



**SUPERIOR
GOLD INC.**

Consolidated Financial Statements

December 31, 2019 and 2018

(Expressed in thousands of United States dollars)



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Superior Gold Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"Auditors' Responsibilities for the Audit of the Financial Statements"** section of our auditors' report.

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

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

Other Information

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

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

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



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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Superior Gold Inc. to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP' in a stylized, cursive font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants, Licensed Public Accountants

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

March 12, 2020
Toronto, Canada

SUPERIOR GOLD INC.
Consolidated Statements of Financial Position
(Expressed in thousands of United States Dollars)

	December 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 22,232	\$ 17,332
Restricted cash (note 6)	75	75
Receivables and other assets (note 7)	3,517	2,090
Inventories (note 8)	8,214	13,242
Total current assets	34,038	32,739
Non-current assets		
Mining interests; exploration and evaluation assets; and property, plant and equipment (note 9)	62,882	63,167
TOTAL ASSETS	\$ 96,920	\$ 95,906
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 16,015	\$ 12,083
Current portion of deferred revenue (note 11)	7,234	-
Current portion of derivative financial instruments (note 12)	154	-
Short-term loan (note 10)	852	579
Current portion of lease obligation (note 21)	3,449	2,612
Contingent royalty payable to Northern Star Resources (note 23)	4,413	4,308
Current portion of provisions (note 13)	5,018	6,416
Total current liabilities	37,135	25,998
Non-current liabilities		
Deferred revenue (note 11)	2,617	-
Derivative financial instruments (note 12)	642	-
Lease obligation (note 21)	2,781	2,876
Provisions (note 13)	25,905	24,698
Warrant liability (note 16(c))	-	329
Deferred tax liability (note 20)	373	3,112
Total non-current liabilities	32,318	31,015
TOTAL LIABILITIES	69,453	57,013
SHAREHOLDERS' EQUITY		
Share capital (note 16(a and b))	\$ 50,025	\$ 49,313
Contributed Surplus	6,026	5,767
Accumulated other comprehensive income (loss)	(2,928)	(2,550)
Retained deficit	(25,656)	(13,637)
TOTAL EQUITY	\$ 27,467	\$ 38,893
TOTAL EQUITY AND LIABILITIES	\$ 96,920	\$ 95,906

Commitments and contingencies note 14, 23

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

Approved by the Board of Directors

/s/ Christopher Bradbrook

Christopher Bradbrook, Director

/s/ René Marion

René Marion, Director

SUPERIOR GOLD INC.

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

	Year ended December 31	
	2019	2018
REVENUES		
Metal sales (note 5)	\$ 115,583	\$ 107,514
EXPENSES		
Cost of sales	122,663	114,091
Exploration expense	2,664	2,001
General and administrative	3,848	4,581
OPERATING INCOME (LOSS)	(13,592)	(13,159)
OTHER EXPENSES (INCOME)		
Net finance cost (income) (note 18)	484	1,374
Restructuring expenses (note 17)	478	-
(Gain) loss on change in valuation of warrant liability (note 16c)	(85)	(420)
Loss on, and change in valuation of, contingent royalty payable to Northern Star Resources (note 23)	137	4,671
Change in valuation of derivative financial instruments (note 12)	111	-
LOSS BEFORE TAXES	(14,717)	(18,784)
Income and mining tax expense (recovery) (note 20)	(2,698)	(5,484)
NET LOSS FOR THE PERIOD	\$ (12,019)	\$ (13,300)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation difference on foreign operations	(378)	(3,787)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	\$ (12,397)	\$ (17,087)
Income (loss) per share (note 16(e)):		
Basic income (loss) per share	\$ (0.12)	\$ (0.14)
Diluted income (loss) per share	(0.12)	(0.14)
Weighted average number of common shares outstanding (basic & diluted)	96,864,062	95,728,044

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

SUPERIOR GOLD INC.
Consolidated Statements of Changes in Equity
(Expressed in thousands of United States Dollars)

		Number of shares issued	Share capital	Contributed Surplus	Retained earnings	Accumulated other comprehensive income/(loss)	Total
Balance as at January 1, 2018		95,669,140	\$ 49,220	\$ 5,151	\$ (337)	\$ 1,237	\$ 55,271
Exercise of stock options	16	83,333	93	(27)	-	-	66
Share-based payments	16	-	-	643	-	-	643
Total comprehensive loss for the year ended December 31, 2018		-	-	-	(13,300)	(3,787)	(17,087)
Balance as at December 31, 2018		95,752,473	\$ 49,313	\$ 5,767	\$ (13,637)	\$ (2,550)	\$ 38,893
Balance as at January 1, 2019		95,752,473	\$ 49,313	\$ 5,767	\$ (13,637)	\$ (2,550)	\$ 38,893
Exercise of warrants	16	1,230,000	712	-	-	-	712
Share-based payments	16	-	-	259	-	-	259
Total comprehensive loss for the year ended December 31, 2019		-	-	-	(12,019)	(378)	(12,397)
Balance as at December 31, 2019		96,982,473	\$ 50,025	\$ 6,026	\$ (25,656)	\$ (2,928)	\$ 27,467

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

SUPERIOR GOLD INC.

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

	Year ended December 31	
	2019	2018
Cash flows provided from (used by):		
OPERATING ACTIVITIES		
Net loss for the period	\$ (12,019)	\$ (13,300)
Adjustments:		
Depreciation and amortization	12,829	16,933
Loss on contingent royalty payable to Northern	137	4,671
Star Resources	(85)	(420)
Gain on change in valuation of warrant liability	259	643
Share-based payments	1,971	3,645
Employee provisions expense	484	1,374
Net finance (income) cost	111	-
Change in valuation of derivative financial instruments	(2,698)	(5,484)
Income tax expense (recovery)	10,093	-
Proceeds on gold loan	(2,915)	(2,663)
Employee provisions paid	(347)	(207)
Reclamation payments	-	-
Income taxes recovered (paid)	7,820	3,911
Net changes in non-cash working capital items:		
Receivables and other assets	(246)	2,912
Inventories	4,723	(4,345)
Accounts payable and accrued liabilities	3,590	4,090
	15,887	6,568
INVESTING ACTIVITIES		
Interest received	148	191
Expenditures on mineral interests; exploration and evaluation assets; and property, plant and equipment	(7,422)	(15,285)
Decrease in restricted cash	-	1,561
	(7,274)	(13,533)
FINANCING ACTIVITIES		
Issuance of common shares	467	66
Repayment of short-term loan	(831)	(584)
Repayment of finance lease obligation	(3,200)	(2,193)
Interest paid	(407)	(286)
	(3,971)	(2,997)
Effect of exchange rates on cash & cash equivalents	258	(1,827)
Increase (decrease) in cash and cash equivalents	4,900	(11,789)
Cash and cash equivalents, beginning of period	17,332	29,121
Cash and cash equivalents, end of period	22,232	17,332

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

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

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

On October 12, 2016, the Company completed the acquisition of the Plutonic Gold Operations from Northern Star Resources Inc. (“Northern Star”) (note 23).

