash and cash equivalents** | | **1,966** | | (2,340) |
| Cash and cash equivalents – beginning of year | | **937** | | 3,277 |
| **Cash and cash equivalents – end of year** | **$** | **2,903** | $ | 937 |

**Supplemental Disclosure of Cash Flow Information** (Note 10)

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

# Kincora Copper Limited



*(An Exploration Stage Company)*

**Consolidated Statements of Changes in Shareholders' Equity**

**For the years ended December 31, 2019 and 2018**

*(Figures in tables are expressed in thousands of Canadian dollars, except number of share amounts)*

| | Share capital (Number of shares) | Share capital $ | Share-based payment reserve $ | Deficit $ | Total $ |
|---|---|---|---|---|---|
| Balance, December 31, 2017 | 68,854,231 | 166,269 | 9,790 | (122,329) | 53,730 |
| Shares issued for settlement of debt | 1,236,828 | 195 | - | - | 195 |
| Share-based compensation | - | - | 102 | - | 102 |
| Loss for the year | - | - | - | (2,317) | (2,317) |
| **Balance, December 31, 2018** | **70,091,059** | **166,464** | **9,892** | **(124,646)** | **51,710** |
| Shares issued for private placement, net | 62,515,000 | 5,624 | 457 | - | 6,081 |
| Shares issued for settlement of debt | 1,818,392 | 190 | - | - | 190 |
| Bonus shares issued | 1,037,376 | 124 | - | - | 124 |
| Share-based compensation | - | - | 318 | - | 318 |
| Loss for the year | - | - | - | (4,956) | (4,956) |
| **Balance, December 31, 2019** | **135,461,827** | **172,402** | **10,667** | **(129,602)** | **53,467** |

(See Note 7)

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

## 1. Nature of Operations and Going Concern

Kincora Copper Limited ("the Company") was incorporated in British Columbia on September 24, 1983. The Company is engaged in the acquisition and exploration of exploration and evaluation assets. The Company's shares are listed on the TSX-Venture Exchange ("TSXV").

The head office of the Company is located at Suite #400 - 837 West Hastings Street, Vancouver, British Columbia V6C 3N6 and the registered address and records office is located at 25th Floor, 700 West Georgia Street, Vancouver, British Columbia, V7Y 1D3.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company continues to incur operating losses, has limited financial resources, no source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will be available to conduct further exploration and development of its exploration and evaluation assets projects. These material uncertainties may cast a significant doubt on the validity of this assumption.

The Company's ability to continue as a going concern is dependent upon its ability to obtain the financing necessary to continue operations. As at December 31, 2019, the Company has an accumulated deficit of $129,602,000, a net loss for the year ended December 31, 2019 of $4,956,000 and has working capital of $2,865,000. If the going concern assumption was not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying values of assets, liabilities, reported income and expenses and the statement of financial position classifications used. Such adjustments could be material.

## 2. Basis of Preparation

*Statement of Compliance*

These consolidated financial statements, including comparatives have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). They have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The significant accounting policies, as disclosed, have been applied consistently to all periods presented in these consolidated financial statements.

*Critical Accounting Estimates*

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the year. Actual results could differ from these estimates.

## 2. Basis of Preparation – continued

*Critical Accounting Estimates – continued*

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- The carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position based on the planned exploration budgets and drill results of exploration programs;
- The inputs used in accounting for share-based compensation expense included in profit or loss calculated using the Black-Scholes Option Pricing Model;
- The valuations of shares issued in non-cash transactions using the quoted share price as the fair value-based measurement on the date the shares are issued for the transaction; and
- The recognition of deferred tax assets based on the change in unrecognized deductible temporary tax differences.

## 3. Significant Accounting Policies

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Kincora Group Ltd ("KGL"), Nadmin LLC ("Nadmin"), Golden Grouse LLC ("Golden Grouse"), BSG Investments Inc. ("BSGII"), Game Creek Company Limited ("Game Creek"), Samsul Mineração Ltda. ("Samsul") and Kincora Copper Australia Pty Ltd. Inter-company balances and transactions are eliminated on consolidation. BSGII, Game Creek and KGL are British Virgin Island incorporated companies. Nadmin and Golden Grouse are incorporated in Mongolia. Samsul is incorporated in Brazil. Kincora Copper Australia Pty Ltd was incorporated in Australia during the year.

b) Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee. The fair value of stock options is measured on the date of grant, using the Black-Scholes Option Pricing Model, and is recognized over the vesting period. A corresponding increase in share-based payment reserve is recorded when stock options are expensed. When stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion of share-based compensation previously recorded in share-based payment reserve. Share-based compensation arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity settled share-based payment transactions and measured at the fair value of goods or services received. If the fair value of the goods or services received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

**3. Significant Accounting Policies** – *continued*

c) Cash and cash equivalents

Cash equivalents consist of highly liquid investments that are readily convertible into cash with maturities of three-months or less when purchased.

d) Exploration and evaluation assets

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are tested for impairment if facts or circumstances indicate that impairment exists. Examples of such facts and circumstances are as follows:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

e) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. In calculating the diluted loss per share, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive.