The Company is subject to risks and challenges similar to other companies in a comparable stage of operation, exploration and development. These risks include, but are not limited to, losses, successfully raising cash flows through debt or equity markets and the successful operation and development of its mineral property interests to satisfy its commitments and continue as a going concern. The Company believes it has sufficient funds available from existing cash on hand or available from continuing operations to maintain its mineral investments, fund its exploration and evaluation and administration costs.

The consolidated financial statements of the Company for the year ended December 31, 2019 were authorized for issue in accordance with a resolution of the board of directors on March 12, 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of measurement

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

Basis of consolidation

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

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

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

a) Foreign currency translation

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

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

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

b) Cash and cash equivalents

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

c) Financial instruments

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

Non-derivative financial instruments

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

Financial assets and liabilities at fair value through profit or loss

Cash and cash equivalents and restricted cash are classified as fair value through profit or loss and are measured at fair value. Cash equivalents are short-term investments with initial maturities of three months or less. The unrealized gains or losses related to changes in fair value are reported in the consolidated statements of income (loss) and comprehensive income (loss) for the period.

Financial assets at amortized cost

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

Non-derivative financial liabilities

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

Derivative financial instruments

Non-hedge derivatives

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

d) Income taxes

The income tax expense or recovery for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities. The current

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Corporation and its subsidiary operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts likely to be paid to the tax authorities.

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

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

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

e) Share capital

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

f) Earnings per share

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

g) Share based payments

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

Share option plan (equity settled)

Share options are granted to employees and directors of the Company. Share options are measured at their fair value on grant date. Fair value is determined using the Black-Scholes option pricing model, which relies on estimates of the risk-free interest rate, expected share price volatility (using historical volatility of similar publicly traded companies as a

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

reference), the expected forfeiture rate, future dividend payments, and the expected average life of the options. The fair value determined at grant date is recognized over the vesting period in the statement of income (loss) and comprehensive income (loss) in accordance with vesting terms and conditions, with a corresponding increase to share-based payment reserve.

Performance share units

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

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

Restricted share units

Restricted Share Units ("RSUs") may be granted to employees of the Company. An RSU represents the right to receive a common share of the Company at vesting, subject to the determination of the Company's Board of Directors. The RSUs vest over a period of time as established by the Board. The vesting of the RSUs cannot be deferred by the holder beyond the term from the initial date of grant.

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

h) Royalties

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

i) Inventories

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

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

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

j) Leased assets

Leasing Arrangements effective January 1, 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract contains the right to control the use of the identified asset, the Company assesses whether:

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset through the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

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

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

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

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to net earnings. The Company will elect not to recognize assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. Lease payments associated with these leases will be recognized as an expense over the lease term. The Company will elect to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

Lease Arrangements effective 2018

Prior to January 1, 2019, the Company accounted for lease arrangements in accordance with IAS 17, Leases. Accordingly, the Company classified any lease that substantially transferred the risks and rewards of ownership to the Company as a finance lease. Any lease not deemed a finance lease was designated as an operating lease.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, including whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use an asset.

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

Finance leases are recognized as assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments at lease inception date. Finance lease assets are shown as part of mining interests, exploration and evaluation assets and property, plant and equipment in the consolidated statements of financial position. Amortization of finance lease assets are included within amortization costs on the consolidated statements of comprehensive income (loss). Lease payments on Finance lease liabilities are allocated between the lease liability and finance cost. The finance cost, or amortization of the discount, on the lease liability is charged to the Consolidated Statements of Income (loss) and Comprehensive Income (loss) using the effective interest method to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period.

Operating lease payments are recognized as an operating cost in the consolidated statements of comprehensive income (loss) on a straight-line basis over the lease term.

k) Property, plant and equipment

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

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

Depreciation / amortization method

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

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

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

I) Mineral properties

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

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

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

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

expenditure.

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

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

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

m) Exploration and evaluation expenditure

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

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

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

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

n) Commercial Production

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

Effective April 1, 2018, the Company declared commercial production on its Hermes open pit mine. Upon declaring commercial production at the Hermes open pit, the Company made a financial reporting transition from accounting for development expenditures to accounting for these expenditures as operating costs. The significant financial reporting changes were as follows: the capitalized costs of the Hermes open pit mine were transferred from Mining Interests to the relevant asset categories; certain capitalized costs began to be depleted consistent with the Company's established accounting policies; capitalization of pre-commercial production operating costs ceased; and recording of mine operations to the income statement, which includes revenues, production costs, depreciation and depletion commenced.

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

o) Deferred stripping

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

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

p) Impairment of assets

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

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

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

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

q) Provisions

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

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

Rehabilitation provision

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

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

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

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

Long service leave

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

r) Revenue

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

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

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

s) Management judgments and key sources of estimation uncertainty

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

Impairment of property, plant and equipment and mine properties

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

For determining the recoverable amount of an asset or CGU, if indicators of impairment exist, operating results and net cash flow forecasts are determined by estimating the expected future revenues and costs, including the future cash costs of production, capital expenditures, site closure and environmental rehabilitation. These include net cash flows expected to be realized from the extraction, processing and sale of mineral resources that do not currently qualify for inclusion in proven and probable mineral reserves when there is a high degree of confidence in the economic extraction of such non-reserve material. This expectation is usually based on preliminary drilling and sampling of areas of mineralization that are

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

contiguous with existing mineral reserves and resources. Judgment is also required in estimating the discount rate applied and future commodity prices used for impairment testing. The long-term commodity prices are derived from forward prices and analysts' commodity price forecasts. These assessments often differ from current price levels and are updated periodically.

Contingent consideration

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

Taxes

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

Deferred income taxes

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

Rehabilitation provision

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

Exploration and evaluation expenditure

The accounting policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether the exploration and evaluation asset is technically feasible and commercially viable. Any such estimates and assumptions may change as new information becomes available, which may require adjustments to the carrying value of assets. Capitalized exploration and evaluation expenditure is assessed for impairment when an indicator of impairment exists.

Determination of Mineral Resources and Mineral Reserves

Mineral reserves and resources have been estimated by qualified persons as defined in accordance with Canadian Securities Administrators' National Instrument Standards of Disclosure for Mineral Projects requirements. Mineral reserve and resource estimates include numerous uncertainties and depend heavily on geological interpretations and statistical

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

inferences drawn from drilling and other data, and require estimates of the future price for the commodity and the future cost of operations. The mineral reserve and resource estimates are subject to uncertainty and actual results may vary from these estimates. Results from drilling, testing and production, as well as material changes in metal prices and operating costs subsequent to the date of an estimate, may justify revision of such estimates.