**3. Significant Accounting Policies** – *continued*

f) Equipment

Equipment is carried at cost less amortization and amounts written-off. The assets residual value, amortization methods and useful lives are reviewed, and adjusted, if appropriate, at each reporting date. Amortization is provided for over the estimated lives of the related assets based on annual rates as follows:

| | |
|---|---|
| Exploration equipment | 10 Years - Straight-line |
| Computers | 10 Years - Straight-line |

g) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

h) Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries for the years ended December 31, 2019 and 2018 is the Canadian Dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"). The Company's presentation currency is the Canadian dollar ("$").

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in the statements of comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

**3. Significant Accounting Policies** – *continued*

i) Provision for environmental rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as exploration and evaluation assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes would be recorded directly to exploration and evaluation assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, would be charged to profit or loss for the year. At December 31, 2019 and 2018, the Company had no provisions for environmental rehabilitation.

j) Impairment of assets

The carrying amount of the Company's long-lived assets (which includes equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount is the greater of an asset's fair value, less cost to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows, largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

**3. Significant Accounting Policies** – *continued*

k) Financial Instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

| **Financial assets/liabilities** | **Classification** |
|---|---|
| Cash and cash equivalents | Amortized cost |
| Receivables | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |

Measurement

*Financial assets at FVTOCI*
Elected investments in equity investments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

*Financial assets and liabilities at amortized cost*
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

**3. Significant Accounting Policies** – *continued*

k) Financial Instruments – *continued*

*Financial assets and liabilities at FVTPL*
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transactions costs expensed in the statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are recorded in the statements of comprehensive loss in the period in which they arise.

Fair value measurement disclosure includes classification of financial instrument fair values in a hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The fair values of the Company's cash and cash equivalents constitutes a Level 1 fair value measurement. The fair value of the Company's receivables and accounts payable approximate the carrying value due to their short-term nature.

<u>Impairment of financial assets at amortized cost</u>

The Company recognized a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset's credit risk has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

<u>Derecognition</u>

*Financial assets*
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

## 3. Significant Accounting Policies – *continued*

k) Financial Instruments – *continued*

Derecognition – *continued*

*Financial liabilities*
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of comprehensive loss.

l) Change in accounting policies – Leases

The Company adopted IFRS 16 which sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. The adoption did not result in any impact on the financial statements as the Company did not have any lease during the periods presented.

As at the commencement date of a lease, the Company recognizes a lease liability and an asset representing the right to use the underlying asset during the lease term (i.e. the "right-of-use" asset) unless the underlying asset has a low value or the lease term is twelve months or less, which are expensed in the period incurred. At this date, the right-of-use asset is measured at cost, which includes the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset. The right-of-use asset is then depreciated using the straight-line method from the lease commencement date to the earlier of the end of the lease term or the end of the useful life of the asset. The right-of-use asset may also be reduced for any impairment losses, if any.

At the lease commencement date, the lease liability is measured at the present value of the future lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate, which is the rate the Company would pay for similar assets at similar locations over a similar term. The lease liability is measured at amortized cost using the effective interest method.

## 4. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to commence the development of its exploration and evaluation assets and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares. Further information relating to liquidity risk is disclosed in Note 5. In the management of capital, the Company includes the components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that

## 4. Capital Management – *continued*

are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities of three months or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. The Company is uncertain as to whether its current capital resources will be sufficient to carry its exploration plans and operations through its current operating period and, accordingly, management is reviewing the timing and scope of current exploration plans and is also pursuing other financing alternatives to fund the Company's operations. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

## 5. Management of Financial Risk

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is periodically exposed to interest rate risk on its cash equivalents as these instruments are exposed to interest rate fluctuations on renewal. Management has assessed this risk as low.

*Currency risk*

Currency risk is the risk that the fair values of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's operations are focused on Mongolia, where many exploration and administrative expenses are incurred in the Mongolian Tugrik and the US Dollar. The Company's ability to advance funds to Mongolia is subject to changes in the valuation of the Tugrik and the US dollar as well as rules and regulations of the Mongolian government. Fluctuations in the value of the Tugrik and the US dollar may have an adverse effect on the operations and operating costs of the Company. The Company does hold balances in foreign currencies, Mongolian Tugrik and United States dollar, which give rise to exposure to foreign exchange risk. Management believes this risk to be minimal.

*Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada and Mongolia. As most of the Company's cash is held by two banks there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company has secondary exposure to credit risk on its receivables. This risk is minimal as receivables consist primarily of refundable goods and services taxes.

**5. Management of Financial Risk** – *continued*

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company attempts to manage liquidity risk by maintaining sufficient cash and cash equivalent balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term obligations.

As at December 31, 2019, the Company had a cash balance of $2,903,000 (2018 - $937,000) to settle current liabilities of $824,000 (2018 - $736,000). Included in receivables, prepaids and deposits is a receivable of $601,111 due from the trust account of a former legal counsel of the Company. The amount was held in conjunction with the private placement and was received after year-end by the Company.

Historically, the Company's sole source of funding has been the issuance of equity and debt financing. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant financing. Liquidity risk is assessed as high.

*Commodity price risk*

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market prices of copper and gold. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.

*Fraud risk*

Fraud risk is the vulnerability that the Company faces from entities capable of intentional misconduct because of pressure, opportunity and rationalization. Fraud risk comes from sources both internal and external to the Company. The Company closely monitors its operations to determine the appropriate course of action to be taken.

## 6. Exploration and Evaluation Assets

For the year ended December 31, 2019 (000's)

| | | Bronze Fox | | Golden Grouse | | Badrakh | | Total |
|---|---|---|---|---|---|---|---|---|
| Acquisition costs | | | | | | | | |
| Acquisition & maintenance | $ | - | $ | - | $ | - | $ | **-** |
| Total current acquisition costs | $ | - | $ | - | $ | - | $ | **-** |
| Exploration costs | | | | | | | | |
| Amortization | $ | 121 | $ | 97 | $ | 2 | $ | **220** |
| Assaying | | 28 | | 26 | | 7 | | **61** |
| Camp | | 35 | | 41 | | 7 | | **83** |
| Drilling | | 321 | | 562 | | 204 | | **1,087** |
| Fuel | | - | | 10 | | 7 | | **17** |
| Geological/geophysics | | 1 | | - | | - | | **1** |
| License/fees/taxes | | - | | 13 | | - | | **13** |
| Rental/utilities | | 4 | | 42 | | 9 | | **55** |
| Salaries/labor | | 108 | | 239 | | 44 | | **391** |
| Sampling | | 85 | | - | | - | | **85** |
| Supplies/safety gear | | 7 | | 13 | | 9 | | **29** |
| Transportation/travel | | 6 | | 17 | | 5 | | **28** |
| Total current exploration costs | $ | 716 | $ | 1,060 | $ | 294 | $ | **2,070** |
| Total costs incurred during the year | $ | 716 | $ | 1,060 | $ | 294 | $ | **2,070** |
| Balance, opening | | 48,575 | | 2,611 | | - | | **51,186** |
| Impairment | | - | | (2,523) | | (294) | | **(2,817)** |
| Balance, ending | $ | 49,291 | $ | 1,148 | $ | - | $ | **50,439** |
| Cumulative costs: | | | | | | | | |
| Acquisition | $ | 36,624 | $ | 1,094 | $ | - | $ | **37,718** |
| Exploration | | 12,667 | | 3,239 | | 294 | | **16,200** |
| Impairment | | - | | (3,185) | | (294) | | **(3,479)** |
| | $ | 49,291 | $ | 1,148 | $ | - | $ | **50,439** |