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

3. NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY

The Company adopted the following accounting standards and amendments to accounting standards, effective January 1, 2019:

The Company adopted IFRS 16, Leases ("IFRS 16") on January 1, 2019. The objective of IFRS 16 is to recognize substantially all leases on balance sheet for lessees. IFRS 16 requires lessees to recognize a "right-of-use" asset and a lease liability calculated using a prescribed methodology. The Company has adopted IFRS 16 using the modified retrospective approach which does not require restatement of comparative periods. Comparative information has not been restated and continues to be reported under IAS 17, Leases ("IAS 17"), and IFRIC 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4"). The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16.

Where reasonable, the Company has applied to practical expedients when applying IFRS 16.

Impact of transition to IFRS 16

On adoption of IFRS 16, the Company recognized a right-of-use asset of \$2,259, measured at the amount equal to the lease liability and discounted to January 1, 2019. As well, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The Company's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 7.9%.

<u>Operating lease commitments at December 31, 2018</u>	\$	2,515
Discounted using the incremental borrowing rate at January 1, 2019		(375)
<u>Other adjustments</u>		119
<u>Right of use assets, January 1, 2019</u>		2,259
<u>Lease liabilities previously recorded as finance lease obligations</u>		5,488
<u>Lease obligations recognized at January 1, 2019</u>	\$	7,747

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

IFRIC 23 – *Uncertainty over Income Tax Treatments*

The Company adopted IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23") on January 1, 2019 with retrospective application. IFRIC 23 clarifies the recognition and measurement requirements when there is uncertainty over income tax treatments. The effect of uncertain tax treatments are recognized at the most likely amount or expected value. The adoption of IFRIC 23 had no impact on the consolidated financial statements.

4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

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

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. The Company will apply the requirements of the amendments to transactions entered into after January 1, 2020.

On September 26, 2019, the IASB issued amendments for some of its requirements for hedge accounting in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, as well as the related Standard on disclosures, IFRS 7 Financial Instruments: Disclosures in relation to Phase 1 of IBOR Reform and its Effects on Financial Reporting project. The amendments are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs). The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective from January 1, 2020, and the Company does not anticipate any impact related to the amendments.

5. METAL SALES

	Year ended December 31	
	2019	2018
Gold sales	\$ 115,474	\$ 107,396
Silver sales	109	118
	\$ 115,583	\$ 107,514

The Company's main source of revenue is the sale of gold. The sale of gold is transacted with two customers, The Perth Mint and Auramet International LLC. There are no contract receivables for gold sales as at December 31, 2019 or December 31, 2018.

6. RESTRICTED CASH

The Corporation has provided cash collateralized bank guarantees to certain suppliers totaling \$75 as at December 31, 2019. The bank guarantees are short term in nature and consist of: (i) \$35 to APT Goldfields Pty Ltd, to secure approximately three months of fees under a pipeline operating agreement with APT and (ii) \$40 for an office lease in Perth and general credit.

As at December 31, 2018 the bank guarantees consisted of: (i) \$35 to APT Goldfields Pty Ltd, to secure approximately three months of fees under a pipeline operating agreement with APT and (ii) \$40 for an office lease in Perth and general credit.

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

7. RECEIVABLES AND OTHER ASSETS

	December 31, 2019	December 31, 2018
Trade receivables	\$ 299	\$ 282
Prepayments	1,854	1,070
Sales tax receivable	1,364	738
Trade and other receivables	\$ 3,517	\$ 2,090

8. INVENTORIES

	December 31, 2019	December 31, 2018
Consumable stores	\$ 4,432	\$ 5,619
Stockpiles	118	3,679
Gold in circuit	3,649	2,991
Dore on hand	15	953
	\$ 8,214	\$ 13,242

The cost of inventories recognized as an expense and included in Cost of sales in 2019 and 2018 was \$122,629 and \$114,072, respectively. During the year ended December 31, 2019, there were \$1,587 write downs (2018 - \$nil) of consumables inventory.

The Company transferred \$1,229 of stockpile expenditures from Mining interests to Stockpiles inventory on April 1, 2018 upon the Hermes open pit mine declaring commercial production.

9. MINING INTERESTS; EXPLORATION AND EVALUATION; AND PROPERTY, PLANT AND EQUIPMENT

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

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

	Mining interests	Exploration and evaluation	Property, plant and equipment	Capital work in progress	Total
Cost:					
As at December 31, 2017	\$ 69,019	\$ -	\$ 13,836	\$ 3,787	\$ 86,642
Additions	12,271	466	-	11,758	24,495
Transfers	2,532	-	11,457	(15,218)	(1,229)
Foreign exchange movement	(7,707)	(20)	(2,043)	(257)	(10,027)
December 31, 2018	76,115	446	23,250	70	99,881
<i>Accumulated depreciation:</i>					
As at December 31, 2017	15,300	-	7,489	-	22,789
Depreciation charge	13,093	-	3,840	-	16,933
Foreign exchange movement	(2,094)	-	(914)	-	(3,008)
December 31, 2018	26,299	-	10,415	-	36,714
Net book value:					
As at beginning of period	\$ 53,719	-	\$ 6,347	\$ 3,787	\$ 63,853
As at December 31, 2018	\$ 49,816	\$ 446	\$ 12,835	\$ 70	\$ 63,167

Effective April 1, 2018, the Company declared the commencement of commercial production at the Hermes open pit mine. As a result of the commencement of commercial production the Company transferred \$3,658 from Capital work in progress to Mining interests, net of pre-commercial production gold sales of \$6,648, and transferred a further \$1,229 from Mining interests to Stockpiles inventory. In addition, the Company transferred \$11,457 from Capital work in progress to Property, plant and equipment.

Items comprising mineral interests and property, plant and equipment include mine development properties, exploration and evaluation assets, land and buildings, plant and equipment, motor vehicles, office equipment and capital work in progress.

The Bryah Basin joint venture is located south-west of the Plutonic Gold Mine mill and the Company has an option to earn up to an 80% interest in the unincorporated joint venture by spending AUD\$1.2 million (\$888) over three years beginning April 2015. In April 2018, the Company gave notice to the joint venture partner that it had incurred the required expenditures during the earn-in period. In the year ended December 31, 2019 the Company capitalized \$224 (2018 - \$446) of exploration and evaluation costs pertaining to the unincorporated Bryah Basin joint venture.