### 6. Exploration and Evaluation Assets – *continued*

For the year ended December 31, 2018 (000's)

| | | Bronze Fox | | Golden Grouse | | Total |
|---|---|---|---|---|---|---|
| Acquisition costs | | | | | | |
| Acquisition & maintenance | $ | - | $ | - | $ | **-** |
| Total current acquisition costs | $ | - | $ | - | $ | **-** |
| | | | | | | |
| Exploration costs | | | | | | |
| Amortization | $ | 98 | $ | 18 | $ | **116** |
| Assaying | | 15 | | 3 | | **18** |
| Camp | | 14 | | - | | **14** |
| Geological/geophysics | | 327 | | 114 | | **441** |
| License/fees/taxes | | 44 | | 224 | | **268** |
| Meals and entertainment | | - | | 17 | | **17** |
| Rental/utilities | | 7 | | 16 | | **23** |
| Salaries/labor | | 112 | | 358 | | **470** |
| Supplies/safety gear | | 44 | | 37 | | **81** |
| Transportation/travel | | 9 | | 69 | | **78** |
| Total current exploration costs | $ | 670 | $ | 856 | $ | **1,526** |
| | | | | | | |
| Total costs incurred during the year | $ | 670 | $ | 856 | $ | **1,526** |
| Balance, opening | | 47,905 | | 2,417 | | **50,322** |
| Impairment | | - | | (662) | | **(662)** |
| Balance, ending | $ | 48,575 | $ | 2,611 | $ | **51,186** |
| | | | | | | |
| Cumulative costs: | | | | | | |
| Acquisition | $ | 36,624 | $ | 1,094 | $ | **37,718** |
| Exploration | | 11,951 | | 2,179 | | **14,130** |
| Impairment | | - | | (662) | | **(662)** |
| | $ | 48,575 | $ | 2,611 | $ | **51,186** |

*Exploration and evaluation assets – Mongolia – Bronze Fox*

The Company acquired a 100% interest in the shares of KGL in consideration for $35,882,000 in cash, common shares and warrants. KGL holds title to the Bronze Fox copper/gold project in Mongolia.

*Exploration and evaluation assets – Mongolia – Golden Grouse*

On April 18, 2012, the Company acquired a 100% interest in Golden Grouse from the optionor, Temujin Mining Corp. ("Temujin"), which held two mineral exploration licenses adjoining the Company's Bronze Fox project in Mongolia.

On October 28, 2016, the Company obtained seven mineral exploration licenses and two new license applications in mergers with IBEX Land Mongolia LLC ("IBEX Land") and IBEX Mongolia LLC ("IBEX"). The fair value in excess of the net assets of IBEX Land and IBEX was allocated to Bronze Fox ($742,000) and Golden Grouse ($1,094,000). As of December 31, 2019, all of the mineral exploration license associated with the IBEX transaction that are no longer being explored by the Company have been written down for a total of $3,185,000.

## 6. Exploration and Evaluation Assets – *continued*

*Exploration and evaluation assets – Mongolia – Badrakh*

On November 11, 2019, the Company entered an agreement with Temuulen Orshikh LLC ("Temuulen"), a privately held Mongolian company that owns 100% of the Badrakh project, that subject to final due diligence and definitive documentation, supports binding commercial terms.

The Company has a staged pathway to earn up to 80% shareholding interest in the project.

Key milestones include:
1. Option period: The Company will spend $250,000 (U.S.) by June 30, 2020, to hold an option to earn-in to the Badrakh project, including the Company committing to drill two holes in the 2019 field season.
2. Stage 1: The Company will spend up to $2,000,000 (U.S.) within a two-year period (after the option period) to earn a 51% interest in the Badrakh project.
3. Stage 2: The Company will spend up to $4,000,000 (U.S.) within three years (after stage 1) to earn a further 29% interest in the Badrakh project for total interest of 80%, with ownership increments of 14.5% for every $2,000,000 (U.S.) in financing.

Following the receipt of all exploration results and technical review, the Company notified Temuulen that it will not further pursue the project, and wrote off all its capitalized exploration costs of $294,000.

*Exploration and evaluation assets – Australia – Nyngan*

On November 21, 2019, the Company has been granted new exploration licence covering 762 $km^2$ named the Nyngan project located in the Lachlan fold belt (LFB), central New South Wales (NSW), Australia. Subsequent to the year ended December 31, 2019, the application was formally approved, and the Company was granted with exploration license EL8929.

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## 7. Share Capital and Contributed Surplus

*Authorized share capital:* Unlimited Common shares without par value.

*Share issuances:*

a) On February 16, 2018, the Company issued 152,172 shares to certain directors, officers and service providers for services rendered during the period from July 1, 2017 to September 30, 2017 in the amount of $52,499, resulting in a gain on debt settlement of $19,022.

b) On February 16, 2018, the Company issued 40,220 shares to settle outstanding payables of $13,876, resulting in a gain on debt settlement of $2,086.

c) On May 11, 2018, the Company issued 210,180 shares to certain directors, officers and service providers for services rendered to the Company in the amount of $52,500, resulting in a gain on debt settlement of $23,100.

d) On July 4, 2018, the Company issued 374,999 shares to certain directors, officers and service providers for services rendered to the Company in the amount of $52,500, resulting in a gain on debt settlement of $3,750.

**7. Share Capital and Contributed Surplus** – *continued*

*Share issuances: - continued*

e) On September 28, 2018, the Company issued 388,887 shares to certain directors, officers and service providers for services rendered to the Company in the amount of $52,500, resulting to a loss on debt settlement of $9,722.

f) On November 1, 2018, the Company issued 70,370 to certain directors and service providers for services rendered to the Company in the amount of $9,500, resulting to a gain on debt settlement of $352.

g) On January 9, 2019, the Company issued 561,289 shares with a fair value of $61,742 to certain directors, officers and service providers on account of services rendered to the Company in the amount of $87,000, resulting in a gain on debt settlement of $25,258.

h) On February 20, 2019, the Company issued 787,500 shares to certain directors, officers and service providers on account of services of $94,500.

i) On June 11, 2019, the Company closed ad private placement ("Offering*")* for gross proceeds of $6,251,500 through the issuance of 62,515,000 units at a price of $0.10 per unit. Each unit is composed of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share at an exercise price of $0.25 per warrant share for a period of two years from the date of closing of the private placement. The Company paid finders' fees of $170,374 in connection with this private placement.

   The Company announced New Prospect Capital Management ("*New Prospect*"), on behalf of a special purpose managed vehicle, Century Development Ltd. ("*Century*"), via the placement became the Company's second largest shareholder. New Prospect secured an approximate 12% stake in the Company and has the right to a board seat.

   The TSXV also required that the subscription for 16,000,000 units by Century to be closed in trust pending clearance of a PIF submitted by a designated representative of Century. This condition was the result of Century becoming an "*insider*" of the Company (as defined under TSXV policies) on closing of the Offering. Prior to year end, the units were released to Century.

   As at December 31, 2019, 62,515,000 units were issued related to this private placement for gross proceeds of $6,251,500.

   Included in receivables, prepaids and deposits is a receivable of $601,111 due from the trust account of a former legal counsel of the Company. The amount was held in conjunction with the private placement and was received after year end by the Company.

j) On August 7, 2019, following shareholder approvals at the September 2019 annual general meeting, the Company issued 1,037,376 bonus shares to the Company's president and CEO in consideration of services rendered over 24 months in the amount of $124,485.

*(Expressed in Canadian Dollars)*

**7. Share Capital and Contributed Surplus** – *continued*

k) On October 29, 2019, the Company issued 469,603 shares with a fair value of $32,872 to service providers on account of services rendered to the Company in the amount of $43,500, resulting in a gain on debt settlement of $10,628.

*Stock options:*

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 10 years and vest as determined by the board of directors.

On May 10, 2018, the Company granted 250,000 stock options to the officer and directors of the Company with a term of two years: exercisable at $0.20 per common share. The fair value of options granted was determined to be $16,987.

On July 30, 2018, the Company granted options to purchase up to an aggregate of 125,000 common shares each exercisable on or before July 30, 2020 at a price of $0.20 per share to newly appointed director. The fair value of options granted was determined to be $11,779.

On August 9, 2018, the Company granted options to purchase up to an aggregate of 125,000 common shares each exercisable on or before August 9, 2020 at a price of $0.20 per share to newly appointed chairman of the board of directors. The fair value of options granted was determined to be $9,052.

On September 27, 2019, the Company granted to directors, officers and employees a total of 9,817,085 stock options under the Company's stock option plan. 6,544,885 have a two-year term from issuance date exercisable at a price of $0.11 per share, vesting over a four-month period from the grant date. 3,272,200 have a three-year term from issuance date exercisable at a price of $0.25 per share, vesting over a four-month period post the Company receiving the shareholder approvals required by the TSXV on August 2, 2019. The fair value of the options granted was determined to be $329,835.

The fair value was determined using the Black-Scholes Option Pricing Model with the following assumptions:

| | September 27, 2019 | September 27, 2019 | August 9, 2018 | July 30, 2018 | May 10, 2018 |
|---|---|---|---|---|---|
| Expected dividend yield | 0% | 0% | 0% | 0% | 0% |
| Expected stock price volatility | 113% | 115% | 104% | 104% | 120% |
| Risk free rate | 1.51% | 1.57% | 2.09% | 2.02% | 1.93% |
| Forfeiture rate | 0% | 0% | 0% | 0% | 0% |
| Expected life of options | 3 years | 2 years | 2 years | 2 years | 2 years |

During the year ended December 31, 2019, the Company recorded share-based compensation of $318,000 (2018 - $102,000) for the options vested. During the year ended December 31, 2019, a total of 1,091,804 options (2018: 3,571,046) expired unexercised.