10. SHORT-TERM LOAN

The short-term loan of \$852 (2018 - \$579) represents amounts owing to a financial institution which financed the Company's annual insurance premium. The term of loan is 10 equal monthly installments commencing in October 2019, terminating in July 2020 and bears interest at 2.1% and is secured by any proceeds of insurance claims. The 2018 comparative amount represents a loan term of 10 months commencing in September 2018, which was repaid in June 2019 and bore interest at 1.8%.

11. DEFERRED REVENUE

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

In accordance with the agreement for the gross proceeds under the Gold Loan with Auramet, the Company:

- Is required to deliver a total of 7,920 ounces of gold over 18 equal monthly instalments beginning on January 30, 2020 and terminating on June 30, 2021.

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

- Granted Auramet 20,000 gold call options ("Call Options") at strike prices ranging from AUD\$2,275 to AUD\$2,360 per ounce of gold. These Call Options have expiration dates between July 2020 and December 31, 2021 up to a maximum of 1,500 ounces per month (note 12).
- Entered into a zero cost collar price protection program with 19,800 puts at a strike price of AUD\$1,950 per ounce and 19,800 of calls with strike prices ranging from AUD\$2,275 to AUD\$2,400. All of the puts and calls under the zero cost collar price protection program have maturities on or before December 31, 2020, and
- Agreed to sell a minimum of 80% of its gold production at market prices from the Plutonic Gold Operations to Auramet for a period that is not less than 6 months following repayment of the Gold Loan.

The Company paid an upfront fee equal to 1% of the gross proceeds and all out-of-pocket costs of \$70. The Gold Loan is secured by a first priority security interest over all of the assets, with certain exclusions, of the Company's wholly-owned subsidiary, Billabong Gold Pty Ltd. ("Billabong"), an assignment over all pertinent mining leases and a Guarantee from the Company, which is secured by a pledge of its shares of Billabong.

The Company must repay the Gold Loan from proceeds received from any debt issuance, royalty sales, sale of material assets or equity issuance, provided that certain amounts from equity offerings may be exempted with Auramet's consent. In addition, the Company must repay the Gold Loan at the option of Auramet, with reasonable cause, upon a change of control event or if there is a change of any key management personnel of the Company.

The Company is subject to financial covenants requiring it to maintain a total minimum balance of cash, cash equivalents and undrawn lines of credit of AUD\$5.0 million and a restriction on additional indebtedness, except for permitted indebtedness as agreed to between the Company and Auramet. The Company is also subject to non-financial covenants, along with a restriction on liens. At December 31, 2019, the Company was in compliance with all covenants.

Accounting for the Gold Loan comprised the following:

- The upfront fee and out-of-pocket costs as a reduction of proceeds received with an offset to the current and non-current portions of the Deferred Revenue liability.
- This Call Options were valued using the Black-Scholes pricing model (refer to note 12 for assumptions used in estimating the fair value of these derivative financial instruments) and charged, upon inception of the Gold Loan, to Derivative financial instruments on the consolidated statement of financial position. Changes in fair value of the Call Options are recorded in the consolidated statement of loss and comprehensive loss on a mark to market basis as a Change in valuation of derivative financial instruments.
- In addition to the entries noted above, Deferred Revenue is recorded at fair value with reference to quoted forecast prices for gold. Changes in fair value of Deferred Revenue are recorded in the consolidated statement of loss and comprehensive loss within Net finance cost (income) as Accretion on Gold Loan.

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

The proceeds received under the Gold Loan were allocated as follows:

Gross proceeds	\$ 10,271
1% Upfront fee	(103)
Out-of-pocket cost reimbursement	(70)
Derivative financial instrument liability – Call Options	(665)
	9,433
Accretion charge	196
Foreign exchange impact	222
Balance, December 31, 2019	\$ 9,851
Current	7,234
Non-current	2,617
Balance, December 31, 2019	\$ 9,851

As at December 31, 2019 (December 31, 2018 – nil), 7,920 ounces of gold were deliverable under the Gold Loan, of which 5,280 ounces of gold were classified as current.

12. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Corporation did not apply hedge accounting on its outstanding derivatives. Therefore, changes in fair value are recorded in the consolidated statement of loss and comprehensive loss on a mark to market basis and recorded in financial assets and liabilities. The Corporation realized net liabilities of \$776 on derivative instruments in 2019 (December 31, 2018 \$nil). For the year ended December 31, 2019, the table below summarizes the movements in derivative assets (liabilities):

	December 31, 2019
Opening balance	\$ -
Fair value at inception – Call options	665
Net unrealized gains/(losses) on derivative instruments	111
Foreign exchange movement	20
Balance, December 31, 2019	\$ 796

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

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

The fair value of these derivative instruments has been estimated using the Black Scholes option pricing model. The weighted average inputs used in the measurement of fair value at the inception of the Gold loan and during the period ended December 31, 2019 are disclosed in the following tables:

Call options		Upon Gold loan inception on	
		As at December 31, 2019	November 12, 2019
Number of share options granted		20,000	20,000
Expected volatility		11%	11%
Risk free interest rate		0.92%	0.85%
Estimated forfeiture rate		0%	0%
Expected dividend yield		Nil	Nil
Expected life in years		1.4	1.5
Fair value (weighted average)	- AUD\$	\$ 56.81	\$ 48.69
	- U.S. \$ ⁽¹⁾	\$ 39.80	\$ 34.11

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

13. PROVISIONS

	December 31, 2019	December 31, 2018
Employee entitlements	\$ 5,072	\$ 6,103
Rehabilitation	25,851	25,011
Total provisions	\$ 30,923	\$ 31,114
Current	\$ 5,018	\$ 6,416
Non-current	25,905	24,698
	\$ 30,923	\$ 31,114

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

	Employee Entitlements	Rehabilitation	Total provisions
Beginning balance on December 31, 2018	\$ 6,103	\$ 25,011	\$ 31,114
Accretion	-	334	334
Revisions to expected cash flows	1,970	1,066	3,036
Disbursements	(2,915)	(347)	(3,262)
Foreign exchange movement	(86)	(213)	(299)
Balance, December 31, 2019	5,072	25,851	30,923
Current	5,018	-	5,018
Non-current	54	25,851	25,905
Balance, December 31, 2019	\$ 5,072	\$ 25,851	\$ 30,923

(i) Employee entitlements

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

(ii) Rehabilitation provision

The Company assesses its mine rehabilitation provision annually. Significant judgment is required in determining the provision for mine rehabilitation and closure as there are many factors that will affect the ultimate liability payable to rehabilitate the mine sites, including future disturbances caused by further development, changes in technology, changes in regulations, price increases, changes in timing of cash flows which are based on life of mine plans and changes in discount rates. When these factors change or become known in the future, such differences will impact the mine rehabilitation provision in the period in which the change becomes known. As at December 31, 2019, the mine rehabilitation provision has been discounted using discount rates of 0.9% - 1.5% (2018 - 1.9% - 2.5%) and the cash flows have been inflated using an inflation rate of 1.6% - 2.5% (2018 - 2.3% - 2.5%), payable over the years 2020 to 2034. As at December 31, 2019, the total undiscounted estimated reclamation costs are approximately \$23,201 (2018 - \$23,876). These expenditures are expected to be incurred in Australian dollars.

14. COMMITMENTS

(i) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognized as liabilities is as follows:

	December 31, 2019	December 31, 2018
Property, plant and equipment	\$ 2,363	\$ 414
Termination payment	420	-
	\$ 2,783	\$ 414

In the year ended December 31, 2019, the Company entered into commitments for milling equipment and a tailings lift. These commitments totalled \$2,363 at December 31, 2019 (December 31, 2018 - \$414).

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

(ii) Termination payment

The Company has signed a letter of intent regarding an upgrade to its power supply with its existing supplier. The letter of intent includes a termination provision, in the amount of \$420 as at December 31, 2019.

15. FINANCIAL INSTRUMENTS

Fair value

The carrying value of cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities, and short-term loan approximate fair value, due to the short-term maturity of these instruments and are classified as Level 1 in accordance with the fair value hierarchy. The carrying value of the contingent royalty payable to Northern Star Resources is classified as Level 3 in accordance with the fair value hierarchy.

The carrying value of lease obligations approximate fair value due to its short-term maturity and are classified as Level 2 in accordance with the fair value hierarchy. The carrying value of the derivative instruments were valued using pricing models which require the use of observable inputs including market prices and interest rates obtained from or verified with information available to the market, and are therefore classified as Level 2 in accordance with the fair value hierarchy.

The Warrant Liability was valued using Black-Scholes pricing models which require the use of observable inputs including market prices and interest rates obtained from or verified with information available to the market (note 16 (c)). This financial instrument is classified as Level 2 in accordance with the fair value hierarchy. The contingent royalty payable to Northern Star Resources (note 23) is valued using pricing models which require the use of discount rates obtained from or verified with information available to the market along with forecasted production information used to estimate the expected life of the contingent royalty and determine whether the liability is current or non-current. The discount rate is used to discount the AUD\$6.5 million liability over its expected life (note 23) to derive the contingent royalty liability's value. This financial instrument is classified as Level 3 in accordance with the fair value hierarchy.

The fair value of financial instruments is summarized as follows:

	December 31, 2019		December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
<i>Held-for-trading</i>				
Cash and cash equivalents	\$ 22,232	\$ 22,232	\$ 17,322	\$ 17,322
Restricted cash	75	75	75	75
<i>Loans and receivables</i>				
Trade receivables (excluding HST and GST receivable)	299	299	282	282
Financial Liabilities				
Accounts payable and accrued liabilities	\$ 16,015	\$ 16,015	\$ 12,083	\$ 12,083
Short-term loan	852	852	579	579
Derivative financial instruments	796	796	-	-
Lease obligations	6,230	6,230	5,488	5,488
Contingent Royalty payable (note 23)	4,413	4,413	4,308	4,308
Warrant liability (note 16 (c))	-	-	329	329

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

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

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

b) Financial risk management

Credit risk

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

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

	December 31, 2019	December 31, 2018
Held at a major Canadian financial institution:		
Cash	\$ 6,186	\$ 10,135
Held at a major Australian financial institution:		
Cash	16,046	7,197
Restricted cash	75	75
Trade receivables	299	282
	<hr/> \$ 22,606	<hr/> \$ 17,689

Interest rate risk

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

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

	Fixed rate instruments	Weighted average interest rate	Fixed rate instruments	Weighted average interest rate
	December 31, 2019	December 31, 2019	December 31, 2018	December 31, 2018
<i>Financial liabilities:</i>				
Short-term loan and Finance lease obligations	\$ 7,082	5.2%	\$ 6,067	4.4%

Foreign currency risk

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

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

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

The Corporation had the following balances in CAD as at:

	December 31, 2019	December 31, 2018
Cash	\$ 8,045	\$ 13,746
Trade and other receivables	218	311
Accounts payable and accrued liabilities	(1,351)	(1,195)
	\$ 6,912	\$ 12,862

Based on the above net exposure as at December 31, 2019, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the CAD against the USD would result in a decrease or increase of approximately \$532 (December 31, 2018 - \$948) in the Corporation's net loss and total comprehensive income.

The Corporation also has transactional currency exposures. Such exposures arise from purchases in currencies other than the respective functional currencies. The Corporation manages this risk by matching receipts and payments in the same currency and monitoring.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The Company is exposed to the risk of fluctuations in the prevailing market prices for the gold and silver produced from its operations. From time to time the Company may enter into commodity contracts to hedge the effects on revenues. Reference is made to note 12 for a summary of outstanding derivative positions in respect of the future sales. Reference is also made to note 11 for a summary of sales contracts used to lock in the price for a portion of the Company's future production of gold.

Commodity price risk

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

The Company issued 20,000 Gold Call Options under the Gold Loan at strike prices ranging from AU\$2,275 to AU\$2,360 per ounce of gold (notes 11 and 12). The Gold Call Options settle in gold and the Company is exposed to the price of gold when it exceeds the strike price. A 10% increase in the gold price as at December 31, 2019, would result in a \$1,506 increase in the fair value of the Derivative financial instrument liability.

Liquidity risk

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

The Corporation maintained sufficient cash and cash equivalents at December 31, 2019 in the amount of \$22,232 in order to meet short-term business requirements.

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

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

	Total	Within 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years
<i>At December 31, 2019</i>					
Trade and other payables	\$16,015	\$16,015	\$ -	\$ -	\$ -
Derivative financial instruments	796	-	154	642	
Lease liabilities	6,632	2,088	1,610	2,035	899
	\$23,443	\$18,103	\$ 1,764	\$ 2,677	\$ 899

c) Letter of guarantee facility

In November 2017, the Company entered into an AUD\$6.0 million Guarantee Credit Facility, which was amended in February 2019, (the “Credit Facility”) with a leading international bank. The Credit Facility permits the Company to issue letters of guarantee for a term of up to 12 months to various suppliers from time to time to support the Plutonic Gold Operations.

The Credit Facility includes an aggregate fee of 3.19% calculated on drawn amounts and is secured by an assignment of a performance security guarantee issued by Export Development Canada (“EDC”) in support of the Plutonic Gold Operations. The Credit Facility contains covenants customary for a loan facility of this nature, including limits on indebtedness and change of control. It contains a financial covenant test requiring that the Company maintain a tangible net worth (“TNW”) of \$32,000. Failure to achieve the TNW test constitutes an event of default under the Credit Facility, unless a waiver or amendment has been obtained. On November 11, 2019, an amendment was obtained reducing the Credit Facility limit to AUD\$2.5 million and replacing the TNW covenant with a minimum liquidity covenant of AUD\$5.0 million.