*(Expressed in Canadian Dollars)*

**7. Share Capital and Contributed Surplus** – *continued*

*Stock options: – continued*

A summary of the Company's stock option transactions is as follows:

| | Number of options | Weighted average exercise price |
|---|---|---|
| **Balance outstanding – December 31, 2017** | **6,649,426** | **$0.46** |
| Granted | 250,000 | 0.20 |
| Expired | (2,301,281) | 0.45 |
| Expired | (634,882) | 0.43 |
| Expired | (634,883) | 0.54 |
| Granted | 250,000 | 0.20 |
| **Balance outstanding – December 31, 2018** | **3,578,380** | **$0.42** |
| Granted | 6,544,885 | 0.11 |
| Granted | 3,272,200 | 0.25 |
| Expired | (1,091,804) | 0.45 |
| **Balance outstanding – December 31, 2019** | **12,303,661** | **$0.21** |

The weighted average life of the stock options are 1.91 years.

As at December 31, 2019, the following stock options are outstanding and exercisable:

| Number | Price per share | Expiry date | Options exercisable |
|---|---|---|---|
| 600,021 | $0.525 | September 13, 2021 | 600,021 |
| 600,020 | $0.375 | September 13, 2021 | 600,020 |
| 393,268 | $0.430 | January 23, 2021 | 393,268 |
| 393,267 | $0.540 | January 23, 2021 | 393,267 |
| 250,000 | $0.200 | May 10, 2020 | 250,000 |
| 125,000 | $0.200 | July 30, 2020 | 125,000 |
| 125,000 | $0.200 | August 9, 2020 | 125,000 |
| 6,544,885 | $0.110 | September 27, 2021 | 6,188,592 |
| 3,272,200 | $0.250 | September 27, 2022 | 3,272,200 |
| **12,303,661** | **$0.208** | | **11,947,388** |

*Warrants:*

On June 11, 2019, the Company issued 45,793,000 warrants with a fair value of $457,930 pursuant to a private placement. Each warrant entitles the holder to purchase a common share of the Company for a period of two years at $0.25 per warrant. The fair value was determined using the residual value method.

On August 2, 2019, the Company issued 16,722,000 warrants with a fair value of $Nil pursuant to a private placement. Each warrant entitles the holder to purchase a common share of the Company for a period of two years at $0.25 per warrant. The fair value was determined using the residual value method.

During the year ended December 31, 2019, a total of 8,976,799 warrants (2018: 3,312,993) expired unexercised.

*(Expressed in Canadian Dollars)*

## 7. Share Capital and Contributed Surplus – *continued*

*Warrants: – continued*

A summary of the Company's warrant transactions is as follows:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| **Balance – December 31, 2017** | **12,289,792** | **$0.468** |
| Expired | (3,312,993) | 0.530 |
| **Balance – December 31, 2018** | **8,976,799** | **$0.445** |
| Issued | 62,515,000 | 0.250 |
| Expired | (8,976,799) | 0.445 |
| **Balance – December 31, 2019** | **62,515,000** | **$0.250** |

The weighted average life of the warrants is 1.48 years.

As of December 31, 2019, the following warrants are outstanding and exercisable:

| Number | Price per share | Expiry date |
|---|---|---|
| 45,793,000 | $0.250 | June 11, 2021 |
| 16,722,000 | $0.250 | August 2, 2021 |
| **62,515,000** | **$0.250** | |

*Reserves*:

Share-based payment reserve represents the fair value of stock options or warrants until such time that the share-based instruments are exercised, at which time the corresponding amount will be transferred to share capital.

## 8. Segmented Information

The Company operates in two operating segments being the acquisition of and exploration for exploration and evaluation assets in Mongolia and Australia. The Company's head office is located in Canada, and all of the Company's non-current assets are located in Mongolia.

## 9. Related Party Transactions

The Company incurred the following amounts for related party services:

a) During the year ended December 31, 2019, the Company incurred $39,150 (2018 - $76,800) to BridgeMark Financial Corp. and $34,650 (2018 - $Nil) to Regiis Oak Capital Corp., companies with an officer in common for management and accounting services.

b) During the year ended December 31, 2019, the Company incurred $549,485 (2018 - $285,000) and issued 1,037,376 shares with a fair value of $124,485 (2018 - $Nil) to Spring Resources Pty Ltd., a company with an officer in common for management services.

## 9. Related Party Transactions – *continued*

c) During the year ended December 31, 2019, the Company incurred director's fees of $Nil (2018 - $122,322) to three former directors and $314,000 (2018 - $100,164) to current directors.

d) During the year ended December 31, 2019, the Company incurred consulting fees of $20,000 (2018 - $68,000) to a director of the Company.

e) At December 31, 2019, the Company owed $227,411 (2018 - $205,574) in accrued directors' fees in accounts payable.

f) During the year ended December 31, 2019, the Company issued 683,467 common shares with a fair value of $79,306 to settle $91,500 payables owing to the officers and directors of the Company. During the year ended December 31, 2018, the Company issued 312,395 common shares with a fair value of $49,863 to settle $60,368 payables owing to the directors of the Company.

*Compensation of key management personnel*

| *In thousand $* | | **December 31, 2019** | | December 31, 2018 |
|---|---|---|---|---|
| Management, chairman, directors and audit committee fees | **$** | **957** | $ | 652 |
| Share-based payments* | | **282** | | 102 |
| | **$** | **1,239** | $ | 754 |

** The estimated fair value of the stock options granted during the year was determined using the Black-Scholes Option Pricing Model.*

## 10. Supplemental Disclosure of Cash Flow Information

| Supplemental Disclosure of Non-Cash Financing and Investing Activities include *('000):* | | **December 31, 2019** | | December 31, 2018 |
|---|---|---|---|---|
| Amortization capitalized to exploration and evaluation assets | **$** | **220** | $ | 116 |
| Shares issued in settlement of debt | **$** | **190** | $ | 195 |

| Supplemental Disclosure of Cash and Cash Equivalents *('000):* | | **December 31, 2019** | | December 31, 2018 |
|---|---|---|---|---|
| Cash at bank | **$** | **2,880** | $ | 914 |
| Bank term deposit | | **23** | | 23 |
| | **$** | **2,903** | $ | 937 |

## 11. Equipment

Net carrying costs at December 31, 2019 and 2018 are as follows ('000):

| | | Computers | | Exploration Equipment | | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance as at December 31, 2017 | $ | 16 | $ | 727 | $ | 743 |
| Additions | | 6 | | 187 | | 193 |
| Disposal | | - | | (32) | | (32) |
| Balance as at December 31, 2018 | $ | 22 | $ | 882 | $ | 904 |
| Additions | | 3 | | 169 | | 172 |
| **Balance as at December 31, 2019** | $ | 25 | $ | 1,051 | $ | 1,076 |
| **Accumulated amortization** | | | | | | |
| Balance as at December 31, 2017 | $ | (14) | $ | (385) | $ | (399) |
| Amortization | | (4) | | (322) | | (326) |
| Disposal | | - | | 32 | | 32 |
| Balance as at December 31, 2018 | $ | (18) | $ | (675) | $ | (693) |
| Amortization | | (4) | | (216) | | (220) |
| **Balance as at December 31, 2019** | $ | (22) | $ | (891) | $ | (913) |
| **Net book value** | | | | | | |
| At December 31, 2018 | $ | 4 | $ | 207 | $ | 211 |
| **At December 31, 2019** | **$** | **3** | **$** | **160** | **$** | **163** |

During the year ended December 31, 2018, the Company sold a vehicle that resulted to a gain of $18,447.

## 12. Commitments and Contingencies

*Contingencies*

In the course of its business activities the Company has from time to time, been the subject of civil claims by third parties, including former employees that could give rise to a liability to pay compensation or damages. In addition, the Company may receive notices from regulatory and other governmental agencies responsible for the administration of regulations impacting on the Company's business affairs, in relation to the imposition or intended imposition of penalties, assessments and other orders that could potentially have an adverse effect or negatively impact on the Company's business and financial condition. Based upon historic experience with the management of such claims, assessment and regulatory actions, the Company does not anticipate that the outcome of those claims, assessments and regulatory actions, will have a materially adverse effect on the Company's business or financial condition.