Guarantees have been issued under the Credit Facility as at December 31, 2019 in the amounts of \$701, \$565 and \$140, respectively to secure power and gas supply (December 31, 2018 - \$706, \$569 and \$141, respectively). During the year ended December 31, 2019, the Company paid \$57 in associated fees on the Credit Facility (December 31, 2018 - \$48).

16. SHARE CAPITAL

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued and outstanding

	Number of shares	Amount
Balance, January 1, 2018	95,669,140	\$ 49,220
Shares issued under:		
Exercise of options	83,333	93
Balance, December 31, 2018	95,752,473	\$ 49,313
Shares issued under:		
Exercise of Broker Warrants	1,230,000	712
Balance, December 31, 2019	96,982,473	\$ 50,025

c) Warrants

(i) Broker Warrants and Offering Broker Warrants

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

In connection with the Subscription Receipts and Offering transactions, the Company incurred \$3,618 of commissions and fees, excluding the value of warrants that have been recorded as share issue costs. As part of the consideration of the services rendered by the Agent in connection with the Private Placement and Offering, the Company issued to the Agent 1,230,000 Broker Warrants and 681,525 Offering Broker Warrants. The 1,230,000 Broker Warrants and 681,525 Offering Broker Warrants were exercisable at CAD\$0.50 per Broker Warrant and CAD\$1.00 per Offering Broker Warrant, respectively, up to February 23, 2019. The Company accounted for the warrants as a financial liability as the strike price of the warrants was in a different currency than the Parent Company's functional currency. For accounting purposes, the Company determined the fair value of the Broker Warrants and Offering Broker Warrants using the Black-Scholes option pricing model and recorded the amount as a warrant liability within non-current liabilities with the change in fair value from the date of issuance being reflected in the consolidated statement of comprehensive income as a change in valuation of warrant liability.

Immediately prior to exercise, the Company determined the fair value of the Broker Warrants and reflected the change in fair value in the consolidated statement of comprehensive income (loss) as a change in valuation of warrant liability. Upon exercise, the warrant liability associated with the Broker Warrants was transferred to Share Capital.

On expiry on February 23, 2019, the Company recorded the remaining fair value of the Offering Broker Warrants from December 31, 2018 in the consolidated statement of comprehensive income (loss).

(ii) Northern Star Warrants

On February 23, 2017, the Company issued 14,429,521 common share purchase warrants to Northern Star under the amended Acquisition Agreement, dated February 9, 2017 as partial consideration for the Plutonic Gold Operations (note 1). The common share purchase warrants are exercisable at \$1.5166 per warrant, up to and including February 23, 2022. The Company has accounted for the warrants as an equity instrument as the strike price of these warrants is in Superior Gold Inc.'s functional currency.

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

A summary of the assumptions in respect of warrants issued to the Agent and Northern Star as at December 31, 2018 are as follows:

	Number of warrants	Risk free interest rate	Expected annual volatility ⁽¹⁾	Expected Life (in years)	Value ⁽²⁾
Balance, January 1, 2018					
Broker Warrants	1,230,000	1.67%	58%	1.15	588
Offering Broker Warrants	681,525	1.67%	58%	1.15	161
					749
Balance, December 31, 2018					
Broker Warrants	1,230,000	1.85%	71%	0.15	309
Offering Broker Warrants	681,525	1.85%	71%	0.15	20
Total Warrant liability as at December 31, 2018					
					329
Change in valuation of Warrant liability in the period					
Balance, January 1, 2019					
Broker Warrants	1,230,000	1.85%	71%	0.15	309
Offering Broker Warrants	681,525	1.85%	71%	0.15	20
					329
Value immediately prior to exercise and/or expiry					
Broker Warrants – exercised ⁽²⁾	1,230,000	1.76%	66%	0.06	244
Offering Broker Warrants – expired	681,525	0.00%	0%	0.00	-
Total Warrant liability as at December 31, 2019					
					-
Change in valuation of Warrant liability in the period					
Northern Star Warrants					
Granted, February 23, 2017	14,429,521	1.13%	63%	5.00	\$3,971

⁽¹⁾ Based on an assumed dividend yield of 0%

⁽²⁾ The value of \$244 was transferred to Share Capital upon exercise.

A summary of the status of warrants as of December 31, 2019 are as follows:

	Number outstanding	Weighted average exercise price (CAD\$)
Balance, January 1, 2018	16,341,046	\$ 1.76
Exercised	-	-
Balance, December 31, 2018	16,341,046	\$ 1.91
Exercised	(1,230,000)	0.50
Expired	(681,525)	1.00
Balance, December 31, 2019	14,429,521	\$ 1.97

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

d) Share-based payments

(i) Share option plan

Movements in the share options are summarized below:

	Number of options	Weighted average exercise price ⁽¹⁾	Weighted average exercise price (CAD\$)
Balance, January 1, 2018	6,750,000	\$ 0.80	\$ 1.00
Granted	125,000	0.95	1.29
Exercised ⁽²⁾	(83,333)	0.74	1.00
Forfeited	(1,000,000)	0.74	1.00
Balance December 31, 2018	5,791,667	\$ 0.74	\$ 1.01
Granted	1,200,000	0.46	0.60
Forfeited	(300,000)	0.77	1.00
Balance December 31, 2019	6,691,667	\$ 0.72	\$ 0.93

⁽¹⁾ At December 31, 2019, the U.S. dollar weighted average exercise price was calculated using the period end Canadian to U.S. dollar exchange rate of 0.7689 (December 31, 2018 – 0.7373).

⁽²⁾ On April 17, 2018, 83,333 options were exercised. The market price was \$1.19 (CAD\$1.50) per share on the date of exercise.

The fair value of the options granted to employees, officers and directors under the share option plan was measured using the Black-Scholes option pricing model. The grant date fair value is amortized, as part of compensation expense over the vesting period with one third of the Stock Options vesting on the first grant date anniversary, one third vesting on the second grant date anniversary and one third vesting on the third grant date anniversary. The weighted average inputs used in the measurement of fair value during the periods ended December 31, 2019 and December 31, 2018 were:

	2019	2018
Number of share options granted	1,200,000	125,000
Expected volatility ⁽¹⁾	56%	59%
Risk free interest rate	1.53%	2.03%
Estimated forfeiture rate	0%	0%
Expected dividend yield	Nil	Nil
Expected life in years	3.5	3.5
Fair value (weighted average)	\$ 0.24	\$ 0.56
	- CAD\$	
	\$ 0.18	\$ 0.44
	- U.S. \$ ⁽²⁾	

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

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

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

Share options outstanding and exercisable at December 31, 2019 are:

Exercise price (CAD\$)	Number of options	Options outstanding			Number of options	Options exercisable		
		Weighted average exercise price (¹)	Weighted average exercise price CAD\$	Weighted average remaining contractual life (years)		Weighted average exercise price (¹)	Weighted average exercise price CAD\$	Weighted average remaining contractual life (years)
\$0.52	750,000	\$0.40	\$0.52	4.25	-	-	-	-
\$0.55	150,000	\$0.42	\$0.55	4.97	-	-	-	-
\$0.79	250,000	\$0.61	\$0.79	4.74	-	-	-	-
\$0.96	50,000	\$0.74	\$0.96	4.62	-	-	-	-
\$1.00	5,366,667	\$0.77	\$1.00	2.21	5,366,667	\$0.77	\$1.00	2.21
\$1.29	125,000	\$0.99	\$1.29	3.43	41,667	\$0.99	\$1.29	3.43
\$0.93	6,691,667	\$0.72	\$0.93	2.63	5,408,334	\$0.77	\$1.00	2.22

^(¹) At December 31, 2019, the U.S. weighted average exercise price was calculated using the period end Canadian to U.S. dollar exchange rate of 0.7689 (2018 – 0.7373).

(ii) Performance Share Units

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

The number of PSUs that will ultimately vest is based on the Company's share price performance relative to the VanEck Vectors Junior Gold Miners ETF over the term of the applicable PSU performance period. Under the terms of the PSU Plan, the Board of Directors is authorized to determine whether the performance criteria have been met.

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

		Number of Performance Share Units
Balance, January 1, 2018		-
Granted		225,000
Forfeited		(100,000)
Balance December 31, 2018		125,000
Granted		401,500
Balance December 31, 2019		526,500

The PSUs vest over a period of time as established by the Board. The PSUs issued in 2018 vest in two tranches: 83,333 on the second anniversary and 41,667 on the third anniversary, of the grant. The PSUs issued in 2019 vest in three tranches: 83,333 on the first anniversary, 83,333 on the second anniversary and 234,834 on the third anniversary of the grant.

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

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

The following is a summary of the assumptions used in the Monte Carlo model approach for PSUs granted in the periods ended December 31, 2019 and December 31, 2018:

		2019	2018
Number of performance share units granted		401,500	225,000
Expected volatility ⁽¹⁾		53%	60%
Risk free interest rate		1.56%	2.00%
Estimated forfeiture rate		0%	0%
Expected dividend yield		Nil	Nil
Expected life in years		2.38	2.81
Fair value (weighted average)	- CAD\$	\$ 0.24	\$ 0.62
	- U.S. \$ ⁽²⁾	\$ 0.18	\$ 0.48

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

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

(iii) Restricted Share Units

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

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

	Number of Restricted Share Units
Balance December 31, 2018	-
Granted	50,000
Balance December 31, 2019	50,000

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

The fair value of RSUs is determined by reference to the Company's share price when the units are awarded. The total fair value of unvested RSUs that will be recognized in future periods amounted to \$29 as at December 31, 2019 (December 31, 2018: \$nil).

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

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

	Year ended December 31	
	2019	2018
Equity settled plans		
Cost of sales		
Mining – Share option plans	\$ 33	\$ 125
Site services – Share option plan	1	(106)
	34	19
General and administrative		
Share option plan	168	610
Performance share units	53	14
Restricted share units	4	-
	225	624
	\$ 259	\$ 643

e) Earnings per share

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

	Year ended December 31	
	2019	2018
Number of common shares		
Basic weighted average shares outstanding	96,864,062	95,728,044
Weighted average shares dilution adjustments:		
Share options and PSU's	-	-
Warrants	-	-
Diluted weighted average shares outstanding	96,864,062	95,728,044

The impact of all outstanding potentially dilutive instruments is excluded from the diluted share calculation for loss per share amounts as they are anti-dilutive for the years ended December 31, 2019 and 2018.

17. RESTRUCTURING COSTS

In the twelve months ended December 31, 2019 the Company undertook a restructuring of certain management personnel at its Australian operations. The Company recorded \$478 of termination costs in the Consolidated Statement of Loss and Comprehensive Loss for the twelve months ended December 30, 2019 (2018 - \$nil). Included in Accounts Payable and Accrued Liabilities on the Company's Consolidated Statement of Financial Position are \$44 of Restructuring costs as at December 31, 2019 (2018 - \$nil).

18. NET FINANCE (INCOME) COSTS

	Year ended December 31	
	2019	2018
Accretion of provisions	\$ 334	\$ 472
Accretion on Gold loan	196	-
Lease finance charges	407	285
Interest income	(148)	(191)
Foreign exchange (gain)/loss	(305)	808
	\$ 484	\$ 1,374

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

19. RELATED PARTY TRANSACTIONS

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

	Year ended December 31	
	2019	2018
Management compensation	\$ 968	\$ 1,239
Directors' fees	129	131
Share-based payments	138	578
	\$ 1,235	\$ 1,948

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

In the year ended December 31, 2019, the Company paid Northern Star \$nil (2018 - \$29) related to the finance lease obligation. The Company assumed the lease from Northern Star upon acquisition of the Plutonic Gold Operations. An amount of \$4,413 (December 31, 2018 - \$4,308) is payable to Northern Star at December 31, 2019, which represents the current contingent royalty (note 23). In the year ended December 31, 2019, the Company received no amounts from Northern Star (December 31, 2018 - \$nil) and there are no amounts receivable at December 31, 2019 and 2018.

20. TAXES

	Year ended December 31	
	2019	2018
Current tax expense	\$ -	\$ (2,568)
Deferred tax expense (recovery)	(2,698)	(2,916)
	\$ (2,698)	\$ (5,484)

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

	Year ended December 31	
	2019	2018
Net Income (loss) before Taxes	\$ (14,717)	\$ (18,784)
Statutory tax rate	26.5%	26.5%
Income tax expense (recovery) based on combined Canadian federal and provincial statutory rates	(3,900)	(4,978)
Impact of foreign tax rates	(486)	(588)
Impact of non-deductible expenditures/(non-taxable income)	35	(73)
Change in recognition of deferred tax assets	1,603	(104)
Withholding taxes	128	131
Impact of foreign exchange	(78)	128
Income tax expense	\$ (2,698)	\$ (5,484)