*(Expressed in Canadian Dollars)*

## 13. Income Tax

A reconciliation of income taxes at statutory rates is as follows:

| | | December 31, 2019 | | December 31, 2018 |
|---|---|---|---|---|
| Loss for the year | **$** | **(4,956,000)** | $ | (2,317,000) |
| Statutory tax rate | | **27%** | | 27% |
| Expected tax recovery | | **(1,332,000)** | | (607,000) |
| Permanent differences | | **5,000** | | 14,000 |
| Effect of change in tax rate | | **-** | | (155,000) |
| Change in unrecognized deductible temporary differences | | **1,327,000** | | 748,000 |
| Total tax recovery | $ | - | $ | - |

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

| | December 31, 2019 | | December 31, 2018 |
|---|---|---|---|
| *Deferred tax assets* | | | |
| Exploration and evaluation assets | **627,000** | $ | 607,000 |
| Equipment | **203,000** | | 189,000 |
| Share issuance costs | **52,000** | | 23,000 |
| Non-capital losses available for future period | **10,133,000** | | 8,870,000 |
| Allowable capital losses | **185,000** | | 185,000 |
| Unrecognized deferred tax assets | **$11,200,000** | $ | 9,874,000 |

The significant components of the Company's temporary differences and unused tax losses are as follows:

| | December 31, 2019 | | December 31, 2018 | Expiry Date Range |
|---|---|---|---|---|
| Exploration and evaluation assets | **2,524,000** | $ | 2,441,000 | No expiry date |
| Equipment | **789,000** | | 733,000 | No expiry date |
| Share issuance costs and other | **192,000** | | 84,000 | 2017-2018 |
| Allowable capital losses | **712,000** | | 712,000 | No expiry date |
| Non-capital losses available for future periods | **34,819,000** | $ | 30,114,000 | 2026-2039 |

## 14. Subsequent Events

*a) Nyngan and Nevertire licence applications and issuances*

On January 6, 2020, the Company's license application for its Nyngan project was formally approved, and the Company was granted with exploration license EL8929 (Note 6).

On January 30, 2020, an application for a second large new exploration licence was made directly to the NSW state for the Nevertire project, covering 382 km2.

On April 14, 2020, the Company was successfully granted a new exploration licence (EL8960) for the Nevertire project.

*b) Memorandum of Understanding with RareX Limited*

On January 30, 2020, the Company entered into a binding memorandum of understanding (MoU) and made a non-refundable option payment of $25,000 to RareX Limited ("RareX") providing the exclusive right to acquire a 65% interest in six mineral leases and five projects covering 587km2 in the LFB.

On March 19, 2020, the Company announced it had completed definitive agreements with RareX. The key commercial terms being:

- Issuing 14,950,000 common shares of the Company upon closing, subject to a voluntary 12-month lockup, resulting in RareX becoming a 9.9% shareholder (issued on March 27, 2020);
- Payment of $150,000 in cash to RareX upon closing as follows:
    - $100,000 in cash consideration (paid on March 30, 2020); and,
    - $50,000 in cash as reimbursement to RareX for outstanding holding costs and licence renewals (paid on March 30, 2020).
- The Company acquiring a 65% interest in the respective licences, becoming operator and sole financer of all further exploration until a positive scoping study or preliminary economic assessment (PEA). Upon completion of the PEA, the Company and RareX will form a joint venture with standard funding and dilution requirements and right of first refusal on transfers;
- The Company is committed to maintain the full licence portfolio in good standing for a period of 12 months and RareX shall have the right to retain a 100% ownership in any licence that the Company may elect to drop or to not renew, for no consideration;
- The Company obtained the approval from the TSXV on February 19, 2020.

*c) COVID-19 statement:*

Since March 2020, several measures have been implemented in Canada and the rest of the world in response to the increased impact from coronavirus (COVID-19). The Company continues to operate its business and move its exploration activity forward at this time. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on business operations cannot be reasonably estimated at this time. The Company anticipates this could have an adverse impact on its business, results of operations, financial position and cash flows in 2020.

On March 17, 2020, the Company issued a statement on the novel coronavirus (COVID-19) and that preventative measures have been taken to modify how the Company conducts business, to protect our staff, contractors and the communities the Company operates in.

**14. Subsequent Events** – *continued*

*d) Shares for services*

On April 8, 2020, the Company issued 2,483,480 common shares of the Company in consideration of certain services provided during the second half of 2019..

*e) Commencement of drilling at Trundle*

On April 22, 2020, the Company announced a drilling program had commenced testing three large and mineralized porphyry targets at the Trundle project in the LFB. A phase 1 program for six holes and 3,800 metres is planned.