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

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

	Year ended December 31	
	2019	2018
Deferred tax asset		
Property, plant and equipment	\$ 1,917	\$ 1,424
Provisions	2,592	3,098
Tax losses carried forward	7,086	5,139
Contingent royalty payable	1,324	1,292
Accrued interest	1,065	681
Other	524	340
	14,508	11,974
Deferred tax liability		
Inventories	147	699
Mineral interests and exploration & evaluation assets	14,134	14,001
Withholding taxes	373	246
Other	227	140
	14,881	15,086
Net deferred tax liability	\$ 373	\$ 3,112

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

	Year ended December 31	
	2019	2018
Deferred tax liability, start of period		
	\$ 3,112	\$ 6,462
Expense (recovery) recognized in net income	(2,698)	(2,916)
Foreign currency translation	(414)	(434)
Deferred tax liability, end of period	\$ -	\$ 3,112

At December 31, 2019, the Corporation has unrecognized deductible temporary differences in respect of non-capital losses for Canadian income tax purposes of approximately \$6,290 (December 31, 2018 - \$4,458) that may be used to offset future taxable income and expire in the 2037 and 2039 taxation years. Additionally, the Corporation has unrecognized deductible temporary differences for Canadian income tax purposes of \$4,042 (December 31, 2018 - \$3,330) and an unrecognized deductible temporary difference for Australian tax purposes of \$25,111 (December 31, 2018 - \$19,975).

At December 31, 2019, no deferred tax asset has been recognized in respect of the aggregate amount of \$20,695 (December 31, 2018 - \$8,823) of deductible temporary differences associated with investments in subsidiaries. The Company controls the timing and circumstances of the reversal of these differences, and the differences are not anticipated to reverse in the foreseeable future.

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

21. LEASE OBLIGATION

The Company adopted IFRS 16, Leases ("IFRS 16") on January 1, 2019. The objective of IFRS 16 is to recognize substantially all leases on balance sheet for lessees. IFRS 16 requires lessees to recognize a "right-of-use" asset and a lease liability calculated using a prescribed methodology. The Company has adopted IFRS 16 using the modified retrospective approach which does not require restatement of comparative periods. Comparative information has not been restated and continues to be reported under IAS 17, Leases ("IAS 17"), and IFRIC 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4"). The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16.

Right-of-use assets

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

The following ROU assets have been included within in the Mining interests; exploration and evaluation assets; and property, plant and equipment section of the consolidated financial statements (note 9):

<i>Cost:</i>	
December 31, 2018	\$ 7,822
ROU asset additions	3,980
Foreign exchange movement	(28)
December 31, 2019	11,774

<i>Accumulated depreciation</i>	
December 31, 2018	2,491
Depreciation charge	3,127
Foreign exchange movement	6
December 31, 2019	5,624
As at December 31, 2019	\$ 6,150

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

Interest expense on lease obligations for the twelve months ended December 31, 2019 was \$389. Total cash outflow for leases for the twelve months ended December 31, 2019 was \$7,471, including \$3,910 for short-term leases. Expense relating to variable lease payments not included in the measurement of the lease liability was \$2,275. Expenses for leases of low-dollar value items are not material. All extension options have been included in the measurement of lease obligations, where applicable.

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

22. CAPITAL MANAGEMENT

The Corporation's objective when managing capital is to ensure the Corporation continues as a going concern by ensuring it has an appropriate amount of liquidity and that it has an appropriate capital structure. Management monitors the amount of cash, undrawn (or potentially available) financing, equity in the capital structure and adjusts the capital structure, as necessary, to support the operation, development and exploration of its projects. As at December 31, 2019, the Company's current liabilities of \$37,135 exceeded its current assets of \$34,038. The current liabilities included the contingent royalty payable to Northern Star Resources (note 23) of \$4,413 which is not anticipated to come due until the second quarter of 2020.

SUPERIOR GOLD INC.

Notes to the Consolidated Financial Statements

Year ended December 31, 2019 and 2018

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

The Company believes it will have adequate liquidity from continuing operations, cash on hand, and proceeds from financing obtained as at December 31, 2019 (refer to note 11).

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

The Board of Directors has not established criteria for quantitative return on capital for management, but rather relies on the expertise of management to sustain future development of the business. The Corporation considers its capital to be shareholders' equity, which amounted to \$27,467 at December 31, 2019 (December 31, 2018 - \$38,893).

23. PLUTONIC GOLD OPERATIONS ACQUISITION

As part of the Acquisition, the Company agreed to pay Northern Star a 2% net smelter return royalty on future gold recovered from the Plutonic Gold Operations in excess of a cumulative 300,000 ounces. The royalty terminates on the earlier of; (i) the date that a cumulative AUD\$10 million is paid to Northern Star under the royalty, or (ii) gold in excess of a cumulative 600,000 ounces being produced (the "Northern Star Royalty"). The Company maintains the right to purchase the Northern Star Royalty back from Northern Star for a purchase price of AUD\$6.5 million at any time before the expiry of 30 days after the date the royalty first becomes payable. The fair value of the Northern Star Royalty was determined to have nil value on the Acquisition date.

In addition, the Company agreed to pay Northern Star milestone payments ("Milestone Payments") of AUD\$2.5 million for every 250,000 ounces of NI 43-101 compliant measured and indicated resources identified at the Plutonic Gold Operations in excess of the 1,717,000 ounces of Joint Ore Reserves Committee 2012 compliant measured, indicated and inferred resources. The aggregate of the Milestone Payments are capped at AUD\$10 million. The fair value of the Milestone Payments was determined to have nil value on the Acquisition Date.

The fair value of the Milestone Payments was determined to have nil value as at December 31, 2019 as Management had determined that it was uncertain that the threshold outlined in the Acquisition Agreement of 1,717,000 ounces of Joint Ore Reserves Committee 2012 compliant measured, indicated and inferred resources will be reached.

Upon completion of the Company's reserve and resource update effective December 31, 2017, the Company accrued a contingent royalty payable of \$4,533 and a corresponding charge to the Statement of income (loss) and comprehensive income (loss). The Company has accounted for the contingent royalty payable as a financial liability as it is denominated in Australian dollars. For accounting purposes, the fair value of the contingent royalty payable was determined to be AUD\$5.9 million as at March 31, 2018 based on the net present value of the Northern Star Royalty's AUD\$6.5 million buyback option, discounted from the time the Company anticipates it to become payable. As at December 31, 2019, payment of the contingent royalty of \$4,413 (December 31, 2018 - \$4,308) is estimated to occur in the second quarter of 2020.

The Company discounted the contingent royalty payable using its weighted average cost of capital of 6.5% as at December 31, 2019 and translated the amount using the period end Australian to U.S. dollar exchange rate of 0.7006, with any changes in fair value being reflected in the consolidated statement of comprehensive income as a change in valuation of the contingent royalty payable.

24. SUBSEQUENT EVENTS

There are no subsequent events to report.